GALENICA

Aligning company and shareholder interests through Value Based Management

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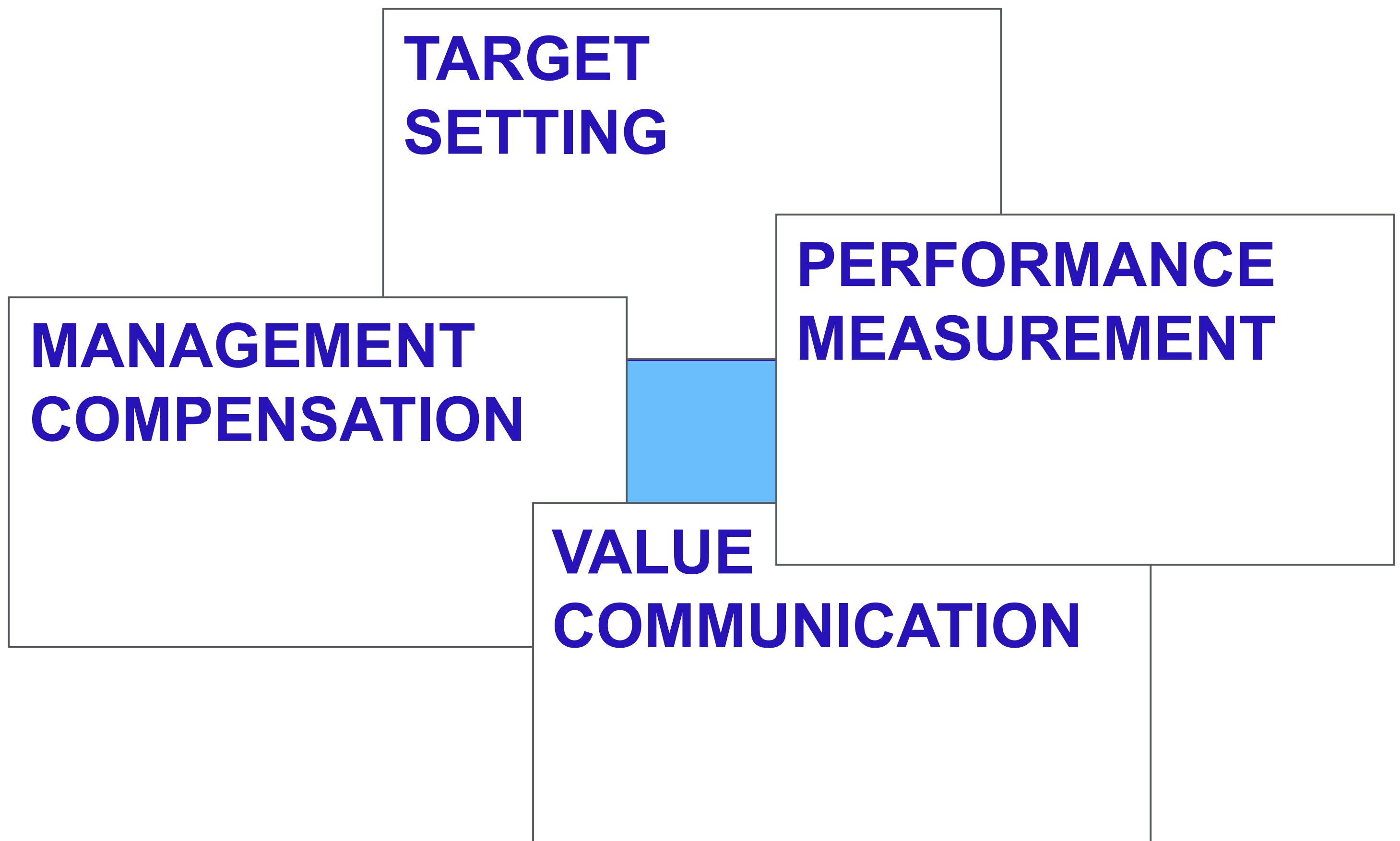
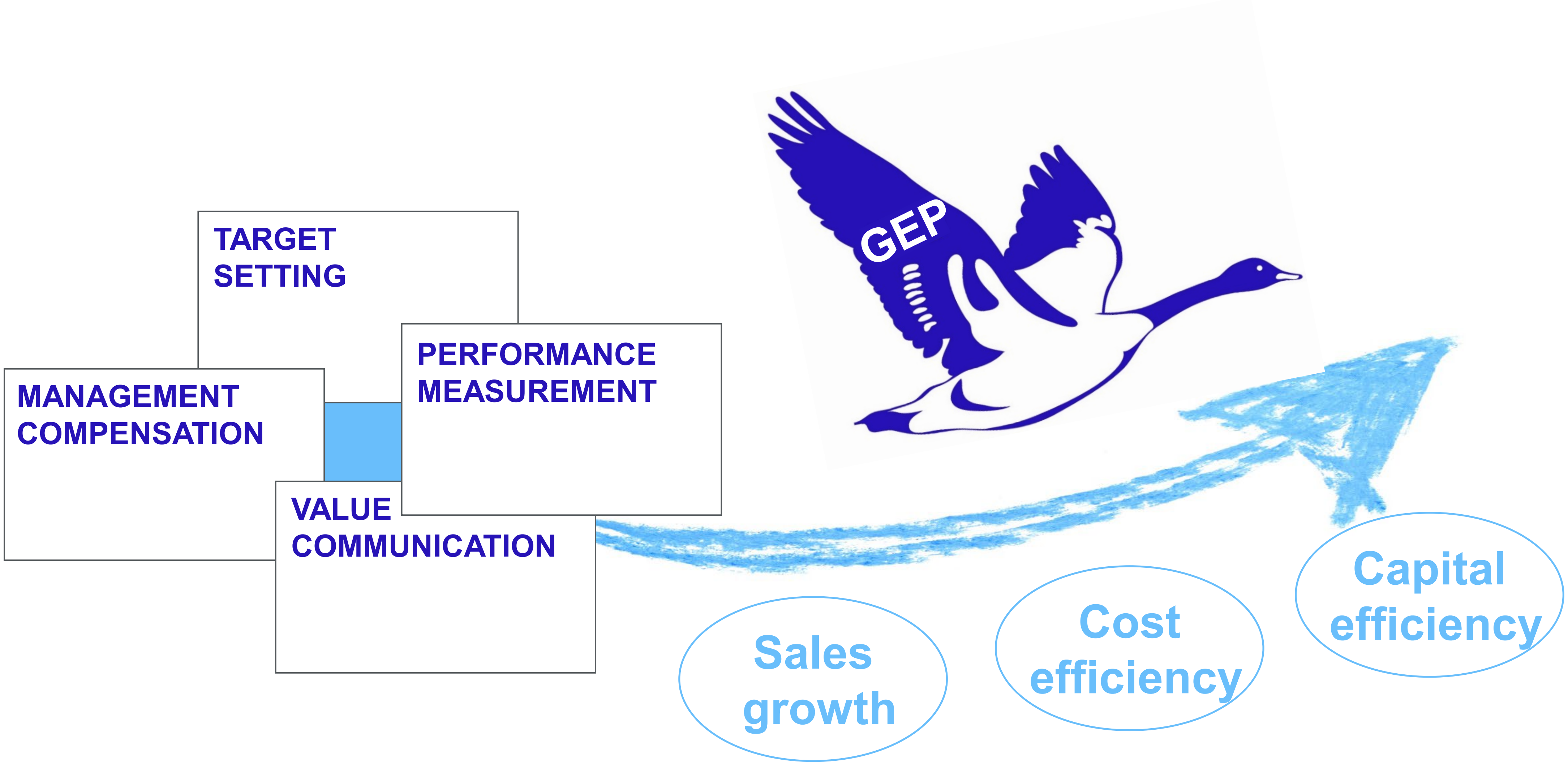
Value Based Management
Aligning company and shareholder interests

Integrated Galenica Value Based Management
Anchored in the mindset of the whole organisation, in place since 2005.



Integrated Galenica Value Based Management



1) ROIC 2018

Value Based Management
Key Performance Indicators

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ROIC[1] = NOPAT[2] / ∅ ICa[3]

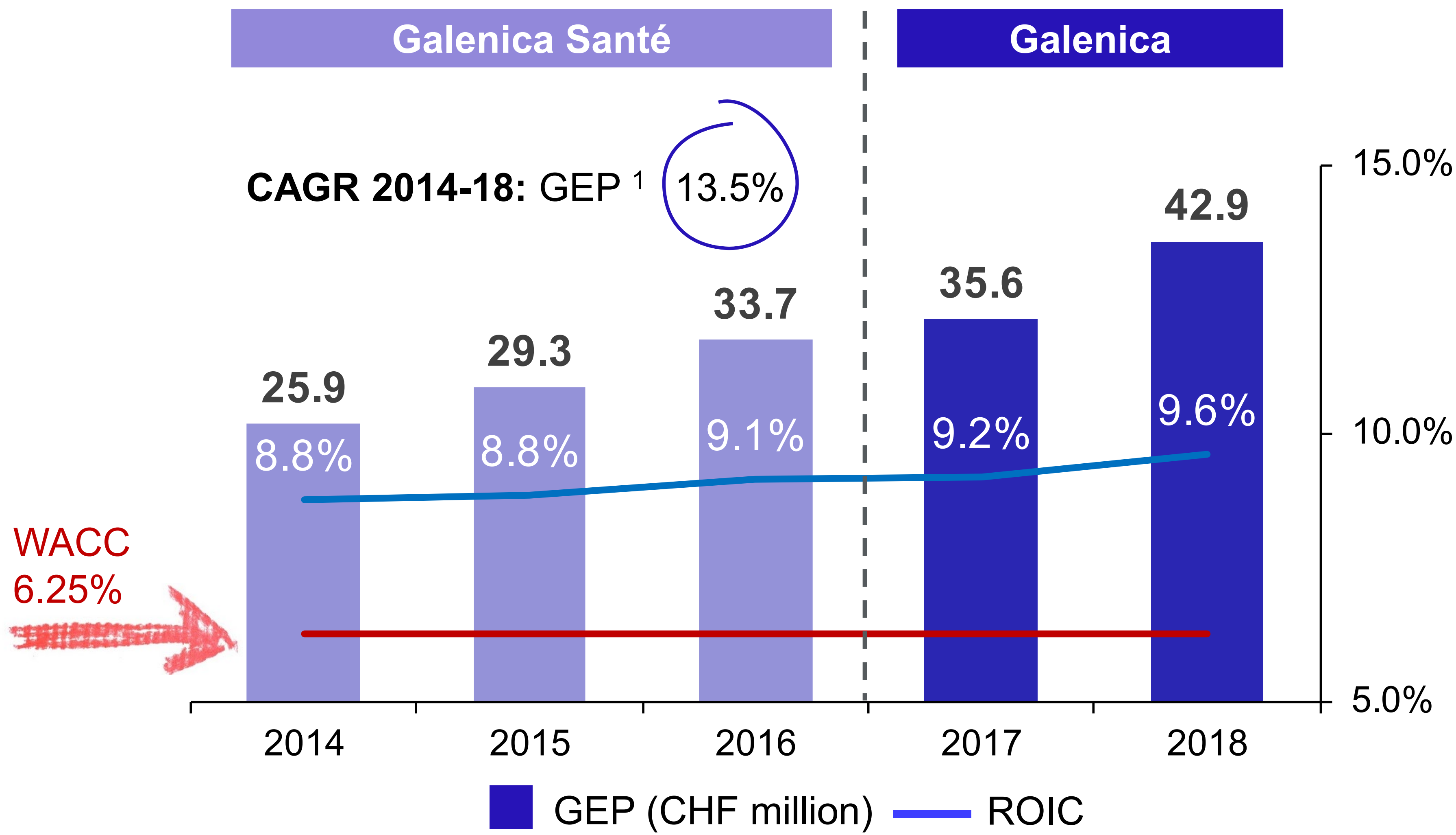
GEP[4] = NOPAT - (WACC[5] x ∅ ICa)

NOPAT = **EBIT adjusted**[6] - **20% calculative taxes**

Invested Capital = **Current assets** + **Non-current assets** - **Non-interest-bearing liabilities** = **Net debt** + **Equity adjusted**[6]

1 Return on invested capital
2 Net operating profit after tax
3 Average invested capital = (ICa current + ICa previous year)/2
4 Galenica Economic Profit
5 Weighted average cost of capital (WACC 6.25%)
6 Excluding effects of IAS19 and IFRS16

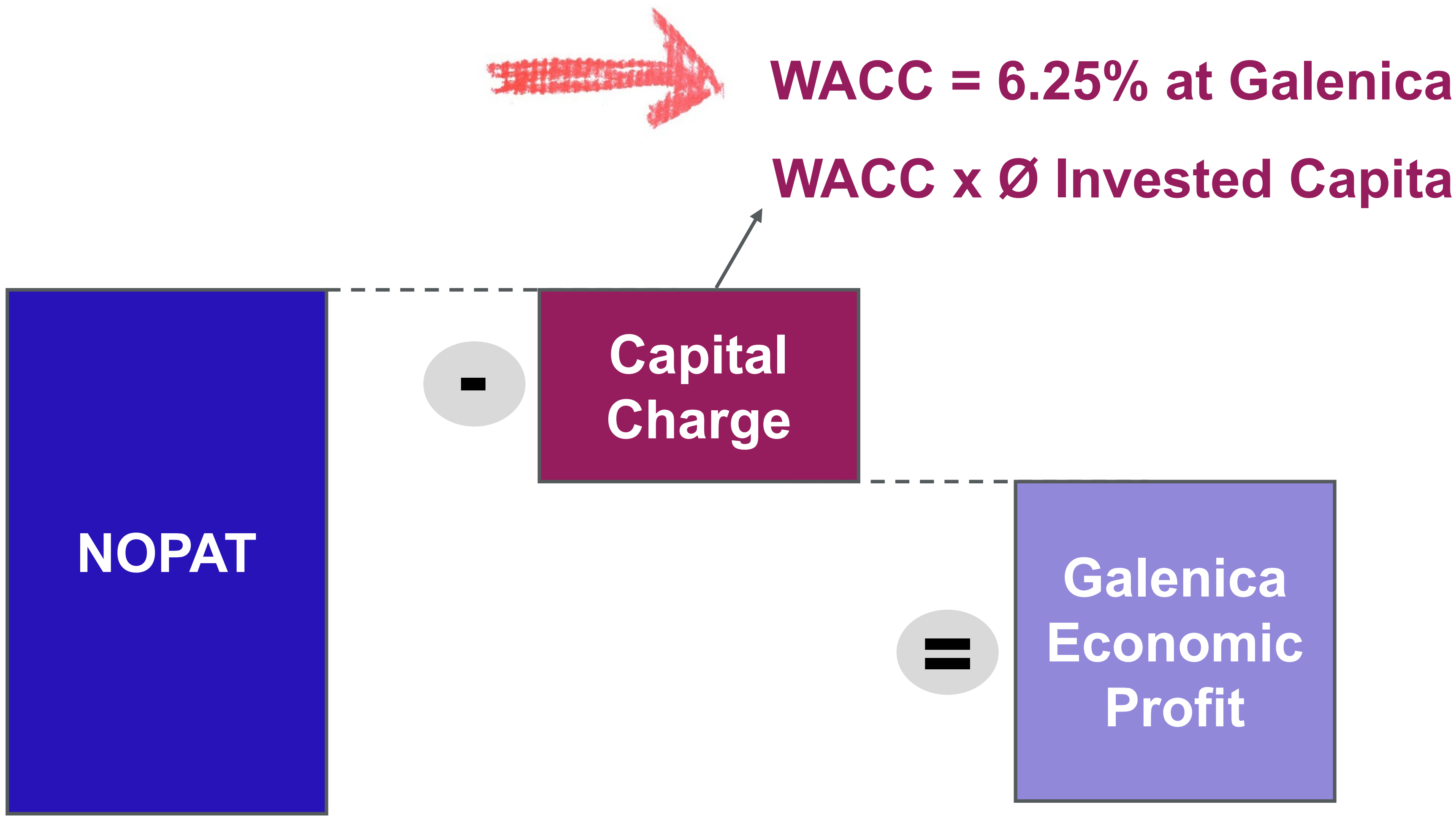
Increasing Galenica Economic Profit (GEP) and ROIC



Notes: Galenica Santé, a former wholly-owned subsidiary of Galenica AG (now renamed Vifor Pharma AG), prepared combined financial statements for the financial years ended 31 December 2014, 2015 and 2016. Accordingly, the financial information derived from the combined financial statements of the Company and from the consolidated financials of Galenica AG (now Vifor Pharma AG) for its Logistics, Retail and Other (Healthcare Information) businesses, excluding the Pharma business, for prior periods may not be fully comparable.

1 2014-16 GEP from combined financial statements, 2017 and 2018 GEP, excludes IAS19 expenses

Galenica Economic Profit (GEP)



Management Compensation based on Galenica Economic Profit (GEP)

ROIC target can lead to false incentives, especially in growing businesses

9.6% 1)

6.25%

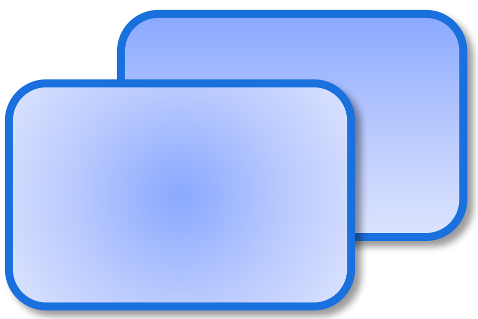
ROIC

WACC = Cost of Equity + Cost of Debt

1) ROIC 2018

Management compensation
Remuneration components

Fixed



Base salary

Variable

Bonus
(Short-term Incentive Programme, STI)

Variable

Long-term Renumeration
(Long-term Incentive Programme, LTI)

	Bonus (STI)	Long-term Renumeration (LTI)
Target bonus CEC:	40% – 50%	25% – 50%
Maximum:	200%	

Galenica Economic Profit (GEP)
Impact on variable remuneration

Bonus
(Short-term Incentive Programme, STI)

25% - 40% personal objectives

60% - 75% GEP

Long-term Renumeration
(Long-term Incentive Programme, LTI)

100% GEP

Paid in shares:	32%	100%

Adoption of IFRS 16 as of January 1, 2019

Application of IFRS 16 results in risks of false incentives for management!

Effect of IFRS 16 on Galenica Economic Profit (GEP)

Example (in TCHF)

Rent p.a.	200
Assumed discount factor	1.00%
WACC	6.25%

Business interests

IFRS 16

Type and duration of contract	fix 10 years	fix 3 years	Sales-based rent
Right-of-use asset at inception	1,894	588	-
Depreciation RoUA p.a.	189	196	-
EBIT impact p.a.	11	4	-
NOPAT impact p.a. (./. 20% taxes)	**8**	**3**	**-**
Capital charge at inception	**-118**	**-37**	**-**
GEP impact at inception	**-110**	**-34**	**-**

Implemention of IFRS 16 in Value Based Management

In order to avoid false incentives for management, Galenica will use adjusted (IFRS 16, IAS 19) figures in value based management.

Galenica will disclose adjusted key figures in the new "alternative performance measures" section.

Key figures
expected impact of IFRS 16

(CHF million)	2018	Expected impact of IFRS 16
EBITDA	195.1	+ 45 – 55
EBIT adjusted	154.1	+ 1 – 3
Cash flow from operating activities	173.6	+ 40 – 50
Net debt	300.4	+ 230 – 250

Free cash flow

Cash flow from operating activities

Payment of lease liabilities

Operating cash flow adjusted

Cash flow from investing activities without M&A[1)]

Free cash flow before M&A

Cash flow from M&A[2)]

Free cash flow

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

Envisaged leverage

Net debt adjusted	=	Net debt w/o lease liabilities

$$\textbf{Debt coverage adjusted} = \frac{\text{Net debt adjusted}}{\text{EBITDA adjusted}}$$

→ **mid-term guidance: +/- 2.0x**

Summary

- **Adoption of IFRS 16:**

  → additional costs, no benefits

  → adjustments to eliminate false incentives for management

- **Additional reporting transparency with alternative performance measures**

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