Financial statements

Consolidated financial statements 2017

Key figures

Net sales[1]

in million CHF

- Health & Beauty 1,483.5
- Services 2,501.8

EBIT adjusted[1,2]

in million CHF

- Health & Beauty 99.7
- Services 50.6

Number of employees

as at 31 December 2017

- Galenica Ltd. 38
- Health & Beauty 4,741
- Services 1,619

in million CHF	2017	2016	Change
Net sales[1]	**3,214.2**	**3,008.9**	**+6.8 %**
Health & Beauty	1,483.5	1,437.0	+3.2 %
Services	2,501.8	2,328.9	+7.4 %
EBITDA adjusted[1,2]	**188.4**	**176.0**	**+7.1 %**
in % of net sales	5.9 %	5.8 %	
EBITDA[1]	**182.0**	**165.6**	**+9.9 %**
Health & Beauty	120.2	116.0	+3.7 %
Services	70.7	60.1	+17.6 %
EBIT adjusted[1,2]	**148.2**	**134.2**	**+10.5 %**
in % of net sales	4.6 %	4.5 %	
EBIT[1]	**141.8**	**123.8**	**+14.5 %**
Health & Beauty	99.7	93.5	+6.7 %
Services	50.6	39.9	+26.7 %
Net profit adjusted[2]	**124.4**	**92.1**	**+35.0 %**
Net profit	**118.9**	**83.4**	**+42.5 %**
Investment in property, plant and equipment and intangible assets	**55.8**	**35.0**	**+59.4 %**
Cash flow from operating activities	**144.4**	**156.8**	**–7.9 %**
Free cash flow[3]	**98.9**	**92.5**	**+6.9 %**
Employees at reporting date (FTE)	**4,944**	**4,657**	**+6.2 %**
Net debt	**301.3**	**350.3[4]**	**–14.0 %**
Debt coverage[2,5]	**1.6**	**2.0[4]**	
Gearing	35.0 %	47.0 %[4]	
Earnings per share adjusted[2] (in CHF)	**2.54**	**1.84**	
Earnings per share (in CHF)	**2.43**	**1.67**	

1) Reported for each Segment not taking into account Corporate and eliminations
2) Excluding the effects of IAS 19
3) Cash flow from operating activities – cash flow from investing activities
4) Figures based on pro-forma balance sheet as at 1 January 2017
5) Net debt / EBITDA adjusted

Consolidated statement of income

in thousand CHF	Notes	2017	2016
Net sales	5	3,214,231	3,008,851
Other income	6	56,434	49,848
Operating income		**3,270,665**	**3,058,699**
Cost of goods		(2,455,377)	(2,277,303)
Personnel costs	7, 24	(427,667)	(407,088)
Other operating costs	8	(210,112)	(213,194)
Share of profit of associates and joint ventures	18	4,448	4,515
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		**181,957**	**165,629**
Depreciation and amortisation	16,17	(40,189)	(41,810)
Earnings before interest and taxes (EBIT)		**141,768**	**123,819**
Financial income	9	1,229	1,036
Financial expenses	9	(3,085)	(20,596)
Earnings before taxes (EBT)		**139,912**	**104,259**
Income tax	10	(21,046)	(20,895)
Net profit		**118,866**	**83,364**
Attributable to:			
– Shareholders of Galenica Ltd.[1]		118,804	83,393
– Non-controlling interests		62	(29)

[1] Changes in company structure (refer to note 1)

in CHF			
Earnings per share	11	2.43	1.67
Diluted earnings per share	11	2.42	1.67

Consolidated statement of comprehensive income

in thousand CHF	Notes	2017	2016
Net profit		**118,866**	**83,364**
Translation differences		3	(1)
Items that may be reclassified subsequently to profit or loss		**3**	**(1)**
Remeasurements of net defined benefit liability/(asset)	24	41,107	41,999
Income tax from remeasurements of net defined benefit liability/(asset)	10	(9,148)	(9,240)
Share of other comprehensive income from joint ventures	18	2,144	2,371
Items that will not be reclassified to profit or loss		**34,103**	**35,130**
Other comprehensive income		**34,106**	**35,129**
Comprehensive income		**152,972**	**118,493**
Attributable to:			
– Shareholders of Galenica Ltd.[1]		152,910	118,522
– Non-controlling interests		62	(29)

[1] Changes in company structure (refer to note 1)

Consolidated statement of financial position

Assets

in thousand CHF	Notes		2017		2016
Cash and cash equivalents			96,287		9,019
Financial receivables	12		–		340,857
Trade and other receivables	14		386,754		358,888
Inventories	15		274,217		264,716
Prepaid expenses and accrued income			30,959		18,838
Assets held for sale	13		–		29,574
Current assets		44%	**788,217**	51%	**1,021,892**
Property, plant and equipment	16		251,413		253,665
Intangible assets	17		693,091		643,090
Investments in associates and joint ventures	18		46,477		43,089
Financial assets	19		12,580		8,930
Deferred tax assets	10		6,404		14,866
Non-current assets		56%	**1,009,965**	49%	**963,640**
Assets		100%	**1,798,182**	100%	**1,985,532**

Liabilities and shareholders' equity

in thousand CHF	Notes		2017		2016
Financial liabilities	20		24,509		349,908
Trade and other payables	21		293,260		331,845
Tax payables			10,066		12,386
Accrued expenses and deferred income			128,054		75,244
Provisions	22		2,172		2,212
Current liabilities		25%	**458,061**	39%	**771,595**
Financial liabilities	20		381,781		765,272
Deferred tax liabilities	10		61,522		52,648
Employee benefit liabilities	24		29,860		60,437
Provisions	22		5,443		1,375
Non-current liabilities		27%	**478,606**	44%	**879,732**
Liabilities		52%	**936,667**	83%	**1,651,327**
Share capital	25		5,000		–
Reserves			852,280		329,621
Equity attributable to shareholders of Galenica Ltd.[1]			**857,280**		**329,621**
Non-controlling interests			4,235		4,584
Shareholders' equity	25	48%	**861,515**	17%	**334,205**
Liabilities and shareholders' equity		100%	**1,798,182**	100%	**1,985,532**

[1] Changes in company structure (refer to note 1)

Consolidated statement of cash flows

in thousand CHF	2017	2016
Net profit	118,866	83,364
Income tax	21,046	20,895
Depreciation and amortisation	40,189	41,810
(Gain)/loss on disposal of non-current assets	(57)	(201)
(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	1,651	8,161
Net financial result	1,856	19,560
Share of profit of associates and joint ventures	(4,448)	(4,515)
Other non-cash items	4,707	12,374
Change in trade and other receivables	(971)	(17,596)
Change in inventories	(68)	19,892
Change in trade and other payables	(54,146)	11,700
Change in other net current assets	37,614	(8,185)
Interest received	348	999
Interest paid	(1,635)	(19,756)
Other financial receipts/(payments)	257	(153)
Dividends received	3,204	4,815
Income tax paid	(15,960)	(16,346)
Cash flow from operating activities	**144,399**	**156,818**
Investments in property, plant and equipment	(28,046)	(31,341)
Investments in intangible assets	(25,986)	(3,603)
Investments in associates and joint ventures	–	(531)
Investments in financial assets and securities	(3,018)	(360)
Proceeds from property, plant and equipment and intangible assets	818	1,668
Proceeds from financial assets and securities	3,649	126
Proceeds from assets held for sale	39,625	–
Purchase of subsidiaries (net cash flow)	(35,757)	(30,283)
Sale of subsidiaries (net cash flow)	3,220	–
Cash flow from investing activities	**(45,495)**	**(64,324)**
Dividends paid to Vifor Pharma Group	–	(46,000)
Purchase of treasury shares	(41,229)	–
Proceeds from sale of treasury shares	2,104	–
Proceeds/(repayment) from financial liabilities (net) – Vifor Pharma Group	3,865	(44,055)
Repayment loan to Vifor Pharma Group	(360,000)	–
Proceeds from financial liabilities	751,661	–
Repayment of financial liabilities	(367,802)	(3,919)
Purchase of non-controlling interests	(239)	–
Cash flow from financing activities	**(11,640)**	**(93,974)**
Effects of exchange rate changes on cash and cash equivalents	4	(1)
Increase/(decrease) in cash and cash equivalents	**87,268**	**(1,481)**
Cash and cash equivalents as at 1 January[1)]	9,019	10,500
Cash and cash equivalents as at 31 December[1)]	**96,287**	**9,019**

[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 2015	**–**	**–**	**254,042**	**254,042**	**5,149**	**259,191**
Net profit			83,393	83,393	(29)	83,364
Other comprehensive income			35,129	35,129		35,129
Comprehensive income			**118,522**	**118,522**	**(29)**	**118,493**
Dividends			(46,000)	(46,000)		(46,000)
Share-based payments			3,130	3,130		3,130
Transactions with Vifor Pharma Group			(302)	(302)		(302)
Change in non-controlling interests			229	229	(536)	(307)
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 new parent company[1)]	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**

[1)] Changes in company structure (refer to note 1)

Notes to the consolidated financial statements of the Galenica Group

1. Significant transactions and general information

Separation and listing on the SIX Swiss Exchange

Galenica Santé Ltd. was incorporated on 13 February 2017 as a direct wholly owned subsidiary of Galenica Ltd. (now Vifor Pharma Ltd.). The Galenica Santé business comprising legal entities and operations was contributed to the newly incorporated Galenica Santé Ltd.

On 14 March 2017, the Board of Directors of the former Galenica Ltd. (now Vifor Pharma Ltd.) announced its intention to separate the Galenica Santé business unit from the Vifor Pharma business unit. The separation was effected on 7 April 2017 by way of a demerger and initial public offering (IPO) of Galenica Santé Ltd. Galenica Santé Ltd. was renamed to Galenica Ltd. on 11 May 2017, upon the change in name of the former Galenica Ltd. to Vifor Pharma Ltd.

These consolidated financial statements of Galenica Ltd. are a continuation of the combined financial statements 2014–2016 prepared for the Galenica Santé business. References to Galenica, Galenica Ltd. or the Galenica Group in these consolidated financial statements (including for dates or periods before the change in name mentioned above) relate to Galenica Santé Ltd., the Galenica Santé business or the Galenica Santé Group, as the case may be, whereas references to Vifor Pharma Ltd. or Vifor Pharma Group include references to the former Galenica Ltd. or the former Galenica Group prior to the separation.

Changes in financing transactions related to the separation

In connection with the separation and listing on the SIX Swiss Exchange on 7 April 2017, receivables and payables with Vifor Pharma Group have been off set and replaced by new financing. This includes the following major transactions:

Transactions realised in 2017 before the separation

- Galenica Santé Ltd. was incorporated on 13 February 2017 as a direct wholly owned subsidiary of Galenica Ltd. (now Vifor Pharma Ltd.). Subsidiaries formerly held by Galenica Ltd. (directly and indirectly) were legally contributed to Galenica Santé Ltd. In this transaction, Vifor Pharma Ltd. (formerly Galenica Ltd.) waived CHF 408.9 million of the Group's obligations (non-cash movement), which increased the equity of the Group accordingly resulting in remaining financial liabilities of CHF 360.0 million towards Vifor Pharma Group.
- Termination of existing cash-pool arrangements of the Vifor Pharma Group.

Transactions realised in 2017 after the separation

- Proceeds from a bridge loan of CHF 360.0 million from a lender bank for the purpose of repayment of financial liabilities to Vifor Pharma Group of CHF 360.0 million.
- Issuance of fixed-interest bonds for a nominal amount totalling CHF 380.0 million for the purpose of long-term financing. The issue consists of two tranches: a tranche of CHF 200.0 million with an annual coupon of 0.50% and a term of 6 years, falling due on 15 June 2023 and a tranche 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 proceeds from the bonds were used to refinance the bridge loan granted in the course of the IPO.

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 2017 for publication on 8 March 2018. The 2017 consolidated financial statements will be submitted for approval to the Annual General Meeting on 9 May 2018.

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. Specific financial assets and financial liabilities are measured at fair value in the statement of financial position. Detailed disclosures on measurement are provided in the summary of significant accounting policies.

Before 7 April 2017, Galenica has not operated as an independent entity. The consolidated information may therefore not be indicative of the financial performance that would have been achieved if Galenica had operated as an independent entity prior to the separation or of future results of Galenica.

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 17)

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 24)

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.

Amendments to IFRS

As at 1 January 2017 Galenica adopted the following amended International Financial Reporting Standards.

- IAS 7 – Disclosure Initiative
- IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses
- Annual Improvements 2014–2016 Cycle

These changes have no or no material impact on the financial position, financial performance and cash flows of Galenica but have led to additional disclosures related to changes in liabilities from financing activities, refer to note 20.

Future amendments to IFRS

As at the reporting date, various new and amended standards and interpretations had been issued with effective dates in the financial year 2018 or later. Galenica has opted not to early adopt any of the following standards or amendments to standards or interpretations that are potentially relevant for Galenica. Galenica intends to apply the new or amended standards for the first time in the financial year beginning on or after the date shown:

- IFRS 2 – Classification and Measurement of Share-based Payment Transactions (1 January 2018)
- IFRS 9 – Financial Instruments (1 January 2018)
- IFRS 9 – Prepayment Features with Negative Compensation (1 January 2019)
- IFRS 15 – Revenue from Contracts with Customers (1 January 2018)
- IFRS 16 – Leases (1 January 2019)
- IAS 28 and IFRS 10 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date to be determined by the IASB)
- IAS 28 – Long-term interests in Associates and Joint Ventures (1 January 2019)
- IAS 40 – Transfer of Investment Property (1 January 2018)
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration (1 January 2018)
- IFRIC 23 – Uncertainty over Income Tax Treatments (1 January 2019)
- Annual Improvements 2014–2016 Cycle (1 January 2018)

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

IFRS 9 will substantially change the classification and measurement of financial instruments and introduces a new impairment model for financial assets. Under IFRS 9, impairment provisions will be based on expected credit losses rather than incurred credit losses. Galenica expects an immaterial impact on the loss allowance for trade receivables based on the new requirements.

IFRS 15 amends revenue recognition requirements and establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The new guidance on principal and agent relationships, variable consideration and consideration paid or payable to a customer in IFRS 15 will result in a net presentation of certain elements in revenue (net sales), other income, cost of goods and other operating costs. It is expected that revenue will decrease by approximately CHF 65 to 80 million and other income by approximately CHF 25 to 35 million with compensating effects in cost of goods and other operating costs. These reclassifications are not expected to have an impact on either EBITDA, EBIT or net profit.

IFRS 16 substantially changes the financial statements as the majority of leases will become on-balance sheet liabilities with corresponding right of use assets on the balance sheet. Amortisation and interest expense will be separately recorded, which will impact EBITDA, EBIT and financial result. The Group is assessing the potential impact, but currently anticipates that the new standard will result in the carrying value of leased assets being increased by approximately CHF 220 to 240 million with a compensating effect in lease liabilities by a similar amount at the date of implementation. The total amount of undiscounted lease commitments is disclosed in note 31.

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 fully included in the financial statements 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.

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

Classification as current or non-current

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

All liabilities which Galenica 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.

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 tax are reported at Group level only and not allocated to the segments. The assets and liabilities include all items of the statement of financial position that can be directly or reasonably allocated to a segment.

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 497 locations Galenica's pharmacy network, the largest in Switzerland. With 337 pharmacies of its own and 160 partner pharmacies, Retail has attractive outlets throughout the country. Galenica's own pharmacies comprise the Amavita brand with 157 branches and the Sun Store brand with 97 branches. Galenica also operates a chain of 75 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 and 8 Amavita partner pharmacies, 5 majority interests in pharmacies, 2 minority interests in pharmacies and 152 Winconcept partner pharmacies.

Products & Brands launches and distributes a complete portfolio of consumer health products which is sold to all 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 as Controlling, Accounting, Tax, Treasury, Insurance, Human Resources, Legal Services, General Secretariat, Communications and Investor Relations.

Prior to the separation of the Group in April 2017, these activities were carried out by Vifor Pharma and, therefore, the 2016 segment information does not include a separate column for "Corporate". In 2017, activities of Corporate are included after the separation of the Group, i.e. for a period of 9 months.

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 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 (such costs arise if the current service cost according to the actuarial valuation exceeds the employer contributions for the pension plan).

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

Operating segment information 2017

in thousand CHF	Health & Beauty	Services	Corporate	Eliminations	Group
Net sales	1,483,486	2,501,829	–	(771,084)	3,214,231
Other income	102,126	26,459	16,493	(88,644)	56,434
Intersegmental sales and income	(140,000)	(706,258)	(13,559)	859,817	–
Third party operating income	**1,445,612**	**1,822,030**	**2,934**	**89**	**3,270,665**
Share of profit of 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 financial result (net)					(80)
Earnings before taxes (EBT)					**139,912**
Income tax					(21,046)
Net profit					**118,866**
Assets	**1,074,233**	**751,654**	**911,191**	**(938,896)**[1]	**1,798,182**
Investments in associates and joint ventures	47,117	–	–	(640)	46,477
Liabilities	**915,376**	**454,788**	**471,454**	**(904,951)**[2]	**936,667**
Investments in property, plant and equipment	13,568	16,367	–	(81)	29,854[3]
Investments in intangible assets	15,335	10,641	28	(18)	25,986
Employees as at 31 December (FTE)	3,575	1,335	34	–	4,944

[1] Of which elimination of intercompany positions CHF –932.3 million and other unallocated amounts CHF –6.6 million
[2] Of which elimination of intercompany positions CHF –932.3 million and other unallocated amounts CHF 27.3 million
[3] Of which non-cash investments of CHF 1.8 million

Geographic areas

in thousand CHF	Switzerland	Other countries	Group
Net sales	3,190,265	23,966	3,214,231
Other income	56,434	–	56,434
Third party operating income	**3,246,699**	**23,966**	**3,270,665**
Non-current assets[1]	**990,981**	**–**	**990,981**

[1] Without financial assets and deferred tax assets

Operating segment information 2016

in thousand CHF	Health & Beauty	Services	Eliminations	Group
Net sales	1,436,971	2,328,902	(757,022)	3,008,851
Other income	99,440	18,138	(67,730)	49,848
Intersegmental sales and income	(138,992)	(685,986)	824,978	–
Third party operating income	**1,397,419**	**1,661,054**	**226**	**3,058,699**
Share of profit of associates and joint ventures	5,002	–	(487)	4,515
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**115,955**	**60,149**	**(10,475)**	**165,629**
Depreciation and amortisation	(22,477)	(20,237)	904	(41,810)
Earnings before interest and taxes (EBIT)	**93,478**	**39,912**	**(9,571)**	**123,819**
Interest income				1,036
Interest expense				(19,757)
Other financial result (net)				(839)
Earnings before taxes (EBT)				**104,259**
Income tax				(20,895)
Net profit				**83,364**
Assets	**1,298,346**	**721,385**	**(34,199)**[1]	**1,985,532**
Investments in associates and joint ventures	45,535	–	(2,446)	43,089
Liabilities	**1,199,486**	**427,382**	**24,459**[2]	**1,651,327**
Investments in property, plant and equipment and investment properties	14,091	17,582	(243)	31,430
Investments in intangible assets	1,089	2,597	(83)	3,603
Employees as at 31 December (FTE)	3,423	1,234	–	4,657

[1] Of which elimination of intercompany positions CHF –34.8 million and other unallocated amounts CHF 0.6 million
[2] Of which elimination of intercompany positions CHF –34.8 million and other unallocated amounts CHF 59.3 million

Geographic areas

in thousand CHF	Switzerland	Other countries	Group
Net sales	2,992,021	16,830	3,008,851
Other income	49,204	644	49,848
Third party operating income	**3,041,225**	**17,474**	**3,058,699**
Non-current assets[1]	**939,844**	**–**	**939,844**

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

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

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

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

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.

Pro forma figures for acquisitions made in 2017 for the full 2017 financial year

Since their inclusion in Galenica's scope of consolidation, the businesses acquired contributed net sales of CHF 162.4 million and an operating result (EBIT) of CHF 3.7 million to the Group's results. If these acquisitions had occurred on 1 January 2017, they would have contributed additional net sales of CHF 2.9 million and increased EBIT by CHF 0.4 million.

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 amounted 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.

Business combinations

in thousand CHF	Pharmapool	Pharmacies	2017 Total	2016 Total
Cash and cash equivalents	9,996	6,272	16,268	2,945
Trade receivables	19,867	2,083	21,950	2,586
Inventories	8,564	869	9,433	1,935
Property, plant and equipment	1,394	25	1,419	1,513
Investment properties	–	–	–	1,146
Intangible assets	4,035	–	4,035	1,230
Deferred tax assets	559	–	559	170
Other current and non-current assets	702	223	925	2,369
Trade payables	(15,017)	(791)	(15,808)	–
Financial liabilities	(7,000)	(450)	(7,450)	–
Deferred tax liabilities	(946)	(104)	(1,050)	–
Employee benefit liabilities	(2,540)	–	(2,540)	–
Other current and non-current liabilities	(5,878)	(357)	(6,235)	(5,260)
Fair value of net assets	**13,736**	**7,770**	**21,506**	**8,634**
Goodwill	14,162	13,658	27,820	22,248
Purchase consideration	**27,898**	**21,428**	**49,326**	**30,882**
Cash acquired	(9,996)	(6,272)	(16,268)	(2,945)
Deferred consideration	–	–	–	(1,004)
Contingent consideration	–	–	–	(1,650)
Net cash flow from current business combinations	**17,902**	**15,156**	**33,058**	**25,283**
Payment of consideration due to previous business combinations			2,700	5,000
Net cash flow			**35,758**	**30,283**

Business combinations 2016

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

The purchase consideration amounted to CHF 25.3 million, of which CHF 24.1 million was settled in cash. The deferred and contingent purchase price consideration of CHF 1.2 million was mainly paid in 2017. The goodwill of CHF 17.8 million was allocated to the business sector Retail and corresponds to the added value of the pharmacies based on their locations.

Transaction costs were insignificant.

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

The purchase consideration amounted to CHF 5.6 million, of which CHF 4.1 million was settled in cash. The contingent purchase consideration of originally CHF 1.5 million was planned to be paid out in 2018 subject to meeting pre-defined sales targets. The sales targets were however not met leading to a release of the contingent purchase consideration in 2017. The fair value of net assets amounted to CHF 1.2 million on the acquisition date. The goodwill of CHF 4.4 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 were insignificant.

5. Net sales

Accounting principles

Net sales, consisting of the revenue from sale of goods and revenue from services, are sales after deduction of price discounts, cash discounts, volume discounts and other discounts and exclude VAT.

Sale of goods

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

Revenue from customer loyalty programmes is deferred and recognised when the award credits are redeemed on the basis of past experience.

Services

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

in thousand CHF	2017	2016
Sale of goods	3,101,241	2,886,673
Services	112,990	122,178
Net sales	**3,214,231**	**3,008,851**

6. Other income

in thousand CHF	2017	2016
Income from own work capitalised	4,229	2,416
Rental income	2,248	4,818
Gain on disposal of property, plant and equipment	217	242
Gain on disposal of assets held for sale	5,164	–
Gain on disposal of subsidiaries	2,890	–
Revenue from marketing activities	25,313	25,721
Other operating income	16,373	16,651
Other income	**56,434**	**49,848**

Other operating income primarily consists other expenses charged to customers.

7. Personnel costs

in thousand CHF	2017	2016
Salaries and wages	350,524	328,758
Social security costs and pension expenses	53,327	54,828
Other personnel costs	23,816	23,502
Personnel costs	**427,667**	**407,088**
Average number of FTE	4,875	4,665

Personnel costs include expenses for defined benefit plans of CHF 26.5 million (previous year: CHF 29.4 million) and for share-based payments of CHF 4.7 million (previous year: CHF 4.3 million), refer to note 24 and note 29.

8. Other operating costs

in thousand CHF	2017	2016
Maintenance and repairs	12,829	13,206
Operating and production costs	46,744	43,387
Rental and other lease expenses	56,377	55,669
Administration costs	29,946	40,188
Marketing and sales costs	61,163	56,054
Non-income taxes	1,323	1,077
Loss on disposal of property, plant and equipment	160	40
Other costs	1,570	3,573
Other operating costs	**210,112**	**213,194**

During the reporting period, expenses for research and development totalling CHF 10.9 million were recognised directly in other operating costs (previous year: CHF 12.2 million).

9. Financial result

in thousand CHF	2017	2016
Interest income	732	1,036
Securities and other financial income	28	–
Net foreign exchange differences	469	–
Financial income	**1,229**	**1,036**
Interest expense	2,508	19,757
Net interest expense from employee benefit plans	344	686
Other financial costs	233	52
Net foreign exchange differences	–	101
Financial expenses	**3,085**	**20,596**

Net interest expense of CHF 2.1 million (previous year: CHF 19.4 million) was mainly attributable to financing costs paid to Vifor Pharma, the new financing after the separation and the acquisitions in prior periods. The decrease of interest expense in 2017 is related to the new financing structure of Galenica (refer to note 1).

10. Income tax

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 tax asset is realised or the liability is settled. Tax effects from losses carried forward and other deductible temporary differences are only capitalised when it is probable that they will be realised in the future. Changes in deferred tax assets and deferred tax liabilities are recognised in profit or loss except for deferred taxes on transactions that are recognised directly in comprehensive income or equity, these are recognised in comprehensive income or equity.

Deferred tax liabilities are recorded for all taxable temporary differences associated with investments in subsidiaries, except Galenica Ltd. 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 carry forwards and expected tax credits, are only taken into account if it is probable that future profits will be available against which the assets mentioned can be applied for tax purposes.

in thousand CHF	2017	2016
Current income tax	13,315	17,296
Income tax of prior periods	(3)	199
Deferred income tax	7,734	3,400
Income tax	**21,046**	**20,895**

Tax reconciliation

in thousand CHF	2017	2016
Earnings before taxes (EBT)	139,912	104,259
Weighted income tax rate in %	20.5%	22.6%
Expected income tax	**28,654**	**23,544**
Effects of income that is taxable at a lower rate or tax-free	(1,199)	(1,585)
Effects of changes in tax rates	(4,350)	90
Effects of unrecognised losses in the current year	51	313
Realisation of unrecognised tax losses of prior periods	(154)	(183)
Subsequent recognition of loss carry forwards from prior periods	–	(850)
Items from prior periods and other items	(1,956)	(434)
Effective income tax	**21,046**	**20,895**
Effective income tax rate in % of EBT	**15.0%**	**20.0%**

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.

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 tax

in thousand CHF	2017	2016
Current assets	18,383	17,470
Property, plant and equipment	4,334	5,156
Intangible assets	14,174	12,364
Investments	56,234	62,711
Provisions	(198)	165
Employee benefit plans	(6,271)	(13,296)
Other temporary differences	793	477
Shareholders' equity	(266)	(211)
Deferred tax due to temporary differences	**87,183**	**84,836**
Tax loss carry forwards	(32,065)	(47,054)
Net deferred tax	**55,118**	**37,782**
Presented as deferred tax assets in the statement of financial position	**6,404**	**14,866**
– of which due to recognised tax loss carry forwards	22	322
– of which due to temporary differences[1]	6,382	14,544
Presented as deferred tax liabilities in the statement of financial position	**61,522**	**52,648**

[1] Recognised deferred tax assets from temporary differences are mainly resulting from temporary differences on employee benefit plans

Analysis of deferred tax (net)

in thousand CHF	2017	2016
1 January	**37,782**	**25,271**
Presented as income tax in profit or loss		
– Addition/(reversal) of temporary differences	2,100	39,898
– Fiscal realisation of recognised tax loss carry forwards	9,982	615
– Tax loss carry forwards taken into account for the first time	2	(37,300)
– Effects of changes in tax rates	(4,350)	90
Presented in other comprehensive income	9,148	9,240
Presented in shareholders' equity (related to share-based payments)	(76)	5
Addition to scope of consolidation	491	(37)
Incorporation of new parent company	39	–
31 December	**55,118**	**37,782**

Temporary differences on which no deferred tax have been recognised

in thousand CHF	2017	2016
Investments in subsidiaries	244,413	23,524

Tax loss carry forwards and tax credits

	2017		2016	
in thousand CHF	Tax loss carry forwards/tax credits	Tax effect	Tax loss carry forwards/tax credits	Tax effect
Tax loss carry forwards and tax credits	**167,966**	**32,716**	**219,745**	**47,808**
– of which capitalised as deferred tax assets	(110)	(22)	(1,665)	(322)
– of which netted with deferred tax liabilities	(164,661)	(32,043)	(214,379)	(46,732)
Unrecognised tax loss carry forwards and tax credits	**3,195**	**651**	**3,701**	**754**
Of which expire:				
– within 1 year	3	1	361	74
– in 2 to 5 years	1,844	369	1,282	257
– in more than 5 years	1,348	281	2,058	423

11. Earnings per share

For purposes of the earnings per share calculations, management has used the number of shares of Galenica Ltd. incorporated on 13 February 2017 with a share capital of 50,000,000 shares at a nominal value of CHF 0.10 per share. Basic earnings per share data is calculated as though these shares had been outstanding for all periods presented.

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.

	2017	2016
Number of shares	50,000,000	50,000,000
Average number of treasury shares	(1,021,411)	–
Average number of outstanding shares	**48,978,589**	**50,000,000**
Effect from share-based payments	91,137	–
Theoretical average number of outstanding shares (diluted)	**49,069,726**	**50,000,000**

in thousand CHF	2017	2016
Net profit – attributable to shareholders of Galenica Ltd.	118,804	83,393
Earnings per share	**2.43**	**1.67**
Diluted earnings per share	**2.42**	**1.67**

12. Financial receivables

in thousand CHF	2017	2016
Financial receivables – Vifor Pharma Group	–	340,500
Trade receivables – Vifor Pharma Group	–	357
Financial receivables	**–**	**340,857**

In connection with the separation and listing on the SIX Swiss Exchange on 7 April 2017, receivables and payables with Vifor Pharma Group have been off set and replaced by new financing (refer to note 1).

13. Assets held for sale

Due to its lack of strategic relevance, an investment property with a carrying amount of CHF 29.6 million was classified as held for sale on 31 December 2016. This building that belonged to the business sector Services was sold to an independent third party on 30 January 2017 for consideration of CHF 39.6 million. The agreement includes a guarantee for future lease payments for which a provision of CHF 5.0 million was recorded. The resulting net profit of CHF 5.1 million has been recognised in other income.

14. Trade and other receivables

Accounting principles

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

in thousand CHF	2017	2016
Trade receivables	384,032	360,676
Other receivables	10,063	4,703
Bad debt allowances	(7,341)	(6,491)
Trade and other receivables	**386,754**	**358,888**

Change in bad debt allowances for trade receivables

in thousand CHF	2017	2016
1 January	**(6,491)**	**(3,149)**
Addition	(2,161)	(4,035)
Use	275	5
Reversal	1,036	688
31 December	**(7,341)**	**(6,491)**

15. 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.

Valuation 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 on the purchase of goods are directly deducted from costs of goods.

in thousand CHF	2017	2016
Gross carrying amount as at 1 January	**277,576**	**295,751**
Addition to scope of consolidation	9,433	1,935
Change in inventories	1,018	(20,110)
Gross carrying amount as at 31 December	**288,027**	**277,576**
Adjustment as at 1 January	**(12,860)**	**(13,078)**
Addition	(1,553)	(925)
Use	603	1,143
Adjustment as at 31 December	**(13,810)**	**(12,860)**
Net carrying amount as at 31 December	**274,217**	**264,716**

16. Property, plant and equipment and investment properties

Accounting principles

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

	Years
Land	unlimited
Buildings	10–50
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, improving product quality 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 or investment properties 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 used for commercial operations	Assets under construction	Other property, plant and equipment	Total property, plant and equipment	Investment properties
Net carrying amounts as at 31.12.2015	**152,149**	**14,161**	**87,957**	**254,267**	**30,352**
Addition	7,976	7,459	15,458	30,893	537
Disposal	–	–	(320)	(320)	(1,146)
Reclassification	8,624	(17,051)	8,427	–	(29,574)
Depreciation	(12,703)	–	(19,985)	(32,688)	(1,315)
Addition to scope of consolidation	973	–	540	1,513	1,146
Net carrying amounts 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 new parent company	–	–	61	61	–
Net carrying amounts as at 31.12.2017	**168,869**	**5,861**	**76,683**	**251,413**	**–**
Overview as at 31.12.2016					
Cost	254,774	4,569	269,697	529,040	–
Accumulated depreciation and impairment	(97,755)	–	(177,620)	(275,375)	–
Net carrying amounts as at 31.12.2016	**157,019**	**4,569**	**92,077**	**253,665**	**–**
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 amounts as at 31.12.2017	**168,869**	**5,861**	**76,683**	**251,413**	**–**

17. 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 criteria are met and future economic benefits from use or sale of the software are expected. Software that is not yet available for use is tested for impairment annually or more frequently if there are indications of impairment.

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

	Years
Trademarks, patents, licences	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 Vifor Consumer Health, 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 definite useful lives 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.

in thousand CHF	Trademarks, patents, licenses, with finite useful lives	Trademarks with indefinite useful lives	Acquired software	Internally developed software	Goodwill	Total
Net carrying amounts as at 31.12.2015	**2,750**	**21,590**	**8,149**	**8,058**	**583,268**	**623,815**
Addition	119	–	1,677	1,807	–	3,603
Reclassification	–	–	(222)	222	–	–
Amortisation	(1,239)	–	(3,341)	(3,226)	–	(7,806)
Addition to scope of consolidation	1,176	–	54	–	22,248	23,478
Net carrying amounts 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 new parent company	–	–	71	–	–	71
Net carrying amounts as at 31.12.2017	**5,271**	**36,528**	**11,625**	**6,331**	**633,336**	**693,091**
Overview as at 31.12.2016						
Cost	16,847	21,590	33,531	29,527	605,516	707,011
Accumulated amortisation and impairment	(14,041)	–	(27,214)	(22,666)	–	(63,921)
Net carrying amounts as at 31.12.2016	**2,806**	**21,590**	**6,317**	**6,861**	**605,516**	**643,090**
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 amounts as at 31.12.2017	**5,271**	**36,528**	**11,625**	**6,331**	**633,336**	**693,091**

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) 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 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	2017	2016
Carrying amount	36,528	21,590
Growth rate	1.0%	1.0%
Discount rate	6.6%	6.7%

According to the results of impairment testing for 2017 or 2016, 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 2017 and 2016 did not reveal any indicators of impairment as at the reporting date.

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 the management. Cash flows beyond the planning horizon 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.

			2017			2016
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	514,749	1.0%	6.7%	501,091	1.0%	6.5%
Services	92,412	1.0%	6.7%	78,250	1.0%	6.6%
Total	**633,336**			**605,516**		

According to the results of impairment testing for 2017 or 2016, 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 2017 and 2016 did not reveal any indicators of impairment as at the reporting date.

18. 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 of the associates and joint ventures. The corresponding amounts are recognised in profit or loss. Transactions that are recognised in comprehensive income of associates and joint ventures are recognised proportionately in comprehensive income.

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	2017	2016
Net carrying amount as at 1 January	**22,503**	**21,453**
Share of profit from associates	1,194	1,749
Dividends received	(656)	(699)
Net carrying amount as at 31 December	**23,041**	**22,503**

Joint ventures

in thousand CHF	2017	2016
Net carrying amount as at 1 January	**20,586**	**19,035**
Share of profit from joint ventures	3,254	2,766
Remeasurement of net defined benefit liability from joint ventures	2,144	2,371
Investments	–	530
Dividends received	(2,548)	(4,116)
Net carrying amount as at 31 December	**23,436**	**20,586**

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	2017	2016
Current assets	45,089	38,771
Non-current assets	48,304	46,626
Current liabilities	39,535	32,828
Non-current liabilities	6,029	10,556
Equity before appropriation of earnings	47,829	42,013
Operating Income	197,336	188,966
EBIT	8,646	7,418
Net profit	6,640	5,640
Remeasurement of net defined benefit liability (Other comprehensive income)	4,375	4,839
Cash flow from operating activities	10,429	8,321

19. 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. Loans are assessed for impairment based on creditworthiness of the counterparty. Any impairment is recognised in financial expenses.

Other financial assets include rental guarantee deposits.

in thousand CHF	2017	2016
Loans	8,729	5,582
Other financial assets	3,851	3,348
Financial assets	**12,580**	**8,930**

20. Financial liabilities

in thousand CHF	2017	2016
Loans	4,135	472
Loans – Vifor Pharma Group	–	1,110,204
Liabilities to pension funds	18,595	–
Bonds	380,747	–
Other financial liabilities	2,813	4,504
Financial liabilities	**406,290**	**1,115,180**
– of which current financial liabilities	24,509	349,908
– of which non-current financial liabilities	381,781	765,272

In connection with the separation and listing on the SIX Swiss Exchange on 7 April 2017, loans and payables with Vifor Pharma Group have been off set and replaced by new financing (refer to note 1). In June 2017, Galenica issued two fixed-interest rate bonds for a nominal amount totalling CHF 380.0 million for the purpose of long-term financing. 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 proceeds from the bonds were used to refinance the bridge loan granted in the course of the IPO. The bonds are traded on the SIX Swiss Exchange under securities no. 36720669 (ISIN CH0367206692) and 36720670 (ISIN CH0367206700) respectively. The bonds closed at 100.30% and 102.25% respectively as at 31 December 2017.

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 – 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**

21. Trade and other payables

in thousand CHF	2017	2016
Trade payables	262,985	299,587
Other payables	30,275	32,258
Trade and other payables	**293,260**	**331,845**

22. 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	2017	2016
1 January	**3,587**	**5,256**
Addition	5,274	1,269
Use	(3,153)	(154)
Reversal	(1,602)	(2,825)
Addition to scope of consolidation	3,509	41
31 December	**7,615**	**3,587**
– of which current provisions	2,172	2,212
– of which non-current provisions	5,443	1,375

The addition primarily consists of a provision of CHF 5.0 million recorded for a guarantee for future lease payments related to the sell of a building classified as held for sale.

The cash outflow from the non-current provisions is expected within the next 1 to 6 years.

23. 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) has issued a ruling, which imposed a fine of up to CHF 4.5 million on Galenica. The ruling relates to an investigation from 2012 and the decision was expected owing to an announcement by COMCO back in mid-2016. Galenica regards the ruling now issued by COMCO as incorrect in fact and in law. Galenica has taken the ruling to the Federal Administrative Court.

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

Galenica has signed purchase agreements to acquire pharmacies in the next few years. The purchase prices will be fixed at the time of transfer of ownership on the basis of net asset value and discounted cash flow. The unrecognised commitments are expected to involve payments of CHF 23.5 million (previous year: CHF 20.5 million) at the most. The purchase rights have an estimated volume of CHF 23.9 million (previous year: CHF 20.9 million). These purchase rights or obligations fall due between 2018 and 2020.

Galenica signed purchase agreements to acquire property, plant and equipment totalling CHF 7.0 million (previous year: CHF 1.8 million). The payments under these purchase commitments become due in 2018.

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

24. 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 recorded as 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 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 calculations made in these appraisals do not apply the projected unit credit method required by IFRS. If the calculations made in accordance with the provisions of BGV/LPP reveal a funded status of less than 100%, suitable restructuring measures need to be introduced. The Board of Trustees is made up of employee and employer representatives.

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 2017. 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 2017 (unaudited) are 119.3% and 119.4% (previous year: 112.4% and 118.6%, final).

Defined benefit plans and long-service awards

in thousand CHF	Defined benefit plans	Long-service awards[1]	2017 Total	Defined benefit plans	Long-service awards[1]	2016 Total
Plan assets at fair value	825,849	–	825,849	697,894	–	697,894
Present value of defined benefit obligation	(780,461)	(15,167)	(795,628)	(745,712)	(12,619)	(758,331)
Surplus/(deficit)	**45,388**	**(15,167)**	**30,221**	**(47,818)**	**(12,619)**	**(60,437)**
Effect of asset ceiling	(60,081)	–	(60,081)	–	–	–
Net carrying amount recognised in liabilities	**(14,693)**	**(15,167)**	**(29,860)**	**(47,818)**	**(12,619)**	**(60,437)**

[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	2017 Total	Defined benefit plans	Long-service awards	2016 Total
1 January	**(745,712)**	**(12,619)**	**(758,331)**	**(734,437)**	**(10,993)**	**(745,430)**
Current service cost	(25,663)	(1,912)	(27,575)	(28,626)	(1,656)	(30,282)
Interest on defined benefit liability	(4,512)	(89)	(4,601)	(5,861)	(97)	(5,958)
Actuarial gain/(loss)	33,769	(1,420)	32,349	26,184	(918)	25,266
Employee contributions	(13,412)	–	(13,412)	(12,338)	–	(12,338)
Benefits/awards paid	13,597	1,165	14,762	9,366	1,045	10,411
Transfers of employees from Vifor Pharma Group	(30,270)	(292)	(30,562)	–	–	–
Change in scope of consolidation	(8,258)	–	(8,258)	–	–	–
31 December	**(780,461)**	**(15,167)**	**(795,628)**	**(745,712)**	**(12,619)**	**(758,331)**

Change in fair value of plan assets

in thousand CHF	2017	2016
1 January	**697,894**	**653,551**
Interest	4,257	5,271
Remeasurement gain/(loss)	67,420	15,815
Employee contributions	13,412	12,338
Employer contributions	22,578	21,106
Benefits paid	(13,597)	(9,366)
Administration cost	(881)	(821)
Transfers of employees from Vifor Pharma Group	29,048	–
Change in scope of consolidation	5,718	–
31 December	**825,849**	**697,894**

Net defined benefit cost

in thousand CHF	2017	2016
Current service cost	25,663	28,626
Net interest on net defined benefit liability	255	590
Administration cost	881	821
Net defined benefit cost	**26,799**	**30,037**

Remeasurement of net defined benefit liability/(asset)

in thousand CHF	2017	2016
Actuarial gain/(loss)		
– Changes in demographic assumptions	7,623	4,100
– Changes in financial assumptions	22,250	310
– Experience adjustments	3,896	21,774
Remeasurement of plan assets	67,420	15,815
Effect of change in asset ceiling	(60,081)	–
Remeasurements of net defined benefit liability/(asset) presented in other comprehensive income	**41,107**	**41,999**

Change in estimates

During 2017, the Group conducted a review of actuarial valuation parameters as such as use of mortality tables. Galenica considers the previously used BVG 2015 generational tables as no longer to be the best estimate. Instead, Galenica decided to apply Continuous Mortality Improvement (CMI) tables which take into account historic patterns and expected changes, such as further increases in longevity. Rates of employee turnover, disability and early retirement are based on historical patterns. The mortality assumptions used for the pension plans in Switzerland were based on BVG 2015 applying the CMI-model. A long-term rate of 1.5% was used for longevity improvements. The defined benefit obligation measured with this mortality assumption is approximately CHF 7.6 million lower compared to the respective amount measured using BVG 2015 generational tables.

Change in asset ceiling

in thousand CHF	2017	2016
1 January	–	–
Change in asset ceiling (recognised in other comprehensive income)	(60,081)	–
31 December	**(60,081)**	**–**

Investment structure of plan assets

in thousand CHF	2017		2016	
Cash and cash equivalents	34,363	4.2%	18,765	2.7%
Debt instruments	161,206	19.5%	151,610	21.7%
Equity instruments	358,427	43.4%	291,880	41.8%
Real estate	192,361	23.3%	168,091	24.1%
Other investments	79,492	9.6%	67,548	9.7%
Fair value of plan assets	**825,849**	**100.0%**	**697,894**	**100.0%**
Current return on investments		10.3%		3.2%

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

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

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

Equity instruments are investments in equity funds and direct investments. These generally have quoted prices in active markets (level 1 of the fair value hierarchy). Equity instruments include treasury shares of Galenica Ltd. with a fair value of CHF 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 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 4,739 active members (previous year: 4,532) and 745 pensioners (previous year: 717).

Galenica does not use any pension fund assets.

Basis for measurement

Weighted average in %	2017	2016
Discount rate	0.70	0.60
Salary development	1.00	1.00
Pension development	0.00	0.00
Mortality (mortality tables)	BVG 2015 GT (CMI), 1.5%	BVG 2015 GT
Turnover	BVG 2015	BVG 2015

Sensitivity analysis

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

in thousand CHF	2017 Variations in assumptions	2017 Impact on DBO	2016 Variations in assumptions	2016 Impact on DBO
Discount rate	+0.25%	(27,167)	+0.25%	(27,404)
	–0.25%	29,096	–0.25%	29,400
Salary development	+0.25%	2,362	+0.25%	2,247
	–0.25%	(2,249)	–0.25%	(2,184)
Mortality	+1 year	15,951	+1 year	15,725
	–1 year	(16,014)	–1 year	(15,771)

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

Maturity structure of pension obligations

in thousand CHF	2017	2016
in 1 year	28,011	23,865
in 2 years	26,276	25,015
in 3 years	27,212	24,643
in 4 years	26,835	24,797
in 5 years	27,941	24,754
in 6–10 years	124,414	123,026

The pension obligations have an average duration of 18.8 years (previous year: 19.7 years).

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

The employer contributions to the pension funds are estimated at CHF 23.0 million for 2018.

25. Shareholders' equity

25.1 Share capital and number of shares

Accounting principles

Treasury shares

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

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 2017 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
As at 31.12.2016	**–**	**–**	**–**
Incorporation of new parent company[1)]	50,000,000	–	50,000,000
Transactions with treasury shares	–	(992,643)	(992,643)
As at 31.12.2017	**50,000,000**	**(992,643)**	**49,007,357**

[1)] Changes in company structure (refer to note 1)

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

25.2 Changes in consolidated shareholder's equity

On 13 February 2017, Galenica Santé Ltd. was incorporated as a direct wholly owned subsidiary of Galenica Ltd. (now Vifor Pharma Ltd.) with a share capital of CHF 5,000,000. Subsidiaries formerly held by Galenica Ltd. (directly and indirectly) were legally contributed to Galenica Santé Ltd. In this transaction, Vifor Pharma Ltd. (formerly Galenica Ltd.) waived CHF 408.9 million of Galenica's obligations (non-cash movement), which increased the equity of Galenica accordingly.

In the reporting period, 1,056,971 treasury shares were bought at an average price of CHF 39.01 and 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 0.2 million (previous year: CHF 0.3 million).

The Board of Directors will submit a proposal to the Annual General Meeting on 9 May 2018 to pay a dividend of CHF 1.65 per share entitled to dividend for the financial year 2017. However, no dividend will be paid on treasury shares. Based on the number of treasury shares as at 31 December 2017, the total dividend would amount to CHF 80.9 million.

26. Financial instruments

26.1 Categories of financial instruments

Accounting principles

Measurement of financial assets and financial liabilities

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

Loans and receivables

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

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

Financial assets and financial liabilities are classified as at fair value through profit or loss if they are acquired or incurred for trading purposes.

Financial liabilities at amortised costs

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

Carrying amounts of financial instruments 2017

in thousand CHF	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	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	–	–	293,260	**293,260**
Non-current financial liabilities	–	150	381,631	**381,781**
Total	**495,621**	**150**	**699,400**	

Carrying amounts of financial instruments 2016

in thousand CHF	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
Cash and cash equivalents	9,019	–	–	**9,019**
Financial receivables	340,857	–	–	**340,857**
Trade and other receivables	358,888	–	–	**358,888**
Financial assets	8,930	–	–	**8,930**
Current financial liabilities	–	1,850	348,058	**349,908**
Trade and other payables	–	–	331,845	**331,845**
Non-current financial liabilities	–	1,650	763,622	**765,272**
Total	**717,694**	**3,500**	**1,443,525**	

Net gain/(loss) on financial instruments 2017

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	(850)	–	–	**(850)**
Net gain/(loss) presented in profit or loss	**(292)**	**1,550**	**(2,796)**	**(1,538)**

Net gain/(loss) on financial instruments 2016

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	–	2,750	–	**2,750**
Net gain/(loss) on foreign exchange	(96)	–	(5)	**(101)**
Loss on receivables and other financial result	(230)	–	(52)	**(282)**
Interest income	916	–	–	**916**
Interest expense	–	–	(19,757)	**(19,757)**
Interest income on impaired trade receivables	120	–	–	**120**
Change in bad debt allowances	(3,342)	–	–	**(3,342)**
Net gain/(loss) presented in profit or loss	**(2,632)**	**2,750**	**(19,814)**	**(19,696)**

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

Fair value hierarchy

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

Fair value

		2017		2016
in thousand CHF	Carrying amount	Fair value	Carrying amount	Fair value
Non-current financial liabilities	381,781	385,684	765,272	765,272

With the exception of non-current financial liabilities the carrying amounts of all financial assets and financial liabilities approximate to the fair value. The listed bonds with a carrying amount of CHF 380.0 million have a fair value of CHF 384.7 million (level 1).

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

in thousand CHF	2017	2016
1 January	**3,500**	**5,600**
Arising from business combinations	–	1,650
Change in fair value (recognised in profit or loss)	(1,550)	(2,750)
Payments (cash out)	(1,800)	(1,000)
31 December	**150**	**3,500**

27. 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.

27.1 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 cash 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 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	293,260	293,260	289,563	3,697	–	–
Current financial liabilities	24,509	24,509	22,257	2,252	–	–
Non-current financial liabilities	1,034	1,034	–	–	562	472
Bond	380,747	402,200	–	2,800	11,200	388,200
Total	**699,550**	**721,003**	**311,820**	**8,749**	**11,762**	**388,672**

Maturity profile of financial liabilities 2016

in thousand CHF	Carrying amount	Total undiscounted cash flows	up to 3 months	3 to 12 months	1 to 5 years	Maturities more than 5 years
Trade and other payables	331,845	331,845	325,838	6,007	–	–
Current financial liabilities	349,908	349,908	–	349,908	–	–
Non-current financial liabilities	765,272	789,632	–	16,240	772,920	472
Total	**1,447,025**	**1,471,385**	**325,838**	**372,155**	**772,920**	**472**

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.

27.2 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. Necessary allowances are made for foreseeable losses in accordance with uniform Galenica Ltd. 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	2017	2016
Cash and cash equivalents (without cash on hand)	94,951	7,696
Financial receivables	–	340,857
Trade and other receivables	386,754	358,888
Loans and other financial assets	12,580	8,930
Total financial assets subject to credit risk	**494,285**	**716,371**

The financial assets subject to credit risk are primarily receivables.

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

Except trade and other receivables with Vifor Pharma Group until the IPO of Galenica Santé in April 2017, 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, which are calculated on the basis of past experience.

As collateral for future deliveries, Galenica has accepted bank guarantees and assignment of receivables from various customers; these total CHF 0.1 million (previous year: CHF 0.1 million).

Maturity profile of trade receivables

in thousand CHF	Gross trade receivables	2017 Bad debt allowances	Gross trade receivables	2016 Bad debt allowances
not past due	292,724	(2,757)	306,330	(2,701)
past due:				
– 1–30 days	39,030	(630)	41,523	(129)
– 31–60 days	40,149	(480)	6,456	(133)
– 61–90 days	4,499	(381)	2,149	(256)
– more than 90 days	7,630	(3,093)	4,575	(3,272)
Total	**384,032**	**(7,341)**	**361,033**	**(6,491)**

28. 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	2017	2016
Current financial liabilities[1]	22,257	347,054
Non-current financial liabilities[1]	381,219	763,622
Cash and cash equivalents	(96,287)	(9,019)
Interest-bearing receivables	(5,860)	(340,519)
Net debt	**301,329**	**761,138**
Equity attributable to shareholders of Galenica Ltd.	857,280	329,621
Non-controlling interests	4,235	4,584
Shareholders' equity	**861,515**	**334,205**
Gearing	**35.0%**	**227.7%**

[1] Excluding non-interest-bearing financial liabilities

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

29. 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 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 spring in the form of shares of Galenica 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.

Until the separation of the Group in April 2017, the employees of Galenica participated in share-based payment plans of Vifor Pharma Group. The performance share units related to the 2015, 2016 and 2017 LTI plans were converted from Vifor Pharma shares to Galenica shares based on the share prices of Vifor Pharma and Galenica as at the IPO date (7 April 2017).

22,508 performance share units (previous year: 226 performance share units based on Vifor Pharma shares) were granted to beneficiaries at a fair value of CHF 44.87 (previous year: CHF 1,473.00 based on Vifor Pharma shares) at the beginning of the reporting period for the 2017 LTI plan.

Employee share plan

Employees of Galenica are entitled to buy a fixed number of shares of Galenica 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 58,088 shares of Galenica (previous year: 3,153 shares of Vifor Pharma) at a price of CHF 31.40 (previous year: CHF 913.15 based on Vifor Pharma shares). This includes a discount of CHF 13.45 (previous year: CHF 391.35 based on Vifor Pharma shares) per share.

Share-based payment expense

in thousand CHF	2017	2016
Remuneration for members of the Board of Directors	1,116	–
Share plan for members of senior management	1,876	1,428
Long-term incentive plan (LTI)	934	479
Employee share plan	781	1,234
Total	**4,707**	**3,141**

30. Related party transactions

Related parties include all companies in the Galenica Group as well as associates, joint ventures, pension funds, members of the Board of Directors of Galenica Ltd. and members of the key management of Galenica Ltd.

Related party transactions

As at the reporting date, trade receivables and loans from associates and joint ventures amounted to CHF 12.3 million (previous year: CHF 4.9 million). The receivables and loans primarily relate to Coop Vitality. The trade payables to associates and joint ventures amounted to CHF 6.1 million (previous year: CHF 0.3 million) and the financial liabilities to pension funds amounted to CHF 18.6 million (previous year: none).

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

in thousand CHF	Associates and joint ventures	2017 Vifor Pharma Group and other related parties	Associates and joint ventures	2016 Vifor Pharma Group and other related parties
Sale of goods	116,835	5,527	120,639	647
Income from services	202	10	74	1,421
Other income	6,145	683	8,520	5,178
Purchase of goods	908	12,381	797	55,517
Other operating costs	3,396	3,259	1,432	8,952
Financial income	141	–	151	386
Financial expenses	1	349	–	19,949

Transactions with Vifor Pharma Group recorded in equity

For the year 2016, the consolidated financial statements include re-allocations of corporate costs incurred at Vifor Pharma Group level. Such items have been re-allocated to Galenica based on different allocation keys considered to be more appropriate. Management believes that this basis for the re-allocation of expenses is reasonable. The total amount of transactions with Vifor Pharma Group recorded in equity amounted to CHF 0.3 million.

Remuneration of the Board of Directors and the Corporate Executive Committee

in thousand CHF	2017	2016
Remuneration	2,479	2,400
Social security costs and pension expenses	634	488
Share-based payments	1,890	916
Total	**5,003**	**3,804**

For 2016 and for 2017 until the separation, remuneration for key management consist of the business sector leaders as well as CEO and CFO as allocated to Galenica by Vifor Pharma Ltd.

31. 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	2017	2016
Within 1 year	48,290	48,582
In 2 to 5 years	124,965	137,701
In more than 5 years	21,089	29,542
Total	**194,344**	**215,825**

Operating leases essentially consist of payment obligations under rental contracts.

32. Subsequent events

The following transactions occurred between 31 December 2017 and the date the financial statements 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 2018 from the date control was obtained.

The purchase consideration was CHF 21.8 million, the fair value of the provisional net assets resulting from these additions was estimated at CHF 3.8 million at the acquisition date.

Acquisition of Careproduct AG. 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 handicapped people. Careproduct supplies walking frames, wheelchairs, incontinence products and other aids both online and offline.

The purchase consideration amounting to CHF 4.0 million was settled in cash. Due to the proximity of the acquisition to the date of release for publication of these financial statements, the fair value of the provisional net assets at the acquisition date cannot yet be estimated with sufficient reliability.

There were no further significant events after the reporting date.

33. Group companies

	Registered office	Capital	Voting rights	Method of consolidation	Share capital in thousand	
Health & Beauty						
Products & Brands						
G-Pharma AG	CH-Niederbipp	100%[1]	100%	full	CHF	100
Swiss Pharma GmbH	D-Rülzheim	100%[1]	100%	full	EUR	51
Vifor Consumer Health Ltd.	CH-Villars-sur-Glâne	100%[1]	100%	full	CHF	100
Retail						
Amavita Health Care Ltd.	CH-Niederbipp	100%[1]	100%	full	CHF	100
Aprioris Ltd.	CH-Bern	100%[2]	100%	full	CHF	100
Bahnhof Apotheken Thun AG	CH-Thun	50%[2]	50%	full	CHF	200
Coop Vitality AG	CH-Bern	49%[2]	49%	at equity	CHF	5,000
Coop Vitality Health Care GmbH	CH-Niederbipp	49%[2]	49%	at equity	CHF	20
Coop Vitality Management AG	CH-Bern	49%[2]	49%	at equity	CHF	100
GaleniCare Ltd.	CH-Bern	100%[2]	100%	full	CHF	700
GaleniCare Holding Ltd.	CH-Bern	100%[1]	100%	full	CHF	50,000
GaleniCare Management Ltd.	CH-Bern	100%[2]	100%	full	CHF	500
Grosse Apotheke Dr. G. Bichsel AG	CH-Interlaken	25%[2]	25%	at equity	CHF	200
Ingrid Barrage AG	CH-Küsnacht	49%[2]	49%	at equity	CHF	300
MediService Ltd.	CH-Zuchwil	100%[1]	100%	full	CHF	363
Sun Store Health Care Ltd.	CH-Niederbipp	100%[1]	100%	full	CHF	100
Winconcept Ltd.	CH-Bern	100%[2]	100%	full	CHF	100
Services						
1L Logistics AG	CH-Burgdorf	100%[1]	100%	full	CHF	100
Alloga Ltd.	CH-Burgdorf	100%[1]	100%	full	CHF	8,332
Dauf SA	CH-Barbengo-Lugano	89.90%[2]	89.90%	full	CHF	100
Galexis Ltd.	CH-Niederbipp	100%[1]	100%	full	CHF	25,000
HCI Solutions Ltd.	CH-Bern	100%[1]	100%	full	CHF	100
Medifilm Ltd.	CH-Oensingen	100%[2]	100%	full	CHF	1,300
PharmaBlist Ltd.	CH-Widnau	100%[2]	100%	full	CHF	100
Pharmapool Ltd.	CH-Widnau	100%[2]	100%	full	CHF	962
Pharmapool Zentralapotheke AG	CH-Widnau	100%[2]	100%	full	CHF	100
Unione Farmaceutica Distribuzione SA	CH-Barbengo-Lugano	89.90%[1]	89.90%	full	CHF	2,000
Verfora AG	CH-Bern	100%[1]	100%	full	CHF	100
Corporate						
Galenica Finanz Ltd.	CH-Bern	100%[1]	100%	full	CHF	100

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

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To the General Meeting of
Galenica Ltd., Berne

Berne, 8 March 2018

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 2017 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 77 to 120) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, 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

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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 17, goodwill amounts to CHF 633.3 million as at 31 December 2017 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. According to note 17, 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 inflation rates, demographic developments, expected market share, revenue and margin development.
Our audit response	We assessed and tested, amongst others, the assumptions, weighted average cost of capital (WACC), methodologies and technical input parameters used by Galenica. We involved our internal valuation specialists to assist us with these audit procedures. In addition, we assessed the cash flow projections for all cash generating units (CGUs). These procedures included an assessment of the historical accuracy of management’s estimates and evaluation of business plans. In particular, we focused on the sensitivity in the available headroom of CGUs and whether changes in assumptions as described in note 17 could cause the carrying amount to exceed its recoverable amount.

Significance and volatility of employee benefits

Risk	As outlined in note 24, 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 significant to our audit due to the significance of the net defined benefit obligation combined with the subjectivity and sensitivity of the key parameters used in the pension plan calculations. The defined benefit plans in Switzerland give rise to a net defined benefit obligation of CHF 29.9 million as at 31 December 2017. Key actuarial parameters used in the calculation of the pension plan obligation are the discount rate, inflation rate, the applied indexation and the selection of mortality tables.

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Our audit response

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

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)

Julian Fiessinger
Licensed audit expert

Financial statements 2017

Statement of income of Galenica Ltd.

in thousand CHF	13.2.–31.12.2017
Investment income	63,307
Financial income	758
Other income	20,436
Income	**84,501**
Personnel costs	(8,994)
Financial expenses	(2,484)
Depreciation and amortisation	(9,226)
Other expenses	(6,937)
Expenses	**(27,641)**
Profit for the year before taxes	**56,860**
Direct taxes	(52)
Profit for the year	**56,808**

Statement of financial position of Galenica Ltd.

Assets

in thousand CHF		31.12.2017		13.2.2017
Cash and cash equivalents		63,000		–
Receivables				
– Third parties		160		38
– Group companies		356,720		7,898
Prepaid expenses and accrued income		1,006		–
Current assets	41%	**420,886**	1%	**7,936**
Financial assets		307,813		623,162
Investments		289,528		298,369
Property, plant and equipment		10		32
Intangible assets		39		41
Non-current assets	59%	**597,390**	99%	**921,604**
Assets	100%	**1,018,276**	100%	**929,540**

Liabilities and shareholders' equity

in thousand CHF		31.12.2017		13.2.2017
Short-term interest-bearing liabilities				
– Third parties		–		360,000
– Group companies		520		3,652
Other short-term liabilities				
– Third parties		7,293		–
– Group companies		1		7
Accrued expenses and deferred income		7,773		–
Short-term liabilities	2%	**15,587**	39%	**363,659**
Long-term interest-bearing liabilities				
– Third parties		380,000		–
Long-term liabilities	37%	**380,000**	0%	**–**
Liabilities	39%	**395,587**	39%	**363,659**
Share capital		5,000		5,000
Legal capital reserves				
– Reserves from capital contributions		560,881		560,881
of which reserve for treasury shares		38,800		–
Legal retained earnings		–		–
Voluntary retained earnings				
– Profit for the year		56,808		–
Shareholders' equity	61%	**622,689**	61%	**565,881**
Liabilities and shareholders' equity	100%	**1,018,276**	100%	**929,540**

Notes to the financial statements of Galenica Ltd.

General information

Galenica Santé Ltd. was incorporated on 13 February 2017 as a direct wholly owned subsidiary of Galenica Ltd. (now Vifor Pharma Ltd.). Subsidiaries formerly held by Galenica Ltd. (directly and indirectly) were legally contributed to Galenica Santé Ltd. and Galenica Santé Ltd. became the parent of the Galenica Santé Group on 13 February 2017.

On 14 March 2017, the Board of Directors of the former Galenica Ltd. (now Vifor Pharma Ltd.) announced its intention to separate the Galenica Santé business unit from the Vifor Pharma business unit. The separation was effected on 7 April 2017 by way of a demerger and initial public offering (IPO) of Galenica Santé. Galenica Santé Ltd. was renamed to Galenica Ltd. on 11 May 2017, upon the change in name of the former Galenica Ltd. to Vifor Pharma Ltd.

As Galenica Santé Ltd. (now Galenica Ltd.) was incorporated in 2017, no comparative figures from the previous year are existing. The statement of financial position of Galenica Ltd. therefore includes the opening balance as at 13 February 2017 for comparability.

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. Where not prescribed by law, the significant accounting and valuation principles applied are described below.

Financial assets

Financial assets include long-term loans to Group companies of CHF 307.8 million (13.2.2017: CHF 623.2 million).

Investments

The list of the Group companies is shown on page 120.

Long-term interest-bearing liabilities

The interest-bearing liabilities are recognised at nominal value.

in thousand CHF	31.12. 2017
Bond 0.5 % (15 June 2017 – 15 June 2023) ISIN CH0367206692	200,000
Bond 1.0 % (15 June 2017 – 15 December 2026) ISIN CH0367206700	180,000
Long-term interest-bearing liabilities	**380,000**

Share capital

At 31 December 2017, 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 Santé 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.

Subordinated loans

At 31 December 2017, subordinated loans to Group companies amounted to CHF 232.4 million (13.2.2017: CHF 232.4 million).

Treasury shares

Treasury shares have been acquired from Vifor Pharma Ltd. after the IPO for employees.

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**

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

Contingent liabilities

At 31 December 2017, total contingent liabilities amounted to CHF 621.5 million (13.2.2017: CHF 0.3 million), including issued guarantees to Group companies of CHF 491.3 million (13.2.2017: none) as well as CHF 130.0 million (13.2.2017: none) 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 2017		
BlackRock Inc., USA[1]	2,787,758	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 34 (13.2.2017: 40).

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 31.12.2017	Shares Allocated for 2017
Daniela Bosshardt-Hengartner	–	3,074
Michel Burnier	–	2,459
Fritz Hirsbrunner	635	2,664
Jörg Kneubühler	19,152	5,020
Philippe Nussbaumer	1,695	2,254
Andreas Walde	–	2,869
Shares of the members of the Board of Directors	**21,482**	**18,340**

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

Shareholdings of the members of the Corporate Executive Committee

Number of shares	Held as at 31.12.2017
Christoph Amstutz	160
Felix Burkhard	9,344
Jean-Claude Clémençon	80
Torvald de Coverly Veale	220
Daniele Madonna	1,396

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

Information relating to the number and value of participations rights of the members of the Board of Directors and the members of the Corporate Executive Committee are disclosed in the Remuneration Report (pages 68 to 70).

In 2017, 12,396 performance share units with fair value at grant date of CHF 556,204 have been allocated to the members of the Corporate Executive Committee. In 2017, 2,791 performance share units with fair value at grant date of CHF 125,250 have been allocated to other employees of Galenica Ltd.

Allocation of available earnings 2017 and on the payment of a dividend from reserves from capital contributions

At the Annual General Meeting as at 9 May 2018, the Board of Directors will propose the following allocation of available earnings and reserves from capital contributions:

in CHF	2017
Appropriation of the 2017 available earnings	
Profit for the year	56,807,923
Available earnings at the disposal of the Annual General Meeting	**56,807,923**
Allocation to general legal retained earnings	(1,000,000)
Allocation to free reserve	(55,000,000)
Balance to be carried forward	**807,923**
Appropriation of reserves from capital contributions	
Reserves from capital contributions	**560,881,418**
Dividend paid out of reserves from capital contributions (CHF 1.65 per share)	(82,500,000) [1)]
Balance to be carried forward	**478,381,418**

[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 2017, the total dividend would amount to CHF 80.9 million.

If the proposal for appropriation is approved, the dividend will be paid as from 16 May 2018 without deduction of Swiss withholding tax.

Building a better working world

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To the General Meeting of
Galenica Ltd., Berne

Berne, 8 March 2018

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 126 to 131), for the year ended 31 December 2017.

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 2017 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	Julian Fiessinger
Licensed audit expert	Licensed audit expert
(Auditor in charge)	