Financial statements (in Englisch)

Consolidated financial statements 2016

Key figures of the Galenica Group 2016

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

Net sales[1]
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

EBITDA[1]
by Business unit
in million CHF

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

EBIT[1]
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%
Earnings per share	37.62	46.47	–19.0%
Earnings per share (excluding effects due to IAS 19)	39.68	47.67	–18.2%
Investment in property, plant and equipment and intangible assets	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%	

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**

Notes to the consolidated financial statements of the Galenica Group

1. Accounting principles

General information

Galenica is a diversified Group operating in the healthcare market. Its activities include the development, manufacture and distribution of pharmaceutical products. In addition, Galenica runs pharmacies, provides logistical and database services and sets up networks.

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. 1553646 (ISIN CH0015536466).

The Board of Directors authorised the consolidated financial statements 2016 for publication on 10 March 2017. The 2015 consolidated financial statements will be submitted for approval to the Annual General Meeting of shareholders on 11 May 2017.

Basis of preparation

The consolidated financial statements of Galenica have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB), as well as the interpretations of the IFRS Interpretations Committee and the provisions of Swiss law.

The consolidated financial statements are based on the financial statements of the individual companies of Galenica, prepared in accordance with uniform accounting principles. The reporting period comprises twelve months to 31 December.

The consolidated financial statements have been presented on a historical cost basis. Non-monetary assets are measured at the lower of cost and net realisable value or recoverable amount. Specific financial assets and financial liabilities are measured at fair value in the statement of financial position. Detailed disclosures on measurement are provided in the summary of significant accounting policies.

Amendments to IFRS

The standards adopted are consistent with the previous financial year with the following exceptions. As at 1 January 2016 Galenica adopted the following amended International Financial Reporting Standards.

– IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations
– IAS 1 – Disclosure Initiative
– IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation
– Annual Improvements 2012–2014 Cycle

These changes have no or no material impact on the financial position, financial performance and cash flows of Galenica nor on disclosures in these financial statements.

Future amendments to IFRS

As at the reporting date, various new and amended standards and interpretations had been issued with effective dates in the financial year 2017 or later. Galenica has opted not to early adopt any of the following standards or amendments to standards or interpretations that are potentially relevant for Galenica. Galenica intends to apply the new or amended standards for the first time in the financial year beginning on or after the date shown:

- IFRS 2 – Classification and Measurement of Share-based Payment Transactions (1 January 2018)
- IFRS 9 – Financial Instruments (1 January 2018)
- IFRS 15 – Revenue from Contracts with Customers (1 January 2018)
- IFRS 16 – Leases (1 January 2019)
- IAS 7 – Disclosure Initiative (1 January 2017)
- IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses (1 January 2017)
- IAS 28 and IFRS 10 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date to be determined by the IASB)
- IAS 40 – Transfer of Investment Property (1 January 2018)
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration (1 January 2018)
- Annual Improvements 2014–2016 Cycle (1 January 2017 and 1 January 2018)

Galenica is currently assessing the impact of the new and amended standards. Based on the preliminary results of the analysis, Galenica does not expect there to be any material impact on the consolidated financial statements with the exception of IFRS 9, IFRS 15 and IFRS 16.

IFRS 9 will substantially change the classification and measurement of financial instruments. The standard will affect the Group's accounting for its available-for-sale financial assets as gains and losses on certain instruments are never reclassified to the income statement on a later date.

IFRS 15 amends revenue recognition requirements and establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Whereas Galenica does not expect a significant impact on revenue recognition as a result of the application of the new standard, IFRS 15 will require detailed additional disclosures regarding revenue in the notes.

IFRS 16 substantially changes the financial statements as the majority of leases will become on-balance sheet liabilities with corresponding right of use assets on the balance sheet. Amortisation and interest expense will be separately recorded, which will impact EBITDA, EBIT and financial result. The impact is being evaluated as part of a Group-wide project. A reliable estimate of the impact of applying IFRS 16 can only be made once the detailed analysis is completed. The total amount of undiscounted lease commitments is disclosed in note 32.

2. Summary of significant accounting policies

Scope of consolidation

The consolidated 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 consolidated 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 6, Business combinations. The Group companies are listed in note 36.

Consolidation method

Companies which Galenica controls have been fully consolidated. This is the case when Galenica has the ability to control significant decisions of a company, has rights to variable returns from its involvement with the investee and has the ability to affect those returns.

When Galenica holds less than 50 % of the voting rights in a company, Galenica considers all the relevant facts and circumstances in assessing whether it has control over that company. This includes contractual arrangements with the vote holders of the investee, rights arising from other contractual arrangements and the number of voting rights and potential voting rights.

Assets and liabilities as well as income and expenses of such companies are fully included in the consolidated financial statements as at the acquisition date, i. e. the date on which Galenica obtains control. The share of net assets and net profit attributable to non-controlling interests is indicated separately in the consolidated statement of financial position, the consolidated statement of income, the consolidated statement of comprehensive income and the consolidated statement of changes in equity.

All intercompany receivables and payables, income and expenses, investments and dividends as well as unrealised gains and losses on transactions are fully eliminated.

Investments in associates where Galenica holds between 20 % and 50 % of the voting rights and investments in joint ventures are accounted for using the equity method.

Unrealised gains and losses from transactions with associates and joint ventures are eliminated in proportion to Galenica's interest.

Investments of less than 20 % where Galenica has no significant influence are classified as securities or financial assets and are accounted for as financial instruments.

Group currency and translation of foreign currencies

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

The functional currency of the Group companies is the currency of the primary economic environment in which they operate. Transactions in foreign currencies are translated at the exchange rate effective on the transaction date. Monetary items are re-translated into the functional currency using exchange rates as at the reporting date. The resulting exchange gains and losses are recognised in profit or loss.

Assets and liabilities of foreign subsidiaries are translated into Swiss francs using year-end exchange rates. Income and expenses and cash flows are translated using the average exchange rate for the year.

Exchange differences arising from net investments in foreign operations are recognised directly in comprehensive income and reported separately as accumulated translation differences. Cumulative translation differences recognised directly in comprehensive income are only released through profit or loss in the event of a loss of control, significant influence or joint control.

Translation differences on equity-like loans that form part of the net investment in a foreign operation are recognised in comprehensive income, provided that repayment of these loans is neither planned nor likely to occur in the foreseeable future.

The table below shows the exchange rates against the Swiss franc of the main currencies of relevance for the consolidated financial statements:

	Year-end rates		Average rates	
Exchange rates	2016	2015	2016	2015
1 EUR	1.07	1.09	1.09	1.07
1 GBP	1.26	1.48	1.35	1.48
1 USD	1.02	1.00	0.99	0.96
1 CAD	0.76	0.72	0.74	0.76

Classification as current or non-current

Assets which are realised or consumed within one year or in the normal course of business, or which are held for trading purposes are classified as current assets. All other assets are classified as non-current assets.

All liabilities which Galenica aims to settle in the normal course of business or which fall due within one year after the reporting date are classified as current liabilities. All other liabilities are classified as non-current liabilities.

Financial assets and financial liabilities

Measurement of financial assets and financial liabilities

Financial assets and financial liabilities are initially recognised at fair value including transaction costs with the exception of financial assets and liabilities classified as “at fair value through profit or loss”, for which transaction costs are recognised directly in profit or loss. All purchases and sales are recognised using trade date accounting. Assets that are not carried at fair value through profit or loss are regularly tested for impairment. Financial assets are generally derecognised when the contractual rights to the cash flows expire. Financial liabilities are derecognised when they have been settled.

For subsequent measurement Galenica distinguishes between the following types of financial assets and financial liabilities:

Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities are classified as at fair value through profit or loss if they are acquired with a view to realising a profit from current fluctuations in the price. This category also includes derivative financial instruments that are not designated as hedging instruments in hedge relationships. The resulting realised and unrealised changes in fair value are recognised directly in profit or loss (financial result) for the relevant reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They include, but are not limited to, trade receivables and loans to third parties. These types of financial instruments are recognised in the statement of financial position at amortised cost using the effective interest rate method less accumulated impairment. Uncollectible loans and receivables are only derecognised if a certificate of loss has been issued.

Financial assets available for sale

All other financial assets are classified as available for sale. These financial instruments are recognised at fair value with any changes in value, adjusted for deferred taxes, being recognised in comprehensive income. On sale, impairment or any other form of disposal, the cumulative gain or loss previously recognised in comprehensive income is recognised in profit or loss for the reporting period.

An impairment loss for an equity instrument is recognised when there is a significant or prolonged decline in fair value, i.e. longer than six months or material, i.e. more than 20% below the acquisition value.

Financial liabilities at amortised cost

Financial liabilities mainly comprise trade and other payables as well as financial liabilities and are measured at amortised cost using the effective interest rate method.

Derivative financial instruments and hedge accounting

Derivative financial instruments are initially and subsequently measured at fair value. Depending on their maturity, derivative financial instruments with a positive fair value are either classified within current assets as securities or within non-current assets as financial assets. Derivative financial instruments with a negative fair value are presented as current or non-current financial liabilities according to their maturity.

Galenica uses derivative financial instruments such as currency forwards and cross currency interest rate swaps in order to minimise and hedge interest rate and exchange risks. Currency forwards and cross currency interest rate swaps are valued using the fair value of expected future cash flows.

Galenica uses hedge accounting for selected transactions if the criteria relating to documentation, probability, effectiveness and reliability of measurement are met. The effective portion of changes in the fair value of cash flow hedging instruments is recognised in other comprehensive income.

Gains and losses on derivatives not designated in active hedge relationships are recorded immediately in profit or loss.

Cash flow hedges

Cash flow hedges are hedges against changes in cash flows due to fluctuations in foreign exchange or interest rates of a financial instrument or a forecast transaction. Gains or losses on the effective portion of the hedging instrument are recognised in comprehensive income while gains or losses on the ineffective part of the hedging instrument are recognised in profit or loss.

At the inception of the hedge, Galenica prepares a formal documentation containing the strategy, objectives, identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and details of how the hedging instrument's effectiveness will be assessed. Hedge accounting is only applied if the hedge relationship is expected to be highly effective throughout the entire term.

Any cumulative unrealised gain or loss on the hedging instrument remains in equity until the underlying hedged item affects profit or loss. However, if a hedged forecast transaction is no longer expected to occur, the cumulative unrealised gain or loss on the hedging instrument is immediately reclassified to profit or loss.

Cash and cash equivalents

Cash and cash equivalents include cash, sight deposits at financial institutions and time deposits with an original term of three months or less. Cash and cash equivalents are measured at nominal value.

Securities

In the statement of financial position, securities recorded as current assets include marketable, highly liquid securities and time deposits with an original term to maturity of 3 to 12 months, and derivative financial instruments with a positive fair value and a residual term to maturity of up to 12 months. Quoted securities and derivative financial instruments are measured at fair value, time deposits at amortised cost. Unquoted securities are measured at their estimated fair value, based on valuation models. If the fair value cannot be reliably determined, unquoted equity instruments are included in the statement of financial position at cost less accumulated impairments. Changes in the value of securities and derivative financial instruments not designated as a hedge are recognised immediately in profit or loss for the current reporting period.

Trade and other receivables

Trade receivables are carried at their original invoice value. If there is objective evidence that the amounts will not be paid in full, the carrying amount is adjusted accordingly. These bad debt allowances are based on the difference between the carrying amount and the recoverable amount as derived from individual valuations or for groups with comparable credit risk profiles.

Inventories

Inventories and purchased merchandise are carried at the lower of cost or net realisable value. Cost includes all direct manufacturing costs and a proportion of manufacturing overheads. Borrowing costs are not included. The weighted average method is primarily used to determine cost.

Adjustments are recognised on inventories that have a lower net realisable value or slow turnover.

Property, plant and equipment and investment properties

Property, plant and equipment and investment properties are measured at cost less accumulated depreciation and impairment. Depreciation is charged on a straight-line basis over the assets' useful lives as follows:

	Years
Land	unlimited
Buildings	10–50
Manufacturing systems	5–15
Warehouse equipment	6–15
Furniture, fittings	5–10
IT equipment	3–10
Vehicles	3–10

Land and buildings not used for operations are included in investment properties. They are recognised and depreciated on the same basis as property, plant and equipment. They include land and buildings or parts thereof that are being held for an undetermined future use or to generate rental income. The fair value of these properties, which is disclosed separately, is based on external appraisals.

Costs are only capitalised if they result in extending the useful life, expanding capacity, improving product quality or contributing to a marked reduction in operating costs. Maintenance or repair costs are recognised directly in profit or loss.

If property, plant and equipment or investment properties are sold or derecognised, gains are recognised in other operating income and losses in other operating costs.

Intangible assets

Intangible assets include acquired trademarks, patents, licences, technologies, purchased or internally developed software and other assets without physical substance. These items are measured at cost less accumulated amortisation and/or impairment. The cost of an intangible asset acquired in a business combination corresponds to its fair value determined at acquisition.

Expenditure on internally developed software is capitalised when the capitalisation criteria are met and future economic benefits from use or sale of the software are expected. Software that is not yet available for use is tested for impairment annually or more frequently if there are indications of impairment.

Amortisation is charged on a straight-line basis over the estimated economic or legal useful life, whichever is shorter as follows:

	Years
Trademarks, patents, licences, technologies	5–20
Software	2–7

The amortisation period and the amortisation method are reviewed at least at each financial year-end.

With the exception of one trademark at Vifor Consumer Health and certain manufacturing technologies of OM Pharma, all intangible assets are assessed as having a finite useful life.

Intangible assets with indefinite useful lives are not amortised but tested for impairment annually or more frequently if there are indications of impairment.

Any impairment is recorded in profit or loss under depreciation and amortisation and disclosed separately as an impairment.

If intangible assets are sold or derecognised, gains are recognised in other operating income and losses in other operating costs.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. Consideration transferred comprises payments in cash as well as the fair value of the assets transferred, the obligations entered into or assumed and the equity instruments transferred. Transaction costs are recognised directly in profit or loss.

Goodwill is recognised at cost on the acquisition date and corresponds to the difference between the consideration transferred and the fair value of assets, liabilities and contingent liabilities identified in the purchase price allocation. Goodwill is capitalised and included in intangible assets, while negative goodwill is recognised immediately in profit or loss. After initial measurement goodwill is recognised at cost less any accumulated impairment.

Goodwill is allocated to the cash-generating unit (CGU) or group of CGUs that benefit from the business combination. Goodwill is tested for impairment annually, or more frequently if there are indications of impairment. The impairment test is based on the estimated future cash flow of the CGU or group of CGUs to which the goodwill belongs. If the recoverable amount (higher of fair value less costs of disposal and value in use) is lower than the carrying amount, the carrying amount is reduced to the recoverable amount by recording an impairment charge.

Contingent consideration is measured at fair value on the acquisition date and not remeasured subsequently for equity instruments. If the contingent consideration qualifies as a financial instrument, it is remeasured to fair value and any difference is recognised in other operating income or other operating costs.

The difference arising from the acquisition of additional non-controlling interests in fully consolidated companies (purchase consideration less proportionate carrying amount of non-controlling interests) is considered to be an equity transaction and is thus taken directly to retained earnings in shareholders' equity. Gains and losses resulting from the disposal of interests in consolidated companies without loss of control are also recognised in retained earnings.

If a CGU or group of CGUs is sold, goodwill is taken into account when calculating the profit or loss on the sale. The profit or loss on deconsolidation is recognised in operating income or other operating costs.

Any impairment on goodwill is recognised in profit or loss and disclosed separately.

Research and development

Expenditure on research and development (excluding internally developed software) is recognised directly in profit or loss as incurred. The costs of development cannot be capitalised since the regulatory risks and the considerable periods of time before a product is launched do not allow a reliable estimate to be made of the economic benefit, which would be necessary for capitalisation.

Borrowing costs

Borrowing costs are recognised directly in profit or loss as incurred. In the case of qualifying assets such as assets under construction, which take a considerable time to build, borrowing costs are capitalised.

Leases

Leases under which Galenica assumes substantially all the risks and rewards of ownership are treated as finance leases. Assets that are taken over as part of a finance lease are recognised at the lower of fair value or net present value of future non-cancellable lease payments under non-current assets, while liabilities are recorded under financial liabilities. Leased items of plant are depreciated over their estimated useful economic lives or the term of the lease if shorter, if it cannot be assumed that ownership of the asset will be transferred at the end of the lease term. Each lease payment is split into a finance charge and the reduction of the outstanding liability.

The other leases are treated as operating leases. Lease payments are recognised on a straight-line basis directly as operating costs.

Investments in associates and joint ventures

Investments in associates and joint ventures are initially recognised at cost and subsequently accounted for using the equity method. Goodwill paid upon acquisition is included in the carrying amount of the investment. In the accounting periods following the acquisition, the carrying amount of the investment is increased by the share in profit or reduced by the share in loss of the associate. The corresponding amounts are recognised in profit or loss. Transactions that are recognised in comprehensive income of associates and joint ventures are recognised proportionately in comprehensive income.

Non-current financial assets

Non-current financial assets comprise securities categorised as “available-for-sale”, loans, time deposits with a term to maturity of more than twelve months, rental security deposits and derivative financial instruments with a positive fair value and a residual term to maturity of more than twelve months. Loans are assessed for impairment based on creditworthiness of the counterparty. Any impairment is recognised in financial expenses.

Impairment of non-financial assets

Assets are tested for impairment whenever there are indications that they could be impaired. Goodwill and intangible assets with an indefinite useful life or intangible assets that are not yet available for use, are tested for impairment at least annually and more frequently if there are indications of impairment. If the recoverable amount (higher of fair value less costs of disposal and value in use) is lower than the carrying amount, the carrying amount is reduced to the recoverable amount by recording an impairment charge. To determine the value in use, the future cash flows are discounted on a pre-tax basis. Impairments are recognised in profit or loss under depreciation and amortisation and disclosed separately.

Reversal of impairments are recognised immediately in profit or loss. An impairment loss for goodwill is not reversed.

Provisions and contingent liabilities

Provisions are recorded when Galenica has a present legal or constructive obligation towards a third party as a result of a past event, when the amount of the obligation can be reliably estimated and an outflow of economic resources is probable.

A provision for restructuring is only recorded when there is a detailed formal plan, the expenditures that will be undertaken have been identified, there is evidence that the plan will be implemented and its main features have been announced to those affected by it.

A contingent liability is disclosed for an obligation where it is not probable that an outflow of resources will be required or where the amount of the obligation cannot be estimated with sufficient reliability.

Income tax

Current income tax is based on taxable profit for the current year and is recognised in profit or loss unless the underlying transaction is recognised outside profit or loss.

Deferred taxes are taxes on temporary differences between the value of assets and liabilities in the tax accounts and the carrying amounts included in the Group's consolidated financial statements. Deferred taxes are calculated using the liability method on the basis of enacted or substantively enacted tax rates expected to apply when the tax asset is realised or the liability is settled. Tax effects from losses carried forward and other deductible temporary differences are only capitalised when it is probable that they will be realised in the future.

Changes in deferred tax assets and liabilities are recognised in profit or loss. Deferred taxes on transactions that are recognised directly in comprehensive income or equity are likewise recognised in comprehensive income or equity.

Deferred tax liabilities are recorded for all taxable temporary differences associated with investments in subsidiaries, except Galenica is able to control the timing of the distribution and no dividend distribution is planned or likely to occur in the foreseeable future.

Employee benefits

Galenica has a number of employee benefit plans based on local conditions and legal requirements in the respective countries. These plans are legally separate from Galenica and consist of both defined contribution and defined benefit plans.

Galenica's defined benefit obligation (DBO) is assessed annually by independent pension actuaries using the projected unit credit method. This method considers employees' service in the periods prior to the reporting date and their future expected salary development. In addition, actuaries make use of statistical data such as employee turnover and mortality to calculate the DBO.

All defined benefit plans are funded. Plan assets are managed separately from Galenica's assets by independent pension funds.

Any deficit or surplus in funded defined benefit plans (when the fair value of plan assets falls short of or exceeds the present value of the DBO) is recorded as a net defined benefit liability or asset. Galenica only recognises a net defined benefit asset if it has the ability to use the surplus to generate future economic benefits that will be available to Galenica in the form of a reduction in future contributions. If Galenica does not have the ability to use the surplus or it will not generate any future economic benefit, Galenica does not recognise an asset, but instead discloses the effect of this asset ceiling in the notes.

The components of defined benefit cost are service cost, net interest on the net defined benefit asset or liability and remeasurements of the net defined benefit asset or liability.

Service cost is a component of personnel costs and comprises current service cost, past service cost (including gains and losses from plan amendments) and gains and losses from plan settlements.

Net interest is determined by multiplying the net defined benefit liability or asset by a discount rate at the beginning of the reporting period. Net interest is included in the financial result.

Actuarial gains and losses result from changes in actuarial assumptions and differences between actuarial assumptions and actual outcomes. Actuarial gains and losses resulting from remeasuring the defined benefit plans are recognised immediately in comprehensive income as remeasurements of the net defined benefit liability or asset. This includes any differences in the return on plan assets (excluding interest, based on the discount rate). Remeasurements of the net defined benefit liability or asset are not reclassified through profit or loss at any point in time.

Galenica rewards employees for long service with jubilee benefits. These long-term benefits to employees are also measured using the projected unit credit method and included in employee benefit liabilities. These obligations are unfunded. Changes in obligations are recorded as personnel costs and interest expense as part of the financial expense, in line with the defined benefit plans.

Treasury shares

When shares in Galenica Ltd. are acquired, they are deducted from shareholders' equity. Gains and losses from buying and selling treasury shares in Galenica Ltd. are recognised directly in shareholders' equity.

Share-based payments

Galenica has a number of equity-settled share-based payment plans.

The share-based payments are measured at fair value on the grant date. When measuring these transactions, only those conditions which are linked to the price of Galenica's shares (market conditions) are taken into account, along with any non-vesting conditions.

Galenica estimates the number of shares which are expected to vest. Expense adjustments due to changes in expectations regarding the number of Galenica shares to be purchased are recognised in personnel costs for the relevant reporting period. The expense is recognised over the vesting period as part of personnel expense and an increase in shareholders' equity for the best estimate of the number of shares Galenica expects to vest. Adjustments to these expectations are immediately recognised in profit or loss.

If the arrangements are modified during the life of an equity-settled share-based payment plan, any incremental fair value is recognised over the remaining vesting period. If the plan is cancelled, the rights are assumed to be exercised on the date of cancellation and the expense is recognised immediately in profit or loss. If the cancelled plan is replaced by a new share-based payment plan identified as a replacement award, the expense is recognised in the same way as for modifications.

The dilutive effect of the share-based payments is taken into account in the calculation of the diluted earnings per share.

Net sales

Net sales, consisting of the revenue from sale of goods and revenue from services, are sales after deduction of price discounts, cash discounts, volume discounts and other discounts as well as taxes linked directly to sales.

Sale of goods

The sale of all products from Galenica's production and trading companies is recognised as sale of goods. The sale of products is recognised in revenue upon transfer of the principal risks and rewards to the customer once it is probable that future economic benefits will flow to the company and these benefits can be measured reliably. In the retail trade, the transfer of principal risks and rewards occurs with the transfer of ownership to the customer or the legal transfer of ownership in accordance with generally accepted trading practice.

Should significant risks remain with Galenica following the sale of products, the transaction is not considered a sale and revenue is not recognised. Price discounts, cash discounts, volume discounts and other discounts granted to customers are recognised in revenue as sales discounts. Revenue from customer loyalty programmes is deferred and recognised when the award credits are redeemed on the basis of past experience.

Services

Revenue from services includes logistics services, the processing and sale of information, marketing and IT services as well as other contractually agreed services. In order for revenue from services to be recognised, it must be possible to reliably estimate the stage of completion, the amount of revenue, the probability of the inflow of economic benefit and any further costs to completion. The logistics services provided are dependent on volume, while the marketing and IT services are contract-based and measured in accordance with the stage of completion. Access to information made available electronically is calculated in terms of volume or on the basis of subscribers.

Price discounts and cash discounts granted to customers are recognised in revenue. In order to determine the stage of completion, experience involving the same or similar services is used as a reference.

Other income

Royalties, milestone and upfront payments

Royalties (licence fee income) are recognised in accordance with the provisions of the underlying contract when an inflow of economic resources is probable and the amount of revenue can be measured reliably. The revenue is disclosed separately in other income.

In accordance with the conditions of an agreement with Roche, Galenica receives royalties which, after taking account of an agreed basic sum, correspond to half of the net sales for non-transplant indications of CellCept, developed by Roche. Roche and Galenica have developed a sales tracking method to assess net sales of CellCept and to determine the portion attributable to sales from use in non-transplant indications. Therefore Roche and Galenica have defined a fixed percentage of total sales of CellCept as a means to determine the portion attributable to sales from use in non-transplant indications.

Other income

Gains on disposal of property, plant and equipment are recognised at the time of the transfer of ownership and the related transfer of risks and rewards.

Allocated marketing costs and expenses covered by cost-sharing arrangements are recognised as income on the basis of the contractual agreements.

Rental income is based on the provisions of the underlying rental contracts.

Financial income

Interest is recognised using the effective interest rate method. Unpaid interest is recognised on the reporting date as accrued income. Interest is recognised as financial income.

Dividends are profit distributions to Galenica as the holder of equity investments and are recognised when the legal claim to payment arises. Dividends are recognised in securities and other financial income.

Cost of goods and materials

Cost of goods and materials mainly include costs of goods and merchandise from the business sectors Retail and Services as well as costs of materials used for the production of pharmaceutical products, including procurement, transport and packaging costs. Price discounts, rebates or supplier discounts on the purchase of goods and materials are directly deducted from costs of goods and materials.

3. Financial risk management

Galenica is exposed to various financial risks caused by movements in exchange rates and interest rates, by receivables and by liquidity requirements. These risks are managed by the Group Finance Division in line with the hedging policy approved by the Board of Directors as well as internal guidelines on cash and liability management. In order to optimise financial resources, all cash that is surplus to operating requirements and the Group's long-term financing requirements is managed centrally. In this way, Galenica ensures that it has cost-effective access to capital and that its liquidity situation reflects its liquidity requirements.

It is Galenica's policy not to enter into any speculative financial arrangements and to ensure matching maturities. Together, the risk management and monitoring measures described below are designed to limit negative impact on the financial statements.

Liquidity risk management

The aim of liquidity risk management is to provide sufficient cash to meet Galenica's financial liabilities on time while maintaining the flexibility to take advantage of market opportunities and optimum investment conditions. The Group Finance Division is responsible for raising current and non-current loans as well as for decisions on investments. Apart from financing operations, Galenica's credit standing enables it to borrow cash at an advantageous rate. To ensure that Galenica can meet its payment obligations in good time, liquidity is monitored centrally. The Treasury department monitors the cash flows using rolling liquidity planning. This takes into account the maturities of the financial instruments as well as the cash flows from operating activities.

Credit risk management

Credit risks arise when a customer or a third party fails to meet its contractual obligations and causes Galenica a financial loss. Credit risks are minimised and monitored by restricting business relations to known, reliable partners.

Corporate policy ensures that credit checks are performed for customers who are supplied on credit. Trade receivables are subject to active risk management procedures. They are continually monitored and credit risks are reviewed in the process of reporting to management. Necessary allowances are made for foreseeable losses in accordance with uniform Galenica guidelines on the measurement of outstanding receivables.

In addition, credit risks arise in relation to financial assets, comprising cash and cash equivalents, securities, loans and certain derivative financial instruments. The creditworthiness of the counterparties is regularly monitored and reported to management.

Market risk management

Market risks are potential losses that Galenica could incur as a result of changes in the variable market conditions. These variables include things such as interest rates, foreign exchange rates and share prices. Changes in the fair value of financial assets, financial liabilities or derivative financial instruments caused by such variables may affect Galenica's financial position and results. The market risks are monitored and regularly reported to management. The impact of changes in market variables is monitored using sensitivity analyses. Sensitivity analysis is a widespread and accepted analysis to quantify the risk in relation to an isolated change in a variable.

Interest rate risk

Interest rate risks arise from changes in interest rates that may have a negative impact on Galenica's financial position and results. Fluctuations in interest rates lead to changes in interest income and interest expense on floating-rate assets and liabilities and thus affect the financial result.

In addition fluctuations in interest rates may affect the fair value of certain financial assets, financial liabilities and derivatives, as explained under market risks. Interest rates are managed centrally in order to limit the effects of interest rate fluctuations on the financial result.

Interest rate risks are managed through a balanced mix of fixed-rate and floating-rate financial assets and financial liabilities. Galenica also uses interest rate swaps for that purpose.

Currency risk
Galenica is exposed to foreign exchange rate risks, mainly in relation to the USD and EUR, that may affect Galenica's financial position and results in CHF. Derivatives, especially currency forwards and currency swaps are used to hedge the risk of fluctuation in exchange rates.

Galenica is further exposed to currency transaction risk. This risk arises when income and expenses are incurred in a currency other than the functional currency. Foreign currency transaction risks are mostly hedged without applying hedge accounting.

Other market risk
Other market risks include changes in share prices and the general economic environment. Non-current assets comprise securities which are publicly traded as well as investments in venture funds which are normally not publicly traded. Potential changes in fair value are assessed on the stock markets or independently of the stock markets and separately for each fund based on the earnings power and prospects of the respective investment.

4. Estimation uncertainty and assumptions

The preparation of the Group's consolidated 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. This applies primarily to estimates and assumptions made with regard to the items set out below.

Deferred tax assets (note 12)
Deferred tax assets on tax losses carried forward are taken into account only if their future realisation is probable. Deferred tax assets are recognised based on assumptions and estimates with regard to future income and expenses relating to the corresponding taxable entity.

Goodwill and intangible assets (note 18)
Goodwill and other intangible assets with an indefinite useful life or intangible assets that are not yet available for use are tested for impairment at least once a year. This involves estimating the value in use of the cash-generating unit (CGU) or group of CGUs to which the goodwill or other intangible assets are allocated. It also requires a forecast of expected future cash flows as well as the application of an appropriate discount rate to calculate the present value of these cash flows.

Intangible assets acquired for contingent consideration (note 18)
The Group has entered into in-licencing agreements or similar arrangements which require Galenica to make certain milestone payments dependent on the achievement of agreed objectives or performance targets as defined in the arrangements. Such payments for rights are recognised as intangible assets when they become probable. The estimated amount corresponds to the present value of expected payments determined by considering possible scenarios. These estimates could change significantly over time and could significantly affect the carrying amount of intangible assets and related amortisation expense as well as the corresponding liability.

Employee benefit plans and other non-current employee benefits (note 25)
The costs of the employee benefit plans and other non-current employee benefits are determined using actuarial valuations. These valuations involve making assumptions about the discount rate, future salary and pension developments, mortality and the employee turnover rate. Galenica considers the discount rate and development of salaries to be key assumptions.

5. Operating segment information

The management approach is used to determine the reportable operating segments. Accordingly, external segment reporting is based on the internal organisational and management structures of Galenica and the internal financial reporting to the chief operating decision maker (CODM). The CODM of Galenica is the Board of Directors of Galenica Ltd. It defines business activities and monitors internal reporting to assess performance and allocate resources.

Galenica has determined three operating segments: Vifor Pharma, Health & Beauty and Services.

The operating result (EBIT) comprises all operating income generated and expenses incurred in the corresponding segments. Galenica is financed at Group level, therefore financial income and expenses as well as income tax are reported at Group level only and not allocated to the segments. The assets and liabilities include all items of the statement of financial position that can be directly or reasonably allocated to a segment.

Vifor Pharma

Under the business unit Vifor Pharma, Galenica operates a fully integrated, international speciality pharmaceutical company that researches, develops and produces its own pharmaceutical products, and markets and distributes them worldwide.

Vifor Pharma's activities focus on the treatment of iron deficiency (including iron deficiency anaemia), infectious diseases (OTX products) and polymeric medicines. To ensure rapid and direct access to the various global markets, the company operates through its own subsidiaries and works together with licencing partners.

Vifor Pharma leads the global market for pharmaceutical iron replacement products. Customers in more than 100 countries are supplied from Switzerland. Vifor Pharma manufactures a comprehensive range of prescription (Rx) products. Vifor Pharma also markets products manufactured by third parties.

In OM Pharma, Vifor Pharma operates a biotechnology and pharmaceutical company that develops, produces and markets premium synthetic and biotech drugs (OTX) for use in immunology and the treatment of infectious diseases.

In Relypsa, Vifor Pharma operates a biopharmaceutical company focused on the discovery, development and commercialisation of polymeric medicines for patients with conditions that can be addressed in the gastrointestinal tract. In September 2016, Relypsa became a Vifor Pharma company.

Vifor Pharma runs Vifor Fresenius Medical Care Renal Pharma, a speciality pharmaceutical company founded by Galenica and Fresenius Medical Care that operates globally in the field of nephrology and develops and markets innovative, high-quality products aimed at improving the quality of life of patients suffering from chronic kidney disease (CKD).

In addition, Vifor Pharma holds the global rights (excluding Japan) to develop and market CellCept, developed by Roche, for all applications involving auto-immune diseases with the exception of transplants.

Galenica Santé

Under the business unit Galenica Santé, Galenica operates in Switzerland within the two segments Health & Beauty and Services.

Health & Beauty

The Health & Beauty segment comprises the two business sectors Products & Brands and Retail.

Products & Brands is made up of Vifor Consumer Health and G-Pharma. Vifor Consumer Health offers a complete portfolio of consumer health products which is sold to all Swiss pharmacies and drugstores. G-Pharma, active as service provider for own brands and commercial products, launches and distributes pharmaceutical and parapharmaceutical products and offers marketing and sales services. G-Pharma offers its range of products and services to all partners of the healthcare market.

With its pharmacy network, Retail offers unparalleled potential for selling strong brands – own brands as well as brands from business partners. Retail operates at 496 locations Galenica's pharmacy network – the largest in Switzerland. With 329 pharmacies of its own and 167 partner pharmacies, Retail has attractive outlets throughout the country. Galenica's own pharmacies comprise the Amavita brand with 150 branches and the Sun Store brand with 99 branches. Galenica also operates a chain of 69 own pharmacies in partnership with Coop under the Coop Vitality brand. Galenica's pharmacy network also covers the speciality pharmacy MediService, which is focused on medication for the treatment of patients in their own homes, as well as 9 Amavita partner pharmacies, 8 majority interests in pharmacies, 2 minority interests in pharmacies and 158 Winconcept partner pharmacies.

Services

The companies of the Services business sector play an important role in the pharmaceutical supply chain. Services offers pharmaceutical and healthcare companies a broad range of specialised pre-wholesale services, from storage and distribution of products in Switzerland to debt collection. As a pharmaceutical wholesaler, Services ensures on-schedule delivery within short deadlines to pharmacies, physicians, drugstores, care homes and hospitals throughout Switzerland.

The companies of the Services business sector offer solutions for the healthcare market. They operate comprehensive databases that provide additional knowledge for all service providers in the Swiss healthcare market and develop management solutions tailored specifically to the needs of the healthcare market. Services is the leading provider of master data systems for Switzerland's entire healthcare market and publishes printed and electronic technical information on pharmaceutical products as well as complete management solutions for pharmacies and physicians.

Corporate

The activities included within Corporate mainly comprise the Group's central operations, which include Group Management, Controlling, Accounting, Tax, Treasury, Insurance, Human Resources, Legal Services, Corporate Services, General Secretariat, Corporate Communications and Investor Relations.

Eliminations

Operating activities involve the sales of goods and services between the business units and business sectors. Corporate charges management fees to the other business units and operating segments for the organisational and financial management services that it provides.

All intercompany services are charged at arm's length. Sales of goods and services between the segments and resulting unrealised gains are eliminated in the "Eliminations" column.

The segments' assets and liabilities include loans and current accounts held with respect to other segments. These positions are eliminated in the column "Eliminations".

Operating segment information 2016

Business units

in thousand CHF	Vifor Pharma	Galenica Santé	Corporate	Eliminations	Group
Net sales	1,166,963	3,008,851	–	(57,444)	4,118,370
Other income	112,621	49,848	27,607	(32,983)	157,093
Intersegmental sales and income	(58,199)	(7,241)	(24,987)	90,427	–
Third party operating income	**1,221,385**	**3,051,458**	**2,620**	–	**4,275,463**
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**330,925**	**177,799**	**(2,982)**	**(16,652)**	**489,090**
Depreciation and amortisation	(85,695)	(41,810)	(66)	–	(127,571)
Earnings before interest and taxes (EBIT)	**245,230**	**135,989**	**(3,048)**	**(16,652)**	**361,519**
Interest income					1,065
Interest expense					(29,886)
Other financial result (net)					(1,862)
Share of result of associates and joint ventures	–	4,695	–	–	4,695
Earnings before taxes (EBT)					**335,531**
Income tax					(11,766)
Net profit					**323,765**
Assets	**3,696,567**	**1,972,665**	**1,968,156**	**(2,205,887)**[1]	**5,431,501**
Investments in associates and joint ventures	–	43,518	–	–	43,518
Liabilities	**2,669,051**	**1,593,105**	**1,020,908**	**(2,152,593)**[2]	**3,130,471**
Investments in property, plant and equipment and investment properties	47,111	31,137	15	–	78,263
Investments in intangible assets	222,507	3,603	179	–	226,289
Employees as at 31 December (FTE)	2,410	4,657	40	–	7,107

[1] Of which elimination of intercompany positions CHF –2,218.0 million and other unallocated amounts CHF 12.1 million
[2] Of which elimination of intercompany positions CHF –2,218.0 million and other unallocated amounts CHF 65.4 million

Galenica Santé segments

in thousand CHF	Health & Beauty	Services	Eliminations	Galenica Santé
Net sales	1,436,970	2,328,902	(757,021)	3,008,851
Other income	99,440	18,138	(67,730)	49,848
Intersegmental sales and income	(138,992)	(685,986)	824,978	–
Sales and income from other business units	(4,046)	(3,195)	–	(7,241)
Third party operating income	**1,393,372**	**1,657,859**	**227**	**3,051,458**
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**118,683**	**61,659**	**(2,543)**	**177,799**
Depreciation and amortisation	(22,477)	(20,237)	904	(41,810)
Earnings before interest and taxes (EBIT)	**96,206**	**41,422**	**(1,639)**	**135,989**
Share of result of associates and joint ventures	4,695	–	–	4,695
Assets	**1,296,330**	**721,385**	**(45,050)**[1]	**1,972,665**
Investments in associates and joint ventures	43,518	–	–	43,518
Liabilities	**1,202,701**	**427,382**	**(36,978)**[2]	**1,593,105**
Investments in property, plant and equipment and investment properties	13,805	17,575	(243)	31,137
Investments in intangible assets	1,088	2,597	(82)	3,603
Employees as at 31 December (FTE)	3,423	1,234	–	4,657

[1] Of which elimination of intercompany positions CHF –34.8 million and other unallocated amounts CHF –10.2 million
[2] Of which elimination of intercompany positions CHF –34.8 million and other unallocated amounts CHF –2.1 million

Geographic areas

in thousand CHF	Switzerland	Europe	America	Other countries	Group
Net sales	3,079,838	334,870	574,401	129,261	4,118,370
Other income	145,899	8,367	1,806	1,021	157,093
Third party operating income	**3,225,737**	**343,237**	**576,207**	**130,282**	**4,275,463**
Non-current assets[1]	**1,910,738**	**103,439**	**1,911,604**	**65**	**3,925,846**

[1] Without financial assets, deferred tax assets and employee benefit assets

Operating segment information 2015

The operating segment information 2015 has been restated to the changed internal financial reporting to the CODM. The segment Health & Beauty, part of the business unit Galenica Santé includes the financial information of the business sector Products & Brands since 1 January 2015 and a transfer of G-Pharma activities to Services.

Business units

in thousand CHF	Vifor Pharma	Galenica Santé	Corporate	Eliminations	Group
Net sales	935,351	2,914,917	–	(58,682)	3,791,586
Other income	115,052	45,279	33,908	(40,667)	153,572
Intersegmental sales and income	(63,327)	(4,792)	(31,230)	99,349	–
Third party operating income	**987,076**	**2,955,404**	**2,678**	**–**	**3,945,158**
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**372,927**	**169,247**	**3,056**	**(7,873)**	**537,357**
Depreciation and amortisation	(45,177)	(41,240)	(182)	–	(86,599)
Earnings before interest and taxes (EBIT)	**327,750**	**128,007**	**2,874**	**(7,873)**	**450,758**
Interest income					1,698
Interest expense					(21,149)
Other financial result (net)					(5,786)
Share of result of associates and joint ventures	–	3,457	–	–	3,457
Earnings before taxes (EBT)					**428,978**
Income tax					(58,975)
Net profit					**370,003**
Assets	**1,914,542**	**1,712,619**	**1,939,267**	**(1,926,432)**[1]	**3,639,996**
Investments in associates and joint ventures	–	40,736	–	–	40,736
Liabilities	**1,080,376**	**1,382,101**	**1,047,806**	**(1,846,449)**[2]	**1,663,834**
Investments in property, plant and equipment and investment properties	30,675	37,835	52	–	68,562
Investments in intangible assets	294,005	5,965	35	–	300,005
Employees as at 31 December (FTE)	1,752	4,628	41	–	6,421

[1] Of which elimination of intercompany positions CHF –1,946.6 million and other unallocated amounts CHF 20.2 million
[2] Of which elimination of intercompany positions CHF –1,946.6 million and other unallocated amounts CHF 100.2 million

Galenica Santé segments

in thousand CHF	Health & Beauty	Services	Eliminations	Galenica Santé
Net sales	1,393,337	2,244,548	(722,968)	2,914,917
Other income	93,028	13,666	(61,415)	45,279
Intersegmental sales and income	(129,699)	(680,356)	810,055	–
Sales and income from other business units	(1,596)	(3,196)	–	(4,792)
Third party operating income	**1,355,070**	**1,574,662**	**25,672**	**2,955,404**
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**113,201**	**56,367**	**(321)**	**169,247**
Depreciation and amortisation	(23,422)	(19,273)	1,455	(41,240)
Earnings before interest and taxes (EBIT)	**89,779**	**37,094**	**1,134**	**128,007**
Share of result of associates and joint ventures	3,457	–	–	3,457
Assets	**1,055,662**	**715,711**	**(58,754)**[1]	**1,712,619**
Investments in associates and joint ventures	40,736	–	–	40,736
Liabilities	**1,016,806**	**417,321**	**(52,026)**[2]	**1,382,101**
Investments in property, plant and equipment and investment properties	14,404	23,854	(423)	37,835
Investments in intangible assets	3,263	3,067	(365)	5,965
Employees as at 31 December (FTE)	3,452	1,176	–	4,628

[1] Of which elimination of intercompany positions CHF –50.2 million and other unallocated amounts CHF –8.6 million
[2] Of which elimination of intercompany positions CHF –50.2 million and other unallocated amounts CHF –1.8 million

Geographic areas

in thousand CHF	Switzerland	Europe	America	Other countries	Group
Net sales	2,985,600	292,923	414,998	98,065	3,791,586
Other income	133,610	7,025	1,037	11,900	153,572
Third party operating income	**3,119,210**	**299,948**	**416,035**	**109,965**	**3,945,158**
Non-current assets[1]	**1,822,956**	**114,155**	**189,902**	**63**	**2,127,076**

[1] Without financial assets, deferred tax assets and employee benefit assets

6. Business combinations

In 2016 and 2015 the scope of consolidation has changed as a result of the following transactions:

Business combinations 2016

Vifor Pharma business unit

Acquisition of Relypsa, Inc. On 1 September 2016 Galenica acquired 100% of the issued share capital and control of Relypsa, Inc. through its indirect wholly owned subsidiary, Vifor Pharma USA Inc., pursuant to the announcement from Galenica and Relypsa, Inc. on 21 July 2016.

Relypsa, Inc. is a biopharmaceutical company focused on the discovery, development and commercialisation of polymeric medicines for patients with conditions that are often overlooked and undertreated and can be addressed in the gastrointestinal tract. The company's first medicine, Veltassa® (patiromer) for oral suspension, was developed based on Relypsa's rich legacy in polymer science. Veltassa® is approved in the United States for the treatment of hyperkalaemia. Veltassa® has intellectual property protection until 2030 in the United States and 2029 in the European Union.

The overall purchase consideration amounting to USD 1,483.5 million includes a cash payment of USD 1,444.9 million and an additional amount of USD 38.6 million to settle a pre-existing relationship (refer to note 18). The purchase agreement does not contain any contingent consideration elements. The provisional fair value of net assets amounts to USD 852.4 million on the acquisition date. The fair value of trade receivables is USD 1.9 million.

The above disclosed amounts were determined provisionally. Up to twelve months from the effective date of the acquisition, further adjustments may be made to the fair values assigned to the identifiable assets acquired and liabilities assumed. In particular, certain information relating to deferred taxes required to complete the final purchase price allocation remains outstanding.

The goodwill of USD 631.1 million has been allocated to the Vifor Pharma business unit and corresponds to the added value based on the acquirer-specific synergies expected to arise from the acquisition, the growth in market share and workforce. None of the goodwill recognised is expected to be deductible for tax purposes. Through this acquisition, Vifor Pharma will gain a fully-integrated commercial organisation in the US and significant strengthen its presence in the US cardio-renal market.

Transaction costs of USD 7.8 million were recognised in other operating costs.

Galenica Santé business unit
Health & Beauty segment

Acquisition of pharmacies. GaleniCare Holding acquired 100% of the interests in pharmacies at various locations in Switzerland. Upon acquisition, most of these pharmacies were merged with GaleniCare Ltd. or Sun Store SA.

The purchase consideration amounted to CHF 27.8 million, of which CHF 24.1 million was settled in cash. CHF 2.6 million was offset against loans receivable. The deferred and contigent purchase price consideration of CHF 1.1 million falls due in the years 2017 and 2020. The goodwill of CHF 17.8 million was allocated to the business sector Retail and corresponds to the added value of the pharmacies based on their locations.

Transaction costs of CHF 0.1 million were recognised in other operating costs.

Services segment

Acquisition of business activities of Streuli Pharma AG. On 1 November 2016 Galexis acquired in an asset deal several business activities from Streuli Pharma AG, a Swiss company specialised in trading of pharmaceutical products. The marketing and sales organisation and associated assets were integrated in Galexis.

The purchase consideration amounted to CHF 5.6 million, of which CHF 4.1 million was settled in cash. The contingent purchase consideration of CHF 1.5 million will be paid in 2018. The fair value of net assets amounts to CHF 1.2 million on the acquisition date. The goodwill of CHF 4.4 million has been allocated to the business sector Services and corresponds to the added value based on the acquirer-specific synergies expected to arise from the acquisition, the growth in market share and the employees gained. Transaction costs were insignificant.

Pro forma figures for acquisitions made in 2016 for the full 2016 financial year
Since its inclusion in the Galenica Group's scope of consolidation, Relypsa contributed net sales of USD 7.4 million (CHF 7.4 million) and a net loss of USD 72.6 million (CHF 71.9 million) to Group's results. If the acquisition had occurred on 1 January 2016, Relypsa would have contributed additional consolidated net sales of USD 5.0 million (CHF 4.9 million) and decreased the consolidated result by USD 301.5 million (CHF 298.5 million). These amounts have been calculated using Relypsa's results and adjusting them for the additional amortisation that would have been charged assuming the fair value adjustment to intangible assets had applied from 1 January 2016, together with the consequential tax effects. No material differences in accounting policies between Galenica and the subsidiary were identified requiring adjustments in the consolidated pro-forma disclosures (unaudited).

Since their inclusion in the Galenica Group's scope of consolidation, the businesses acquired beside Relypsa contributed net sales of approximately CHF 17.0 million and a net profit of CHF 1.2 million to the Group's results. If these acquisitions had already been concluded by 1 January 2016, they would have contributed additional consolidated net sales of CHF 9.4 million and increased the consolidated net profit by CHF 1.3 million (unaudited).

If all 2016 acquisitions had occurred on 1 January 2016, consolidated pro-forma net sales and net profit for the year ended 31 December 2016 would have been CHF 4,132.7 million and CHF 26.6 million respectively.

Business combinations 2015

Vifor Pharma business unit
Vifor Fresenius Medical Care Renal Pharma: Expansion of product portfolio and establishment of a marketing and sales organisation in Europe. On 31 July 2015 Vifor Fresenius Medical Care Renal Pharma acquired 100% of the interests in the German company Fresenius Medical Care Nephrologica Deutschland GmbH (FMC Nephrologica) and the net assets and employees of several marketing and sales companies in Europe (asset deals). With this acquisition Vifor Fresenius Medical Renal Pharma expanded its product portfolio with the phosphate binders Osvaren® and Phosphosorb® and substantially developed its sales and marketing organisation for nephrology medicines in Europe.

The overall purchase consideration amounted to EUR 65.3 million included a cash payment of EUR 29.1 million, a deferred purchase consideration of EUR 23.6 million and contingent consideration of EUR 12.6 million, which falls due in the years 2017 to 2026 if certain earning targets are achieved. The fair value of net assets amounted to EUR 48.4 million on the acquisition date and consisted of cash of EUR 0.1 million, inventories and other current assets of EUR 0.2 million, fixed assets of EUR 54.6 million and liabilities of EUR 6.5 million. The goodwill of EUR 16.9 million has been allocated to the Vifor Pharma business unit and corresponds to the added value based on the acquirer-specific synergies expected to arise from the acquisition, the growth in market share and the workforce. Transaction costs of EUR 0.4 million were recognised in other operating costs.

Galenica Santé business unit
Health & Beauty segment
Acquisition of pharmacies. GaleniCare Holding acquired 100% of the interests in pharmacies at various locations in Switzerland. Upon acquisition, most of these pharmacies were merged with GaleniCare Ltd.

The purchase consideration amounted to CHF 8.2 million, of which CHF 5.6 million was settled in cash. CHF 2.6 million was offset against loans receivable. The goodwill of CHF 2.3 million was allocated to the business sector Retail and corresponds to the added value of the pharmacies based on their locations. Transaction costs were insignificant.

Services segment
Acquisition of i-medify AG. On 29 December 2015 Galenica acquired 100% of the shares in the Swiss company i-medify AG. i-medify AG is specialised in development, production, distribution and service support in the field of information technology.

The purchase consideration amounted to CHF 1.5 million, of which CHF 1.0 million was settled in cash. CHF 0.5 million was offset against loans receivable. The goodwill of CHF 0.4 million was allocated to the business sector Services. Transaction costs were insignificant.

Business combinations

in thousand CHF	Relypsa, Inc.	Others	2016 Total Fair value	2015 Total Fair value
Cash and cash equivalent	207,163	2,945	210,108	1,367
Trade receivables	1,889	2,585	4,474	1,503
Inventories	47,253	1,935	49,188	1,901
Other current assets	8,247	2,354	10,601	569
Property, plant and equipment	7,070	1,513	8,583	2,758
Investment properties	–	1,146	1,146	–
Intangible assets	1,053,572	1,230	1,054,802	57,045
Financial assets	1,421	15	1,436	29
Deferred tax assets	–	170	170	378
Trade payables	(4,754)	(635)	(5,389)	(35)
Deferred tax liabilities	(95,678)	(133)	(95,811)	(6,300)
Other current and non-current liabilities	(382,439)	(1,936)	(384,375)	(1,878)
Fair value of net assets	**843,744**	**11,189**	**854,933**	**57,337**
Goodwill	624,666	22,248	646,914	20,261
Purchase consideration	**1,468,410**	**33,437**	**1,501,847**	**77,598**
Cash acquired	(207,163)	(2,945)	(210,108)	(1,367)
Offset against loans receivable	–	(2,554)	(2,554)	(3,090)
Net settlement of pre-existing relationship	(38,222)	–	(38,222)	–
Deferred consideration	–	(1,004)	(1,004)	(24,570)
Contingent consideration	–	(1,650)	(1,650)	(13,104)
Net cash flow from current business combinations	**1,223,025**	**25,284**	**1,248,309**	**35,467**
Payment of consideration due to previous business combinations			5,845	7,192
Net cash flow			**1,254,154**	**42,659**

Disposal of subsidiaries 2015

On 30 November 2015 Vifor Pharma UK sold its business unit Potters to Soho Flordis International. Potters has a broad range of well-established products, including brands like Red Kooga®, Seatone®, Calcia™ as well as Equazen™.

The consideration amounted to CHF 9.2 million was settled in cash. The carrying amount of the disposed net assets amounted to CHF 8.9 million including cash and cash equivalents of CHF 1.0 million. The net gain from this transaction of CHF 0.3 million has been recognised in other income.

7. Net sales

in thousand CHF	2016	2015
Sale of goods	3,997,306	3,676,198
Services	121,064	115,388
Net sales	**4,118,370**	**3,791,586**

8. Other income

in thousand CHF	2016	2015
Royalties, milestone and upfront payments	86,704	100,732
Changes in inventories of semi-finished and finished goods	11,487	40
Income from own work capitalised	2,416	3,315
Rental income	5,103	4,699
Gain on disposal of property, plant and equipment, investment properties and intangible assets	289	258
Gain on disposal of subsidiaries	–	273
Other operating income	51,094	44,255
Other income	**157,093**	**153,572**

Royalties, milestone and upfront payments comprises income from sales of CellCept of CHF 86.4 million (previous year: CHF 88.5 million).

Other operating income primarily consists of marketing costs and other expenses charged to customers.

9. Personnel costs

in thousand CHF	2016	2015
Salaries and wages	594,894	517,337
Social security costs and pension expenses	107,730	87,040
Other personnel costs	74,552	54,777
Personnel costs	**777,176**	**659,154**
Average number of FTE	6,771	6,395

Personnel costs include expenses for defined benefit plans of CHF 49.3 million (previous year: CHF 42.2 million) and for share-based payments of CHF 19.0 million (previous year: CHF 16.9 million) (refer to note 25 and 30).

10. Other operating costs

in thousand CHF	2016	2015
Maintenance and repairs	36,922	32,910
Operating and production costs	123,033	93,860
Rental and other lease expense	65,409	61,848
Administration costs	106,785	70,877
Marketing and sales costs	173,795	148,817
Loss on disposals of property, plant and equipment	110	307
Non-income taxes	4,926	3,826
Other operating costs	5,312	2,636
Other operating costs	**516,292**	**415,081**

11. Financial result

in thousand CHF	2016	2015
Interest income	1,065	1,698
Securities and other financial income	4,670	8,848
Financial income	**5,735**	**10,546**
Interest expense	29,886	21,149
Net interest expense from employee benefit plans	783	661
Other financial costs	4,682	2,014
Net foreign exchange differences	1,067	11,959
Financial expenses	**36,418**	**35,783**

The net interest expense of CHF 28.8 million (previous year: CHF 19.5 million) was mainly attributable to financing costs from the acquisition of Relypsa and the acquisitions in the prior periods.

Net foreign exchange differences are mainly influenced by the development of the USD and the EUR. In the previous year, net foreign exchange differences were mainly influenced by the development of the EUR as a consequence of the discontinuation of the minimum exchange rate CHF/EUR by the Swiss National Bank in January 2015.

12. Income tax

in thousand CHF	2016	2015
Current income tax	61,185	56,107
Income tax of prior periods	(2,014)	912
Deferred income tax	(47,405)	1,956
Income tax	**11,766**	**58,975**

Tax reconciliation

in thousand CHF	2016	2015
Earnings before taxes (EBT)	335,531	428,978
Weighted income tax rate in %	10.1%	17.0%
Expected income tax	**33,747**	**72,835**
Effects of income that is taxable at a lower rate or tax-free	(13,937)	(11,838)
Effects of changes in tax rates	90	(901)
Effects of unrecognised losses in the current year	301	23
Realisation of unrecognised tax losses of prior periods	(913)	(1,056)
Subsequent recognition of loss carry forwards from prior periods	(850)	–
Items from prior periods and other items	(6,672)	(88)
Effective income tax	**11,766**	**58,975**
Effective income tax rate in % of EBT	**3.5%**	**13.7%**

As Galenica predominantly operates in Switzerland and the Vifor Pharma business unit has international operations, the income tax paid depends on a number of different tax laws. The weighted income tax rate reflects the weighted average of the tax rates across the Swiss cantons and other countries in which Galenica is active. The composition of Galenica's taxable income and changes in local tax rates cause the tax rate to vary from year to year.

Deferred taxes

in thousand CHF	2016	2015
Deferred tax due to temporary differences		
– Current assets	20,494	20,485
– Property, plant and equipment	11,534	10,372
– Intangible assets	430,411	42,638
– Investments	62,761	21,224
– Provisions	252	252
– Employee benefit plans	(14,487)	(22,115)
– Other temporary differences	(11,744)	641
– Shareholders' equity	(1,565)	(2,407)
Deferred tax due to temporary differences	**497,656**	**71,090**
Tax loss carry forwards	(376,509)	(10,903)
Net deferred tax	**121,147**	**60,187**
Recognised as deferred tax assets in the statement of financial position	**29,655**	**26,233**
– of which due to recognised tax loss carry forwards	11,147	1,656
– of which due to temporary differences	18,508	24,577
Recognised as deferred tax liabilities in the statement of financial position	**150,802**	**86,420**

Analysis of deferred taxes (net)

in thousand CHF	2016	2015
1 January	**60,187**	**58,596**
Recognised in income tax in profit or loss		
– Addition/(reversal) of temporary differences	15,658	(1,163)
– Fiscal realisation of recognised tax loss carry forwards	792	4,079
– Tax loss carry forwards taken into account for the first time or no longer taken into account	(63,945)	(59)
– Effects of changes in tax rates	90	(901)
Recognised in other comprehensive income	11,368	(4,717)
Recognised in shareholders' equity (related to share-based payments)	(37)	(1,305)
Addition to scope of consolidation	95,641	5,922
Disposal from scope of consolidation	–	(561)
Translation differences	1,393	296
31 December	**121,147**	**60,187**

Temporary differences on which no deferred taxes have been recognised

in thousand CHF	2016	2015
Investments in subsidiaries	1,311,872	1,429,142

Unrecognised tax assets

Deferred tax assets, including tax loss carry forwards and expected tax credits, are only taken into account if it is probable that future profits will be available against which the assets mentioned can be applied for tax purposes.

Tax loss carry forwards and tax credits

		2016		2015
in thousand CHF	Tax loss carry forwards/ tax credits	Tax effect	Tax loss carry forwards/ tax credits	Tax effect
Tax loss carry forwards and tax credits	**1,102,670**	**378,657**	**68,653**	**14,111**
Of which capitalised as deferred tax assets	(32,893)	(11,147)	(7,302)	(1,656)
Of which netted with deferred tax liabilities	(1,061,798)	(365,362)	(42,437)	(9,247)
Unrecognised tax loss carry forwards and tax credits	**7,979**	**2,148**	**18,914**	**3,208**
Of which expire:				
– within 1 year	361	73	1,410	286
– in 2 to 5 years	1,282	257	6,460	619
– in more than 5 years	6,336	1,818	11,044	2,303

13. Earnings per share

Basic earnings per share are arrived at by dividing net profit by the weighted average number of outstanding shares during the reporting period, minus the average number of treasury shares held by Galenica. When calculating diluted earnings per share, the weighted average number of outstanding shares during the reporting period is adjusted assuming conversion of all potentially dilutive effects that would occur if Galenica's obligations were converted.

	2016	2015
Number of shares	6,500,000	6,500,000
Average number of treasury shares	(23,333)	(20,738)
Average number of outstanding shares	**6,476,667**	**6,479,262**
Share-based payments	10,043	11,341
Theoretical average number of outstanding shares (diluted)	**6,486,710**	**6,490,603**

in thousand CHF	2016	2015
Net profit – attributable to shareholders of Galenica Ltd.	243,627	301,060
Earnings per share	**37.62**	**46.47**
Diluted earnings per share	**37.56**	**46.38**

14. Trade and other receivables

in thousand CHF	2016	2015
Trade receivables	657,809	551,512
Other receivables	53,695	37,048
Bad debt allowances	(12,192)	(7,388)
Trade and other receivables	**699,312**	**581,172**

Change in bad debt allowances for trade receivables

in thousand CHF	2016	2015
1 January	**(7,388)**	**(5,842)**
Addition	(6,499)	(2,301)
Use	169	74
Reversal	1,506	607
Disposal from scope of consolidation	–	12
Translation differences	20	62
31 December	**(12,192)**	**(7,388)**

Goods and services supplied by pharmacies for receivables covered by health insurance companies were invoiced through an invoicing and collection office until October 2016. Receivables from the invoicing and collection office are derecognised only when the invoicing and collection office has been paid by the health insurance companies and there is no longer a risk of loss for Galenica. In 2015, the respective trade receivables amounted to CHF 51.2 million and the maximum risk of loss amounted to CHF 73.1 million.

15. Inventories

in thousand CHF	Raw material and merchandise	Semi-finished and finished goods	Total
Gross carrying amounts as at 31.12.2014	**323,521**	**74,590**	**398,111**
Addition to scope of consolidation	1,901	–	1,901
Disposal from scope of consolidation	(2,668)	(978)	(3,646)
Change in stock	9,557	3,616	13,173
Translation differences	(1,027)	(145)	(1,172)
Gross carrying amounts as at 31.12.2015	**331,284**	**77,083**	**408,367**
Addition to scope of consolidation	12,795	36,393	49,188
Change in stock	(14,005)	13,693	(312)
Translation differences	274	1,109	1,383
Gross carrying amounts as at 31.12.2016	**330,348**	**128,278**	**458,626**
Adjustments as at 31.12.2014	**(17,342)**	**(4,952)**	**(22,294)**
Addition	(1,410)	(5,706)	(7,116)
Use	2,355	2,154	4,509
Disposal from scope of consolidation	190	43	233
Translation differences	93	15	108
Adjustments as at 31.12.2015	**(16,114)**	**(8,446)**	**(24,560)**
Addition	(2,006)	(5,265)	(7,271)
Use	2,327	3,349	5,676
Translation differences	23	5	28
Adjustments as at 31.12.2016	**(15,770)**	**(10,357)**	**(26,127)**
Net carrying amounts as at 31.12.2015	315,170	68,637	383,807
Net carrying amounts as at 31.12.2016	**314,578**	**117,921**	**432,499**

16. Assets held for sale

Due to its lack of strategic relevance, an investment property with a carrying amount of CHF 29.6 million was classified as held for sale on 31 December 2016. This building that belonged to the business sector Services was sold to an independent third party on 30 January 2017.

17. Property, plant and equipment and investment properties

in thousand CHF	Real estate used for commercial operations	Assets under construction	Other property, plant and equipment	Total property, plant and equipment	Investment properties
Net carrying amounts as at 31.12.2014	**254,885**	**9,237**	**176,969**	**441,091**	**35,685**
Addition	15,362	14,412	38,443	68,217	345
Disposal	(64)	–	(1,028)	(1,092)	–
Reclassification	2,199	(7,532)	5,333	–	–
Depreciation	(19,021)	–	(38,690)	(57,711)	(1,308)
Addition to scope of consolidation	1,568	–	1,190	2,758	–
Disposal from scope of consolidation	(1,903)	–	(568)	(2,471)	–
Translation differences	(313)	5	(282)	(590)	–
Net carrying amounts as at 31.12.2015	**252,713**	**16,122**	**181,367**	**450,202**	**34,722**
Addition	14,631	16,906	46,189	77,726	537
Disposal	(3)	–	(594)	(597)	(1,145)
Reclassification	15,035	(23,503)	8,715	247	(29,821)
Depreciation	(20,131)	–	(40,987)	(61,118)	(1,332)
Addition to scope of consolidation	2,321	–	6,262	8,583	1,146
Translation differences	13	(66)	105	52	–
Net carrying amounts as at 31.12.2016	**264,579**	**9,459**	**201,057**	**475,095**	**4,107**
of which finance lease as at 31.12.2015 (net)	–	–	3	3	–
of which finance lease as at 31.12.2016 (net)	**–**	**–**	**115**	**115**	**–**
Overview as at 31.12.2015					
Cost	409,562	16,122	500,538	926,222	51,121
Accumulated depreciation and impairment	(156,849)	–	(319,171)	(476,020)	(16,399)
Net carrying amounts as at 31.12.2015	**252,713**	**16,122**	**181,367**	**450,202**	**34,722**
Overview as at 31.12.2016					
Cost	441,674	9,459	549,251	1,000,384	4,383
Accumulated depreciation and impairment	(177,095)	–	(348,194)	(525,289)	(276)
Net carrying amounts as at 31.12.2016	**264,579**	**9,459**	**201,057**	**475,095**	**4,107**

Other property, plant and equipment consists of manufacturing systems, warehouse equipment, furniture, fittings, IT equipment and vehicles.

Investment properties include non-operating real estate:

in thousand CHF	2016	2015
Fair value	4,934	41,263
Rental income	2,672	2,782
Operating costs of real estate generating rental income	560	477

The fair values of investment properties (level 3 of the fair value hierarchy) are calculated by external experts. An investment property has been reclassified to assets held for sale (refer to note 16).

There are no significant restrictions regarding the realisability or collectibility of rental income or sales proceeds. In addition, there are no contractual obligations to improve or maintain investment properties.

18. Intangible assets

in thousand CHF	Trademarks, patents, licences, technologies with finite useful lives	Trademarks and technologies with indefinite useful lives	Acquired software	Internally developed software	Goodwill	Total
Net carrying amounts as at 31.12.2014	**40,624**	**125,735**	**12,902**	**7,763**	**1,098,419**	**1,285,443**
Addition	290,429	–	6,326	3,250	–	300,005
Disposal	(353)	–	(3)	–	–	(356)
Reclassification	–	–	(24)	24	–	–
Amortisation	(18,732)	–	(5,460)	(3,388)	–	(27,580)
Addition to scope of consolidation	56,483	–	95	467	20,261	77,306
Disposal from scope of consolidation	(2,860)	–	–	–	(899)	(3,759)
Translation differences	(413)	–	(3)	(3)	(29,224)	(29,643)
Net carrying amounts as at 31.12.2015	**365,178**	**125,735**	**13,833**	**8,113**	**1,088,557**	**1,601,416**
Addition	218,613	–	5,870	1,807	–	226,290
Reclassification	177	–	(400)	223	–	–
Amortisation	(55,938)	–	(5,943)	(3,240)	–	(65,121)
Addition to scope of consolidation	1,052,188	–	2,614	–	646,914	1,701,716
Settlement of pre-existing relationship	(106,641)	–	–	–	–	(106,641)
Translation differences	30,969	–	64	(8)	14,441	45,466
Net carrying amounts as at 31.12.2016	**1,504,546**	**125,735**	**16,038**	**6,895**	**1,749,912**	**3,403,126**
Overview as at 31.12.2015						
Cost	708,094	125,735	57,864	27,894	1,088,557	2,008,144
Accumulated amortisation and impairment	(342,916)	–	(44,031)	(19,781)	–	(406,728)
Net carrying amounts as at 31.12.2015	**365,178**	**125,735**	**13,833**	**8,113**	**1,088,557**	**1,601,416**
Overview as at 31.12.2016						
Cost	1,902,596	125,735	64,751	29,641	1,749,912	3,872,635
Accumulated amortisation and impairment	(398,050)	–	(48,713)	(22,746)	–	(469,509)
Net carrying amounts as at 31.12.2016	**1,504,546**	**125,735**	**16,038**	**6,895**	**1,749,912**	**3,403,126**

Trademarks, patents, licences, technologies with finite useful lives

In May 2016, Vifor Fresenius Medical Care Renal Pharma Ltd. (VFMCRP) and OPKO Health, Inc. entered into an exclusive agreement for the development and commercialisation of OPKO's drug RAYALDEE® in Europe, Canada, Mexico, Australia, South Korea and certain other international markets for the treatment of secondary hyperparathyroidism (SHPT) in patients with chronic kidney disease (CKD) and vitamin D insufficiency. In addition, OPKO has granted VFMCRP an option to acquire rights to the US market for treatment of dialysis patients. Under the terms of the agreement, OPKO received an upfront cash payment of USD 50.0 million which has been capitalised at the signing date. The arrangement may require VFMCRP to make certain milestone or other similar payments upon the achievement of agreed objectives or performance targets of maximum USD 232 million. These potential future payments are contingent on regulatory approvals and have not been capitalised at the reporting date.

In May 2016, Vifor Pharma and ChemoCentryx, Inc. entered into an exclusive agreement for the development and commercialisation of ChemoCentryx's orally-administered Complement 5a Receptor (C5aR) inhibitor CCX168 for orphan and rare renal diseases in Europe, Canada, Mexico, Central and South America, South Korea and Africa. Under the terms of the agreement, Vifor Pharma paid USD 85.0 million, of which USD 7.0 million relates to the acquisition of an approximate 7 % of shares in listed ChemoCentryx which are classified as available for sale and recorded at fair value. The remaining USD 78.0 million is attributable to the license agreement and was recorded as an intangible asset. The arrangement may require Vifor Pharma to make certain milestone or other similar payments upon the achievement of agreed objectives or performance targets of maximum USD 510 million. These potential future payments are contingent on regulatory approvals of CCX168 and have not been capitalised at the reporting date.

In December 2016, Vifor Pharma and ChemoCentryx, Inc. entered into an exclusive agreement for the development and commercialisation of ChemoCentryx's orally-administered chemokine receptor CCX140 for rare renal diseases in worldwide territories outside of the US and China. CCX140 has previously completed a successful Phase II clinical trial in patients with diabetic kidney disease. Under the terms of the agreement, ChemoCentryx will receive an upfront cash payment of USD 50.0 million, which will fall due in 2017. The arrangement may require Vifor Pharma to make certain milestone or other similar payments upon the achievement of agreed objectives or performance targets of maximum USD 678 million. These potential future payments are contingent on regulatory approvals of CCX140 and have not been capitalised at the reporting date.

In May 2015, Vifor Fresenius Medical Care Renal Pharma (VFMCRP) and Roche have entered into an exclusive licence agreement for the commercialisation of Roche's drug Mircera® in the US and Puerto Rico by VFMCRP. Under this license agreement Roche will manufacture and supply Mircera® to VFMCRP and will receive upfront and milestone payments, supply reimbursements, as well as tiered royalties on Mircera® sales in the US and Puerto Rico. Under the terms of the agreement, Roche received upfront and milestone cash payments of USD 100.0 million. The expected upfront and milestone payments of USD 167.0 million have been capitalised at present value at the signing date, whereof USD 67.0 million are expected to fall due in the years 2017 to 2020. In 2016, an additional sales milestone of USD 39.0 million was considered probable and capitalised as an intangible asset. Amortisation is charged on a straight-line basis over the expected useful life of 10 years. As at the reporting date, the carrying amount of those rights amounted to CHF 165.2 million (previous year: CHF 144.8 million).

In August 2015, Vifor Fresenius Medical Care Renal Pharma (VFMCRP) and Relypsa, Inc. signed an exclusive agreement to commercialise the potassium binder Patiromer for Oral Suspension (Patiromer FOS) in worldwide territories outside of the US and Japan.

As a result of the acquisition of Relypsa, Inc. in September 2016, the Vifor Pharma Group now has the worldwide rights for Veltassa® (Patiromer) and has effectively settled the pre-existing relationship with Relypsa, Inc. Vifor Pharma has consequently derecognised the intangible asset for Patiromer of USD 108.5 million as well as the related contingent consideration liability of USD 69.9 million (refer to note 6).

As part of the purchase price allocation, a fair value of USD 1,050 million was assigned to intangible assets for the rights of Veltassa®. The useful life of this intangible asset was determined to be 14 years which corresponds with the expiry date of the underlying patent. As at the reporting date, the carrying amount of those rights amounted to USD 1,025 million and the amortisation in 2016 amounted to CHF 24.8 million.

Galenica is party to in-licensing and similar arrangements and intangible asset purchase agreements. These arrangements may require Galenica to make certain milestone or other similar payments dependent upon achievement of agreed objectives or performance targets as defined in the agreements. The maximum amount of unrecognised potential future commitments is USD 1,540 million (previous year: USD 235 million). These amounts are undiscounted and are not risk-adjusted, meaning that they include all such potential payments that can arise assuming all projects currently in development are successful.

Trademarks and technologies with indefinite useful lives

This caption includes a trademark with a carrying amount of CHF 21.6 million (previous year: CHF 21.6 million) that is well known nationally and internationally and actively advertised. This acquired trademark is regarded as having an indefinite useful life for the following reasons: it was created many years ago, it does not expire, and the products sold under the trademark have a history of strong revenue and cash flow performance. Galenica intends and has the ability to support the trademark to maintain its value for the foreseeable future. For impairment testing purposes the trademark has been allocated to the cash-generating unit Vifor Consumer Health in the Products & Brands business sector.

The caption also includes unpatented technology assets with a carrying amount of CHF 104.1 million (previous year: CHF 104.1 million) related to OM Pharma. These acquired manufacturing technologies are regarded as having indefinite useful lives because they have been in existence for many years, they are not patent-registered in order to prevent publication and as such there are no legal provisions that limit the useful lives of the technologies. The products generated using the technologies have a history of strong revenue and cash flow performance. These technology assets have been allocated to the cash-generating unit OM Pharma in the Vifor Pharma business unit for impairment testing purposes.

These intangible assets with an indefinite useful life are subject to an annual impairment test or more frequently if there is an indication that they may be impaired.

The recoverable amount is determined on the basis of future discounted cash flows. The weighted average cost of capital (WACC) is used to determine the applicable pre-tax discount rate. Future cash flows beyond the three-year planning period are based on the growth rates and capital cost rates before tax set out below, as approved in medium-term planning by management:

Trademark and technologies 2016

in thousand CHF	Carrying amount	Underlying data used Growth rate	Interest rate
Vifor Consumer Health	21,590	1.0 %	6.7 %
OM Pharma	104,145	1.0 %	7.1 %
Total	**125,735**		

Trademark and technologies 2015

in thousand CHF	Carrying amount	Underlying data used Growth rate	Interest rate
Vifor Consumer Health	21,590	1.0 %	6.6 %
OM Pharma	104,145	1.0 %	6.6 %
Total	**125,735**		

According to the results of impairment testing for 2016 and 2015, no impairment was necessary. Galenica performed a sensitivity analysis taking into account reasonable changes in the assumptions used to calculate the discounted cash flows, such as higher discount rates, lower EBITDA, lower gross margins or lower perpetual growth rates. The sensitivity analysis for 2016 and 2015 did not reveal any indicators of impairment as at the reporting date.

Goodwill

Goodwill is allocated to the cash-generating unit (CGU) or group of CGUs that is the principal economic beneficiary. The management monitors the Goodwill at business sector level. The allocation of the net carrying amount of the goodwill to the business sectors is summarised in the table below.

Goodwill is subject to an impairment test once a year or more frequently if there are indications of impairment. The impairment tests are based on the discounted cash flow method. The WACC is used to determine the applicable pre-tax discount rate. Goodwill is evaluated on the basis of the medium-term plans for the next three years approved by the management. Cash flows beyond the planning horizon are extrapolated using a perpetual growth rate. The growth rates and capital cost rates before tax shown below were used.

Goodwill 2016

	Carrying	Underlying data used	
in thousand CHF	amount	Growth rate	Interest rate
Vifor Pharma	1,144,396	1.7%	7.9%
Products & Brands	26,175	1.0%	6.8%
Retail	501,091	1.0%	6.5%
Services	78,250	1.0%	6.6%
Total	**1,749,912**		

Goodwill 2015

	Carrying	Underlying data used	
in thousand CHF	amount	Growth rate	Interest rate
Vifor Pharma	505,289	1.5%	7.1%
Products & Brands	26,175	1.0%	6.6%
Retail	483,267	1.0%	5.7%
Services	73,826	1.0%	5.8%
Total	**1,088,557**		

According to the results of impairment testing for 2016 and 2015, no impairment was necessary. Galenica performed a sensitivity analysis taking into account reasonable changes in the assumptions used to calculate the discounted cash flows, such as higher discount rates, lower EBITDA, lower gross margins or lower perpetual growth rates. The sensitivity analysis for 2016 and 2015 did not reveal any indicators of impairment as at the reporting date.

Costs of research and development

During the reporting period, expenses for research and development totalling CHF 127.1 million were recognised directly in other operating costs (previous year: CHF 88.8 million).

19. Investments in associates and joint ventures

Galenica has no individually material associates or joint ventures.

Associates

in thousand CHF	2016	2015
Net carrying amount as at 1 January	**21,453**	**20,603**
Income from associates	1,749	1,220
Dividends received	(699)	(370)
Net carrying amount as at 31 December	**22,503**	**21,453**

Joint ventures

in thousand CHF	2016	2015
Net carrying amount as at 1 January	**19,283**	**23,828**
Income from joint ventures	2,946	2,237
Remeasurement of the net defined benefit liability from joint ventures	2,371	(3,856)
Investments	531	1,973
Dividends received	(4,116)	(4,900)
Net carrying amount as at 31 December	**21,015**	**19,283**

If one specific joint venture is overindebted, Galenica has an unlimited obligation, in proportion to its equity interest, to restructure the company. At the reporting date, this joint venture is not overindebted.

20. Financial assets

in thousand CHF	2016	2015
Loans	5,613	6,160
Derivative financial instruments	–	1,013
Other financial assets	11,283	14,133
Loans and other financial assets	**16,896**	**21,306**
Securities available for sale	70,383	43,665
Financial assets	**87,279**	**64,971**

Other financial assets include receivables from non-current agreements and rental guarantee deposits.

Securities available for sale include investments in venture funds and listed shares in ChemoCentryx. The shares in ChemoCentryx were purchased in 2016.

21. Trade and other payables

in thousand CHF	2016	2015
Trade payables	443,666	364,502
Other payables	67,493	79,800
Trade and other payables	**511,159**	**444,302**

22. Current financial liabilities

in thousand CHF	2016	2015
Bank debts	1,453,008	9,618
Loans	30,666	64,161
Bond	299,547	–
Liability to pension funds	38,022	5,375
Current portion of non-current financial liabilities	8,144	64,021
Derivative financial instruments	–	1,717
Current financial liabilities	**1,829,387**	**144,892**

Bank debts consists of the bridge loan of CHF 1,450 million related to the acquisition of Relypsa.

The bond is due for repayment on 27 October 2017. Galenica reclassified the outstanding amount at reporting date to current financial liabilities.

23. Non-current financial liabilities

in thousand CHF	2016	2015
Bank debts	100,000	100,000
Loans	472	472
Derivative financial instruments	25,892	24,645
Private placement (notes)	91,500	94,600
Bond	–	299,005
Finance leases	64	–
Other financial liabilities	57,219	150,077
Non-current financial liabilities	**275,147**	**668,799**

Bank debts

The acquisition of Sun Store in 2009 was partially financed with non-current bank loans. The remaining amount totaling CHF 100.0 million will be repaid on 1 July 2019.

Private placement (notes)

On 12 March 2008 Galenica borrowed USD 105.0 million and GBP 20.0 million from a number of American and British insurance companies by means of a private placement of unsecured notes. The remaining amount totalling USD 65.0 million and GBP 20.0 million will be repaid on 12 March 2018. The interest rate and currency risk of the private placement was hedged.

Financial covenants (debt coverage ratio and interest coverage ratio) were agreed in connection with the private placement. Failure to comply with these could trigger early repayment of the notes. Galenica complied with the covenants on the reporting date.

Bond

On 5 October 2010, Galenica issued a fixed-rate bond for a nominal amount of CHF 300.0 million with an annual coupon of 2.5 % and a term of seven years, falling due on 27 October 2017. The bond is traded on the SIX Swiss Exchange under securities no. 11848005 (ISIN CH0118480059). The bond closed at 102.02 % as at 31 December 2016 (previous year: 104.08 %). Galenica reclassified the outstanding amount at reporting date to current financial liabilities.

Other financial liabilities

Non-current contingent and deferred consideration liabilities from business combinations as well as deferred and milestone payments for the acquisition of intangible assets have been recognised as other financial liabilities.

24. Provisions

in thousand CHF	2016	2015
1 January	**6,411**	**6,750**
Addition	1,657	601
Use	(192)	(727)
Reversal	(2,826)	(268)
Addition to scope of consolidation	41	236
Disposal from scope of consolidation	–	(110)
Translation differences	(24)	(71)
31 December	**5,067**	**6,411**
Current provisions	3,685	2,257
Non-current provisions	1,382	4,154

Provisions are recognised for the estimated cost of excess on damage not covered by insurance, contractual liabilities, liabilities related to sureties, customer complaints, litigation risks and ongoing legal proceedings in Switzerland and abroad. These provisions concern all business sectors. The cash outflow from the non-current provisions is expected within the next 3 to 4 years.

25. Employee benefit plans

The vast majority of employees works in Switzerland and is insured at least in accordance with the legal provisions by pension funds that are financed by Galenica and the employees. The pension plans cover the risks of the economic consequences of old age, disability and death in accordance with the Swiss Federal Occupational Retirement, Survivors and Disability Pension Plans Act (BVG/LPP). The benefits target is 85 % of the most recent base salary as at statutory retirement age for employees with a full insurance history of 35 years. The pension plans are structured in the legal form of a foundation. All actuarial risks are borne by the foundation and regularly assessed by the Board of Trustees based on an annual actuarial appraisal prepared in accordance with BVG/LPP. The calculations made in these appraisals do not apply the projected unit credit method required by IFRS. If the calculations made in accordance with the provisions of BGV/LPP reveal a funded status of less than 100 %, suitable restructuring measures need to be introduced. The Board of Trustees is made up of employee and employer representatives.

As stated in the 2015 annual report, Galenica became aware in 2015 that the employees of a joint venture company were erroneously included in the computation of the DBO and plan assets in prior years. Consequently, the net pension liability as of 31 December 2014 was overstated by CHF 6.8 million (resulting from an overstatement of DBO of CHF 42.7 million and related plan assets of CHF 35.9 million), the carrying amount of the joint venture by CHF 2.6 million, deferred tax assets by CHF 1.5 million and total equity was understated by CHF 2.7 million. As the impact is not deemed material, Galenica decided to adjust this difference prospectively in the 2015 financial statements through other comprehensive income (OCI) without restating prior year amounts. Without this effect, the remeasurement of the net pension liability recognised in OCI in 2015 amounted to a loss of CHF 28.2 million (actuarial loss due to changes in financial assumptions of CHF 49.4 million, actuarial gain due to experience adjustments of CHF 2.4 million and a gain from remeasurement of plan assets of CHF 18.8 million).

The most recent actuarial valuation was prepared as at 31 December 2016. The underlying assumptions reflect the economic circumstances. The pension funds' assets are invested in accordance with local investment guidelines. Galenica pays its contributions to the pension funds in accordance with the regulations defined by the funds.

The final funded status pursuant to BVG/LPP is not available until the first quarter of the subsequent year. The projected funded status as at 31 December 2016 (unaudited) is 112.4 % to 118.6 % (previous year: 115.9 % to 120.0 %, audited).

Defined benefit plans and long-service awards

in thousand CHF	2016 Defined benefit plans	2016 Long-service awards[1]	2016 Total	2015 Defined benefit plans	2015 Long-service awards[1]	2015 Total
Plan assets at fair value	1,122,332	–	1,122,332	1,034,726	–	1,034,726
Present value of defined benefit obligation	(1,171,565)	(16,637)	(1,188,202)	(1,120,839)	(14,446)	(1,135,285)
Net carrying amount[2]	**(49,233)**	**(16,637)**	**(65,870)**	**(86,113)**	**(14,446)**	**(100,559)**

[1] The long-service awards relate to provisions for jubilee payments
[2] Recognised in liabilities

Change in the present value of the defined benefit obligation

in thousand CHF	2016 Defined benefit plan	2016 Long-service awards	2016 Total	2015 Defined benefit plan	2015 Long-service awards	2015 Total
1 January	**(1,120,839)**	**(14,446)**	**(1,135,285)**	**(1,059,674)**	**(13,624)**	**(1,073,298)**
Current service cost	(48,171)	(2,251)	(50,422)	(40,965)	(1,946)	(42,911)
Interest on the defined benefit liability	(9,090)	(128)	(9,218)	(11,703)	(170)	(11,873)
Actuarial gain/(loss)	24,504	(1,116)	23,388	(47,035)	(59)	(47,094)
Employee contributions	(20,674)	–	(20,674)	(19,524)	–	(19,524)
Benefits/awards paid	2,705	1,304	4,009	15,382	1,353	16,735
Adjustment (refer to page 147)	–	–	–	42,680	–	42,680
31 December	**(1,171,565)**	**(16,637)**	**(1,188,202)**	**(1,120,839)**	**(14,446)**	**(1,135,285)**

Change in fair value of plan assets

in thousand CHF	2016	2015
1 January	**1,034,726**	**1,004,460**
Interest	8,436	11,212
Remeasurement gains/(losses)	27,168	18,811
Employee contributions	20,674	19,524
Employer contributions	35,155	33,224
Benefits paid	(2,705)	(15,382)
Administration cost	(1,122)	(1,228)
Adjustment (refer to page 147)	–	(35,895)
31 December	**1,122,332**	**1,034,726**

Net defined benefit cost

in thousand CHF	2016	2015
Current service cost	48,171	40,965
Interest on the defined benefit liability	654	491
Administration cost	1,122	1,228
Defined benefit cost	**49,947**	**42,684**

Remeasurement of net defined benefit liability/(asset)

in thousand CHF	2016	2015
Actuarial gain/(loss)		
– Changes in demographic assumptions	(658)	–
– Changes in financial assumptions	4,443	(49,476)
– Experience adjustments	20,719	2,441
Remeasurement of plan assets	27,168	18,811
Adjustment (refer to page 147)	–	6,785
Remeasurements of net defined benefit liability/(asset) recognised in other comprehensive income	**51,672**	**(21,439)**

The actuarial gain in financial assumptions of CHF 4.4 million includes a loss related to the decrease in discount rate from 0.8% to 0.6% which was more than compensated by a gain related to the reduction of interest rate on the accumulated savings of plan participants from 1.6% to 1.0%.

Investment structure of plan assets

in thousand CHF		2016		2015
Cash and cash equivalents	36,083	3.2%	47,221	4.6%
Debt instruments	241,297	21.5%	251,718	24.3%
Equity instruments	469,945	41.9%	418,786	40.5%
Real estate	268,543	23.9%	254,071	24.5%
Other investments	106,464	9.5%	62,930	6.1%
Fair value of plan assets	**1,122,332**	**100.0%**	**1,034,726**	**100.0%**
Current return on investments		3.4%		3.0%

The Board of Trustees is responsible for investing the plan assets. It defines the investment strategy and determines the long-term target asset structure (investment policy), taking account of the legal requirements, objectives set, the benefit obligations and the foundations' risk capacity. The Board of Trustees delegates implementation of the investment policy in accordance with the investment strategy to an investment committee, which also comprises trustees from the Board of Trustees and a general manager. Plan assets are managed by external asset managers in line with the investment strategy.

Cash and cash equivalents are deposited with financial institutions with a rating of A or above.

Debt instruments (e.g. bonds) have a credit rating of at least BBB- and quoted prices in active markets (level 1 of the fair value hierarchy). They can also be investments in funds and direct investment funds.

Equity instruments are investments in equity funds and direct investments. These generally have quoted prices in active markets (level 1 of the fair value hierarchy). Equity instruments include treasury shares of Galenica Ltd. with a fair value of CHF 6.5 million (previous year: CHF 8.3 million).

Real estate relates to both residential property and offices. These can be investments in quoted real estate funds (level 1 of the fair value hierarchy) or direct investments (level 3 of the fair value hierarchy). If real estate is held directly, it is valued by an independent expert.

Other investments consist of hedge funds, insurance linked securities (ILS), mixed investments and receivables. There are receivables from Group companies amounting to CHF 36.9 million (previous year: CHF 5.2 million). Investments in hedge funds are classified as alternative investments. They are primarily used for risk management purposes. In most cases, quoted prices in an active market are not available for hedge funds investments (level 2 or level 3 of the fair value hierarchy).

The use of derivative financial instruments is only permitted if sufficient liquidity or underlying investments are available. Leverage and short selling are not permitted.

The pension funds manage the assets of 5,710 active members (previous year: 5,486) and 914 pensioners (previous year: 890).

Galenica does not use any pension fund assets.

Basis for measurement

Weighted average in %	2016	2015
Discount rate	0.60	0.80
Salary development	1.00	1.50
Pension development	0.00	0.00
Mortality (mortality tables)	BVG 2015 GT	BVG 2010 GT
Turnover	BVG 2015	BVG 2010

Sensitivity analysis

The discount rate and future salary development were identified as key actuarial assumptions. Changes in these would affect the defined benefit obligation (DBO) as follows:

	2016		2015	
in thousand CHF	Basis for calculation	DBO	Basis for calculation	DBO
Discount rate	0.60%	1,171,565	0.80%	1,120,839
	+0.25%	1,127,745	+0.25%	1,079,306
	–0.25%	1,218,541	–0.25%	1,165,361
Salary development	1.00%	1,171,565	1.50%	1,120,839
	+0.25%	1,175,016	+0.25%	1,124,299
	–0.25%	1,168,204	–0.25%	1,117,473

The sensitivity analysis assumes potential changes in the above parameters as at year-end. Every change in a key actuarial assumption is analysed separately; interdependencies were not taken into account.

Maturity structure of pension obligations

in thousand CHF	2016	2015
in 1 year	32,196	29,895
in 2 years	33,288	30,715
in 3 years	32,830	31,906
in 4 years	32,870	31,786
in 5 years	32,687	31,031
in 6–10 years	159,791	222,790

The pension obligations have an average duration of 20.4 years (previous year: 20.8 years).

Cash outflows for pension payments and other obligations can be budgeted reliably. The benefit plans collect regular contribution payments. Furthermore, the investment strategies safeguard liquidity at all times.

The employer contributions to the pension funds are estimated at CHF 35.6 million for 2017.

Further details on employee benefit plans are included in Galenica’s 2016 annual report in the chapter Human Resources on page 96 and page 97.

26. Share capital and number of shares

As in the previous year, Galenica had fully paid-up share capital of CHF 650,000, divided into 6,500,000 publicly listed registered shares with a par value of CHF 0.10 each, as at the reporting date. All shares have the same capital rights with the exception of the treasury shares which do not generate any dividends. Voting rights and restrictions on voting rights are described in detail in Galenica's 2016 annual report in the chapter Corporate Governance (unaudited).

According to Art. 3a) of Galenica's articles of incorporation, the Board of Directors may raise the share capital of CHF 650,000 by 10 %, i. e. an amount of CHF 65,000 (650,000 shares), at any time until 28 April 2018.

Number of shares	Total shares Galenica Ltd.	Treasury shares	Outstanding shares
as at 31. 12. 2014	**6,500,000**	**(22,398)**	**6,477,602**
Change	–	(738)	(738)
as at 31. 12. 2015	**6,500,000**	**(23,136)**	**6,476,864**
Change	–	170	170
as at 31. 12. 2016	**6,500,000**	**(22,966)**	**6,477,034**

The treasury shares are reserved for share-based payments to employees.

27. Non-controlling interests

Vifor Fresenius Medical Care Renal Pharma is the only Group company with significant non-controlling interests. The company is registered in St. Gallen, Switzerland. Galenica owns 55 % of the share capital and voting rights, Fresenius Medical Care 45 % of the share capital and voting rights. The minority shareholder has extensive protection rights. In the event of disagreement Galenica has the casting vote within a defined escalation process.

Condensed financial information of Vifor Fresenius Medical Care Renal Pharma (before elimination of intercompany transactions):

in thousand CHF	2016	2015
Current assets	86,529	196,849
Non-current assets	529,949	356,603
Current liabilities	138,083	198,677
Non-current liabilities	97,084	150,508
Equity before appropriation of earnings	381,311	204,267
Operating income	519,428	348,785
EBIT	209,883	177,615
Net profit	177,008	153,244
Cash flow from operating activities	126,762	156,637

There were non-controlling interests in the equity of Vifor Fresenius Medical Care Renal Pharma of CHF 172.1 million as at 31 December 2016 (previous year: CHF 91.9 million). No dividends were paid to non-controlling interests in 2016 (previous year: CHF 5.2 million).

The non-controlling interests in the net profit of Vifor Fresenius Medical Care Renal Pharma total CHF 80.2 million in the reporting period (previous year: CHF 69.0 million).

28. Changes in consolidated shareholders' equity

At the Annual General Meeting of Shareholders held on 28 April 2016 a resolution was passed to pay a dividend of CHF 18.00 per share, constituting a total amount of CHF 117.0 million. In the previous year a resolution was passed to pay a dividend of CHF 15.00 per share, constituting a total amount of CHF 97.5 million.

In the reporting period, 16,336 treasury shares (previous year: 20,443 treasury shares) were bought at an average price of CHF 1,108.66 (previous year: CHF 991.26) and 16,506 treasury shares (previous year: 19,705 treasury shares) were issued as share-based payments. As at 31 December 2015, a forward purchase of 5,000 treasury shares at a price of CHF 593.00 was outstanding. This forward purchase was settled in 2016.

The expense for share-based payment transactions, allocated over the vesting period, has been recognised in personnel costs and accrued in consolidated shareholders' equity.

The acquisition of non-controlling interests reduced consolidated shareholders' equity by CHF 0.3 million (previous year: CHF 2.8 million).

The Board of Directors will submit a proposal to the Annual General Meeting of Shareholders on 11 May 2017 to pay a dividend of CHF 130.0 million, corresponding to CHF 20.00 per registered share for the financial year 2016 (previous year: CHF 117.0 million, CHF 18.00 per registered share).

29. Financial instruments

The financial assets of Galenica include cash, securities, trade receivables, other receivables, loans and venture funds.

Galenica's financial liabilities primarily comprise advances on current bank accounts, trade payables, finance lease liabilities, loans, a bond, private placements (notes) and liabilities from deferred and contingent consideration from business combinations as well as deferred and milestone payments for the acquisition of intangible assets. They are used to finance Galenica's operations and acquisitions.

Galenica uses derivatives such as interest rate swaps and foreign exchange forwards in order to manage and hedge the interest and currency risks resulting from operations and financing activities.

Galenica is mainly exposed to liquidity risks, credit risks, interest rate risks, currency risks and other market risks from its financial instruments.

29.1 Categories of financial instruments

All financial assets and liabilities at fair value through profit or loss are held for trading purposes or are derivative financial instruments. There are no other financial assets and liabilities designated on initial recognition as at fair value through profit or loss.

Carrying amounts of financial instruments 2016

in thousand CHF	Financial assets at fair value through profit or loss	Loans and receivables	Financial assets available for sale	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
Cash and cash equivalents	–	180,914	–	–	–	**180,914**
Securities	2,141	–	–	–	–	**2,141**
Trade and other receivables	–	699,312	–	–	–	**699,312**
Financial assets	–	16,896	70,383	–	–	**87,279**
Current financial liabilities	–	–	–	2,511	1,826,876	**1,829,387**
Trade and other payables	–	–	–	–	511,159	**511,159**
Non-current financial liabilities	–	–	–	41,276	233,871	**275,147**
Total	**2,141**	**897,122**	**70,383**	**43,787**	**2,571,906**	

Carrying amounts of financial instruments 2015

in thousand CHF	Financial assets at fair value through profit or loss	Loans and receivables	Financial assets available for sale	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
Cash and cash equivalents	–	422,196	–	–	–	**422,196**
Securities	246	–	–	–	–	**246**
Trade and other receivables	–	581,172	–	–	–	**581,172**
Financial assets	1,013	20,293	43,665	–	–	**64,971**
Current financial liabilities	–	–	–	3,613	141,279	**144,892**
Trade and other payables	–	–	–	–	444,302	**444,302**
Non-current financial liabilities	–	–	–	43,695	625,104	**668,799**
Total	**1,259**	**1,023,661**	**43,665**	**47,308**	**1,210,685**	

Net gain/(loss) on financial instruments 2016

in thousand CHF	Financial assets at fair value through profit or loss	Loans and receivables	Financial assets available for sale	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
Income from securities	4	–	2,661	–	–	**2,665**
Change in fair value	1,952	(1)	–	2,844	–	**4,795**
Net gain/(loss) on foreign exchange	–	(1,055)	–	–	(12)	**(1,067)**
Loss on receivables and other financial result	–	(430)	–	–	(4,683)	**(5,113)**
Interest income	–	945	–	–	–	**945**
Interest expense	–	–	–	–	(29,886)	**(29,886)**
Fees recognised in profit and loss	–	–	–	–	(30)	**(30)**
Interest income on impaired trade receivables	–	120	–	–	–	**120**
Change in bad debt allowances	–	(4,824)	–	–	–	**(4,824)**
Net gain/(loss) recognised in profit or loss	**1,956**	**(5,245)**	**2,661**	**2,844**	**(34,611)**	**(32,395)**
Net gain/(loss) recognised in other comprehensive income[1]	**–**	**–**	**15,665**	**2,980**	**–**	**18,645**

[1] Other comprehensive income includes the changes in value of hedge transactions (foreign exchange forwards and cross currency interest rate swaps) as well as venture funds

Net gain/(loss) on financial instruments 2015

in thousand CHF	Financial assets at fair value through profit or loss	Loans and receivables	Financial assets available for sale	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
Income from securities	4	–	3,145	–	–	**3,149**
Change in fair value	3,985	–	–	545	–	**4,530**
Net gain/(loss) on foreign exchange	–	(11,057)	–	–	(902)	**(11,959)**
Loss on receivables and other financial result	–	(696)	–	–	(399)	**(1,095)**
Interest income	–	1,606	–	–	–	**1,606**
Interest expense	–	–	–	–	(21,149)	**(21,149)**
Fees recognised in profit and loss	–	–	–	–	(30)	**(30)**
Interest income on impaired trade receivables	–	92	–	–	–	**92**
Change in bad debt allowances	–	(1,621)	–	–	–	**(1,621)**
Net gain/(loss) recognised in profit or loss	**3,989**	**(11,676)**	**3,145**	**545**	**(22,480)**	**(26,477)**
Net gain/(loss) recognised in other comprehensive income[1]	**–**	**–**	**1,372**	**(465)**	**–**	**907**

[1] Other comprehensive income includes the changes in value of hedge transactions (foreign exchange forwards, and cross currency interest rate swaps) as well as venture funds

Fair value

in thousand CHF	Carrying amount 2016	Carrying amount 2015	Fair value 2016	Fair value 2015
Non-current financial liabilities	249,255	644,154	261,818	675,762

With the exeption of non-current financial liabilities the carrying amount approximate to the fair value.

The securities available for sale within the financial instruments consist of securities which are publicly traded (level 1 of the fair value hierarchy) and investments in venture funds (level 3 of the fair value hierarchy). The venture funds are valued at net asset value.

The derivatives largely consist of cross currency and interest rate swaps and are measured at fair value. The fair values of the cross currency and interest rate swaps are calculated as the present value of the estimated future cash flows (level 2 of the fair value hierarchy).

The fair value of the bond, which is included in the current financial liabilities (previous year: non-current financial liabilities), is derived from observable price quotations at the reporting date (level 1 of the fair value hierarchy).

Non-current financial liabilities contain contingent consideration liabilities from business combinations which are measured at fair value. The fair value of these financial instruments is measured based on the expected cash flows in due consideration of the probability of occurrence and the current market interest rates (level 3 of the fair value hierarchy).

The fair values of the other non-current financial liabilities are calculated based on the expected cash flows, the current market interest rates and the counterparties' credit risk (level 3 of the fair value hierarchy).

Fair value hierarchy

Galenica measures financial instruments at fair value using the following hierarchies for determining the fair value:

- **Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2**: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- **Level 3**: Unobservable inputs for the asset or liability. These inputs reflect the best estimates of Galenica based on criteria that market participants would use to determine prices for assets or liabilities at the reporting date.

There have been no transfers between Level 1 and Level 2 in the financial year, or any transfers into or out of Level 3.

Financial assets measured at fair value

in thousand CHF		2016	2015
Derivative financial instruments	Level 2	2,141	1,259
Securities available for sale		67,970	41,237
– thereof	Level 1	25,160	–
– thereof	Level 3	42,810	41,237

Financial liabilities measured at fair value

in thousand CHF		2016	2015
Derivative financial instruments	Level 2	25,892	26,362
Contingent consideration liabilities from business combinations	Level 3	17,895	20,946

Fair value of securities available for sale (level 3 of the fair value hierarchy)

in thousand CHF	2016	2015
1 January	**41,237**	**35,326**
Investments	3,634	4,344
Disposals	(209)	(384)
Gain/(loss) recognised in other comprehensive income	(2,699)	1,372
Translations differences	847	579
31 December	**42,810**	**41,237**

Galenica invests in venture funds. These funds are structured as closed end funds, for which Galenica has undertaken a defined capital commitment. The funds call this capital commitment over the term. Galenica and the other investors are usually bound to their fund units throughout the entire term; consequently there is no active market for units in these funds, although a transaction cannot be ruled out in principle. The funds themselves are likewise usually invested in venture funds with the same attributes (fund of funds).

Galenica determines the fair values for the venture funds using the net asset values. According to the venture funds, the net asset values for the funds are based on the net asset values reported to them by the respective investments; net asset values are not usually determined based on publicly available input data, or only to an insignificant extent. Galenica therefore classifies all venture funds as assets in level 3 of the fair value hierarchy.

Compared to the previous year, the fair value of the venture funds has not changed significantly, nor have there been any changes in the measurement methods used since the last financial statements.

Fair value of contingent consideration liabilities (level 3 of the fair value hierarchy)

in thousand CHF	2016	2015
1 January	**20,946**	**10,865**
Arising from business combinations	1,650	13,104
Total unrealised gains and losses included in the income statement		
– Unused amounts reversed	(2,844)	(1,175)
– Additional amounts created	–	630
Total gains and losses included in other comprehensive income		
– Translation differences	(12)	(286)
Payments (cash out)	(1,845)	(2,192)
31 December	**17,895**	**20,946**

29.2 Liquidity risk

Maturity profile of financial liabilities and derivative financial instruments 2016

in thousand CHF	Carrying amount	Total undiscounted cash flows	up to 3 months	3 to 12 months	1 to 5 years	Maturities more than 5 years
Trade and other payables	511,159	511,159	506,012	5,147	–	–
Current financial liabilities	1,529,840	1,529,840	71,285	1,458,555	–	–
Non-current financial liabilities (unhedged)	157,755	173,946	750	2,292	161,972	8,932
Bond	299,547	307,500	–	307,500	–	–
Private placement notes	91,500	123,065	3,002	3,002	117,061	–
of which hedged	91,500	123,065	3,002	3,002	117,061	–
– Cross currency interest rate swaps – cash inflow	25,892	(100,416)	(2,972)	(2,972)	(94,472)	–
– Cross currency interest rate swaps – cash outflow		123,066	3,003	3,003	117,060	–
Other derivative financial instruments (current and non-current)	(2,141)	(2,141)	(2,141)	–	–	–
– Foreign exchange forwards – cash inflow	(2,141)	(32,640)	(32,640)	–	–	–
– Foreign exchange forwards – cash outflow		30,357	30,357	–	–	–
Total	**2,613,552**	**2,665,877**	**578,797**	**1,776,527**	**301,621**	**8,932**

Maturity profile of financial liabilities and derivative financial instruments 2015

in thousand CHF	Carrying amount	Total undiscounted cash flows	up to 3 months	3 to 12 months	1 to 5 years	Maturities more than 5 years
Trade and other payables	444,302	444,302	441,693	2,609	–	–
Current financial liabilities	143,175	144,947	24,674	120,273	–	–
Non-current financial liabilities (unhedged)	250,549	274,582	758	3,058	222,901	47,865
Bond	299,005	315,000	–	7,500	307,500	–
Private placement notes	94,600	129,071	3,002	3,003	123,066	–
of which hedged	94,600	129,071	3,002	3,003	123,066	–
– Cross currency interest rate swaps – cash inflow	24,645	(110,035)	(3,087)	(3,087)	(103,861)	–
– Cross currency interest rate swaps – cash outflow		129,071	3,002	3,003	123,066	–
Other derivative financial instruments (current and non-current)	459	459	580	892	(1,013)	–
– Foreign exchange forwards – cash inflow	459	(144,595)	(36,296)	(76,299)	(32,000)	–
– Foreign exchange forwards – cash outflow		145,356	37,000	78,000	30,356	–
Total	**1,256,735**	**1,327,699**	**470,746**	**138,060**	**671,028**	**47,865**

The values presented above are contractually agreed undiscounted cash flows including interest. Wherever the contractually agreed payment amount is liable to change before maturity as a result of variable interest rates, the payment amounts based on the interest rates on the reporting date are disclosed.

In order to ensure that Galenica can meet its payment obligations on time, liquidity is managed centrally. The Treasury department monitors the cash flows using ongoing liquidity planning, which takes into account the maturities of financial assets and financial liabilities, monetary assets and cash flows from operating activities.

29.3 Credit risk

in thousand CHF	2016	2015
Cash (without cash on hand)	179,541	420,751
Derivative financial instruments	2,141	1,259
Trade and other receivables	699,312	581,172
Loans and other financial assets	16,896	20,293
Total financial assets subject to credit risk	**897,890**	**1,023,475**

The financial assets subject to credit risk are primarily receivables.

Galenica applies internal risk management guidelines to identify concentrations of credit risks.

Galenica's financial assets are not exposed to a concentration of credit risks.

No past due financial assets have been renegotiated. Based on past experience, Galenica considers the creditworthiness of not past due trade receivables to be good. Trade receivables past due are analysed on an ongoing basis. These receivables are accounted for using individual bad debt allowances, which are calculated on the basis of past experience.

As collateral for future deliveries, Galenica has accepted bank guarantees and assignment of receivables from various customers; these total CHF 2.1 million (previous year: CHF 2.1 million).

Maturity profile of trade receivables

	2016		2015	
in thousand CHF	Gross trade receivables	Bad debt allowances	Gross trade receivables	Bad debt allowances
not past due	534,041	(2,787)	463,546	(474)
past due:				
– 1–30 days	57,814	(139)	43,483	(704)
– 31–60 days	30,826	(151)	12,468	(304)
– 61–90 days	6,286	(884)	4,778	(467)
– more than 90 days	28,842	(8,231)	27,237	(5,439)
Total	**657,809**	**(12,192)**	**551,512**	**(7,388)**

29.4 Market risks

Interest rate risk

Galenica manages the risk of changes in interest rates by modifying the ratio of fixed to floating-rate liabilities.

Interest rates are managed centrally in order to limit the effects of interest rate fluctuations on the financial result. The Treasury department is responsible for operational risk management in connection with interest rates. The risks are monitored using sensitivity analyses. The management is informed periodically of the current situation. The scenarios for the sensitivity analyses assume a parallel shift of the yield curve across all maturities. This assumption is justified by the weighted distribution of maturities. The effects of interest rate changes on floating-rate financial assets and financial liabilities are recognised in profit or loss and affect the financial result. Galenica does not have any fixed-rate financial liabilities classified as at fair value through profit or loss. For fixed-rate financial liabilities such as the bond and private placements notes, changes in interest rates therefore have no effect on profit or loss.

The financial assets and liabilities subject to interest rate risk are almost exclusively floating-rate current bank deposits, debts and loans. Had the market rate been 50 basis points higher or lower at the reporting date, the consolidated earnings before taxes would remain unchanged as in the previous year. The other comprehensive income would have been CHF 0.2 million higher (previous year: CHF 0.3 million) or CHF 0.1 million lower (previous year: CHF 1.0 million).

Currency risk

The table below shows the unhedged net financial assets and net financial liabilities per currency pair as well as the sensitivity per currency pair to changes in exchange rates for monetary financial assets and monetary financial liabilities.

The sensitivity analysis is based on assumptions of reasonable changes in exchange rates. There are currency risks for all monetary financial assets and liabilities denominated in a different currency to the functional currency. The effect on the consolidated earnings before taxes arises from currency related changes in fair value of monetary financial assets and financial liabilities.

Exchange rate risks of monetary financial instruments and sensitivity analysis

			2016			2015
in thousand CHF	Net exposure	Sensitivity	Effect on profit or loss	Net exposure	Sensitivity	Effect on profit or loss
EUR/CHF	(49)	2 %	(1)	(10,534)	5 %	(527)
		(2 %)	1		(5 %)	527
USD/CHF	(1,294)	6 %	(78)	(63,405)	7 %	(4,438)
		(6 %)	78		(7 %)	4,438
GBP/CHF	3,536	9 %	318	(45)	3 %	(1)
		(9 %)	(318)		(3 %)	1

Other market risks

The values of the securities classified as available for sale which are publicly traded depend on the share price quoted on the corresponding stock exchange. The values of the venture funds recognised as securities classified as available for sale depend on the general market environment and not directly on a share index. A change in value of +/–15 % would have had a positive or negative effect of CHF 10.2 million (previous year: +/–15 %, +/–CHF 6.2 million) on other comprehensive income.

29.5 Derivative financial instruments

Derivative financial instruments 2016

		Fair Value	Contract Value			Expiry date of contract values
in thousand CHF	Positive	Negative		up to 3 months	3 to 12 months	1 to 5 years
Foreign exchange forwards	2,141	–	32,640	32,640	–	–
Currency instruments	**2,141**	**–**	**32,640**	**32,640**	**–**	**–**
Cross currency interest rate swaps	–	25,892	91,500	–	–	91,500
Interest instruments	**–**	**25,892**	**91,500**	**–**	**–**	**91,500**
Derivative financial instruments	**2,141**	**25,892**	**124,140**	**32,640**	**–**	**91,500**

Derivative financial instruments 2015

		Fair Value	Contract Value			Expiry date of contract values
in thousand CHF	Positive	Negative		up to 3 months	3 to 12 months	1 to 5 years
Foreign exchange forwards	1,259	1,717	147,000	37,000	78,000	32,000
Currency instruments	**1,259**	**1,717**	**147,000**	**37,000**	**78,000**	**32,000**
Cross currency interest rate swaps	–	24,645	94,600	–	–	94,600
Interest instruments	**–**	**24,645**	**94,600**	**–**	**–**	**94,600**
Derivative financial instruments	**1,259**	**26,362**	**241,600**	**37,000**	**78,000**	**126,600**

29.6 Cash flow hedges

Foreign currency hedging

Galenica selectively hedges liabilities and expected cash flows in USD against foreign currency risks by means of foreign exchange forwards. The contract volume amounted to CHF 32.6 million (previous year: CHF 147.0 million) as at the reporting date with a positive fair value of CHF 2.1 million (previous year: negative fair value of CHF 0.5 million).

Foreign currency and interest rate risk hedging (cross currency interest rate swaps)

Galenica entered into cross currency interest rate swaps to hedge foreign currency risks and interest rate risks in connection with the private placement notes issued in USD and GBP. The contract volume amounted to CHF 91.5 million (previous year: CHF 94.6 million) as at the reporting date with a negative fair value of CHF 25.9 million (previous year: negative fair value of CHF 24.6 million).

These cross currency interest rate swaps are deemed to be highly effective. Consequently, the changes in fair value of these derivatives are recognised directly in other comprehensive income (hedge accounting). In 2016, CHF 1.9 million (previous year: CHF 0.3 million) was recognised directly in other comprehensive income.

29.7 Capital management

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.

Net debt, shareholders' equity and gearing are shown in the table below.

in thousand CHF	2016	2015
Current financial liabilities [1]	1,795,417	135,992
Non-current financial liabilities [1]	217,928	518,722
Cash and cash equivalents	(180,914)	(422,196)
Securities	(2,141)	(246)
Interest-bearing receivables	(9,541)	(8,167)
Financial assets	(87,279)	(64,971)
Net debt	**1,733,470**	**159,134**
Equity attributable to shareholders of Galenica Ltd.	2,124,353	1,879,093
Non-controlling interests	176,677	97,069
Shareholders' equity	**2,301,030**	**1,976,162**
Gearing	**75.3 %**	**8.1 %**

[1] Excluding non-interest-bearing financial liabilities

Galenica has no covenants requiring a minimum level of equity, nor is it subject to any externally regulated capital requirements as seen in the financial services sector.

30. Share-based payments

Share plan for the Executive Chairman

For his service in the period from 1 January 2012 to 31 December 2016, Etienne Jornod has received a share-based payment in the form of 40,000 registered shares of Galenica Ltd. The shares were measured at fair value at the time of signing the contract (CHF 528.00).

Remuneration for members of the Board of Directors

The members of the Board of Directors receive annual remuneration. The remuneration is a fixed amount which the members can choose to receive in full (100 %) or in part (50 %) as registered shares of Galenica Ltd. The amount settled in shares is paid out with a discount of 25 %. The shares may not be traded for the first five years for tax reasons.

The fair value of the shares granted is equivalent to the amount to be paid out in shares plus the discount of 25 %.

Share plan for members of senior management

According to the participation plan, members of senior management receive their performance-related bonus partly in cash and partly in registered shares of Galenica Ltd. The proportion of cash to shares is set out in the regulations and is based on the salary grade of the recipient. In addition, all members of senior management are obliged to hold a number of shares of Galenica Ltd. The amount to be settled in shares is paid out in spring in the form of registered shares of Galenica Ltd. with a discount of 25 %. The shares may not be traded for the first five years for tax reasons.

The fair value of the shares granted is equivalent to the amount to be paid out in shares plus the discount of 25 %.

Long-term incentive plan (LTI)

Members of the Corporate Executive Committee and certain members of senior management participate in a LTI plan for the allocation of performance units. The number of these performance units is based on the extent to which defined long-term performance targets are attained. A LTI plan always runs for a vesting period of 3 years. At the beginning of each financial year a new LTI plan with a new vesting period of 3 years is issued. At the start of the vesting period a defined number of performance units are individually allocated. The number of performance units allocated is dependent on the defined percentage of the annual salary incorporated into the LTI plan as well as the effective share price at the time of the allocation. At the end of the vesting period performance units are paid out to eligible beneficiaries in the form of registered shares of Galenica Ltd.

1,420 performance units (previous year: 4,357 performance units) were granted to beneficiaries at an average price of CHF 1,473.00 (previous year: CHF 744.50) at the beginning of the reporting period for the 2016 LTI plan.

Employee share plan

Employees of Galenica are entitled to buy a fixed number of registered shares of Galenica Ltd. at a preferential price. All employees who, at the time of the purchase offer, are not under notice and have an employment contract of unlimited duration are entitled to acquire shares.

The purchase price for the registered shares is calculated at the time of the purchase offer based on the average price for the previous month less a 30 % discount. The price discount is borne by the employer. The shares may not be traded for the first three years for tax reasons.

In the reporting period, employees purchased 4,894 registered shares of Galenica Ltd. (previous year: 9,478 registered shares) at a price of CHF 913.15 (previous year: CHF 728.60). This includes a price discount of CHF 391.35 (previous year: CHF 312.25) per registered share.

Share-based payment expense

in thousand CHF	2016	2015
Share plan for the Executive Chairman	3,670	3,670
Remuneration for members of the Board of Directors	1,600	1,156
Share plan for members of senior management	7,808	5,712
Long-term incentive plan (LTI)	4,453	3,357
Employee share plan	1,915	2,960
Total	**19,446**	**16,855**

31. Related party transactions

Related parties include associates, joint ventures, pension funds, members of the Board of Directors of Galenica Ltd., members of the Corporate Executive Committee and major shareholders, as well as the companies controlled by them.

As at the reporting date trade receivables and loans concerning associates and joint ventures amounted to CHF 13.9 million (previous year: CHF 8.6 million). The receivables and loans primarily relate to Coop Vitality. The trade payables to associates and joint ventures amounted to CHF 0.3 million (previous year: CHF 3.5 million) and those to pension funds amounted to CHF 38.0 million (previous year: CHF 5.4 million).

The transactions with associates and joint ventures shown in the table below largely concern transactions with Coop Vitality.

Related party transactions

in thousand CHF	2016 Associates and joint ventures	2016 Other related parties	2015 Associates and joint ventures	2015 Other related parties
Sale of goods	120,639	5	110,177	5
Income from services	74	–	461	–
Other income	9,810	–	3,841	–
Purchase of goods	797	–	598	–
Other operating costs	1,432	78	2,798	82
Financial income	159	–	221	–
Financial expenses	3	12	6	12

Remuneration of the Board of Directors and the Corporate Executive Committee

in thousand CHF	2016	2015
Remuneration	4,582	4,153
Social security costs and pension expenses	1,603	1,501
Share-based payments	6,521	6,323
Total	**12,706**	**11,977**

During the reporting period, Galenica acquired 936 unrestricted Galenica shares from members of the Board of Directors and the Corporate Executive Committee for a total of CHF 1.4 million (previous year: 228 shares for a total of CHF 0.2 million).

32. Lease liabilities

The table below summarises the maturity profile of lease payments (undiscounted).

	2016		2015	
in thousand CHF	Operating leases	Finance leases	Operating leases	Finance leases
Within 1 year	60,490	55	55,436	3
In 2 to 5 years	169,973	66	141,589	–
In more than 5 years	45,460	–	32,623	–
Total	**275,923**	**121**	**229,648**	**3**
Interest		(6)		–
Liabilities from finance leases		**115**		**3**

Operating leases essentially consist of payment obligations under rental contracts.

33. Contingent liabilities and commitments

Galenica entered into various obligations regarding the purchase of services, goods, and equipment as part of its ordinary business operations.

Galenica has signed purchase agreements to acquire pharmacies 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 20.5 million (previous year: CHF 20.1 million) at the most. The purchase rights have an estimated volume of CHF 20.9 million (previous year: CHF 20.5 million). These purchase rights or obligations fall due in 2017.

Galenica signed purchase agreements to acquire property, plant and equipment totalling CHF 1.8 million (previous year: CHF 7.8 million). The payments under these purchase commitments become due in 2017.

Galenica has entered into strategic arrangements with various companies in order to gain access to potential new products. Potential future payments may become due to certain collaboration partners achieving certain milestones as defined in the collaboration agreements. The maximum amount of future commitments for such payments is disclosed in note 18.

Prior to the acquisition by Galenica, Relypsa has signed non-cancelable purchase commitments with contract manufacturers or service providers which serve as commercial manufacturers and suppliers of the active pharmaceutical ingredient for Veltassa and provide manufacturing services in relation to Veltassa. The purchase commitments as at 31 December 2016 amount to USD 241.3 million and fall due in the years 2017 to 2020.

Galenica is subject to a variety of risks depending on the countries in which it operates. These risks include, but are not limited to, risks regarding product liability, patent law, tax law, competition laws and anti-trust laws. A number of Group companies are currently involved in administrative proceedings, legal disputes and investigations relating to their business activities. The results of ongoing proceedings cannot be predicted with certainty. Management has established appropriate provisions for any expenses likely to be incurred. These projections, however, are also subject to uncertainty. Galenica does not expect the results of these proceedings to have a significant impact on the consolidated financial statements.

Furthermore, there are guarantees to third parties of CHF 6.1 million (previous year: CHF 7.7 million). Galenica entered into payment obligations for the purchase of securities available for sale up to a maximum of CHF 19.8 million (previous year: CHF 19.7 million).

There are no unusual pending transactions or risks to be disclosed.

34. Assets pledged to secure own liabilities

No assets were pledged to secure own liabilities (previous year: none).

35. Subsequent events

The following transactions occurred between 31 December 2016 and the date the consolidated financial statements were authorised for publication.

Galenica Santé business unit
Health & Beauty segment
Acquisition of pharmacies. Retail acquired 100% of the interests in pharmacies at various locations in Switzerland. The net assets of these acquisitions will be consolidated for financial year 2017 from the date control was obtained. The purchase consideration amounted to CHF 16.0 million, the fair value of the provisional net assets resulting from these additions was estimated at CHF 5.6 million on the acquisition date.

Services segment
Acquisition of Pharmapool Ltd. On 10 January 2017 Galexis acquired 100% of the shares in the Swiss company Pharmapool Ltd. Pharmapool is a physicians wholesale who supplies and supports medical practices with medicines, consumables, laboratory products and furnishings. The company also manages the Pharmapool central pharmacy.

The purchase consideration amounted to CHF 27.9 million was settled in cash. The fair value of the provisional net assets was estimated at CHF 14.7 million on the acquisition date.

There were no further significant events after the reporting date.

36. Group companies

	Registered office	Capital	Voting rights	Method of consolidation		Share capital in thousand
Vifor Pharma						
Aspreva International Ltd.	CDN-Victoria	100%[2]	100%	full	CAD	0
Aspreva Pharmaceuticals Ltd.	CH-Bern	100%[2]	100%	full	CHF	2,700
Aspreva Pharmaceuticals Inc.	USA-Basking Ridge	100%[2]	100%	full	USD	0
Cophar Ltd.	CH-Villars-sur-Glâne	100%[2]	100%	full	CHF	700
Etrea Ltd.	CH-Meyrin	100%[2]	100%	full	CHF	200
Fresenius Medical Care Nephrologica Deutschland GmbH	D-Bad Homburg	55%[2]	55%	full	EUR	225
OM Pharma Ltd.	CH-Meyrin	100%[2]	100%	full	CHF	3,000
OM Pharma S.A.	PER-Lima	100%[2]	100%	full	PEN	12,375
OM Pharma S.A.	P-Amadora-Lisboa	100%[2]	100%	full	EUR	5,000
Relypsa, Inc.	USA-Delaware	100%[2]	100%	full	USD	850,000
Vifor Ltd.	CH-Villars-sur-Glâne	100%[2]	100%	full	CHF	2,250
Vifor France SA	F-Paris La Défense	100%[2]	100%	full	EUR	50
Vifor Fresenius Medical Care Renal Pharma Ltd.	CH-St. Gallen	55%[1]	55%	full	CHF	1,000
Vifor Fresenius Medical Care Renal Pharma België NV	B-Antwerp	55%[2]	55%	full	EUR	61
Vifor Fresenius Medical Care Renal Pharma Danmark A/S	DK-Taastrup	55%[2]	55%	full	DKK	500
Vifor Fresenius Medical Care Renal Pharma España SL	E-Palau-Solità i Plegamans	55%[2]	55%	full	EUR	3
Vifor Fresenius Medical Care Renal Pharma France S.A.S.	F-Paris La Défense	55%[2]	55%	full	EUR	10
Vifor Fresenius Medical Care Renal Pharma Italia S.r.l.	I-Rome	55%[2]	55%	full	EUR	10
Vifor Fresenius Medical Care Renal Pharma Nederland B.V.	NL-Breda	55%[2]	55%	full	EUR	10
Vifor Fresenius Medical Care Renal Pharma UK Ltd.	GB-London	55%[2]	55%	full	GBP	1
Vifor (International) Ltd.	CH-St. Gallen	100%[2]	100%	full	CHF	2,000
Vifor Pharma Ltd.	CH-Glattbrugg	100%[2]	100%	full	CHF	100
Vifor Pharma America Latina S.A.	ARG-Pilar, Buenos Aires	100%[2]	100%	full	USD	304
Vifor Pharma Asia Pacific Pte. Ltd.	SIN-Singapore	100%[2]	100%	full	SGD	100
Vifor Pharma België NV	B-Antwerp	100%[2]	100%	full	EUR	61
Vifor Pharma Deutschland GmbH	D-Munich	100%[2]	100%	full	EUR	50
Vifor Pharma España SL	E-Palau-Solità i Plegamans	100%[2]	100%	full	EUR	200
Vifor Pharma Italia S.r.l.	I-Rome	100%[2]	100%	full	EUR	10
Vifor Pharma Nederland B.V.	NL-Breda	100%[2]	100%	full	EUR	18
Vifor Pharma Nordiska AB	S-Kista	100%[2]	100%	full	SEK	200
Vifor Pharma Österreich GmbH	A-Vienna	100%[2]	100%	full	EUR	100
Vifor Pharma Participations Ltd.	CH-Bern	100%[1]	100%	full	CHF	1,000
Vifor Pharma Participations 2 Ltd.	CH-St. Gallen	100%[2]	100%	full	CHF	1,000
Vifor Pharma US Participations Inc.	USA-Delaware	100%[2]	100%	full	USD	0
Vifor Pharma Pty Ltd.	AUS-Melbourne	100%[2]	100%	full	AUD	0
Vifor Pharma Romania Srl.	RUM-Cluj-Napoca	100%[2]	100%	full	RON	258
Vifor Pharma UK Ltd.	GB-Bagshot	100%[2]	100%	full	GBP	36

[1] Directly held by Galenica Ltd.
[2] Indirectly held by Galenica Ltd.

	Registered office	Capital	Voting rights	Method of consolidation		Share capital in thousand
Galenica Santé						
Health & Beauty						
Products & Brands						
G-Pharma AG	CH-Niederbipp	100%[1]	100%	full	CHF	100
Swiss Pharma GmbH	D-Rülzheim	100%[1]	100%	full	EUR	51
Vifor Consumer Health Ltd.	CH-Villars-sur-Glâne	100%[1]	100%	full	CHF	100
Retail						
Amavita GmbH	CH-Bern	100%[2]	100%	full	CHF	20
Amavita Health Care Ltd.	CH-Niederbipp	100%[1]	100%	full	CHF	100
Aprioris Ltd.	CH-Bern	100%[1]	100%	full	CHF	100
Bahnhof Apotheken Thun AG	CH-Thun	50%[2]	50%	full	CHF	200
Coop Vitality AG	CH-Bern	49%[2]	49%	at equity	CHF	5,000
Coop Vitality Health Care GmbH	CH-Niederbipp	49%[2]	49%	at equity	CHF	20
Coop Vitality Management AG	CH-Bern	49%[2]	49%	at equity	CHF	100
Distripharm SA	CH-St-Sulpice	100%[2]	100%	full	CHF	100
GaleniCare Ltd.	CH-Bern	100%[2]	100%	full	CHF	700
GaleniCare Holding Ltd.	CH-Bern	100%[1]	100%	full	CHF	50,000
GaleniCare Management Ltd.	CH-Bern	100%[2]	100%	full	CHF	500
Grosse Apotheke Dr. G. Bichsel AG	CH-Interlaken	25%[2]	25%	at equity	CHF	200
Ingrid Barrage AG	CH-Küsnacht	49%[2]	49%	at equity	CHF	300
Kloster-Apotheke Muri AG	CH-Muri AG	100%[2]	100%	full	CHF	100
MediService Ltd.	CH-Zuchwil	100%[1]	100%	full	CHF	363
Sun Store Ltd.	CH-St-Sulpice	100%[2]	100%	full	CHF	485
Winconcept Ltd.	CH-Bern	100%[2]	100%	full	CHF	100
Services						
1L Logistics AG	CH-Burgdorf	100%[1]	100%	full	CHF	100
Alloga Ltd.	CH-Burgdorf	100%[1]	100%	full	CHF	8,332
Dauf SA	CH-Barbengo-Lugano	88.8%[2]	88.8%	full	CHF	100
e-prica AG	CH-Bern	100%[1]	100%	full	CHF	100
Galexis Ltd.	CH-Niederbipp	100%[1]	100%	full	CHF	25,000
HCI Solutions Ltd.	CH-Bern	100%[1]	100%	full	CHF	100
Medifilm Ltd.	CH-Oensingen	100%[2]	100%	full	CHF	1,300
Triamed Ltd.	CH-Gümligen	100%[2]	100%	full	CHF	100
Unione Farmaceutica Distribuzione SA	CH-Barbengo-Lugano	88.8%[1]	88.8%	full	CHF	2,000
Corporate						
Galenica International (B.V.I.) Limited	GB-British Virgin Islands	100%[1]	100%	full	USD	50
Sigal Ltd.	CH-Bern	100%[1]	100%	full	CHF	2,000
Pension funds						
Galenica Pension Fund	CH-Bern					
GaleniCare Pension Fund	CH-Bern					

[1] Directly held by Galenica Ltd.
[2] Indirectly held by Galenica Ltd.

Statutory auditor's report on the audit of the consolidated financial statements to the General Meeting of Galenica Ltd., Bern

Opinion

We have audited the consolidated financial statements of Galenica Ltd. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016 and the consolidated statement of income, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 103 to 166) give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements.

Impairment risk of goodwill and other intangibles

Risk

As disclosed in note 18, goodwill amounts to CHF 1,749.9 million as at 31 December 2016 and represents a major asset of Galenica. In addition, Galenica recorded intangible assets with indefinite useful lives with a carrying amount of CHF 125.7 million. According to note 18, both goodwill and intangible assets with indefinite useful lives are tested for impariment at least annually.

Procedures over management's annual impairment test were significant to our audit, because the assessment process is complex and the test requires estimates. Galenica makes assumptions in respect of future market and economic conditions, such as economic growth, expected inflation rates, demographic developments, expected market share, revenue and margin development.

Our audit response
We assessed and tested, amongst others, the assumptions, weighted average cost of capital (WACC), methodologies and technical input parameters used by Galenica. We involved our internal valuation specialists to assist us with these audit procedures. In addition, we assessed the cash flow projections for all cash generating units (CGUs). These procedures included an assessment of the historical accuracy of management's estimates and evaluation of business plans. In particular, we focused on the sensitivity in the available headroom of CGUs and whether changes in assumptions as described in note 18 could cause the carrying amount to exceed its recoverable amount.

Complexity in recognition of intangible assets

Risk
As explained in note 18, Galenica entered into various in-licencing agreements to obtain the marketing and commercialisation rights of specific pharmaceutical products. Some of the licenced products are still in the clinical development phase and therefore do not yet have the regulatory approvals for prescription.

Procedures over the recognition of intangible assets were significant to our audit due to the complexity of the licence contracts. The underlying contracts include deferred payment terms for licence payments as well as milestone payments that are contingent on future developments. The total amount of licence payments recognised as intangible assets in 2016 was CHF 218.6 million.

Our audit response
We analysed the relevant licence contracts and assessed the recognition criteria. In particular, we tested whether Galenica's accounting policy regarding the recognition of intangible assets was applied consistently. In case of deferred payment terms, we evaluated the computation of the net present value of the payments. For milestone payments that are contingent on future developments, we compared the consistency of Galenica's estimates with forecasts and other planning figures.

Significance and volatility of employee benefits

Risk
As outlined in note 25, the vast majority of Galenica's employees work in Switzerland. In accordance with the legal provisions, they are insured with pension funds that are financed by Galenica and the employees (funded plans). The pension plans cover the risks of the economic consequences of old age, disability and death in accordance with the Swiss Federal Act of Occupational Old Age, Survivors' and Invalidity Pension Fund (BVG/LPP).

Procedures over defined benefit plans and related costs were significant to our audit due to the significance of the net defined benefit obligation combined with the subjectivity and sensitivity of the key parameters used in the pension plan calculations.

The defined benefit plans in Switzerland give rise to a net defined benefit obligation of CHF 65.9 million as at 31 December 2016. Key actuarial parameters used in the calculation of the pension plan obligation are the discount rate, inflation rate and the applied indexation.

Our audit response
Our procedures included, amongst others, evaluating the actuarial and demographic assumptions and valuation methodologies used by the Group to assess Galenica's pension obligations. We compared these assumptions with underlying data from Galenica and external sources. We assessed whether the assumptions were applied consistently and involved our internal pension experts to assist us in these procedures. We tested management's controls over payroll data and compared the basic data used in the actuarial models to the payroll data of the Group.

Acquisition of Relypsa, Inc.

Risk
As outlined in note 6, Galenica acquired 100% of the issued share capital and control of Relypsa, Inc. for an overall purchase consideration of USD 1,483.5 million.

The acquisition of Relypsa was significant to our audit due to the financial magnitude of the transaction and due to significant judgments and assumptions involved in the recognition and measurement of the acquired assets and assumed liabilities for Relypsa. As a result of the acquisition of Relypsa, goodwill of USD 631.1 million and other intangibles (product Veltassa) of USD 1,050.0 million were recognised. The goodwill was allocated to the CGU Vifor Pharma.

Our audit response
We audited the purchase price allocation (PPA) with regard to the acquisition of Relypsa. This included an analysis of the fair value of the identifiable assets acquired and liabilities assumed supporting the purchase price allocation as at the acquisition date.

We assessed, amongst others, the valuation and accounting for the purchase consideration, audited the identification and valuation of the assets and liabilities acquired, assessed the valuation of Veltassa, including the underlying assumptions such as discount and growth rates, and assessed the accounting treatment and the disclosures made. We involved our internal valuation specialists to assist us with the valuation of other intangibles to evaluate the methods used (recoverable amount determined based on value-in-use calculations) and assumptions made by management, such as discount and growth rates. We included internal tax specialists on our team for the assessment of deferred taxes. In addition, we visited Relypsa in the United States, where we met with local management, as part of our audit procedures. Furthermore, we evaluated Galenica's disclosure in Note 6.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and the compensation report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the consolidated financial statements
The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://www.expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements
In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Bern, 10 March 2017

Ernst & Young Ltd.

Roland Ruprecht	Julian Fiessinger
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

Financial statements 2016

Statement of income of Galenica Ltd.

in thousand CHF	2016	2015
Investment income	138,900	192,028
Financial income	281,474	138,776
Other income	34,669	40,778
Income	**455,043**	**371,582**
Personnel costs	(22,686)	(24,173)
Financial expenses	(19,741)	(32,695)
Depreciation and amortisation	(16,118)	(2,251)
Other expenses	(9,506)	(7,562)
Expenses	**(68,051)**	**(66,681)**
Profit for the year before taxes	**386,992**	**304,901**
Direct taxes	(123)	(123)
Profit for the year	**386,869**	**304,778**

Statement of financial position of Galenica Ltd.

Assets

in thousand CHF		31.12.2016		31.12.2015
Cash and cash equivalents		91,730		329,110
Receivables				
– Third parties		4,366		295
– Group companies		306,358		17,287
Prepaid expenses and accrued income		2,190		5,531
Current assets	23 %	**404,644**	22 %	**352,223**
Financial assets		874,992		905,117
Investments		469,214		347,757
Property, plant and equipment		32		40
Intangible assets		168		71
Non-current assets	77 %	**1,344,406**	78 %	**1,252,985**
Assets	100 %	**1,749,050**	100 %	**1,605,208**

Liabilities and shareholders' equity

in thousand CHF		31.12.2016		31.12.2015
Short-term interest-bearing liabilities				
– Third parties		300,000		51,718
– Group companies		15,468		91,042
Other short-term liabilities				
– Third parties		3,925		810
– Group companies		7		1,252
Accrued expenses and deferred income		11,070		11,575
Short-term liabilities	19 %	**330,470**	10 %	**156,397**
Long-term interest-bearing liabilities				
– Third parties		214,058		514,158
Long-term liabilities	12 %	**214,058**	32 %	**514,158**
Liabilities	31 %	**544,528**	42 %	**670,555**
Share capital		650		650
Legal retained earnings				
– General legal retained earnings		40,000		40,000
– Reserve for treasury shares		7,100		12,200
Voluntary retained earnings				
– Free reserve		768,900		576,800
– Profit brought forward		1,003		225
– Profit for the year		386,869		304,778
Shareholders' equity	69 %	**1,204,522**	58 %	**934,653**
Liabilities and shareholders' equity	100 %	**1,749,050**	100 %	**1,605,208**

Notes to the financial statements of Galenica Ltd.

Principles

The financial statements of Galenica Ltd. with registered office in Bern, Switzerland have been prepared in accordance with Article 957 et seqq. of Title 32 of the revised Accounting law based on the Swiss Code of Obligations. Where not prescribed by law, the significant accounting and valuation principles applied are described below.

Financial income

Financial income was positively affected by the revaluation of investments and intercompany loans of CHF 244.1 million (previous year: CHF 83.5 million).

Investments in subsidiaries and associates

The list of the investments is shown on pages 165 and 166.

Financial assets

Financial assets include long-term loans to Group companies of CHF 873.2 million (previous year: CHF 903.3 million) and other financial assets of CHF 1.8 million (previous year: CHF 1.8 million).

Long-term interest-bearing liabilities

The interest-bearing liabilities are recognised at nominal value.

in thousand CHF	31.12.2016	31.12.2015
Bank debts	100,000	100,000
Bond 2.5% (27 October 2010–27 October 2017) ISIN CH0118480059[1]	–	300,000
Private placement (notes)	114,058	114,058
Other financial liabilities	–	100
Long-term interest-bearing liabilities	**214,058**	**514,158**

[1] Reclassified to short-term interest-bearing liabilities

Derivative financial instruments

Galenica selectively hedges liabilities and expected cash flows in USD against foreign currency risks by means of foreign exchange forwards. The contract volume amounted to CHF 32.6 million (previous year: CHF 147.0 million) as at 31 December 2016 with a positive fair value of CHF 2.1 million (previous year: negative fair value of CHF 0.5 million).

Galenica entered into cross currency interest rate swaps to hedge foreign currency risks and interest rate risks in connection with the private placement notes issued in USD and GBP. The contract volume amounted to CHF 91.5 million (previous year: CHF 94.6 million) as at 31 December 2016 with a negative fair value of CHF 25.9 million (previous year: negative fair value of CHF 24.6 million).

Share capital

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

Authorised capital

According to Article 3a) of the Articles of Incorporation, 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 not more than 650,000 registered shares.

Subordinated loans

At the end of 2016, subordinated loans to Group companies amounted to CHF 232.9 million (previous year: CHF 97.4 million).

Contingent liabilities

At the end of 2016, total contingent liabilities amounted to CHF 2,815.8 million (previous year: CHF 368.6 million), including a guarantee of CHF 1,450.0 million related to the bridge loan for the acquisition of Relypsa and CHF 5.6 million (previous year: CHF 7.7 million) for guarantees to other third parties. In addition, Galenica issued guarantees to Group companies of CHF 1,175.8 million (previous year: CHF 176.6 million) as well as CHF 184.4 million (previous year: CHF 184.3 million) for guarantees to secure intraday transactions in connection with the zero balance cash pooling.

Treasury shares

Galenica registered shares owned by subsidiaries:

		Number	in CHF
As at 31 December 2014		**22,398**	**10,085,645**
1st quarter 2015	– Bought	2,907	2,371,185
	– Sold	(4,531)	(3,636,544)
2nd quarter 2015	– Bought	4,797	4,266,227
	– Sold	(4,297)	(3,323,997)
3rd quarter 2015	– Bought	2,588	2,968,507
	– Sold	(744)	(719,476)
4th quarter 2015	– Bought	10,151	10,658,481
	– Sold	(10,133)	(10,546,933)
As at 31 December 2015		**23,136**	**12,123,095**
1st quarter 2016	– Bought	9,850	10,041,997
	– Sold	(6,762)	(9,925,887)
2nd quarter 2016	– Bought	2,723	3,911,263
	– Sold	(4,422)	(6,329,872)
3rd quarter 2016	– Bought	959	1,205,256
	– Sold	(5,322)	(6,942,549)
4th quarter 2016	– Bought	2,804	2,952,571
	– Sold	–	–
As at 31 December 2016		**22,966**	**7,035,874**

The treasury shares are reserved for share-based payments to employees.

Major shareholders

As at 31 December 2016	Number of registered shares	% of share capital
Patinex AG, Switzerland and BZ Bank Aktiengesellschaft, Switzerland[1) 2)]	1,122,351	17.3
– of which with voting rights	325,000	5.0
Sprint Investments 2 GmbH, Switzerland[3)]	626,172	9.6
Priora Projekt AG, Switzerland[4)]	534,500	8.2
BNP PARIBAS SA, France	215,249	3.3
Alecta pensionsförsäkring, Sweden	210,000	3.2
As at 31 December 2015		
Sprint Investments 2 GmbH, Switzerland[3)]	1,656,172	25.5
– of which with voting rights	1,300,000	20.0
Patinex AG, Switzerland and BZ Bank Aktiengesellschaft, Switzerland[1) 2)]	1,065,369	16.4
– of which with voting rights	325,000	5.0
Alecta pensionsförsäkring, Sweden	210,000	3.2
BNP PARIBAS SA, France	205,284	3.2

1) Options not considered
2) Beneficial owners: Martin and Rosmarie Ebner, Switzerland
3) Beneficial owners: Stefano Pessina, Monaco and Kohlberg Kravis Roberts & Co. L.P., USA
4) Beneficial owners: Remo and Manuela Stoffel, Switzerland

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

Full-time equivalents
The average number of full-time equivalents for the reporting period amounted to 40 (previous year: 41).

Net release of hidden reserves
The group-internal restructuring due to the preparation of Galenica Santé's IPO as for example the revaluation of intercompany loans resulted in a net release of hidden reserves of CHF 177.6 million (previous year: none).

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

Shareholdings of the members of the Board of Directors

	Registered shares		Registered shares	
Number of registered shares	Held as at 31.12.2016	Allocated for 2016	Held as at 31.12.2015	Allocated for 2015
Etienne Jornod, Executive Chairman	20,050	8,000	20,518	–
Shares of the executive member of the Board of Directors	**20,050**	**8,000**	**20,518**	**–**
Daniela Bosshardt-Hengartner	1,008	191	937	71
Michel Burnier	542	90	616	63
Romeo Cerutti	38	155	–	38
Marc de Garidel	71	179	–	71
Hans Peter Frick (until Annual General Meeting 2016)	–	24	963	62
Sylvie Grégoire	293	72	231	62
Fritz Hirsbrunner	6,448	155	6,333	115
Stefano Pessina	1,975	131	1,878	97
This E. Schneider	3,670	203	3,520	150
Shares of the non-executive members of the Board of Directors	**14,045**	**1,200**	**14,478**	**729**
Shares of the members of the Board of Directors	**34,095**	**9,200**	**34,996**	**729**

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.

Shareholdings of the members of the Corporate Executive Committee

Number of registered shares	Held as at 31.12.2016	Held as at 31.12.2015
Felix Burkhard	911	843
Jean-Claude Clémençon	488	549
Jörg Kneubühler	672	826
Gianni Zampieri	3,598	4,376

Registered shares held by related parties of members of the Corporate Executive Committee are included in the disclosed numbers.

Information relating to the number and value of participations rights of the members of the Board of Directors and the members of the Corporate Executive Committee are disclosed in the Remuneration Report (pages 85 to 88). In 2016, 226 performance share units with fair value at grant date of CHF 332,456 have been allocated to other employees of Galenica Ltd.

Shareholders' equity

Shareholders' equity developed as follows:

in thousand CHF	Share capital	General legal retained earnings	Reserve for treasury shares	Free reserve	Available earnings	Shareholders' equity
As at 31 December 2014	**650**	**40,000**	**10,100**	**485,900**	**190,725**	**727,375**
Transfer to free reserve				93,000	(93,000)	–
Dividends					(97,500)	(97,500)
Adjustment to the reserve for treasury shares			2,100	(2,100)		–
Profit for the year					304,778	304,778
As at 31 December 2015	**650**	**40,000**	**12,200**	**576,800**	**305,003**	**934,653**
Transfer to free reserve				187,000	(187,000)	–
Dividends					(117,000)	(117,000)
Adjustment to the reserve for treasury shares			(5,100)	5,100		–
Profit for the year					386,869	386,869
As at 31 December 2016	**650**	**40,000**	**7,100**	**768,900**	**387,872**	**1,204,522**

Appropriation of available earnings for the year ending 31 December

At the Annual General Meeting of shareholders as at 11 May 2017, the Board of Directors will propose the following appropriation of available earnings:

in CHF	2016	2015
Balance brought forward	1,002,846	224,874
Profit for the year	386,868,616	304,777,972
Available earnings	**387,871,462**	**305,002,846**
Appropriation of available earnings		
Transfer to free reserve	(257,000,000)	(187,000,000)
Dividends per share CHF 20.00 (2015: CHF 18.00)	(130,000,000)	(117,000,000)
Balance to be carried forward	**871,462**	**1,002,846**

Report of the statutory auditor on the financial statements to the General Meeting of Galenica Ltd., Bern

As statutory auditor, we have audited the financial statements of Galenica Ltd., which comprise the balance sheet, income statement and notes (pages 172 to 177), for the year ended 31 December 2016.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements for the year ended 31 December 2016 comply with Swiss law and the company's articles of incorporation.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

Bern, 10 March 2017

Ernst & Young Ltd.

Roland Ruprecht	Julian Fiessinger
Licensed audit expert	Licensed audit expert
(Auditor in charge)	