Financial statements

(in Englisch)

Consolidated financial statements 2018

Key figures

Net sales[1]

in million CHF

Health & Beauty	1,524.8
Services	2,372.3

EBIT adjusted[1][4]

in million CHF

Health & Beauty	110.4
Services	44.2

Number of employees

as at 31 December 2018

Galenica Ltd.	37
Health & Beauty	4,872
Services	1,671

in million CHF	2018	2017	Change
Net sales[1][2]	**3,165.0**	**3,141.2**	**+0.8%**
Health & Beauty	1,524.8	1,478.8	+3.1%
Services	2,372.3	2,362.4	+0.4%
EBITDA adjusted[3][4]	**195.1**	**188.4**	**+3.5%**
in % of net sales	6.2%	6.0%	
EBITDA[1][3]	**154.0**	**182.0**	**–15.4%**
Health & Beauty	130.4	120.2	+8.5%
Services	65.6	70.7	–7.3%
EBIT adjusted[3][4]	**154.1**	**148.2**	**+3.9%**
in % of net sales	4.9%	4.7%	
EBIT[1][3]	**113.0**	**141.8**	**–20.3%**
Health & Beauty	110.4	99.7	+10.7%
Services	44.2	50.6	–12.5%
Net profit adjusted[3][4][5]	**124.7**	**124.4**	**+0.2%**
Net profit[3][6]	**147.7**	**118.9**	**+24.2%**
Total assets	**1,860.1**	**1,798.2**	**+3.4%**
Shareholders' equity	**933.6**	**861.5**	**+8.4%**
Equity ratio	50.2%	47.9%	
Capital contribution reserves	479.9	560.9	–14.4%
Net debt	**300.4**	**301.3**	**–0.3%**
Debt coverage[7]	1.5	1.6	
Gearing	32.2%	35.0%	
Investment in property, plant and equipment and intangible assets	**50.0**	**55.8**	**–10.5%**
Cash flow from operating activities	**173.5**	**144.4**	**+20.2%**
Free cash flow[8]	**86.0**	**98.9**	**–13.1%**
Employees at reporting date (FTE)	**5,106**	**4,860**	**+5.1%**

1) Reported for each Segment not taking into account Corporate and Eliminations
2) Restatement of 2017 figures upon adoption of IFRS 15 (refer to page 90)
3) 2017 including one-off effects of CHF 7.0 million; CHF 10.6 million at net profit level
4) Excluding the effects of IAS 19
5) 2018 excluding one-off effect of CHF 56.2 million related to the release of provisions for deferred taxes
6) 2018 including one-off effect of CHF 56.2 million related to the release of provisions for deferred taxes
7) Net debt divided by EBITDA adjusted
8) Cash flow from operating activities less cash flow from investing activities (incl. purchase of subsidiaries)

Consolidated statement of income

in thousand CHF	Notes	2018	Restated[1] 2017
Net sales	5	3,165,019	3,141,171
Other income	6	15,936	22,984
Operating income		**3,180,955**	**3,164,155**
Cost of goods		(2,379,327)	(2,385,144)
Personnel costs	7, 22	(474,453)	(427,667)
Other operating costs	8	(180,158)	(173,835)
Share of profit from associates and joint ventures	16	6,999	4,448
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		**154,016**	**181,957**
Depreciation and amortisation	14,15	(40,991)	(40,189)
Earnings before interest and taxes (EBIT)		**113,025**	**141,768**
Financial income	9	1,061	1,229
Financial expenses	9	(3,177)	(3,085)
Earnings before taxes (EBT)		**110,909**	**139,912**
Income taxes	11	36,755	(21,046)
Net profit		**147,664**	**118,866**
Attributable to:			
– Shareholders of Galenica Ltd.		147,546	118,804
– Non-controlling interests		118	62

[1] Restatement upon adoption of IFRS 15 (refer to page 90)

in CHF	Notes	2018	2017
Earnings per share	10	3.00	2.43
Diluted earnings per share	10	3.00	2.42

Consolidated statement of comprehensive income

in thousand CHF	Notes	2018	2017
Net profit		**147,664**	**118,866**
Translation differences		(1)	3
Items that may be reclassified subsequently to profit or loss		**(1)**	**3**
Remeasurement of net defined benefit liability	22	(1,059)	41,107
Income taxes from remeasurement of net defined benefit liability	11	47	(9,148)
Share of other comprehensive income from joint ventures	16	(2,023)	2,144
Items that will not be reclassified to profit or loss		**(3,035)**	**34,103**
Other comprehensive income		**(3,036)**	**34,106**
Comprehensive income		**144,628**	**152,972**
Attributable to:			
– Shareholders of Galenica Ltd.		144,510	152,910
– Non-controlling interests		118	62

Consolidated statement of financial position

Assets

in thousand CHF	Notes		2018		2017
Cash and cash equivalents			104,970		96,287
Trade and other receivables	13		371,648		386,754
Inventories	12		276,628		274,217
Prepaid expenses and accrued income			28,290		30,959
Current assets		42%	**781,536**	44%	**788,217**
Property, plant and equipment	14		244,990		251,413
Intangible assets	15		767,910		693,091
Investments in associates and joint ventures	16		27,281		46,477
Financial assets	17		13,908		12,580
Deferred tax assets	11		24,463		6,404
Non-current assets		58%	**1,078,552**	56%	**1,009,965**
Assets		100%	**1,860,088**	100%	**1,798,182**

Liabilities and shareholders' equity

in thousand CHF	Notes		2018		2017
Financial liabilities	18		29,674		24,509
Trade and other payables	19		298,167		293,260
Tax payables			14,199		10,066
Accrued expenses and deferred income			97,880		128,054
Provisions	20		2,657		2,172
Current liabilities		24%	**442,577**	25%	**458,061**
Financial liabilities	18		380,910		381,781
Deferred tax liabilities	11		25,579		61,522
Employee benefit liabilities	22		73,707		29,860
Provisions	20		3,716		5,443
Non-current liabilities		26%	**483,912**	27%	**478,606**
Liabilities		50%	**926,489**	52%	**936,667**
Share capital	23		5,000		5,000
Reserves			924,463		852,280
Equity attributable to shareholders of Galenica Ltd.			**929,463**		**857,280**
Non-controlling interests			4,136		4,235
Shareholders' equity	23	50%	**933,599**	48%	**861,515**
Liabilities and shareholders' equity		100%	**1,860,088**	100%	**1,798,182**

Consolidated statement of cash flows

in thousand CHF	2018	2017
Net profit	147,664	118,866
Income taxes	(36,755)	21,046
Depreciation and amortisation	40,991	40,189
(Gain)/loss on disposal of non-current assets	(111)	(57)
(Gain)/loss on disposal of assets held for sale	–	(5,164)
(Gain)/loss on disposal of subsidiaries	–	(2,890)
Increase/(decrease) in provisions and employee benefit liabilities	39,503	1,651
Net financial result	2,116	1,856
Share of profit of associates and joint ventures	(6,999)	(4,448)
Other non-cash items	5,632	4,707
Change in trade and other receivables	18,057	(971)
Change in inventories	1,838	(68)
Change in trade and other payables	(64)	(54,146)
Change in other net current assets	(27,291)	37,614
Interest received	1,018	348
Interest paid	(2,345)	(1,635)
Other financial receipts/(payments)	(145)	257
Dividends received	3,731	3,204
Income taxes paid	(13,290)	(15,960)
Cash flow from operating activities	**173,550**	**144,399**
Investments in property, plant and equipment	(26,962)	(28,046)
Investments in intangible assets	(20,490)	(25,986)
Investments in associates and joint ventures	(2,259)	–
Investments in financial assets	(4,950)	(3,018)
Proceeds from property, plant and equipment and intangible assets	995	818
Proceeds from financial assets	3,823	3,650
Proceeds from assets held for sale	–	39,625
Purchase of subsidiaries (net cash flow)	(37,739)	(35,758)
Sale of subsidiaries (net cash flow)	–	3,220
Cash flow from investing activities	**(87,582)**	**(45,495)**
Dividends paid	(81,145)	–
Purchase of treasury shares	(304)	(41,229)
Proceeds from sale of treasury shares	2,930	2,104
Proceeds from net financial liabilities to Vifor Pharma Group	–	3,865
Repayment of a loan to Vifor Pharma Group	–	(360,000)
Proceeds from financial liabilities	6,182	751,661
Repayment of financial liabilities	(4,887)	(367,802)
Purchase of non-controlling interests	(59)	(239)
Cash flow from financing activities	**(77,283)**	**(11,640)**
Effects of exchange rate changes on cash and cash equivalents	(2)	4
Increase in cash and cash equivalents	**8,683**	**87,268**
Cash and cash equivalents as at 1 January[1)]	96,287	9,019
Cash and cash equivalents as at 31 December[1)]	**104,970**	**96,287**

[1)] 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.

Consolidated statement of changes in equity

in thousand CHF	Share capital	Treasury shares	Retained earnings	Equity attributable to shareholders of Galenica Ltd.	Non-controlling interests	Equity
Balance as at 31 December 2016	**–**	**–**	**329,621**	**329,621**	**4,584**	**334,205**
Net profit			118,804	118,804	62	118,866
Other comprehensive income			34,106	34,106		34,106
Comprehensive income			**152,910**	**152,910**	**62**	**152,972**
Transactions on treasury shares		(38,720)	(405)	(39,125)		(39,125)
Share-based payments			4,783	4,783		4,783
Incorporation of Galenica Ltd.	5,000		403,919	408,919		408,919
Change in non-controlling interests			172	172	(411)	(239)
Balance as at 31 December 2017	**5,000**	**(38,720)**	**891,000**	**857,280**	**4,235**	**861,515**
Change in accounting standards[1]			(732)	(732)	(2)	(734)
Balance as at 1 January 2018	**5,000**	**(38,720)**	**890,268**	**856,548**	**4,233**	**860,781**
Net profit			147,546	147,546	118	147,664
Other comprehensive income			(3,036)	(3,036)		(3,036)
Comprehensive income			**144,510**	**144,510**	**118**	**144,628**
Dividends			(81,029)	(81,029)	(116)	(81,145)
Transactions on treasury shares		6,521	(2,746)	3,775		3,775
Share-based payments			5,619	5,619		5,619
Change in non-controlling interests			40	40	(99)	(59)
Balance as at 31 December 2018	**5,000**	**(32,199)**	**956,662**	**929,463**	**4,136**	**933,599**

[1] Restatement upon adoption of IFRS 9 (refer to page 90)

Notes to the consolidated financial statements of the Galenica Group

1. Group organisation

General information

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

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

The Board of Directors released the consolidated financial statements 2018 for publication on 5 March 2019. The 2018 consolidated financial statements will be submitted for approval to the Annual General Meeting on 2 May 2019.

Separation and listing on the SIX Swiss Exchange

On 14 March 2017, the Board of Directors of Galenica Ltd. announced its intention to separate the Galenica Santé business unit from Galenica Ltd. The separation was effected on 7 April 2017 by way of a demerger and initial public offering (IPO) of Galenica Santé as a new company. Galenica Ltd. was renamed to Vifor Pharma Ltd. on 11 May 2017 so that Galenica Santé could trade under the Galenica name going forward.

2. Accounting principles

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. Certain 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.

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

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

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.

Goodwill and intangible assets (note 15)

Goodwill and other intangible assets with an indefinite useful life 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 is 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.

Employee benefit plans and other non-current employee benefits (note 22)

The costs of the employee benefit plans and other long-term 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, the selection of mortality tables and the development of salaries to be key assumptions.

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 financial statements as at the date when control, significant influence or joint control was obtained. Companies sold during the reporting period are included up to the date when control, significant influence or joint control was lost.

Details of changes in the scope of consolidation in the reporting period are included in note 4, Business combinations and disposals.

Companies which Galenica controls have been fully consolidated. This is the case when Galenica has the ability to direct the relevant activities 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 subsidiaries are consolidated from the acquisition date, i.e. the date on which Galenica obtains control.

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

Classification as current or non-current

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

All liabilities which Galenica expects 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.

Amendments to IFRS

As at 1 January 2018 Galenica adopted the following amended International Financial Reporting Standards:

- IFRS 9 – Financial Instruments
- IFRS 15 – Revenue from Contracts with Customers

Galenica applied IFRS 9 and IFRS 15 in 2018 for the first time. Other IFRS changes had no impact for Galenica. Galenica recorded the impact of IFRS 9 as at 1 January 2018. The effect of initially applying IFRS 9 was recorded in retained earnings. Prior year numbers have been restated for the impact of IFRS 15 only. Galenica has not early adopted any other standard or interpretation that has been issued but is not yet effective.

IFRS 9 replaces IAS 39 Financial Instruments and introduces new rules for classification and measurement, particularly for financial assets, for impairment of such assets and for hedge accounting. Galenica's financial assets classified in the IAS 39 category "loans and receivables" as at 31 December 2017 have been allocated to the IFRS 9 measurement category "financial assets at amortised costs" as they are held to collect contractual cash flows that are solely principal and interest payments. No other changes in classification occurred due to the implementation of IFRS 9. The adoption of IFRS 9 has introduced new rules to account for impairment losses on financial assets measured at amortised cost. IFRS 9 requires that a forward-looking expected credit loss (ECL) model is applied rather than the incurred loss approach of IAS 39. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that Galenica expects to receive. Galenica has applied the simplified approach on trade receivables and has calculated ECLs based on lifetime expected credit losses. The cumulative effect recorded as at 1 January 2018 was a reduction in trade and other receivables of CHF 0.9 million, deferred tax liabilities of CHF 0.2 million and a decrease in retained earnings of CHF 0.7 million.

IFRS 15 supersedes IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations and it applies to all revenue arising from contracts with customers that are in scope of the standard. Galenica has analysed the standard and concluded that it does not have an impact on the timing and amounts recognised but that certain reclassifications and thus amendments in the presentation of the consolidated statement of income are required as stated below.

The impacts of the adoption of IFRS 15 are as follows:
Consideration paid or payable to a customer: Galenica has historically presented on a gross basis certain payments made by suppliers and to customers that following the new guidance in IFRS 15 do not represent consideration for distinct goods or services provided by suppliers or by Galenica and are now recognised as a reduction of cost of goods and other operating costs, net sales and other income, respectively. Such payments include advertising arrangements, marketing support and slotting fees.

Galenica has applied the full retrospective method upon adoption of IFRS 15 and thus has restated the consolidated statement of income for the period ending 31 December 2017, resulting in the adjustments as per the table below.

in thousand CHF	2017 as reported	Restatement IFRS 15	2017 restated
Net sales	3,214,231	(73,060)	3,141,171
Other income	56,434	(33,450)	22,984
Operating income	**3,270,665**	**(106,510)**	**3,164,155**
Cost of goods	(2,455,377)	70,233	(2,385,144)
Personnel costs	(427,667)	–	(427,667)
Other operating costs	(210,112)	36,277	(173,835)
Share of profit from associates and joint ventures	4,448	–	4,448
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**181,957**	**–**	**181,957**

Future amendments to IFRS

The IASB has issued various new and amended standards and interpretations with effective dates in the financial year 2019 or later. Galenica has not early adopted 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 below:

- IFRS 16 – Leases (1 January 2019)
- IFRIC 23 – Uncertainty over Income Tax Treatments (1 January 2019)
- Annual Improvements 2015–2017 Cycle (1 January 2019)
- Amendments to IAS 19 – Plan Amendment, Curtailment or Settlement (1 January 2019)

Galenica is currently assessing the impact of these new and amended standards. Based on a preliminary analysis, Galenica does not expect a material impact on the consolidated financial statements with the exception of IFRS 16.

IFRS 16 replaces IAS 17 and provides a single lease accounting model, requiring lessees to recognise assets and liabilities for all leases, and lessors to confirm the continuation of classifying leases as operating or finance. Galenica is not a lessor and is impacted by the standard only for the lessee accounting. Galenica entered into a large number of lease contracts which include variable sales-based components and fixed rental fees. The majority of today's operating leases in the Retail business sector will become on-balance sheet lease liabilities with corresponding right-of-use assets.

At inception of a contract, Galenica assesses whether it is or contains a lease. Galenica recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements, except for short-term leases, defined as leases with a lease term of 12 month or less and the variable sales-based components of a lease contract, which are recognised when incurred as expense in profit or loss.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the incremental borrowing rate and subsequently measured by reducing the carrying amount to reflect lease payments made and any lease modifications.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, and adjusted for lease payments made at or before the commencement date. They are subsequently measured at cost less accumulated depreciation and impairment losses, and adjusted for any remeasurement of the lease liability.

Depreciation and interest expense are recognised separately from operating costs in profit or loss, which will mainly impact Galenica's EBITDA and, to a lesser extent, EBIT.

Galenica will apply the standard from its mandatory adoption date of 1 January 2019 using the modified retrospective method and will not restate comparative figures for the year prior to first adoption.

During 2018, Galenica continued its assessment of potential impact on the balance sheet as of the transition date and expects to recognise right-of-use assets of approximately CHF 235 million and lease liabilities of approximately CHF 240 million on 1 January 2019. The total amount of undiscounted minimum lease payments under non-cancellable operating leases is disclosed in note 29.

3. 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. Galenica operates in Switzerland within the two operating segments Health & Beauty and Services.

The operating result (EBIT) comprises all operating income generated and expenses incurred in the corresponding segments. Financial income and expenses as well as income taxes 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.

Health & Beauty

With the largest pharmacy network in Switzerland, Galenica offers unparalleled potential for selling strong brands – own brands as well as brands from business partners. The Health & Beauty operating segment comprises the two business sectors Retail and Products & Brands.

Retail operates at 501 locations Galenica's pharmacy network, the largest in Switzerland. With 345 pharmacies of its own and 156 partner pharmacies, Retail has attractive outlets throughout the country. Galenica's own pharmacies comprise the Amavita brand with 163 branches and the Sun Store brand with 97 branches. Galenica also operates a chain of 78 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 treatment of patients at home, 5 majority interests in pharmacies, 1 minority interests in a pharmacy and 149 Winconcept partner pharmacies and 7 Amavita partner pharmacies.

Products & Brands launches and distributes a complete portfolio of consumer health products which is sold to Swiss pharmacies and drugstores. The companies of the Products & Brands business sector launch and distribute pharmaceutical and parapharmaceutical products and offer marketing and sales services to all partners in the healthcare market.

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 Galenica's central operations, which include Group Management and Corporate functions such as Controlling, Accounting, Tax, Treasury, Insurance, Human Resources, Legal Services, General Secretariat, Communications and Investor Relations.

Corporate charges management fees to the other business units and operating segments for the organisational and financial management services that it provides.

Eliminations

Operating activities involve the sales of goods and services between the operating segments.

Sales of goods and services between the operating segments and resulting unrealised gains are eliminated in the Eliminations column. In addition, Eliminations include adjustments recorded on Group level which mainly consist of expenses for share-based payment plans and costs for IAS 19 from defined benefit plans and long-service awards.

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

Operating segment information 2018

in thousand CHF	Health & Beauty	Services	Corporate	Eliminations	Group
Net sales	1,524,822	2,372,308	17,469	(749,580)	3,165,019
Intersegmental net sales	(74,960)	(658,441)	(16,179)	749,580	–
Net sales to third parties	**1,449,862**	**1,713,867**	**1,290**	**–**	**3,165,019**
Other income	4,937	10,899	1,280	(1,180)	15,936
Share of profit from associates and joint ventures	7,300	–	–	(301)	6,999
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**130,439**	**65,568**	**(260)**	**(41,731)**	**154,016**
Depreciation and amortisation	(20,054)	(21,362)	(36)	461	(40,991)
Earnings before interest and taxes (EBIT)	**110,385**	**44,206**	**(296)**	**(41,270)**	**113,025**
Interest income					1,028
Interest expense					(2,760)
Other net financial result					(384)
Earnings before taxes (EBT)					**110,909**
Income taxes					36,755
Net profit					**147,664**
Assets	**1,143,809**	**770,628**	**933,519**	**(987,868)[1]**	**1,860,088**
Investments in associates and joint ventures	30,247	–	–	(2,966)	27,281
Liabilities	**852,299**	**475,802**	**514,294**	**(915,906)[2]**	**926,489**
Investments in property, plant and equipment	13,674	13,987	–	(218)	27,443[3]
Investments in intangible assets	420	22,140	6	(7)	22,559[4]
Employees as at 31 December (FTE)	3,685	1,388	33	–	5,106

[1] Of which elimination of intercompany positions CHF –987.2 million and other unallocated amounts CHF –0.7 million
[2] Of which elimination of intercompany positions CHF –987.2 million and other unallocated amounts CHF 71.3 million
[3] Of which non-cash investments of CHF 0.5 million
[4] Of which non-cash investments of CHF 2.1 million

Geographic areas

in thousand CHF	Switzerland	Other countries	Group
Net sales to third parties	3,145,082	19,937	3,165,019
Non-current assets[1]	1,040,181	–	1,040,181

[1] Without financial assets and deferred tax assets

Operating segment information 2017

in thousand CHF	Health & Beauty	Services	Corporate	Eliminations	Group
Net sales[1]	1,478,822	2,362,398	14,849	(714,898)	3,141,171
Intersegmental sales[1]	(68,147)	(633,192)	(13,559)	714,898	–
Net sales to third parties[1]	**1,410,675**	**1,729,206**	**1,290**	**–**	**3,141,171**
Other income[1]	1,502	21,167	1,532	(1,217)	22,984
Share of profit from associates and joint ventures	4,787	–	–	(339)	4,448
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**120,245**	**70,707**	**47**	**(9,042)**	**181,957**
Depreciation and amortisation	(20,541)	(20,157)	(36)	545	(40,189)
Earnings before interest and taxes (EBIT)	**99,704**	**50,550**	**11**	**(8,497)**	**141,768**
Interest income					732
Interest expense					(2,508)
Other net financial result					(80)
Earnings before taxes (EBT)					**139,912**
Income taxes					(21,046)
Net profit					**118,866**
Assets	**1,074,233**	**751,654**	**911,191**	**(938,896)[2]**	**1,798,182**
Investments in associates and joint ventures	47,117	–	–	(640)	46,477
Liabilities	**915,376**	**454,788**	**471,454**	**(904,951)[3]**	**936,667**
Investments in property, plant and equipment	13,568	16,367	–	(81)	29,854[4]
Investments in intangible assets	15,335	10,641	28	(18)	25,986
Employees as at 31 December (FTE)	3,491	1,335	34	–	4,860

1) Restatement upon adoption of IFRS 15 (refer to page 90)
2) Of which elimination of intercompany positions CHF –932.3 million and other unallocated amounts CHF –6.6 million
3) Of which elimination of intercompany positions CHF –932.3 million and other unallocated amounts CHF 27.3 million
4) Of which non-cash investments of CHF 1.8 million

Geographic areas

in thousand CHF	Switzerland	Other countries	Group
Net sales to third parties	3,122,142	19,029	3,141,171
Non-current assets[1]	990,981	–	990,981

1) Without financial assets and deferred tax assets

4. Business combinations and disposals

Accounting principles

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 at 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 recognition goodwill is recognised at cost less any accumulated impairment.

Contingent consideration is measured at fair value at 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 cash-generating unit (CGU) or group of CGUs is sold, goodwill is taken into account when calculating the profit or loss on disposal. The profit or loss on deconsolidation is recognised in operating income or other operating costs.

Business combinations 2018

Acquisition of pharmacies. Galenicare Holding acquired 100% of the interests in pharmacies in various locations in Switzerland and the remaining 51% of the shares in the Swiss company Bahnhof Apotheke Zürich AG (formerly Ingrid Barrage AG) as at 2 July 2018 (refer to note 16). Upon acquisition, most of these pharmacies were merged with Galenicare Ltd.

The purchase consideration amounting to CHF 51.1 million, of which CHF 47.4 million was settled in cash and CHF 2.4 million was offset against loans. The deferred purchase price consideration of CHF 1.3 million falls due in the year 2019. The fair value of the net identifiable assets amounted to CHF 19.2 million at the acquisition date. The goodwill of CHF 54.5 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.

Other acquisition. On 3 January 2018 Galenicare Holding acquired 100% of the shares in the Swiss company Careproduct AG. The company offers efficient solutions to support and increase the mobility in everyday life of older and disabled people. Careproduct supplies walking frames, wheelchairs, incontinence products and other medical aids both online and offline.

The purchase consideration amounting to CHF 4.0 million was settled in cash. The fair value of the net assets amounts to CHF 0.4 million at the acquisition date. The goodwill of CHF 3.6 million was allocated to the Retail business sector and corresponds to the added value based on the acquirer-specific synergies expected to arise from the acquisition, the growth in market share particularly in the online distribution. Transaction costs were insignificant.

Pro forma figures for acquisitions made in 2018 for the full 2018 financial year

Since their inclusion in Galenica's scope of consolidation, the businesses acquired contributed net sales of CHF 38.0 million and an operating result (EBIT) of CHF 1.6 million to the Group's results. If these acquisitions had occurred on 1 January 2018, they would have contributed additional net sales of CHF 21.8 million and increased EBIT by CHF 1.2 million.

Business combinations

in thousand CHF	2018	2017
Cash and cash equivalents	13,771	16,268
Trade receivables	5,749	21,950
Inventories	4,248	9,433
Property, plant and equipment	1,548	1,419
Intangible assets	582	4,035
Deferred tax assets	382	559
Other current and non-current assets	1,102	925
Trade payables	(2,337)	(15,808)
Financial liabilities	(1,665)	(7,450)
Deferred tax liabilities	(87)	(1,050)
Employee benefit liabilities	(1,819)	(2,540)
Other current and non-current liabilities	(1,819)	(6,235)
Fair value of net assets	**19,655**	**21,506**
Goodwill	58,137	27,820
Fair value of previously held interests	(22,700)	–
Purchase consideration	**55,092**	**49,326**
Cash acquired	(13,771)	(16,268)
Offset against loans (financial assets)	(2,400)	–
Deferred consideration	(1,332)	–
Net cash flow from current business combinations	**37,589**	**33,058**
Payment of consideration due to previous business combinations	150	2,700
Net cash flow	**37,739**	**35,758**

Business combinations and disposals 2017

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

The purchase consideration amounting to CHF 21.4 million was fully settled in cash. The fair value of the net identifiable assets amounted to CHF 7.8 million at the acquisition date. The goodwill of CHF 13.6 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.

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

The purchase consideration amounting to CHF 27.9 million was settled in cash. The fair value of the net identifiable assets amounted to CHF 13.7 million at the acquisition date. The goodwill of CHF 14.2 million was 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 know-how of the employees gained. Transaction costs of CHF 0.3 million were recognised in other operating costs.

Disposal of Triamed Ltd. On 1 March 2017 Galenica disposed of its Triamed® practice software activities, a management software solution for doctors' practices developed and marketed by HCI Solutions to Swisscom. The consideration amounting to CHF 4.4 million was settled in cash. The carrying amount of the disposed net assets amounted to CHF 1.5 million including cash and cash equivalents of CHF 1.1 million. The net profit from this transaction of CHF 2.9 million has been recognised in other income.

5. Net sales

Accounting principles

Net sales represent revenue from contracts with customers from the sale of goods or rendering of services. Revenue is recognised in the amount that reflects the consideration to which Galenica expects to be entitled when the promised goods or services are transferred to customers. Revenue is stated net of any price, volume, cash or other types of discounts (e.g. slotting fees that do not represent a distinct performance obligation) and exclusive of VAT.

Where invoices are issued, payment terms in Switzerland usually range between 10 and 30 days, for both goods and services.

Sale of goods

Revenue from sale of goods is recognised at the point in time the Group satisfies a performance obligation by transferring control over the products to its customers. For retail pharmacy sales, this is when the customer takes possession of the products at the point-of-sale and for wholesale transactions control transfers upon shipment of the products to the customer.

Galenica has determined that its customer loyalty programs represent separate performance obligations to which revenue is allocated based on relative stand-alone selling prices, which considers historical redemption patterns. Revenue is deferred and recognised when the award credits are redeemed, which is typically 2 to 4 months after the sale of the initial products. At the end of each period, unredeemed credits are reflected as contract liabilities and included in trade and other payables in consolidated statement of financial positions.

Refund liabilities from contracts with customers are estimated based on actual sales volumes for the financial year and refund percentages as agreed with customers. These liabilities are usually settled in the subsequent financial year. Revenue from gift cards purchased by customers is deferred as contract liabilities until goods or services are transferred, which is typically within 12 months after the sale of the gift card. Any amounts not expected to be redeemed are recognised based on historical redemption patterns.

Customer returns are not material.

Services

Revenue from services includes logistics services, the processing and sale of information and IT services as well as other contractually agreed services. The performance obligations are either satisfied over time or at a point in time (i.e. when volumes are handled) depending on the type of services rendered. Revenue is recognised using a pattern of transfer that depicts Galenica's performance.

Net sales to third parties 2018

in thousand CHF	Products & Brands	Health & Beauty Retail	Services	Corporate	Group
Sale of goods	43,801	1,348,560	1,641,902	–	3,034,263
Sale of services	1,459	56,042	71,965	1,290	130,756
Net sales to third parties	**45,260**	**1,404,602**	**1,713,867**	**1,290**	**3,165,019**

Net sales to third parties 2017

in thousand CHF	Products & Brands	Health & Beauty Retail	Services	Corporate	Group
Sale of goods	44,949	1,312,050	1,658,952	–	3,015,951
Sale of services	1,705	51,971	70,254	1,290	125,220
Net sales to third parties	**46,654**	**1,364,021**	**1,729,206**	**1,290**	**3,141,171**

6. Other income

in thousand CHF	2018	2017
Income from own work capitalised	6,323	4,229
Rental income	2,708	2,248
Gain on disposal of property, plant and equipment	277	217
Gain on disposal of assets held for sale	–	5,164
Gain on disposal of subsidiaries	–	2,890
Other operating income[1)]	6,628	8,236
Other income[1)]	**15,936**	**22,984**

[1)] Restatement of 2017 figures upon adoption of IFRS 15 (refer to page 90)

7. Personnel costs

in thousand CHF	2018	2017
Salaries and wages	359,207	350,524
Social security costs and pension expenses	89,021	53,327
Other personnel costs	26,225	23,816
Personnel costs	**474,453**	**427,667**
Average number of employees (FTE)	4,949	4,833

Personnel costs contain expenses for defined benefit plans of CHF 64.9 million (previous year: CHF 26.5 million). In 2018, the expenses for defined benefit plans includes one-off past service costs of CHF 41.2 million due to the reorganisation of the Group pension funds (refer to note 22). Expenses for share-based payments of CHF 5.6 million (previous year: CHF 4.7 million) are also a part of personnel costs (refer to note 27).

8. Other operating costs

in thousand CHF	2018	2017
Maintenance and repairs	14,167	12,829
Operating and production costs[1)]	47,173	46,720
Rental and other lease expenses	57,924	56,377
Administration costs[1)]	27,386	29,833
Marketing and sales costs[1)]	29,582	25,021
Non-income taxes	895	1,323
Loss on disposal of property, plant and equipment	166	160
Other costs[1)]	2,865	1,572
Other operating costs[1)]	**180,158**	**173,835**

[1)] Restatement of 2017 figures upon adoption of IFRS 15 (refer to page 90)

During the reporting period, expenses for research and development totalling CHF 11.9 million were recognised directly in other operating costs (previous year: CHF 10.9 million).

9. Financial result

in thousand CHF	2018	2017
Interest income	1,028	732
Other financial income	33	28
Net foreign exchange differences	–	469
Financial income	**1,061**	**1,229**
Interest expense	2,760	2,508
Net interest expense from employee benefit plans	225	344
Other financial costs	38	233
Net foreign exchange differences	154	–
Financial expenses	**3,177**	**3,085**
Net financial expenses	**2,116**	**1,856**

10. Earnings per share

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.

	2018	2017
Number of shares	50,000,000	50,000,000
Average number of treasury shares	(893,506)	(1,021,411)
Average number of outstanding shares	**49,106,494**	**48,978,589**
Effect from share-based payments	78,598	91,137
Theoretical average number of outstanding shares (diluted)	**49,185,092**	**49,069,726**

	2018	2017
Net profit – attributable to shareholders of Galenica Ltd. (in thousand CHF)	147,546	118,804
Earnings per share (in CHF)	**3.00**	**2.43**
Diluted earnings per share (in CHF)	**3.00**	**2.42**

11. Income taxes

Accounting principles

The expected current income tax charge is calculated and accrued on the basis of 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 Galenica'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 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 deferred tax liabilities are recognised in profit or loss except for deferred taxes on transactions that are recognised directly 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.

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

in thousand CHF	2018	2017
Current income taxes	16,647	13,315
Income taxes of prior periods	82	(3)
Deferred income taxes	(53,484)	7,734
Income taxes	**(36,755)**	**21,046**

Tax reconciliation

in thousand CHF	2018	2017
Earnings before taxes (EBT)	110,909	139,912
Weighted income tax rate in % of EBT	20.0%	20.5%
Expected income taxes	**22,143**	**28,654**
Effects of income that is taxable at a lower rate or tax-free	(443)	(1,199)
Effects of changes in tax rates	(158)	(4,350)
Effects of unrecognised losses in the current year	–	51
Release of deferred tax liabilities on investments	(56,234)	–
Realisation of unrecognised tax losses of prior periods	(17)	(154)
Items from prior periods and other items	(2,046)	(1,956)
Effective income taxes	**(36,755)**	**21,046**
Effective income tax rate in % of EBT	**(33.1%)**	**15.0%**

In connection with an internal restructuring of group companies (write-downs, disposals and mergers) in 2016, significant deferred tax liabilities on outside basis differences were recorded as of 31 December 2016. The deferred tax liabilities were largely offset by deferred tax assets recorded on tax losses generated by the internal restructuring. The final tax assessments for the fiscal year 2016 of the companies involved were received in late August 2018. As a consequence of these final assessments, deferred tax liabilities on outside basis differences in an amount of CHF 56.2 million have been released. The deferred tax assets are released as the tax losses are utilised. The effective income tax expense would have been 17.6% of EBT without this effect.

The weighted income tax rate reflects the weighted average of the tax rates across the Swiss cantons 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.

In 2017, the effects of changes in tax rates is a combination of lower tax rates in certain Cantons, but also of a different mix of profits taxable in those Cantons where Galenica is represented with wholesale distribution centers and retail pharmacies.

Deferred taxes

in thousand CHF	Deferred tax assets	Deferred tax liabilities	2018 Net carrying amount	Deferred tax assets	Deferred tax liabilities	2017 Net carrying amount
Current assets	2,807	(22,554)	(19,747)	2,841	(21,224)	(18,383)
Property, plant and equipment	–	(3,723)	(3,723)	–	(4,334)	(4,334)
Intangible assets	–	(15,775)	(15,775)	–	(14,174)	(14,174)
Investments	–	–	–	–	(56,234)	(56,234)
Provisions	371	(174)	197	371	(173)	198
Employee benefit plans	14,742	–	14,742	6,271	–	6,271
Other temporary differences	16	(887)	(871)	200	(993)	(793)
Shareholders' equity	148	–	148	266	–	266
Deferred taxes due to temporary differences	**18,084**	**(43,113)**	**(25,029)**	**9,949**	**(97,132)**	**(87,183)**
Tax loss carryforwards	23,913	–	23,913	32,065	–	32,065
Gross deferred taxes	**41,997**	**(43,113)**	**(1,116)**	**42,014**	**(97,132)**	**(55,118)**
Netting of assets and liabilities	(17,534)	17,534		(35,610)	35,610	
Net deferred taxes	**24,463**	**(25,579)**		**6,404**	**(61,522)**	

Analysis of net deferred taxes

in thousand CHF	2018	2017
1 January	**(55,118)**	**(37,782)**
Change in accounting standards[1]	189	–
1 January restated	**(54,929)**	**(37,782)**
Recognised as income taxes in profit or loss		
– Change in temporary differences	61,524	(2,100)
– Fiscal realisation of recognised tax loss carryforwards	(9,144)	(9,982)
– Tax loss carryforwards taken into account for the first time	946	(2)
– Effects of changes in tax rates	158	4,350
Recognised in other comprehensive income	47	(9,148)
Recognised in shareholders' equity (related to share-based payments)	(13)	76
Addition to scope of consolidation	295	(491)
Incorporation of Galenica Ltd.	–	(39)
31 December	**(1,116)**	**(55,118)**

[1] Restatement upon adoption of IFRS 9 (refer to page 90)

Temporary differences on which no deferred taxes have been recognised

in thousand CHF	2018	2017
Investments in subsidiaries	253,413	244,413

Tax loss carryforwards and tax credits

in thousand CHF	2018 Tax loss carry-forwards/tax credits	2018 Tax effect	2017 Tax loss carry-forwards/tax credits	2017 Tax effect
Tax loss carryforwards and tax credits	**126,025**	**24,546**	**167,966**	**32,716**
– of which capitalised as deferred tax assets	(49,871)	(9,705)	(110)	(22)
– of which netted with deferred tax liabilities	(73,040)	(14,208)	(164,661)	(32,043)
Unrecognised tax loss carryforwards and tax credits	**3,114**	**633**	**3,195**	**651**
Of which expire:				
– within 1 year	1	1	3	1
– in 2 to 5 years	2,858	581	1,844	369
– in more than 5 years	255	51	1,348	281

12. Inventories

Accounting principles

Inventories contains purchased merchandise carried at the lower of cost or net realisable value. The weighted average method is primarily used to determine cost.

Value adjustments are recognised on inventories for slow moving items and excess stock.

Cost of goods mainly include costs of goods and merchandise from the business sectors Retail and Services. Price discounts, rebates or supplier discounts and other payments received from suppliers that are not payment for distinct goods or services provided by Galenica and thus on the purchase of goods are directly deducted from costs of goods.

in thousand CHF	2018	2017
Gross carrying amount as at 1 January	**288,027**	**277,576**
Addition to scope of consolidation	4,248	9,433
Change in inventories	(1,518)	1,018
Gross carrying amount as at 31 December	**290,757**	**288,027**
Adjustment as at 1 January	**(13,810)**	**(12,860)**
Addition	(1,394)	(1,553)
Use	1,075	603
Adjustment as at 31 December	**(14,129)**	**(13,810)**
Net carrying amount as at 31 December	**276,628**	**274,217**

13. Trade and other receivables

Accounting principles

Trade receivables are initially measured at the transaction price determined in accordance with IFRS 15. Other receivables are carried at original invoice value. Allowances for uncollectable amounts are estimated based on expected credit losses, using life-time expected credit losses for trade receivables (simplified approach). These bad debt allowances are based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment for individual allowances or for groups with comparable credit risk profiles.

Any impairment losses are recognised in profit or loss in other operating costs.

in thousand CHF	2018	2017
Trade receivables	370,627	384,032
Bad debt allowances	(10,304)	(7,341)
Other receivables	11,325	10,063
Trade and other receivables	**371,648**	**386,754**

Change in bad debt allowances for trade receivables

in thousand CHF	2018	2017
1 January	**(7,341)**	**(6,491)**
Change in accounting standards[1]	(923)	–
1 January restated	**(8,264)**	**(6,491)**
Addition	(3,947)	(2,161)
Use	116	275
Reversal	1,791	1,036
31 December	**(10,304)**	**(7,341)**

[1] Restatement upon adoption of IFRS 9 (refer to page 90)

Maturity profile of trade receivables

in thousand CHF	Gross trade receivables	Bad debt allowances[1]	2018 Net trade receivables	Gross trade receivables	Bad debt allowances[2]	2017 Net trade receivables
Not past due	311,539	(2,667)	308,872	292,724	(2,757)	289,967
Past due:						
– in 1 to 30 days	39,543	(687)	38,856	39,030	(630)	38,400
– in 31 to 60 days	8,441	(1,850)	6,591	40,149	(480)	39,669
– in 61 to 90 days	3,502	(1,265)	2,237	4,499	(381)	4,118
– in more than 90 days	7,602	(3,835)	3,767	7,630	(3,093)	4,537
Total	**370,627**	**(10,304)**	**360,323**	**384,032**	**(7,341)**	**376,691**

[1] Measured using the expected credit loss model of IFRS 9
[2] Measured using the incurred loss model of IAS 39

14. Property, plant and equipment

Accounting principles

Property, plant and equipment 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
Warehouse equipment	6–15
Furniture, fittings	5–10
IT equipment	3–10
Vehicles	3–10

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

Subsequent expenditure is only capitalised if it results in extending the useful life, expanding capacity or contributing to a marked reduction in operating costs. Maintenance or repair costs are recognised directly in profit or loss.

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

Assets are tested for impairment whenever there are indications that they could be impaired. Any impairment is recognised in profit or loss under depreciation and amortisation and disclosed separately as an impairment. Reversal of impairments on property, plant and equipment and investment properties are recognised immediately in profit or loss.

in thousand CHF	Real estate	Assets under construction	Other property, plant and equipment	Total property, plant and equipment
Net carrying amount as at 31.12.2016	**157,019**	**4,569**	**92,077**	**253,665**
Addition	12,125	1,598	16,131	29,854
Disposal	(34)	–	(727)	(761)
Reclassification	12,509	(306)	(12,090)	113
Depreciation	(13,314)	–	(19,624)	(32,938)
Addition to scope of consolidation	564	–	855	1,419
Incorporation of Galenica Ltd.	–	–	61	61
Net carrying amount as at 31.12.2017	**168,869**	**5,861**	**76,683**	**251,413**
Addition	8,008	1,670	17,765	27,443
Disposal	(48)	–	(834)	(882)
Reclassification	–	(634)	732	98
Depreciation	(14,395)	–	(20,235)	(34,630)
Addition to scope of consolidation	–	–	1,548	1,548
Net carrying amount as at 31.12.2018	**162,434**	**6,897**	**75,659**	**244,990**
Overview as at 31.12.2017				
Cost	299,882	5,861	245,961	551,704
Accumulated depreciation and impairment	(131,013)	–	(169,278)	(300,291)
Net carrying amount as at 31.12.2017	**168,869**	**5,861**	**76,683**	**251,413**
Overview as at 31.12.2018				
Cost	305,753	6,897	254,366	567,016
Accumulated depreciation and impairment	(143,319)	–	(178,707)	(322,026)
Net carrying amount as at 31.12.2018	**162,434**	**6,897**	**75,659**	**244,990**

15. Intangible assets

Accounting principles

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

Expenditure on internally developed software is capitalised when the capitalisation criterias 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	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 two trademarks at Verfora, 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. Intangible assets with finite useful lives are tested for impairment whenever there are indications that they could be impaired. Any Impairment is recognised in profit or loss in depreciation and amortisation and disclosed separately as an impairment.

in thousand CHF	Trademarks, patents, licenses, with finite useful lives	Trademarks with indefinite useful lives	Acquired software	Internally developed software	Goodwill	Total intangible assets
Net carrying amount as at 31.12.2016	**2,806**	**21,590**	**6,317**	**6,861**	**605,516**	**643,090**
Addition	–	14,938	8,308	2,740	–	25,986
Amortisation	(1,529)	–	(3,112)	(2,610)	–	(7,251)
Addition to scope of consolidation	3,994	–	41	–	27,820	31,855
Disposal from scope of consolidation	–	–	–	(660)	–	(660)
Incorporation of Galenica Ltd.	–	–	71	–	–	71
Net carrying amount as at 31.12.2017	**5,271**	**36,528**	**11,625**	**6,331**	**633,336**	**693,091**
Addition	–	–	20,108	2,451	–	22,559
Reclassification	–	–	(98)	–	–	(98)
Amortisation	(886)	–	(3,067)	(2,408)	–	(6,361)
Addition to scope of consolidation	568	–	14	–	58,137	58,719
Net carrying amount as at 31.12.2018	**4,953**	**36,528**	**28,582**	**6,374**	**691,473**	**767,910**
Overview as at 31.12.2017						
Cost	10,998	36,528	43,947	29,070	633,336	753,879
Accumulated amortisation and impairment	(5,727)	–	(32,322)	(22,739)	–	(60,788)
Net carrying amount as at 31.12.2017	**5,271**	**36,528**	**11,625**	**6,331**	**633,336**	**693,091**
Overview as at 31.12.2018						
Cost	11,565	36,528	63,665	31,737	691,473	834,968
Accumulated amortisation and impairment	(6,612)	–	(35,083)	(25,363)	–	(67,058)
Net carrying amount as at 31.12.2018	**4,953**	**36,528**	**28,582**	**6,374**	**691,473**	**767,910**

Trademarks with indefinite useful lives

This position includes two trademarks with carrying amounts of CHF 21.6 million and CHF 14.9 million (previous year: CHF 21.6 million and CHF 14.9 million) that are well known nationally and internationally and actively advertised. These acquired trademarks are regarded as having indefinite useful lives for the following reasons: they were created many years ago, they do not expire, and the products sold under the trademarks have a history of strong revenue and cash flow performance. Galenica intends and has the ability to support the trademarks to maintain their values for the foreseeable future.

For impairment testing purposes the trademarks have been allocated to the cash-generating unit Verfora (formerly: Vifor Consumer Health) in the Products & Brands business sector. The recoverable amount (higher of fair value less costs of disposal and value in use) is determined on the basis of future discounted cash flows. Cash flows beyond the three-year planning period are based on the growth rates and discount rates before tax set out below, as approved in medium-term planning by management:

in thousand CHF	2018	2017
Carrying amount	36,528	36,528
Growth rate	1.0%	1.0%
Discount rate	6.7%	6.6%

According to the results of impairment testing for 2018 and 2017 using value in use calculations, 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 2018 and 2017 did not reveal that a reasonable possible change in assumption would lead to an impairment.

Goodwill

Accounting principles

Goodwill is allocated to the cash-generating unit (CGU) or group of CGUs that are expected to benefit from a business combination. Management monitors goodwill at business sector level.

Goodwill is tested for impairment annually, or more frequently if there are indications of impairment. The impairment test is based on the discounted cash flow method. The WACC is used to determine the applicable pre-tax discount rate. The recoverable amount (higher of fair value less costs of disposal and value in use) of each CGU is determined on the basis of the medium-term plans for the next three years approved by management. Cash flows beyond the three-year planning period are extrapolated using a perpetual growth rate. If the recoverable amount is lower than the carrying amount, the carrying amount is reduced to the recoverable amount by recording an impairment charge.

Any impairment on goodwill is recognised in profit or loss and disclosed separately. An impairment loss for goodwill is not reversed.

			2018			2017
in thousand CHF	Carrying amount	Growth rate	Discount rate	Carrying amount	Growth rate	Discount rate
Products & Brands	26,175	1.0%	6.8%	26,175	1.0%	6.8%
Retail	572,886	1.0%	6.7%	514,749	1.0%	6.7%
Services	92,412	1.0%	6.8%	92,412	1.0%	6.7%
Total	**691,473**			**633,336**		

According to the results of impairment testing for 2018 and 2017 using value in use calculations, 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 2018 and 2017 did not reveal that a reasonable possible change in assumption would lead to an impairment.

16. Investments in associates and joint ventures

Accounting principles

Investments in associates where Galenica holds between 20% and 50% of the voting rights and investments in joint ventures are initially recognised at cost and subsequently accounted for using the equity method. 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 from the associates and joint ventures. The corresponding amounts are recognised in profit or loss. Transactions that are recognised in comprehensive income from associates and joint ventures are recognised proportionately in comprehensive income.

Coop Vitality is the only significant joint venture of Galenica. Coop Vitality is registered in Bern, Switzerland. Galenica owns 49% of the share capital and voting rights, Coop 51% of the share capital and voting rights.

Associates

in thousand CHF	2018	2017
Net carrying amount as at 1 January	**23,041**	**22,503**
Share of profit from associates	1,053	1,194
Remeasurement of previous investments held at equity[1]	3,099	–
Change in scope of consolidation[1]	(22,700)	–
Investments	608	–
Dividends received	(350)	(656)
Net carrying amount as at 31 December	**4,751**	**23,041**

[1] Due to the acquisition of the remaining 51% in Bahnhof Apotheke Zürich AG (formerly Ingrid Barrage AG) as at 2 July 2018, the previously held equity interest has been remeasured to fair value. The resulting gain of CHF 3.1 million has been recognised in profit or loss in share of profit from associates and joint ventures

Joint ventures

in thousand CHF	2018	2017
Net carrying amount as at 1 January	**23,436**	**20,586**
Share of profit from joint ventures	2,847	3,254
Remeasurement of net defined benefit liability from joint ventures	(2,023)	2,144
Investments	1,651	–
Dividends received	(3,381)	(2,548)
Net carrying amount as at 31 December	**22,530**	**23,436**

If Coop Vitality 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.

Condensed financial information of Coop Vitality:

in thousand CHF	2018	2017
Current assets	36,537	45,089
Non-current assets	53,238	48,304
Current liabilities	31,444	39,535
Non-current liabilities	12,353	6,029
Equity before appropriation of earnings	45,978	47,829
Operating income[1]	201,413	185,798
EBIT	7,626	8,646
Net profit	5,810	6,640
Remeasurement of net defined benefit liability recognised in other comprehensive income	(4,129)	4,375
Cash flow from operating activities	14,140	10,429

[1] Restatement of 2017 figures upon adoption of IFRS 15 (refer to page 90)

17. Financial assets

Accounting principles

Non-current financial assets comprise loans, time deposits with a term to maturity of more than twelve months, rental guarantee deposits and derivative financial instruments with a positive fair value and a residual term to maturity of more than twelve months. Other than the derivatives measured at fair value through profit or loss, the financial assets are held to collect contractual cash flows comprising solely principal and interest payments and are therefore measured at amortised costs subsequent to initial recognition (refer to note 24.1). Any credit losses on financial assets recognised represent 12 month expected losses and are estimated based on the credit risk of the counterparty. Any impairment is recognised in financial expenses.

in thousand CHF	2018	2017
Loans	9,522	8,729
Other financial assets	4,386	3,851
Financial assets	**13,908**	**12,580**

18. Financial liabilities

in thousand CHF	2018	2017
Loans	5,475	4,135
Liabilities to pension funds	22,822	18,595
Bonds	380,638	380,747
Other financial liabilities	1,649	2,813
Financial liabilities	**410,584**	**406,290**
– of which current financial liabilities	29,674	24,509
– of which non-current financial liabilities	380,910	381,781

In connection with the separation and listing on the SIX Swiss Exchange on 7 April 2017, Galenica issued two fixed-interest rate bonds for a nominal amount totalling CHF 380.0 million for the purpose of long-term financing in June 2017. One bond of CHF 200.0 million was issued with an annual coupon of 0.50% and a term of 6 years, falling due on 15 June 2023 and the other bond of CHF 180.0 million with an annual coupon of 1.00% and a term of 9½ years, falling due on 15 December 2026. The bonds are traded on the SIX Swiss Exchange under securities no. 36720669 (ISIN CH0367206692) and 36720670 (ISIN CH0367206700) respectively. The bonds closed at 100.45% and 100.40% respectively as at 31 December 2018 (previous year: 100.30% and 102.25% respectively).

Cash flow from financial liabilities 2018

in thousand CHF	1 January	Cash flow from financing activities	Addition to scope of consolidation	Other changes	31 December
Bank loans	–	(285)	285	–	–
Loans	4,135	(88)	1,380	48	5,475
Liabilities to pension funds	18,595	4,227	–	–	22,822
Bonds	380,747	–	–	(109)	380,638
Other financial liabilities	2,813	(2,559)	–	1,395	1,649
Total	**406,290**	**1,295**	**1,665**	**1,334**	**410,584**

Cash flow from financial liabilities 2017

in thousand CHF	1 January	Cash flow from financing activities	Addition to scope of consolidation	Changes in financing structure related to separation	Other changes	31 December
Financial receivables from cash pooling arrangement with Vifor Pharma Group	(340,500)	3,865	–	336,635	–	–
Bank loans	–	(7,000)	7,000	–	–	–
Loans	472	66	450	3,112	35	4,135
Loans to Vifor Pharma Group	1,110,204	(360,000)	–	(750,204)	–	–
Liabilities to pension funds	–	9,987	–	8,608	–	18,595
Bonds	–	380,806	–	–	(59)	380,747
Other financial liabilities	4,504	–	–	–	(1,691)	2,813
Total	**774,680**	**27,724**	**7,450**	**(401,849)**	**(1,715)**	**406,290**

19. Trade and other payables

in thousand CHF	2018	2017
Trade payables	268,972	262,985
Contract liabilities	8,058	8,172
Other payables	21,137	22,103
Trade and other payables	**298,167**	**293,260**

Contract liabilities are generally recognised in revenue within 12 months.

20. Provisions

Accounting principles

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.

Provisions are recognised for the estimated cost of liabilities related to sureties, customer complaints, litigation risks and ongoing legal proceedings.

in thousand CHF	2018	2017
1 January	**7,615**	**3,587**
Addition	1,173	5,274
Use	(1,699)	(3,153)
Reversal	(716)	(1,602)
Addition to scope of consolidation	–	3,509
31 December	**6,373**	**7,615**
– of which current provisions	2,657	2,172
– of which non-current provisions	3,716	5,443

In 2017, the addition primarily consisted of a provision of CHF 5.0 million recorded for a guarantee for future lease payments related to the sale of a building.

The cash outflow from the non-current provisions is expected within the next 1 to 5 years.

21. Contingent liabilities and commitments

Accounting principles
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.

Galenica is subject to a variety of risks. 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 financial statements.

In March 2017, the Swiss Competition Commission (COMCO) issued a ruling, which imposed a fine of up to CHF 4.5 million on Galenica. The ruling relates to an investigation from 2012. Galenica regards the ruling issued by COMCO as incorrect in fact and in law. Galenica has taken the ruling to the Federal Administrative Court. A decision by the Federal Administrative Court is expected in 2019 at the earliest.

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

Galenica signed purchase agreements to acquire pharmacies and other business in the next few years. The purchase prices will be fixed at the time of transfer of ownership on the basis of net asset value and discounted cash flow. The unrecognised commitments are expected to involve payments of CHF 14.1 million (previous year: CHF 23.5 million) at the most. The purchase rights have an estimated volume of CHF 14.6 million (previous year: CHF 23.9 million). These purchase rights or obligations fall due between 2019 and 2023.

Galenica signed purchase agreements to acquire property, plant and equipment totalling CHF 1.5 million (previous year: CHF 7.0 million). The payments under these purchase commitments become due in 2019.

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

22. Employee benefit plans

Accounting principles

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 defined benefit obligation.

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 defined benefit obligation) 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 recognised in profit or loss in personnel costs and interest expense as part of the financial expense, in line with the defined benefit plans.

All of the Galenica employees work in Switzerland and participate in the pension plans of Galenica (Galenicare Pension Fund, Bern or Galenica Pension Fund, Bern), which are financed by the employers and the employees. These plans are legally separate from Galenica and qualify as defined benefit plans. 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 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 company's liabilities are limited to contributions that are based on a percentage of the insured salary under the Swiss law. Only in cases of a funded status that is significantly below a funded status of 100% as per the BVG/LPP law can Galenica be forced to pay additional contributions. 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 BVG/LPP reveal a funded status of less than 100%, suitable restructuring measures need to be introduced. The Board of Trustees consists of employee and employer representatives.

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

The most recent actuarial valuation was prepared as at 31 December 2018. 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 2018 (unaudited) are for Galenicare Pension Fund 104.3% (previous year: 119.3%, final). and for Galenica Pension Fund 113.2% (previous year: 119.4%, final).

As a result of the separation of Galenica from Vifor Pharma (refer to page 88) changes to the Group's pension arrangements were implemented in 2018. The employees and pensioners of the Group previously covered by the Galenica Pension Fund (to be renamed to Vifor Phama Pension Fund in 2019) were transferred to the Galenicare Pension Fund as of 1 January 2019, resulting in past service costs of CHF 41.2 million due to the alignment of benefits payable. Following these changes, the Galenicare Pension Fund covers all employees and pensioners of the Group and is to be renamed to Galenica Pension Fund in 2019.

Defined benefit plans and long-service awards

in thousand CHF	Defined benefit plans	Long-service awards[1]	2018 Total	Defined benefit plans	Long-service awards[1]	2017 Total
Plan assets measured at fair value	813,096	–	813,096	825,849	–	825,849
Present value of defined benefit obligation	(872,208)	(14,595)	(886,803)	(780,461)	(15,167)	(795,628)
Surplus/(deficit)	**(59,112)**	**(14,595)**	**(73,707)**	**45,388**	**(15,167)**	**30,221**
Effect of asset ceiling	–	–	–	(60,081)	–	(60,081)
Net carrying amount recognised in liabilities	**(59,112)**	**(14,595)**	**(73,707)**	**(14,693)**	**(15,167)**	**(29,860)**

[1] Long-service awards relate to provisions for jubilee payments

Change in present value of defined benefit obligation

in thousand CHF	Defined benefit plans	Long-service awards	2018 Total	Defined benefit plans	Long-service awards	2017 Total
1 January	**(780,461)**	**(15,167)**	**(795,628)**	**(745,712)**	**(12,619)**	**(758,331)**
Current service cost	(22,789)	(1,811)	(24,600)	(25,663)	(1,912)	(27,575)
Past service cost	(41,181)	–	(41,181)	–	–	–
Interest on defined benefit obligation	(5,510)	(103)	(5,613)	(4,512)	(89)	(4,601)
Actuarial gain/(loss)	(15,043)	1,537	(13,506)	33,769	(1,420)	32,349
Employee contributions	(13,925)	–	(13,925)	(13,412)	–	(13,412)
Benefits/awards paid	14,542	1,002	15,544	13,597	1,165	14,762
Transfers of employees from Vifor Pharma Group	–	–	–	(30,270)	(292)	(30,562)
Change in scope of consolidation	(7,841)	(53)	(7,894)	(8,258)	–	(8,258)
31 December	**(872,208)**	**(14,595)**	**(886,803)**	**(780,461)**	**(15,167)**	**(795,628)**

Change in fair value of plan assets

in thousand CHF	2018	2017
1 January	**825,849**	**697,894**
Interest on plan assets	5,822	4,257
Remeasurement gain/(loss)	(46,530)	67,420
Employee contributions	13,925	13,412
Employer contributions	23,430	22,578
Benefits paid	(14,542)	(13,597)
Administration cost	(934)	(881)
Transfers of employees from Vifor Pharma Group	–	29,048
Change in scope of consolidation	6,076	5,718
31 December	**813,096**	**825,849**

Net defined benefit cost

in thousand CHF	2018	2017
Current service cost	22,789	25,663
Past service cost	41,181	–
Net interest on net defined benefit liability	122	255
Administration cost	934	881
Net defined benefit cost	**65,026**	**26,799**

Remeasurement of net defined benefit liability

in thousand CHF	2018	2017
Actuarial gain/(loss) due to:		
– Changes in demographic assumptions	(7,187)	7,623
– Changes in financial assumptions	11,754	22,250
– Experience adjustments	(19,610)	3,896
Remeasurement of plan assets	(46,530)	67,420
Effect of change in asset ceiling	60,515	(60,081)
Remeasurement of net defined benefit liability recognised in other comprehensive income	**(1,059)**	**41,107**

Change in estimate (demographic assumptions)

During 2018, Galenica conducted a review of actuarial valuation parameters, including employee turnover rates and lump sum payment upon retirement.

Considering actual historical patterns in the retail business with turnover rates at approximate 125% of BVG 2015 tables, Galenica used these increased rates for its 2018 valuation. This increase from 100% BVG 2015 in prior year to 125% reduced the defined benefit obligation of the Galenicare Pension Fund by CHF 5.7 million, which was recognised in other comprehensive income.

Furthermore, the assumption on lump sum payments upon retirement was reduced for all pension plans from 50% in prior year to 30%, due to revised expectations considering the economic environment and historical patterns. This resulted in an increase of the defined benefit obligation of CHF 26.5 million, which was recognised in other comprehensive income.

Changes in mortality and early retirement assumptions led to another decrease of the defined benefit obligation of the Galenica Pension Fund by CHF 12.9 million.

Change in asset ceiling

in thousand CHF	2018	2017
1 January	**(60,081)**	**–**
Interest expense (income)	(434)	–
Change in asset ceiling recognised in other comprehensive income	60,515	(60,081)
31 December	**–**	**(60,081)**

Investment structure of plan assets

in thousand CHF		2018		2017
Cash and cash equivalents	34,818	4.3%	34,363	4.2%
Debt instruments	159,750	19.6%	161,206	19.5%
Equity instruments	334,713	41.2%	358,427	43.4%
Real estate	191,358	23.5%	192,361	23.3%
Other investments	92,457	11.4%	79,492	9.6%
Fair value of plan assets	**813,096**	**100.0%**	**825,849**	**100.0%**
Current return on plan assets		(4.9%)		10.3%

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 into account 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 be investments in funds and direct investments.

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 shares of Galenica Ltd. with a fair value of CHF 10.7 million (previous year: CHF 11.1 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), senior loans, private equity and receivables. There are receivables from Group companies amounting to CHF 21.3 million (previous year: CHF 17.7 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 4,870 active members (previous year: 4,739) and 773 pensioners (previous year: 745).

Galenica does not use any pension fund assets.

Basis for measurement

Weighted average in %	2018	2017
Discount rate	0.85	0.70
Salary development	1.00	1.00
Pension development	0.00	0.00
Mortality (mortality tables)	BVG 2015 GT (CMI), 1.5 %	BVG 2015 GT (CMI), 1.5 %
Turnover	BVG 2015 (100 % – 125 %)	BVG 2015 (100 %)

Sensitivity analysis

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

	2018		2017	
in thousand CHF	Variations in assumptions	Impact on DBO	Variations in assumptions	Impact on DBO
Discount rate	+0.25 %	(29,186)	+0.25 %	(27,167)
	–0.25 %	30,949	–0.25 %	29,096
Salary development	+0.25 %	2,626	+0.25 %	2,362
	–0.25 %	(2,140)	–0.25 %	(2,249)
Mortality	+ 1 year	23,696	+ 1 year	15,951
	– 1 year	(24,189)	– 1 year	(16,014)

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.

The pension obligations have an average duration of 15.4 years (previous year: 18.8 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 fund are estimated at CHF 26.5 million for 2019.

23. Shareholders' equity

23.1 Share capital and number of shares

Accounting principles
When treasury 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.

Galenica has fully paid-up share capital of CHF 5,000,000, divided into 50,000,000 publicly listed 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 2018 annual report in the chapter Corporate Governance (unaudited).

According to Article 3a) of the Articles of Association, the Board of Directors is authorised to increase the share capital of CHF 5,000,000 by a maximum of CHF 500,000 at any time up to and including 10 March 2019 by issuing not more than 5,000,000 fully paid shares.

Number of shares	Total shares Galenica Ltd.	Treasury shares	Outstanding shares
Balance as at 31.12.2016	**–**	**–**	**–**
Incorporation of Galenica Ltd.	50,000,000	–	50,000,000
Transactions with treasury shares	–	(992,643)	(992,643)
Balance as at 31.12.2017	**50,000,000**	**(992,643)**	**49,007,357**
Transactions with treasury shares	–	169,230	169,230
Balance as at 31.12.2018	**50,000,000**	**(823,413)**	**49,176,587**

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

23.2 Changes in consolidated shareholder's equity

On 9 May 2018, the Annual General Meeting approved a dividend payment to be made from capital contribution reserves of CHF 81.0 million, corresponding to CHF 1.65 per registered share, for the financial year 2017 (previous year: none). The dividend was paid out to the shareholders on 16 May 2018.

In the reporting period, 5,848 treasury shares (previous year: 1,056,971 treasury shares) were bought at an average price of CHF 52.05 (previous year: CHF 39.01) and 175,078 treasury shares (previous year: 64,328 treasury shares) were issued as share-based payments.

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 0.1 million (previous year: CHF 0.2 million).

The Board of Directors will submit a proposal to the Annual General Meeting on 2 May 2019 to pay a dividend of CHF 1.70 per share entitled to receive dividend for the financial year 2018. However, no dividend will be paid on treasury shares. Based on the number of treasury shares as at 31 December 2018, the total dividend would amount to CHF 83.6 million.

24. Financial instruments

24.1 Categories of financial instruments

Accounting principles

Galenica classifies its financial assets and financial liabilities at initial recognition as subsequently measured at amortised cost or fair value through profit or loss.

Measurement of financial assets and financial liabilities
With the exception of trade receivables, financial assets and financial liabilities are initially measured at fair value plus or minus directly attributable transaction costs, if those financial instruments are not subsequently measured at fair value through profit or loss. Trade receivables are initially measured at the transaction price resulting from the revenue transaction. All purchases and sales of financial instruments are recognised using trade date accounting.

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 at amortised cost
This category includes trade and other receivables as well as loans and other financial assets such as rental deposits. These financial assets are subsequently measured at amortised cost using the effective interest rate method less expected credit losses. Expected credit losses are based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Changes in expected credit losses due to changes in estimated credit risk are determined at each reporting date and charged to profit or loss. Galenica uses the simplified approach to determine its bad debt allowance for trade receivables using lifetime expected credit losses.

Until 31 December 2017 credit losses were determined using an incurred loss model and financial assets at amortised cost were referred to as “loans and receivables”.

Uncollectible loans and receivables are only derecognised if a certificate of loss has been issued.

Financial assets and financial liabilities at fair value through profit or loss
Financial assets and financial liabilities classified as at fair value through profit or loss include derivative financial instruments, financial assets acquired for trading purposes and contingent consideration liabilities from business combinations.

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

Carrying amounts of financial instruments 2018 (IFRS 9 measurement categories)

in thousand CHF	Financial assets at amortised costs	Financial liabilities at amortised costs	Total
Cash and cash equivalents	104,970	–	104,970
Trade and other receivables	371,648	–	371,648
Financial assets	13,908	–	13,908
Current financial liabilities	–	29,674	29,674
Trade and other payables	–	290,109	290,109
Non-current financial liabilities	–	380,910	380,910
Total	**490,526**	**700,693**	

Carrying amounts of financial instruments 2017 (IAS 39 measurement categories)

in thousand CHF	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised costs	Total
Cash and cash equivalents	96,287	–	–	96,287
Trade and other receivables	386,754	–	–	386,754
Financial assets	12,580	–	–	12,580
Current financial liabilities	–	–	24,509	24,509
Trade and other payables	–	–	285,088	285,088
Non-current financial liabilities	–	150	381,631	381,781
Total	**495,621**	**150**	**691,228**	

Net gain/(loss) on financial instruments 2018 (IFRS 9 measurement categories)

in thousand CHF	Financial assets at amortised costs	Financial liabilities at amortised costs	Total
Net gain/(loss) on foreign exchange	(87)	(67)	(154)
Other financial result	33	(38)	(5)
Interest income	940	–	940
Interest expense	–	(2,760)	(2,760)
Interest income on impaired trade receivables	88	–	88
Expected credit losses	(2,865)	–	(2,865)
Net gain/(loss) recognised in profit or loss	**(1,891)**	**(2,865)**	**(4,756)**

Expected credit losses comprise the change in bad debt allowance and receivables directly written off.

Net gain/(loss) on financial instruments 2017 (IAS 39 measurement categories)

in thousand CHF	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
Change in fair value of contingent consideration	–	1,550	–	1,550
Net gain/(loss) on foreign exchange	524	–	(55)	469
Loss on receivables and other financial result	(698)	–	(233)	(931)
Interest income	463	–	–	463
Interest expense	–	–	(2,508)	(2,508)
Interest income on impaired trade receivables	269	–	–	269
Change in bad debt allowances (incurred loss model)	(850)	–	–	(850)
Net gain/(loss) recognised in profit or loss	**(292)**	**1,550**	**(2,796)**	**(1,538)**

24.2 Fair value measurement

Accounting principles

Fair value

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 fixed-rate bonds derived from quoted prices (level 1 of the fair value hierarchy) or 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.

Fair value

		2018		2017
in thousand CHF	Carrying amount	Fair value	Carrying amount	Fair value
Non-current financial liabilities	272	272	1,034	1,034
Bonds	380,638	381,620	380,747	384,650
Non-current financial liabilities	**380,910**	**381,892**	**381,781**	**385,684**

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

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

in thousand CHF	2018	2017
1 January	**150**	**3,500**
Change in fair value (recognised in profit or loss)	–	(1,550)
Payments (cash out)	(150)	(1,800)
31 December	**–**	**150**

25. Financial risk management

Galenica is exposed to various financial risks and liquidity requirements. Galenica's financing and financial risk management activities are centralised into Group Treasury, which manages financial exposures of Galenica on account of changes in interest rates, currency risks, credit risks and liquidity in a manner that is consistent with underlying business risks and in line with the treasury policy approved by the Board of Directors as well as internal guidelines on cash and liability management. In addition, capital management of Galenica is also mainly exercised and monitored at Group level.

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.

25.1 Liquidity risk

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. Group Treasury 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 funds at an advantageous rate. To ensure that Galenica can meet its payment obligations in good time, liquidity is monitored centrally. Group Treasury 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.

Maturity profile of financial liabilities 2018

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	290,109	290,109	288,128	1,981	–	–
Current financial liabilities	29,674	29,674	28,025	1,649	–	–
Non-current financial liabilities	272	272	–	–	–	272
Bonds	380,638	399,400	–	2,800	211,200	185,400
Total	**700,693**	**719,455**	**316,153**	**6,430**	**211,200**	**185,672**

Maturity profile of financial liabilities 2017

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	285,088	285,088	281,391	3,697	–	–
Current financial liabilities	24,509	24,509	22,257	2,252	–	–
Non-current financial liabilities	1,034	1,034	–	–	562	472
Bonds	380,747	402,200	–	2,800	11,200	388,200
Total	**691,378**	**712,831**	**303,648**	**8,749**	**11,762**	**388,672**

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.

25.2 Credit risk

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. Allowances for expected credit losses are made in accordance with uniform 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.

in thousand CHF	2018	2017
Cash and cash equivalents (without cash on hand)	103,542	94,951
Trade and other receivables	371,648	386,754
Loans and other financial assets	13,908	12,580
Financial assets subject to credit risk	**489,098**	**494,285**

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 non-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, adjusted for forward-looking factors specific to the debtors and the economic environment.

26. Capital management

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

Galenica defines the capital that it manages as invested interest-bearing liabilities and equity. Galenica uses a system of financial control based on various key performance indicators. Capital is monitored based on the gearing, for example, which expresses net debt as a percentage of shareholders' equity including non-controlling interests and is communicated regularly to management as part of internal reporting.

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

in thousand CHF	2018	2017
Current financial liabilities[1)]	28,025	22,257
Non-current financial liabilities[1)]	380,910	381,219
Cash and cash equivalents	(104,970)	(96,287)
Interest-bearing receivables	(3,517)	(5,860)
Net debt	**300,448**	**301,329**
Equity attributable to shareholders of Galenica Ltd.	929,463	857,280
Non-controlling interests	4,136	4,235
Shareholders' equity	**933,599**	**861,515**
Gearing	**32.2%**	**35.0%**

[1)] Excluding non-interest-bearing financial liabilities

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

27. Share-based payments

Accounting principles

The employees of Galenica participate in share-based payment plans. These plans qualify as equity-settled share-based payment plans and are settled in shares of Galenica Ltd.

The share-based payments are measured at fair value at grant date.

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

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 at 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.

Remuneration for members of the Board of Directors

The members of the Board of Directors receive fixed annual remuneration and can choose whether to receive it in full or in part (50%) in 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 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. The amount to be settled in shares is paid out in the form of 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 of Galenica and certain members of senior management participate in a LTI plan for the allocation of performance share units. The number of these performance share 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 three years. At the beginning of each financial year a new LTI plan with a new vesting period of three years is issued. At the start of the vesting period a defined number of performance share units are individually allocated. The number of performance share 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 share units are paid out to eligible beneficiaries in the form of shares of Galenica Ltd.

23,199 performance share units (previous year: 22,508 performance share units) were granted to beneficiaries at a fair value of CHF 45.05 (previous year: CHF 44.87) at the beginning of the reporting period for the 2018 LTI plan.

Employee share plan

Employees of Galenica are entitled to buy a fixed number of 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 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 63,311 shares of Galenica Ltd. (previous year: 58,088 shares) at a price of CHF 38.25 (previous year: CHF 31.40). This includes a discount of CHF 16.39 (previous year: CHF 13.45) per share.

Share-based payment expense

in thousand CHF	2018	2017
Remuneration for members of the Board of Directors	1,415	1,116
Share plan for members of senior management	2,132	1,876
Long-term incentive plan (LTI)	1,048	934
Employee share plan	1,037	781
Total	**5,632**	**4,707**

28. Related party transactions

Related parties include all companies of the Galenica Group as well as associates, joint ventures, pension funds, members of the Board of Directors and members of the Corporate Executive Committee.

Related party transactions

As at the reporting date, trade receivables and loans from associates and joint ventures amounted to CHF 8.4 million (previous year: CHF 12.3 million). The trade receivables and loans primarily relate to Coop Vitality. The trade payables to associates and joint ventures amounted to CHF 3.2 million (previous year: CHF 6.1 million) and the financial liabilities to pension funds amounted to CHF 22.8 million (previous year: CHF 18.6 million).

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

		2018		2017
in thousand CHF	Associates and joint ventures	Other related parties	Associates and joint ventures	Other related parties
Sale of goods[1]	131,372	5,293	116,057	5,464
Income from services[1]	6,551	–	4,142	10
Other income[1]	40	–	47	683
Purchase of goods	780	2	908	12,381
Other operating costs[1]	–	46	5	3,196
Financial income	152	–	141	–
Financial expenses	10	–	1	349

[1] Restatement of 2017 figures upon adoption of IFRS 15 (refer to page 90)

Remuneration of the Board of Directors and the Corporate Executive Committee

in thousand CHF	2018	2017
Remuneration	2,839	2,479
Social security costs and pension expenses	719	634
Share-based payments	2,166	1,890
Total	**5,724**	**5,003**

29. Lease liabilities

Accounting principles

Galenica has not entered into leases under which Galenica assumes substantially all the risks and rewards of ownership.

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

The table below summarises the maturity profile of future minimum lease payments under non-cancellable operating leases (undiscounted):

in thousand CHF	2018	2017
Within 1 year	49,753	48,290
In 2 to 5 years	127,401	124,965
In more than 5 years	17,886	21,089
Total	**195,040**	**194,344**

Operating leases essentially consist of payment obligations under rental contracts.

30. Subsequent events

The following transactions occurred between 31 December 2018 and 5 March 2019, the date on which the consolidated financial statements 2018 were released for publication.

Acquisition of pharmacies. Galenicare Holding acquired 100% of the interests in pharmacies at various locations in Switzerland. The net assets of these acquisitions will be consolidated for financial year 2019 from the date control was obtained.

The purchase consideration was CHF 26.7 million, the fair value of the provisional net assets resulting from these additions was estimated at CHF 11.4 million at the acquisition date.

There were no further significant events after the reporting date.

31. Group companies

	Registered office	Equity interest	Method of consolidation	Share capital in thousand	
Health & Beauty					
Products & Brands					
G-Pharma AG[1]	CH-Niederbipp	100%	full	CHF	100
Swiss Pharma GmbH[1]	DE-Rülzheim	100%	full	EUR	51
Verfora Ltd.[1]	CH-Villars-sur-Glâne	100%	full	CHF	100
Retail					
Amavita Health Care Ltd.[1]	CH-Niederbipp	100%	full	CHF	100
Aprioris Ltd.[1]	CH-Bern	100%	full	CHF	100
Bahnhof Apotheken Thun AG	CH-Thun	50%	full	CHF	200
Bahnhof Apotheke Zürich AG	CH-Zürich	100%	full	CHF	300
Careproduct AG	CH-Oberwil-Lieli	100%	full	CHF	100
Coop Vitality AG	CH-Bern	49%	at equity	CHF	5,000
Coop Vitality Health Care GmbH	CH-Niederbipp	49%	at equity	CHF	20
Coop Vitality Management AG	CH-Bern	49%	at equity	CHF	100
GaleniCare Ltd.	CH-Bern	100%	full	CHF	700
GaleniCare Holding Ltd.[1]	CH-Bern	100%	full	CHF	50,000
GaleniCare Management Ltd.	CH-Bern	100%	full	CHF	500
Grosse Apotheke Dr. G. Bichsel AG	CH-Interlaken	25%	at equity	CHF	200
MediService Ltd.[1]	CH-Zuchwil	100%	full	CHF	363
Puresense AG	CH-Gaiserwald	40%	at equity	CHF	100
Sun Store Health Care Ltd.[1]	CH-Niederbipp	100%	full	CHF	100
Winconcept Ltd.	CH-Bern	100%	full	CHF	100
Services					
1L Logistics AG[1]	CH-Burgdorf	100%	full	CHF	100
Alloga Ltd.[1]	CH-Burgdorf	100%	full	CHF	8,332
Dauf SA	CH-Barbengo-Lugano	90.18%	full	CHF	100
Galexis Ltd.[1]	CH-Niederbipp	100%	full	CHF	25,000
Galkud AG[1]	CH-Bern	100%	full	CHF	100
HCI Solutions Ltd.[1]	CH-Bern	100%	full	CHF	100
Medifilm Ltd.	CH-Oensingen	100%	full	CHF	1,300
PharmaBlist Ltd.	CH-Widnau	100%	full	CHF	100
Pharmapool Ltd.	CH-Widnau	100%	full	CHF	962
Pharmapool Zentralapotheke AG	CH-Widnau	100%	full	CHF	100
Unione Farmaceutica Distribuzione SA[1]	CH-Barbengo-Lugano	90.18%	full	CHF	2,000
Corporate					
Galenica Finanz Ltd.[1]	CH-Bern	100%	full	CHF	100

[1] Directly held by Galenica Ltd.

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To the General Meeting of
Galenica Ltd., Berne

Berne, 5 March 2019

Statutory auditor’s report on the audit of the consolidated financial statements

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 2018 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity 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 83 to 126) give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, 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 15, goodwill amounts to CHF 691.5 million as at 31 December 2018 and represents a major asset of Galenica. In addition, Galenica recorded intangible assets with indefinite useful lives with a carrying amount of CHF 36.5 million. Both goodwill and intangible assets with indefinite useful lives are tested for impairment 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 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 15 could cause the carrying amount to exceed its recoverable amount. Our audit procedures did not lead to any reservations regarding the impairment tests of goodwill and other intangibles.

Significance and volatility of employee benefits

Risk	As outlined in note 22, Galenica’s employees work in Switzerland and are insured with pension funds that are financed by both 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 important 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 59.1 million as at 31 December 2018. Key actuarial parameters used in the calculation of the pension plan obligation are the discount rate, salary development and the selection of mortality tables.

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 the inputs into the calculations by comparing the basic data used in the actuarial models to the payroll data of the Group. Our audit procedures did not lead to any reservations regarding the accounting of employee benefits.

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 remuneration 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.

Ernst & Young Ltd

Roland Ruprecht Licensed audit expert (Auditor in charge)	Jan Meyer Licensed audit expert

Financial statements 2018

Statement of income of Galenica Ltd.

in thousand CHF	1.1.–31.12.2018	13.2.–31.12.2017
Investment income	48,650	63,307
Financial income	1,116	758
Other income	22,843	20,436
Income	**72,609**	**84,501**
Personnel costs	(13,281)	(8,994)
Financial expenses	(2,757)	(2,484)
Depreciation and amortisation	(9,026)	(9,226)
Other expenses	(4,938)	(6,937)
Expenses	**(30,002)**	**(27,641)**
Profit for the year before taxes	**42,607**	**56,860**
Direct taxes	(78)	(52)
Profit for the year	**42,529**	**56,808**

Statement of financial position of Galenica Ltd.

Assets

in thousand CHF		2018		2017
Cash and cash equivalents		60,667		63,000
Receivables				
– Third parties		21		160
– Group companies		388,081		356,720
Prepaid expenses and accrued income				
– Third parties		1,124		1,006
– Group companies		500		–
Current assets	46%	**450,393**	41%	**420,886**
Financial assets		244,437		307,813
Investments		280,587		289,528
Property, plant and equipment		5		10
Intangible assets		25		39
Non-current assets	54%	**525,054**	59%	**597,390**
Assets	100%	**975,447**	100%	**1,018,276**

Liabilities and shareholders' equity

in thousand CHF		2018		2017
Interest-bearing liabilities				
– Group companies		–		520
Other liabilities				
– Third parties		4,227		7,293
– Group companies		103		1
Accrued expenses and deferred income		6,928		7,773
Current liabilities	1%	**11,258**	2%	**15,587**
Interest-bearing liabilities				
– Third parties		380,000		380,000
Non-current liabilities	39%	**380,000**	37%	**380,000**
Liabilities	40%	**391,258**	39%	**395,587**
Share capital		5,000		5,000
Legal capital reserves				
– Reserves from capital contributions		479,852		560,881
of which reserve for treasury shares		–		38,800
Legal retained earnings				
– General legal retained earnings		1,000		–
– Reserves for treasury shares		29,800		–
Voluntary retained earnings				
– Free reserve		25,200		–
– Profit brought forward from the previous year		808		–
– Profit for the year		42,529		56,808
Shareholders' equity	60%	**584,189**	61%	**622,689**
Liabilities and shareholders' equity	100%	**975,447**	100%	**1,018,276**

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 Accounting law based on the Swiss Code of Obligations (CO). Where not prescribed by law, the significant accounting and valuation principles applied are described below.

Financial assets

Financial assets include non-current loans to Group companies of CHF 244.4 million (previous year: CHF 307.8 million).

Investments

The list of the Group companies is shown on page 126.

Non-current interest-bearing liabilities

The non-current interest-bearing liabilities are recognised at nominal value.

in thousand CHF	2018	2017
Bond 0.5% (15 June 2017–15 June 2023) ISIN CH0367206692	200,000	200,000
Bond 1.0% (15 June 2017–15 December 2026) ISIN CH0367206700	180,000	180,000
Non-current interest-bearing liabilities	**380,000**	**380,000**

Share capital

At 31 December 2018, the share capital of Galenica amounted to CHF 5,000,000, divided into 50,000,000 fully paid-up and publicly listed shares with nominal value of CHF 0.10 each.

Authorised capital

According to Article 3a) of the Articles of Association, the Board of Directors is authorised to increase the share capital of CHF 5,000,000 by a maximum of CHF 500,000 at any time up to and including 10 March 2019 by issuing not more than 5,000,000 fully paid shares.

Reserves from capital contributions

With the incorporation of Galenica Ltd. and in accordance with tax laws the amount of CHF 560.9 million was recorded as reserves from capital contributions in the opening balance. The reserves from capital contributions have been reduced to CHF 479.9 million due to the dividend paid out to the shareholders on 16 May 2018 in the amount of CHF 81.0 million.

Subordinated loans

At 31 December 2018, subordinated loans to Group companies amounted to CHF 220.0 million (previous year: CHF 232.4 million).

Treasury shares

Galenica shares owned by subsidiaries:

		Number	in CHF
As at 13 February 2017		**–**	**–**
1st quarter 2017	– Bought	–	–
	– Sold	–	–
2nd quarter 2017	– Bought	1,056,064	41,186,496
	– Sold	–	–
3rd quarter 2017	– Bought	124	5,704
	– Sold	(64,328)	(2,885,111)
4th quarter 2017	– Bought	783	36,701
	– Sold	–	–
As at 31 December 2017		**992,643**	**38,343,790**
1st quarter 2018	– Bought	1,556	75,455
	– Sold	(65,489)	(3,114,103)
2nd quarter 2018	– Bought	1,906	100,015
	– Sold	(37,432)	(1,826,834)
3rd quarter 2018	– Bought	1,906	105,163
	– Sold	(72,157)	(3,942,658)
4th quarter 2018	– Bought	480	23,736
	– Sold	–	–
As at 31 December 2018		**823,413**	**29,764,564**

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

Contingent liabilities

At 31 December 2018, total contingent liabilities amounted to CHF 724.8 million (previous year: CHF 621.5 million), including issued guarantees to Group companies of CHF 594.5 million (previous year: CHF 491.3 million) as well as CHF 130.0 million (previous year: CHF 130.0 million) for guarantees to secure intraday transactions in connection with the zero balance cash pooling.

Major shareholders

	Number of shares	% of share capital
As at 31 December 2018		
UBS Fund Management (Switzerland) AG, Switzerland	2,482,860	5.0
BlackRock Inc., USA	2,239,120[1]	4.9
Alecta Pensionsförsäkring, Sweden	2,000,000	4.0
Credit Suisse Funds AG, Switzerland	1,626,752	3.3
Rudolf Maag, Switzerland	1,500,000	3.0
As at 31 December 2017		
BlackRock Inc., USA	2,787,758[1]	5.9
Alecta Pensionsförsäkring, Sweden	2,000,000	4.0
Credit Suisse Funds AG, Switzerland	1,626,752	3.3
Capital Research and Management Company, USA[2]	1,600,000	3.2
Pictet Asset Management SA, Switzerland	1,524,569	3.1
UBS Fund Management (Switzerland) AG, Switzerland	1,522,408	3.0
Rudolf Maag, Switzerland	1,500,000	3.0

[1] Options not considered
[2] Beneficial owners: The Capital Group Companies, Inc., USA

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

Full-time equivalents

The average number of full-time equivalents for the reporting period amounted to 33 (previous year: 34).

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

Number of shares	Held as at 31.12.2018	Shares Allocated for 2018	Held as at 31.12.2017	Shares Allocated for 2017
Jörg Kneubühler	29,250	7,270	19,152	5,020
Daniela Bosshardt-Hengartner	3,074	4,748	–	3,074
Michel Burnier	2,459	1,780	–	2,459
Fritz Hirsbrunner	3,299	3,858	635	2,664
Bertrand Jungo	–	1,187	–	–
Philippe Nussbaumer	4,044	3,561	1,695	2,254
Andreas Walde	2,869	4,154	–	2,869
Shares of the members of the Board of Directors	**44,995**	**26,558**	**21,482**	**18,340**

Shares held by related parties to 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 shares	Held as at 31.12.2018	Held as at 31.12.2017
Jean-Claude Clémençon	7,944	80
Felix Burkhard	15,807	9,344
Christoph Amstutz	3,356	160
Torvald de Coverly Veale	3,542	220
Daniele Madonna	1,849	1,396

Shares held by related parties to 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 73 to 75).

In 2018, 12,864 performance share units with fair value at grant date of CHF 579,537 have been allocated to the members of the Corporate Executive Committee. In 2018, 3,416 performance share units with fair value at grant date of CHF 153,909 have been allocated to other employees of Galenica Ltd.

Allocation of available earnings 2018 and on the payment of a dividend from reserves from capital contributions

At the Annual General Meeting as at 2 May 2019, the Board of Directors will propose the following allocation of available earnings and reserves from capital contributions:

in CHF	2018	2017
Appropriation of the 2018 available earnings		
Balance brought forward	807,923	–
Profit for the year	42,529,374	56,807,923
Available earnings at the disposal of the Annual General Meeting	**43,337,297**	**56,807,923**
Allocation to general legal retained earnings	–	(1,000,000)
Allocation to free reserve	(43,000,000)	(55,000,000)
Balance to be carried forward	**337,297**	**807,923**
Appropriation of reserves from capital contributions		
Reserves from capital contributions	**479,852,159**	**560,881,418**
Dividend per share CHF 1.70 (2017: CHF 1.65) paid out of reserves from capital contributions	(85,000,000)[1)]	(81,029,259)
Balance to be carried forward	**394,852,159**	**479,852,159**

[1)] The proposed appropriation of reserves from capital contributions covers all issued shares. However, no dividend will be paid on treasury shares. Based on the number of treasury shares held as at 31 December 2018, the total dividend would amount to CHF 83.6 million

If the proposal for appropriation is approved, the dividend will be paid as from 8 May 2019 without deduction of Swiss withholding tax.

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To the General Meeting of
Galenica Ltd., Berne

Berne, 5 March 2019

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Galenica Ltd., which comprise the statement of income, statement of financial position and notes (pages 132 to 137), for the year ended 31 December 2018.

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 2018 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 judgment, 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.

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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.

Ernst & Young Ltd

Roland Ruprecht
Licensed audit expert
(Auditor in charge)

Jan Meyer
Licensed audit expert