# Consolidated financial statements 2019 of the Galenica Group

# Consolidated statement of income

| in thousand CHF | Notes | 2019 | 2018 |
|---|---|---|---|
| Net sales | 5 | 3,301,002 | 3,165,019 |
| Other income | 6 | 13,516 | 15,936 |
| **Operating income** | | **3,314,518** | **3,180,955** |
| Cost of goods | | (2,453,528) | (2,379,327) |
| Personnel costs | 7, 23 | (464,119) | (474,453) |
| Other operating costs | 8 | (142,191) | (180,158) |
| Share of profit from associates and joint ventures | 17 | 5,656 | 6,999 |
| **Earnings before interest, taxes, depreciation and amortisation (EBITDA)** | | **260,336** | **154,016** |
| Depreciation and amortisation | 14,15,16 | (90,845) | (40,991) |
| **Earnings before interest and taxes (EBIT)** | | **169,491** | **113,025** |
| Financial income | 9 | 727 | 1,061 |
| Financial expenses | 9 | (6,825) | (3,177) |
| **Earnings before taxes (EBT)** | | **163,393** | **110,909** |
| Income taxes | 11 | (38,093) | 36,755 |
| **Net profit** | | **125,300** | **147,664** |
| Attributable to: | | | |
| – Shareholders of Galenica Ltd. | | 124,992 | 147,546 |
| – Non-controlling interests | | 308 | 118 |

| in CHF | | | |
|---|---|---|---|
| Earnings per share | 10 | 2.54 | 3.00 |
| Diluted earnings per share | 10 | 2.53 | 3.00 |

# Consolidated statement of comprehensive income

| in thousand CHF | Notes | 2019 | 2018 |
|---|---|---|---|
| **Net profit** | | **125,300** | **147,664** |
| Translation differences | | (1) | (1) |
| **Items that may be reclassified subsequently to profit or loss** | | **(1)** | **(1)** |
| Remeasurement of net defined benefit liability | 23 | 24,390 | (1,059) |
| Income taxes from remeasurement of net defined benefit liability | 11 | (5,225) | 47 |
| Share of other comprehensive income from joint ventures | 17 | (92) | (2,023) |
| **Items that will not be reclassified to profit or loss** | | **19,073** | **(3,035)** |
| **Other comprehensive income** | | **19,072** | **(3,036)** |
| **Comprehensive income** | | **144,372** | **144,628** |
| Attributable to: | | | |
| – Shareholders of Galenica Ltd. | | 144,132 | 144,510 |
| – Non-controlling interests | | 240 | 118 |

# Consolidated statement of financial position

## Assets

| in thousand CHF | Notes | | 2019 | | 2018 |
|---|---|---|---|---|---|
| Cash and cash equivalents | | | 90,532 | | 104,970 |
| Trade and other receivables | 13 | | 421,518 | | 371,648 |
| Inventories | 12 | | 277,804 | | 276,628 |
| Prepaid expenses and accrued income | | | 32,995 | | 28,290 |
| **Current assets** | | 37.2 % | **822,849** | 42.0 % | **781,536** |
| Property, plant and equipment | 14 | | 267,558 | | 244,990 |
| Right-of-use assets | 15 | | 224,934 | | – |
| Intangible assets | 16 | | 846,226 | | 767,910 |
| Investments in associates and joint ventures | 17 | | 21,482 | | 27,281 |
| Financial assets | 18 | | 16,454 | | 13,908 |
| Deferred tax assets | 11 | | 10,076 | | 24,463 |
| **Non-current assets** | | 62.8 % | **1,386,730** | 58.0 % | **1,078,552** |
| **Assets** | | 100.0 % | **2,209,579** | 100.0 % | **1,860,088** |

## Liabilities and shareholders' equity

| in thousand CHF | Notes | | 2019 | | 2018 |
|---|---|---|---|---|---|
| Financial liabilities | 19 | | 44,630 | | 29,674 |
| Lease liabilities | 15 | | 47,796 | | – |
| Trade and other payables | 20 | | 323,921 | | 298,167 |
| Tax payables | | | 13,798 | | 14,199 |
| Accrued expenses and deferred income | | | 119,535 | | 97,880 |
| Provisions | 21 | | 3,727 | | 2,657 |
| **Current liabilities** | | 25.1 % | **553,407** | 23.8 % | **442,577** |
| Financial liabilities | 19 | | 380,870 | | 380,910 |
| Lease liabilities | 15 | | 182,772 | | – |
| Deferred tax liabilities | 11 | | 37,019 | | 25,579 |
| Employee benefit liabilities | 23 | | 53,031 | | 73,707 |
| Provisions | 21 | | 2,940 | | 3,716 |
| **Non-current liabilities** | | 29.7 % | **656,632** | 26.0 % | **483,912** |
| **Liabilities** | | 54.8 % | **1,210,039** | 49.8 % | **926,489** |
| Share capital | 24 | | 5,000 | | 5,000 |
| Reserves | | | 988,497 | | 924,463 |
| **Equity attributable to shareholders of Galenica Ltd.** | | | **993,497** | | **929,463** |
| Non-controlling interests | | | 6,043 | | 4,136 |
| **Shareholders' equity** | 24 | 45.2 % | **999,540** | 50.2 % | **933,599** |
| **Liabilities and shareholders' equity** | | 100.0 % | **2,209,579** | 100.0 % | **1,860,088** |

# Consolidated statement of cash flows

| in thousand CHF | 2019 | 2018 |
|---|---|---|
| Net profit | 125,300 | 147,664 |
| Income taxes | 38,093 | (36,755) |
| Depreciation and amortisation | 90,845 | 40,991 |
| (Gain)/loss on disposal of non-current assets | (340) | (111) |
| Increase/(decrease) in provisions and employee benefit liabilities | 116 | 39,503 |
| Net financial result | 6,098 | 2,116 |
| Share of profit from associates and joint ventures | (5,656) | (6,999) |
| Other non-cash items | 5,408 | 5,632 |
| Interest received | 638 | 1,018 |
| Interest paid | (4,889) | (2,345) |
| Other financial receipts/(payments) | (277) | (145) |
| Dividends received | 4,165 | 3,731 |
| Income taxes paid | (22,096) | (13,290) |
| **Cash flow from operating activities before working capital changes** | **237,405** | **181,010** |
| Change in trade and other receivables | (29,447) | 18,057 |
| Change in inventories | 6,809 | 1,838 |
| Change in trade and other payables | 20,020 | (64) |
| Change in other net current assets | 15,651 | (27,291) |
| **Working capital changes** | **13,033** | **(7,460)** |
| **Cash flow from operating activities** | **250,438** | **173,550** |
| Investments in property, plant and equipment | (33,749) | (26,962) |
| Investments in intangible assets | (19,839) | (20,490) |
| Investments in associates and joint ventures | – | (2,259) |
| Investments in financial assets | (9,901) | (4,950) |
| Proceeds from property, plant and equipment and intangible assets | 617 | 995 |
| Proceeds from financial assets | 3,214 | 3,823 |
| Proceeds from assets held for sale | 1,872 | – |
| Purchase of subsidiaries (net cash flow) | (77,108) | (37,739) |
| **Cash flow from investing activities** | **(134,894)** | **(87,582)** |
| Dividends paid | (83,924) | (81,145) |
| Purchase of treasury shares | (346) | (304) |
| Proceeds from sale of treasury shares | 2,880 | 2,930 |
| Proceeds from financial liabilities | 86,676 | 6,182 |
| Repayment of financial liabilities | (87,645) | (4,887) |
| Payment of lease liabilities | (47,622) | – |
| Purchase of non-controlling interests | – | (59) |
| **Cash flow from financing activities** | **(129,981)** | **(77,283)** |
| Effects of exchange rate changes on cash and cash equivalents | (1) | (2) |
| **Increase in cash and cash equivalents** | **(14,438)** | **8,683** |
| Cash and cash equivalents as at 1 January[1)] | 104,970 | 96,287 |
| **Cash and cash equivalents as at 31 December[1)]** | **90,532** | **104,970** |

[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 1 January 2018** | **5,000** | **(38,720)** | **890,268** | **856,548** | **4,233** | **860,781** |
| Net profit | | | 147,546 | 147,546 | 118 | 147,664 |
| Other comprehensive income | | | (3,036) | (3,036) | | (3,036) |
| **Comprehensive income** | | | **144,510** | **144,510** | **118** | **144,628** |
| Dividends | | | (81,029) | (81,029) | (116) | (81,145) |
| Transactions on treasury shares | | 6,521 | (2,746) | 3,775 | | 3,775 |
| Share-based payments | | | 5,619 | 5,619 | | 5,619 |
| Change in non-controlling interests | | | 40 | 40 | (99) | (59) |
| **Balance as at 31 December 2018** | **5,000** | **(32,199)** | **956,662** | **929,463** | **4,136** | **933,599** |
| Change in accounting standards[1)] | | | (4,811) | (4,811) | (11) | (4,822) |
| **Balance as at 1 January 2019** | **5,000** | **(32,199)** | **951,851** | **924,652** | **4,125** | **928,777** |
| Net profit | | | 124,992 | 124,992 | 308 | 125,300 |
| Other comprehensive income | | | 19,140 | 19,140 | (68) | 19,072 |
| **Comprehensive income** | | | **144,132** | **144,132** | **240** | **144,372** |
| Dividends | | | (83,758) | (83,758) | (166) | (83,924) |
| Transactions on treasury shares | | 6,235 | (3,376) | 2,859 | – | 2,859 |
| Share-based payments | | | 5,612 | 5,612 | – | 5,612 |
| Addition to scope of consolidation | | | – | – | 1,844 | 1,844 |
| **Balance as at 31 December 2019** | **5,000** | **(25,964)** | **1,014,461** | **993,497** | **6,043** | **999,540** |

1) Adjustment upon adoption of IFRS 16 (refer to note 2 and note 15)

# Notes to the consolidated financial statements of the Galenica Group

## 1. Group organisation

### General information

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

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

The Board of Directors released the consolidated financial statements 2019 for publication on 3 March 2020. The 2019 consolidated financial statements will be submitted for approval to the Annual General Meeting on 19 May 2020.

## 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 (IFRIC) and the provisions of Swiss law.

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

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

Galenica's consolidated financial statements are prepared in Swiss francs (CHF) and, unless otherwise indicated, figures are rounded to the nearest CHF 1,000. Due to rounding, numbers presented throughout this report may not add up precisely to the totals provided. Totals are calculated using the underlying amount rather than the presented rounded number.

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

### Classification as current or non-current

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

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

## Estimation uncertainty, assumptions and judgments

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.

### Leases (note 15)

IFRS 16 defines the lease term as the non-cancellable period of a lease together with the options to extend or terminate a lease, if the lessee is reasonably certain to exercise that option. Where a lease includes the option for the Group to extend the lease term, Galenica applies judgment in assessing whether it is reasonably certain that the option will be exercised. This will take into account the length of the time remaining before the option is exercisable, current trading, future trading forecasts as to the ongoing profitability of the point of sale and the level and type of planned future capital investment. A reassessment of the remaining life of the lease could result in a recalculation of the lease liability and a material adjustment to the associated balances.

### Goodwill and intangible assets (note 16)

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 23)

The costs of the employee benefit plans and other long-term employee benefits are determined using actuarial valuations. These valuations involve making assumptions about the discount rate, future salary and pension developments, mortality and the employee turnover rate. Galenica considers the discount rate, the selection of mortality tables and the development of salaries to be key assumptions.

## Scope of consolidation

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

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

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

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

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

Assets and liabilities as well as income and expenses of subsidiaries are consolidated from the acquisition date, i.e. the date on which Galenica obtains control.

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

## Amendments to IFRS

As at 1 January 2019 Galenica adopted the following amended International Financial Reporting Standards:

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

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

Depreciation of right-of-use assets and interest expense on lease liabilities replace operating lease expenses in the consolidated statement of income. While the profit before tax impact may be limited, this has a significant effect upon levels of operating profit (EBITDA, EBIT) and finance expenses.

Galenica applied the standard from its mandatory adoption date of 1 January 2019 using the modified retrospective method without restating comparative figures for the prior year. The effect of adopting IFRS 16 on 1 January 2019 is detailed in note 15.

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

Further information concerning IFRS 16 is disclosed in note 15.

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

## Future amendments to IFRS

The IASB has issued various new and amended standards and interpretations with effective dates in the financial year 2020 or later. Galenica has not early adopted any of the following amendments to standards or interpretations that are potentially relevant for Galenica. Galenica intends to apply the new or amended standards for the first time in the financial year beginning on or after the date shown below:

- Amendments to IFRS 3 – Definition of a Business (1 January 2020)
- Amendments to IAS 1 and IAS 8 – Definition of Material (1 January 2020)
- Amendments to IFRS 7, IFRS 9 and IAS 39 – Interest Rate Benchmark Reform (1 January 2020)
- Amendments to IAS 1 – Amendments to the classification of liabilities as current or non-current (1 January 2022)

Galenica is currently assessing the impact of these amendments. Based on a preliminary analysis, Galenica does not expect a material impact on the consolidated financial statements.

## 3. Operating segment information

The management approach is used to determine the reportable operating segments. Accordingly, external segment reporting is based on the internal organisational and management structures of Galenica and the internal financial reporting to the chief operating decision maker (CODM). The CODM of Galenica is the Board of Directors of Galenica Ltd. Galenica operates in Switzerland within the two operating segments Health & Beauty and Services.

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

### Health & Beauty

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

Retail operates at 513 locations Galenica's pharmacy network, the largest in Switzerland. With 356 pharmacies of its own and 157 partner pharmacies, Retail has attractive outlets throughout the country. Galenica's own pharmacies comprise the Amavita brand with 171 branches and the Sun Store brand with 94 branches. Galenica also operates a chain of 84 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, 6 majority interests in pharmacies and 150 Winconcept partner pharmacies and 7 Amavita partner pharmacies.

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

### Services

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

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

### Corporate

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

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

### Eliminations

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

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

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

## Operating segment information 2019

| in thousand CHF | Health & Beauty | Services | Corporate | Eliminations | Group |
|---|---|---|---|---|---|
| Net sales | 1,620,785 | 2,441,048 | 18,279 | (779,110) | 3,301,002 |
| Intersegmental net sales | (83,751) | (678,370) | (16,989) | 779,110 | – |
| **Net sales to third parties** | **1,537,034** | **1,762,678** | **1,290** | **–** | **3,301,002** |
| Other income | 4,963 | 9,138 | 654 | (1,239) | 13,516 |
| Share of profit from associates and joint ventures | 6,332 | – | – | (676) | 5,656 |
| **Earnings before interest, taxes, depreciation and amortisation (EBITDA)** | **194,220** | **68,003** | **(233)** | **(1,654)[1)]** | **260,336** |
| Depreciation and amortisation | (67,950)[2)] | (23,210) | (50) | 365 | (90,845) |
| **Earnings before interest and taxes (EBIT)** | **126,270** | **44,793** | **(283)** | **(1,289)[1)]** | **169,491** |
| Interest income | | | | | 720 |
| Interest expense | | | | | (5,650) |
| Other net financial result | | | | | (1,168) |
| **Earnings before taxes (EBT)** | | | | | **163,393** |
| Income taxes | | | | | (38,093) |
| **Net profit** | | | | | **125,300** |
| **Assets** | **1,515,577** | **837,523** | **986,135** | **(1,129,656)[3)]** | **2,209,579** |
| Investments in associates and joint ventures | 25,215 | – | – | (3,733) | 21,482 |
| **Liabilities** | **1,133,723** | **545,373** | **600,885** | **(1,069,942)[4)]** | **1,210,039** |
| Investments in property, plant and equipment | 19,496 | 14,924 | – | (258) | 34,162[5)] |
| Investments in intangible assets | 2,970 | 16,035 | – | (152) | 18,853[6)] |
| Employees as at 31 December (FTE) | 3,975 | 1,440 | 34 | – | 5,449 |

1) Including the effects of IAS 19 from defined benefit plans and long-service awards of CHF –0.1 million
2) Including net impairment of CHF –0.1 million (refer to note 15)
3) Of which elimination of intercompany positions CHF –1,120.1 million and other unallocated amounts CHF –9.5 million
4) Of which elimination of intercompany positions CHF –1,120.1 million and other unallocated amounts CHF 50.2 million
5) Of which non-cash investments of CHF 0.7 million
6) Of which non-cash investments of CHF 0.9 million

## Geographic areas

| in thousand CHF | Switzerland | Other countries | Group |
|---|---|---|---|
| Net sales to third parties | 3,278,616 | 22,386 | 3,301,002 |
| Non-current assets[1)] | 1,360,200 | – | 1,360,200 |

1) Without financial assets and deferred tax assets

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

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

## Operating segment information 2018

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

[1] Including the effects of IAS 19 from defined benefit plans and long-service awards of CHF –41.0 million
[2] Of which elimination of intercompany positions CHF –987.2 million and other unallocated amounts CHF –0.7 million
[3] Of which elimination of intercompany positions CHF –987.2 million and other unallocated amounts CHF 71.3 million
[4] Of which non-cash investments of CHF 0.5 million
[5] Of which non-cash investments of CHF 2.1 million

## Geographic areas

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

[1] Without financial assets and deferred tax assets

## 4. Business combinations

### Accounting principles

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

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

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

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

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

### Business combinations 2019

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

The purchase consideration amounted to CHF 34.9 million, of which CHF 34.8 million was settled in cash. The deferred purchase price consideration of CHF 0.1 million falls due in the year 2022. The fair value of the net identifiable assets amounts to CHF 14.9 million at the acquisition date. The goodwill of CHF 20.0 million was allocated to the Retail business sector and corresponds to the added value of the pharmacies based on their locations. Transaction costs were insignificant.

Acquisition of Bichsel Interlaken Holding AG. On 1 May 2019, Galenica acquired 95% of the shares in the Swiss company Bichsel Interlaken Holding AG. Bichsel Interlaken Holding AG is the parent company of the Bichsel Group with its two operating companies Grosse Apotheke Dr. G. Bichsel AG, where Galenica held already 25% of the shares and Laboratorium Dr. G. Bichsel AG (refer to note 17). The Bichsel Group is specialised in manufacturing individual medicines and medical devices, offering home care services in the field of home dialysis and clinical home nutrition throughout Switzerland and operates a public pharmacy situated in a prime location. The remaining 5% of the shares were retained by the Bichsel family. Non-controlling interests have been measured at the proportionate share of net identifiable assets.

The purchase consideration amounted to CHF 72.3 million and was fully settled in cash. The fair value of the net identifiable assets amounted to CHF 36.9 million at the acquisition date. The goodwill of CHF 44.0 million was allocated to the Retail business sector and corresponds to the added value based on the acquirer-specific synergies expected to arise from the acquisition in strengthening the leading position in the market of home care for patients, broadening the access to hospitals and healthcare providers and the know-how of the employees gained. The disclosed amounts were determined provisionally. Transaction costs of CHF 0.2 million were recognised in other operating costs.

### Pro forma figures for acquisitions made in 2019 for the full 2019 financial year

Since their inclusion in Galenica's scope of consolidation, the businesses acquired contributed net sales of CHF 62.7 million and an operating result (EBIT) of CHF 2.7 million to the Group's results. If these acquisitions had occurred on 1 January 2019, they would have contributed additional net sales of CHF 34.6 million and increased EBIT by CHF 2.6 million.

## Business combinations

| in thousand CHF | Bichsel Group | Pharmacies | 2019 Total | 2018 Total |
|---|---|---|---|---|
| Cash and cash equivalents | 25,612 | 5,863 | 31,475 | 13,771 |
| Trade receivables | 7,985 | 5,005 | 12,990 | 5,749 |
| Inventories | 5,105 | 2,880 | 7,985 | 4,248 |
| Assets held for sale | – | 1,872 | 1,872 | – |
| Property, plant and equipment | 23,065 | 1,689 | 24,754 | 1,548 |
| Right-of-use assets | 6,763 | 7,755 | 14,518 | – |
| Intangible assets | 3,153 | 16 | 3,169 | 582 |
| Other current and non-current assets | 2,427 | 2,892 | 5,319 | 1,484 |
| Trade payables | (4,307) | (1,144) | (5,451) | (2,337) |
| Financial liabilities | (14,831) | (2,431) | (17,262) | (1,665) |
| Lease liabilities | (6,763) | (7,755) | (14,518) | – |
| Deferred tax liabilities | (4,579) | (509) | (5,088) | (87) |
| Employee benefit liabilities | (3,194) | – | (3,194) | (1,819) |
| Other current and non-current liabilities | (3,557) | (1,185) | (4,742) | (1,819) |
| **Fair value of net assets** | **36,879** | **14,948** | **51,827** | **19,655** |
| Goodwill | 43,996 | 19,976 | 63,972 | 58,137 |
| Non-controlling interests | (1,844) | – | (1,844) | – |
| Fair value of previously held interests | (6,738) | – | (6,738) | (22,700) |
| **Purchase consideration** | **72,293** | **34,924** | **107,217** | **55,092** |
| Cash acquired | (25,612) | (5,863) | (31,475) | (13,771) |
| Offset against loans (financial assets) | – | – | – | (2,400) |
| Contingent/deferred consideration | – | (70) | (70) | (1,332) |
| **Net cash flow from current business combinations** | **46,681** | **28,991** | **75,672** | **37,589** |
| Payment of consideration due to previous business combinations | | | 1,436 | 150 |
| **Net cash flow from business combinations** | | | **77,108** | **37,739** |

## Business combinations 2018

Acquisition of pharmacies. Galenicare Holding acquired 100% of the interests in pharmacies in various locations in Switzerland and the remaining 51% of the shares in the Swiss company Bahnhof Apotheke Zürich AG. Upon acquisition, most of these pharmacies were merged with Galenicare Ltd.

The purchase consideration amounted to CHF 51.1 million, of which CHF 47.4 million was settled in cash and CHF 2.4 million was offset against loans. The deferred purchase price consideration of CHF 1.3 million was paid in 2019. The fair value of the net identifiable assets amounted to CHF 19.2 million at the acquisition date. The goodwill of CHF 54.5 million was allocated to the Retail business sector and corresponds to the added value of the pharmacies based on their locations. Transaction costs were insignificant.

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

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

## 5. Net sales

### Accounting principles

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

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

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

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

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

Customer returns are not material.

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

### Net sales 2019

| in thousand CHF | Product & Brands | Health & Beauty Retail | Services | Corporate | Eliminations | Group |
|---|---|---|---|---|---|---|
| Sale of goods | 100,753 | 1,449,135 | 2,339,719 | – | (731,273) | 3,158,334 |
| Sale of services | 1,368 | 66,591 | 101,329 | 18,279 | (44,899) | 142,668 |
| **Net sales** | **102,121** | **1,515,726** | **2,441,048** | **18,279** | **(776,172)** | **3,301,002** |
| Intersegmental net sales | (53,549) | (27,264) | (678,370) | (16,989) | 776,172 | – |
| **Net sales to third parties** | **48,572** | **1,488,462** | **1,762,678** | **1,290** | **–** | **3,301,002** |
| – of which sale of goods to third parties | 47,204 | 1,422,885 | 1,688,245 | – | – | 3,158,334 |
| – of which sale of services to third parties | 1,368 | 65,577 | 74,433 | 1,290 | – | 142,668 |

### Net sales 2018

| in thousand CHF | Product & Brands | Health & Beauty Retail | Services | Corporate | Eliminations | Group |
|---|---|---|---|---|---|---|
| Sale of goods | 90,289 | 1,373,735 | 2,276,444 | – | (706,205) | 3,034,263 |
| Sale of services | 1,459 | 56,791 | 95,864 | 17,469 | (40,827) | 130,756 |
| **Net sales** | **91,748** | **1,430,526** | **2,372,308** | **17,469** | **(747,032)** | **3,165,019** |
| Intersegmental net sales | (46,488) | (25,924) | (658,441) | (16,179) | 747,032 | – |
| **Net sales to third parties** | **45,260** | **1,404,602** | **1,713,867** | **1,290** | **–** | **3,165,019** |
| – of which sale of goods to third parties | 43,801 | 1,348,560 | 1,641,902 | – | – | 3,034,263 |
| – of which sale of services to third parties | 1,459 | 56,042 | 71,965 | 1,290 | – | 130,756 |

## 6. Other income

| in thousand CHF | 2019 | 2018 |
|---|---|---|
| Income from own work capitalised | 5,235 | 6,323 |
| Rental income from operating leases | 2,496 | 2,708 |
| Gain on disposal of property, plant and equipment | 360 | 277 |
| Other operating income | 5,425 | 6,628 |
| **Other income** | **13,516** | **15,936** |

## 7. Personnel costs

| in thousand CHF | 2019 | 2018 |
|---|---|---|
| Salaries and wages | 383,168 | 359,207 |
| Social security costs and pension expenses | 52,194 | 89,021 |
| Other personnel costs | 28,757 | 26,225 |
| **Personnel costs** | **464,119** | **474,453** |
| Average number of employees (FTE) | 5,264 | 4,949 |

Personnel costs contain expenses for defined benefit plans of CHF 25.6 million (previous year: CHF 64.9 million). In 2018, the expenses for defined benefit plans includes one-off past service costs of CHF 41.2 million due to the reorganisation of the Group pension funds (refer to note 23). Expenses for share-based payments of CHF 5.4 million (previous year: CHF 5.6 million) are also a part of personnel costs (refer to note 28).

## 8. Other operating costs

| in thousand CHF | 2019 | 2018 |
|---|---|---|
| Maintenance and repairs | 16,262 | 14,167 |
| Operating and production costs | 52,260 | 47,173 |
| Rental and other lease expenses[1)2)] | 10,248 | 57,924 |
| Administration costs | 32,950 | 27,386 |
| Marketing and sales costs | 28,849 | 32,447 |
| Non-income taxes | 1,602 | 895 |
| Loss on disposal of property, plant and equipment | 20 | 166 |
| **Other operating costs** | **142,191** | **180,158** |

1) In 2019, IFRS 16 replaced operating lease expenses by depreciation of right-of-use assets and interest expense on lease liabilities, which is the reason for the significant decrease in rental and other lease expenses (refer to note 15)
2) Of which other lease expenses (incidental expenses) of CHF 4.4 million

### Research and development

During the reporting period, expenses for research and development totalling CHF 13.4 million were recognised directly in other operating costs (previous year: CHF 11.9 million).

## 9. Financial result

| in thousand CHF | 2019 | 2018 |
|---|---|---|
| Interest income | 720 | 1,028 |
| Other financial income | 7 | 33 |
| **Financial income** | **727** | **1,061** |
| Interest expense | 2,720 | 2,760 |
| Net interest expense from employee benefit plans | 459 | 225 |
| Interest expense on lease liabilities | 2,471 | – |
| Other financial costs | 994 | 38 |
| Net foreign exchange differences | 181 | 154 |
| **Financial expenses** | **6,825** | **3,177** |
| **Net financial expenses** | **6,098** | **2,116** |

## 10. Earnings per share

When calculating diluted earnings per share, the weighted average number of outstanding shares during the reporting period is adjusted assuming conversion of all potentially dilutive effects that would occur if Galenica's obligations were converted.

| | 2019 | 2018 |
|---|---|---|
| Number of shares | 50,000,000 | 50,000,000 |
| Average number of treasury shares | (729,702) | (893,506) |
| **Average number of outstanding shares** | **49,270,298** | **49,106,494** |
| Effect from share-based payments | 80,529 | 78,598 |
| **Theoretical average number of outstanding shares (diluted)** | **49,350,827** | **49,185,092** |

| | 2019 | 2018 |
|---|---|---|
| Net profit – attributable to shareholders of Galenica Ltd. (in thousand CHF) | 124,992 | 147,546 |
| **Earnings per share (in CHF)** | **2.54** | **3.00** |
| **Diluted earnings per share (in CHF)** | **2.53** | **3.00** |

## 11. Income taxes

### Accounting principles

The expected current income tax charge is calculated and accrued on the basis of taxable profit for the current year and is recognised in profit or loss unless the underlying transaction is recognised outside profit or loss.

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

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

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

| in thousand CHF | 2019 | 2018 |
|---|---|---|
| Current income taxes | 21,606 | 16,647 |
| Income taxes of prior periods | (295) | 82 |
| Deferred income taxes | 16,782 | (53,484) |
| **Income taxes** | **38,093** | **(36,755)** |

### Tax reconciliation

| in thousand CHF | 2019 | 2018 |
|---|---|---|
| Earnings before taxes (EBT) | 163,393 | 110,909 |
| Weighted income tax rate in % of EBT | 19.2% | 20.0% |
| **Expected income taxes** | **31,327** | **22,143** |
| Effects of income that is taxable at a lower rate or tax-free | – | (443) |
| Effects of changes in tax rates | (513) | (158) |
| Effects of unrecognised losses in the current year | 15 | – |
| Release of deferred tax liabilities on investments | – | (56,234) |
| Realisation of unrecognised tax losses of prior periods | (380) | (17) |
| Recognition of tax losses of prior periods | (243) | – |
| Items from prior periods and other items | 7,887 | (2,046) |
| **Effective income taxes** | **38,093** | **(36,755)** |
| **Effective income tax rate in % of EBT** | **23.3%** | **(33.1%)** |

In 2019, the effects in other items are mainly the result of the abolition of the privileged holding tax status of Galenica Ltd. in the course of the Swiss Tax Reform (accepted on 19 May 2019) and the accompanying transition measures due to the change of the Swiss tax law. With this tax reform, various cantons have reduced their tax rates. As there were offsetting effects from deferred tax assets and deferred tax liabilities in cantons where the changes in tax rate was substantively enacted as at 31 December 2019, the changes in tax rates had no material impact on income taxes in the consolidated statement of income. Excluding these effects in the net amount of CHF 8.4 million, the effective income tax expense would have been 18.2% of EBT.

The final tax assessments for the fiscal year 2016 of group companies involved in an internal restructuring in 2016 were received in 2018. As a consequence of these final assessments, deferred tax liabilities on outside basis differences in an amount of CHF 56.2 million were released in 2018. The deferred tax assets released as the tax losses are utilised. The effective income tax expense would have been 17.6 % of EBT without this effect.

The weighted income tax rate reflects the weighted average of the tax rates across the Swiss cantons in which Galenica is active. The composition of Galenica's taxable income and changes in local tax rates cause the tax rate to vary from year to year.

## Deferred taxes

| in thousand CHF | Deferred tax assets | Deferred tax liabilities | 2019 Net carrying amount | Deferred tax assets | Deferred tax liabilities | 2018 Net carrying amount |
|---|---|---|---|---|---|---|
| Current assets | 2,733 | (23,213) | (20,480) | 2,807 | (22,554) | (19,747) |
| Property, plant and equipment | – | (6,287) | (6,287) | – | (3,723) | (3,723) |
| Right-of-use assets | – | (40,246) | (40,246) | – | – | – |
| Intangible assets | 10,802 | (14,694) | (3,892) | – | (15,775) | (15,775) |
| Investments | – | (10,162) | (10,162) | – | – | – |
| Financial assets | – | (8,207) | (8,207) | – | – | – |
| Lease liabilities | 41,248 | – | 41,248 | – | – | – |
| Provisions | 233 | (1,117) | (884) | 371 | (174) | 197 |
| Employee benefit plans | 10,076 | – | 10,076 | 14,742 | – | 14,742 |
| Other temporary differences | 150 | (1,000) | (850) | 16 | (887) | (871) |
| Shareholders' equity | 726 | – | 726 | 148 | – | 148 |
| **Deferred taxes due to temporary differences** | **65,968** | **(104,926)** | **(38,958)** | **18,084** | **(43,113)** | **(25,029)** |
| Tax loss carryforwards | 12,015 | – | 12,015 | 23,913 | – | 23,913 |
| **Gross deferred taxes** | **77,983** | **(104,926)** | **(26,943)** | **41,997** | **(43,113)** | **(1,116)** |
| Netting of assets and liabilities | (67,907) | 67,907 | | (17,534) | 17,534 | |
| **Net deferred taxes** | **10,076** | **(37,019)** | | **24,463** | **(25,579)** | |

## Analysis of net deferred taxes

| in thousand CHF | 2019 | 2018 |
|---|---|---|
| **1 January** | **(1,116)** | **(54,929)** |
| Change in accounting standards[1] | 1,065 | – |
| **1 January adjusted** | **(51)** | **(54,929)** |
| Recognised as income taxes in profit or loss | | |
| – Change in temporary differences | (7,900) | 61,524 |
| – Fiscal realisation of recognised tax loss carryforwards | (9,424) | (9,144) |
| – Tax loss carryforwards taken into account for the first time | 29 | 946 |
| – Effects of changes in tax rates | 513 | 158 |
| Recognised in other comprehensive income | (5,225) | 47 |
| Recognised in shareholders' equity (related to share-based payments) | 203 | (13) |
| Addition to scope of consolidation | (5,088) | 295 |
| **31 December** | **(26,943)** | **(1,116)** |

[1] Adjustment upon adoption of IFRS 16 (refer to note 2 and note 15)

### Temporary differences on which no deferred taxes have been recognised

| in thousand CHF | 2019 | 2018 |
|---|---|---|
| Investments in subsidiaries | 402,565 | 369,978 |

### Tax loss carryforwards and tax credits

| | | 2019 | | 2018 |
|---|---|---|---|---|
| in thousand CHF | Tax loss carry-forwards/tax credits | Tax effect | Tax loss carry-forwards/tax credits | Tax effect |
| **Tax loss carryforwards and tax credits** | **68,901** | **12,039** | **126,025** | **24,546** |
| – of which capitalised as deferred tax assets | – | – | (49,871) | (9,705) |
| – of which netted with deferred tax liabilities | (68,809) | (12,015) | (73,040) | (14,208) |
| **Unrecognised tax loss carryforwards and tax credits** | **92** | **24** | **3,114** | **633** |
| Of which expire: | | | | |
| – within 1 year | 3 | 1 | 1 | 1 |
| – in 2 to 5 years | 23 | 9 | 2,858 | 581 |
| – in more than 5 years | 66 | 14 | 255 | 51 |

## 12. Inventories

### Accounting principles

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

Inventory allowances are recognised on inventories for slow moving items and excess stock.

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

| in thousand CHF | 2019 | 2018 |
|---|---|---|
| **Gross carrying amount as at 1 January** | **290,757** | **288,027** |
| Addition to scope of consolidation | 7,985 | 4,248 |
| Change in inventories | (4,713) | (1,518) |
| **Gross carrying amount as at 31 December** | **294,029** | **290,757** |
| **Allowance as at 1 January** | **(14,129)** | **(13,810)** |
| Addition | (3,518) | (1,394) |
| Use | 1,422 | 1,075 |
| **Allowance as at 31 December** | **(16,225)** | **(14,129)** |
| **Net carrying amount as at 31 December** | **277,804** | **276,628** |

## 13. Trade and other receivables

### Accounting principles

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

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

| in thousand CHF | 2019 | 2018 |
|---|---|---|
| Trade receivables | 414,179 | 370,627 |
| Bad debt allowances | (8,595) | (10,304) |
| Other receivables | 15,934 | 11,325 |
| **Trade and other receivables** | **421,518** | **371,648** |

### Change in bad debt allowances for trade receivables

| in thousand CHF | 2019 | 2018 |
|---|---|---|
| **1 January** | **(10,304)** | **(8,264)** |
| Addition | (564) | (3,947) |
| Use | 653 | 116 |
| Reversal | 1,620 | 1,791 |
| **31 December** | **(8,595)** | **(10,304)** |

### Maturity profile of trade receivables

| | | | 2019 | | | 2018 |
|---|---|---|---|---|---|---|
| in thousand CHF | Gross trade receivables | Bad debt allowances | Net trade receivables | Gross trade receivables | Bad debt allowances | Net trade receivables |
| Not past due | 349,524 | (2,140) | 347,384 | 311,539 | (2,667) | 308,872 |
| Past due: | | | | | | |
| – 1 to 30 days | 43,368 | (501) | 42,867 | 39,543 | (687) | 38,856 |
| – 31 to 60 days | 9,194 | (1,876) | 7,318 | 8,441 | (1,850) | 6,591 |
| – 61 to 90 days | 5,270 | (1,192) | 4,078 | 3,502 | (1,265) | 2,237 |
| – more than 90 days | 6,823 | (2,886) | 3,937 | 7,602 | (3,835) | 3,767 |
| **Total** | **414,179** | **(8,595)** | **405,584** | **370,627** | **(10,304)** | **360,323** |

## 14. Property, plant and equipment

### Accounting principles

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

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

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

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

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

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

| in thousand CHF | Real estate[1] | Assets under construction | Other property, plant and equipment | Total property, plant and equipment |
|---|---|---|---|---|
| **Net carrying amount as at 31.12.2017** | **168,869** | **5,861** | **76,683** | **251,413** |
| Addition | 8,008 | 1,670 | 17,765 | 27,443 |
| Disposal | (48) | – | (834) | (882) |
| Reclassification | – | (634) | 732 | 98 |
| Depreciation | (14,395) | – | (20,235) | (34,630) |
| Addition to scope of consolidation | – | – | 1,548 | 1,548 |
| **Net carrying amount as at 31.12.2018** | **162,434** | **6,897** | **75,659** | **244,990** |
| Addition | 9,139 | 5,319 | 19,704 | 34,162 |
| Disposal | (129) | – | (346) | (475) |
| Reclassification | 79 | (445) | 383 | 17 |
| Depreciation | (15,111) | – | (20,779) | (35,890) |
| Addition to scope of consolidation | 16,097 | 1,803 | 6,854 | 24,754 |
| **Net carrying amount as at 31.12.2019** | **172,509** | **13,574** | **81,475** | **267,558** |
| | | | | |
| **Overview as at 31.12.2018** | | | | |
| Cost | 305,753 | 6,897 | 254,366 | 567,016 |
| Accumulated depreciation and impairment | (143,319) | – | (178,707) | (322,026) |
| **Net carrying amount as at 31.12.2018** | **162,434** | **6,897** | **75,659** | **244,990** |
| | | | | |
| **Overview as at 31.12.2019** | | | | |
| Cost | 326,777 | 13,574 | 268,194 | 608,545 |
| Accumulated depreciation and impairment | (154,268) | – | (186,719) | (340,987) |
| **Net carrying amount as at 31.12.2019** | **172,509** | **13,574** | **81,475** | **267,558** |

[1] Part of a building used for business purposes is subleased. The net carrying amount of this part of the building cannot be separated and disclosed in detail

## 15. Leases

### Accounting principles

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

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

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

Galenica uses the recognition exemptions for lease contracts that have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets).

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

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

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

### Reconciliation of operating lease commitments to lease liabilities

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

in thousand CHF

| | |
|---|---|
| **Operating lease commitments as at 31 December 2018[1)]** | **195,040** |
| Commitments related to short-term leases | (1,589) |
| Extension options considered to be reasonably certain to be exercised | 63,528 |
| Leases not yet commenced to which Galenica is committed as at 31 December 2018 | (2,418) |
| Other | (783) |
| **Gross lease liabilities as at 1 January 2019** | **253,778** |
| Effect of discounting | (8,742) |
| **Net lease liabilities as at 1 January 2019** | **245,036** |

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

## Adjusted consolidated statement of financial position as at 1 January 2019

The following table shows the changes as at 1 January 2019 after adopting IFRS 16. The comparative figures presented as at 31 December 2018 have not been restated as Galenica applied the modified retrospective approach permitted by IFRS.

### Assets

| in thousand CHF | 31.12.2018 | Adoption IFRS 16 | 1.1.2019 |
|---|---|---|---|
| Cash and cash equivalents | 104,970 | – | 104,970 |
| Trade and other receivables | 371,648 | – | 371,648 |
| Inventories | 276,628 | – | 276,628 |
| Prepaid expenses and accrued income | 28,290 | (21) | 28,269 |
| **Current assets** | **781,536** | **(21)** | **781,515** |
| Property, plant and equipment | 244,990 | – | 244,990 |
| Right-of-use assets | – | 239,073 | 239,073 |
| Intangible assets | 767,910 | – | 767,910 |
| Investments in associates and joint ventures | 27,281 | (461) | 26,820 |
| Financial assets | 13,908 | – | 13,908 |
| Deferred tax assets | 24,463 | 961 | 25,424 |
| **Non-current assets** | **1,078,552** | **239,573** | **1,318,125** |
| **Assets** | **1,860,088** | **239,552** | **2,099,640** |

### Liabilities and shareholders' equity

| in thousand CHF | 31.12.2018 | Adoption IFRS 16 | 1.1.2019 |
|---|---|---|---|
| Financial liabilities | 29,674 | – | 29,674 |
| Lease liabilities | – | 45,706 | 45,706 |
| Trade and other payables | 298,167 | – | 298,167 |
| Tax payables | 14,199 | – | 14,199 |
| Accrued expenses and deferred income | 97,880 | (160) | 97,720 |
| Provisions | 2,657 | (193) | 2,464 |
| **Current liabilities** | **442,577** | **45,353** | **487,930** |
| Financial liabilities | 380,910 | – | 380,910 |
| Lease liabilities | – | 199,330 | 199,330 |
| Deferred tax liabilities | 25,579 | (104) | 25,475 |
| Employee benefit liabilities | 73,707 | – | 73,707 |
| Provisions | 3,716 | (205) | 3,511 |
| **Non-current liabilities** | **483,912** | **199,021** | **682,933** |
| **Liabilities** | **926,489** | **244,374** | **1,170,863** |
| Share capital | 5,000 | – | 5,000 |
| Reserves | 924,463 | (4,811) | 919,652 |
| **Equity attributable to shareholders of Galenica Ltd.** | **929,463** | **(4,811)** | **924,652** |
| Non-controlling interests | 4,136 | (11) | 4,125 |
| **Shareholders' equity** | **933,599** | **(4,822)** | **928,777** |
| **Liabilities and shareholders' equity** | **1,860,088** | **239,552** | **2,099,640** |

### Right-of-use assets

| in thousand CHF | Real estate | Vehicles | Total right-of-use assets |
|---|---|---|---|
| **Net carrying amount as at 1.1.2019** | **239,073** | **–** | **239,073** |
| Addition | 9,017 | – | 9,017 |
| Reassessment of existing lease contracts | 9,619 | – | 9,619 |
| Depreciation | (47,102) | (112) | (47,214) |
| Impairment | (183) | – | (183) |
| Reversal of impairment | 104 | – | 104 |
| Addition to scope of consolidation | 14,045 | 473 | 14,518 |
| **Net carrying amount as at 31.12.2019** | **224,573** | **361** | **224,934** |

### Lease liabilities

| in thousand CHF | 2019 |
|---|---|
| **Net carrying amount as at 1.1.2019** | **245,036** |
| Addition | 9,017 |
| Reassessment of existing lease contracts | 9,619 |
| Interest expense on lease liabilities | 2,471 |
| Repayment of lease liabilities (including interest) | (50,093) |
| Addition to scope of consolidation | 14,518 |
| **Net carrying amount as at 31.12.2019** | **230,568** |
| – of which current lease liabilities | 47,796 |
| – of which non-current lease liabilities | 182,772 |

### Leases recognised in profit or loss

| in thousand CHF | 2019 |
|---|---|
| Rental income from operating leases (included in other income) | 2,496 |
| Short-term lease expense (included in other operating costs) | (1,508) |
| Low-value lease expense (included in other operating costs) | (3) |
| Variable lease expense (included in other operating costs) | (4,343) |
| Depreciation of right-of-use assets | (47,214) |
| Impairment of right-of-use assets | (183) |
| Reversal of impairment of right-of-use assets | 104 |
| Interest expense on lease liabilities | (2,471) |

For one of the operating buildings Galenica acts as lessor. The related amount is insignificant.

The total cash outflow for leases including short-term leases, leases of low-value-assets and variable lease expenses in 2019 was CHF 55.9 million.

### Maturity profile of undiscounted lease liabilities

| in thousand CHF | 2019 |
|---|---|
| Up to 3 months | 12,653 |
| In 3 to 12 months | 37,252 |
| In 2 years | 44,468 |
| In 3 years | 36,974 |
| In 4 to 5 years | 52,604 |
| In 6 to 10 years | 48,421 |
| In more than 10 years | 7,280 |
| **Total future cash flows from undiscounted lease liabilities** | **239,652** |

Possible future cash outflows related to extension options in an amount of CHF 114.4 million were not included in lease liabilities because at transition and commencement date of leases entered subsequently it was not reasonably certain that these options would be exercised.

The cash outflows for variable lease expenses in 2020 is expected to be similar to the amount recognised in 2019.

Galenica has entered into various lease contracts that have not yet commenced as at 31 December 2019. The future lease payments for these non-cancellable lease contracts amount to CHF 4.6 million.

## 16. Intangible assets

### Accounting principles

Intangible assets include acquired trademarks, patents, licences, customer relationships, 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, customer relationships | 5–20 |
| Software | 2–15 |

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

With the exception of two trademarks at Verfora, all intangible assets are assessed as having a finite useful life. Intangible assets with indefinite useful lives are not amortised but tested for impairment annually or more frequently if there are indications of impairment. Intangible assets with finite useful lives are tested for impairment whenever there are indications that they could be impaired. Any Impairment is recognised in profit or loss in depreciation and amortisation and disclosed separately as an impairment.

| in thousand CHF | Intangible assets with finite useful lives[1)] | Trademarks with indefinite useful lives | Software | Goodwill | Total intangible assets |
|---|---|---|---|---|---|
| **Net carrying amount as at 31.12.2017** | **5,271** | **36,528** | **17,956** | **633,336** | **693,091** |
| Addition | – | – | 22,559 | – | 22,559 |
| Reclassification | – | – | (98) | – | (98) |
| Amortisation | (886) | – | (5,475) | – | (6,361) |
| Addition to scope of consolidation | 568 | – | 14 | 58,137 | 58,719 |
| **Net carrying amount as at 31.12.2018** | **4,953** | **36,528** | **34,956** | **691,473** | **767,910** |
| Addition | 84 | – | 18,769 | – | 18,853 |
| Reclassification | – | – | (17) | – | (17) |
| Amortisation | (2,073) | – | (5,588) | – | (7,661) |
| Addition to scope of consolidation | 1,692 | – | 1,477 | 63,972 | 67,141 |
| **Net carrying amount as at 31.12.2019** | **4,656** | **36,528** | **49,597** | **755,445** | **846,226** |
| **Overview as at 31.12.2018** | | | | | |
| Cost | 11,565 | 36,528 | 95,402 | 691,473 | 834,968 |
| Accumulated amortisation and impairment | (6,612) | – | (60,446) | – | (67,058) |
| **Net carrying amount as at 31.12.2018** | **4,953** | **36,528** | **34,956** | **691,473** | **767,910** |
| **Overview as at 31.12.2019** | | | | | |
| Cost | 12,190 | 36,528 | 114,890 | 755,445 | 919,053 |
| Accumulated amortisation and impairment | (7,534) | – | (65,293) | – | (72,827) |
| **Net carrying amount as at 31.12.2019** | **4,656** | **36,528** | **49,597** | **755,445** | **846,226** |

1) Including trademarks, patents, licences and customer relationships

A new enterprise resource planning system (ERP) is currently being implemented in the Services business sector which will have a useful life significantly exceeding those of other software cost, estimated to be 15 years.

### Trademarks with indefinite useful lives

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

For impairment testing purposes the trademarks have been allocated to the cash-generating unit Verfora 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 | 2019 | 2018 |
|---|---|---|
| Carrying amount | 36,528 | 36,528 |
| Growth rate | 1.0% | 1.0% |
| Discount rate | 6.2% | 6.7% |

According to the results of impairment testing for 2019 and 2018 using value in use calculations, no impairment was necessary. Galenica performed a sensitivity analysis taking into account reasonable changes in the assumptions used to calculate the discounted cash flows, such as higher discount rates, lower EBITDA, lower gross margins or lower perpetual growth rates. The sensitivity analysis for 2019 and 2018 did not reveal that a reasonable possible change in assumption would lead to an impairment.

### Goodwill

#### Accounting principles

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

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

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

| | | | 2019 | | | 2018 |
|---|---|---|---|---|---|---|
| in thousand CHF | Carrying amount | Growth rate | Discount rate | Carrying amount | Growth rate | Discount rate |
| Products & Brands | 26,175 | 1.0% | 6.6% | 26,175 | 1.0% | 6.8% |
| Retail | 636,858 | 1.0% | 6.6% | 572,886 | 1.0% | 6.7% |
| Services | 92,412 | 1.0% | 6.6% | 92,412 | 1.0% | 6.8% |
| **Total** | **755,445** | | | **691,473** | | |

According to the results of impairment testing for 2019 and 2018 using value in use calculations, no impairment was necessary. Galenica performed a sensitivity analysis taking into account reasonable changes in the assumptions used to calculate the discounted cash flows, such as higher discount rates, lower EBITDA, lower gross margins or lower perpetual growth rates. The sensitivity analysis for 2019 and 2018 did not reveal that a reasonable possible change in assumption would lead to an impairment.

## 17. 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 and the dividends paid from the associates and joint ventures. The corresponding amounts are recognised in profit or loss. Transactions that are recognised in comprehensive income from associates and joint ventures are recognised proportionately in comprehensive income.

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

### Associates

| in thousand CHF | 2019 | 2018 |
|---|---|---|
| **Net carrying amount as at 1 January** | **4,751** | **23,041** |
| Share of profit from associates | 120 | 1,053 |
| Remeasurement of previous investments held at equity | 2,383[1] | 3,099[2] |
| Change in scope of consolidation | (6,738)[1] | (22,700)[2] |
| Investments | – | 608 |
| Dividends received | – | (350) |
| **Net carrying amount as at 31 December** | **516** | **4,751** |

[1] Due to the acquisition of the remaining 75% in Grosse Apotheke Dr. G. Bichsel AG as at 1 May 2019, the previously held equity interest has been remeasured to fair value. The resulting gain of CHF 2.4 million has been recognised in profit or loss in share of profit from associates and joint ventures

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

### Joint ventures

| in thousand CHF | 2019 | 2018 |
|---|---|---|
| **Net carrying amount as at 1 January** | **22,530** | **23,436** |
| Change in accounting standards[1] | (461) | – |
| **Net carrying amount as at 1 January adjusted** | **22,069** | **23,436** |
| Share of profit from joint ventures | 3,154 | 2,847 |
| Remeasurement of net defined benefit liability from joint ventures | (92) | (2,023) |
| Investments | – | 1,651 |
| Dividends received | (4,165) | (3,381) |
| **Net carrying amount as at 31 December** | **20,966** | **22,530** |

[1] Adjustment upon adoption of IFRS 16 (refer to note 2 and note 15)

In case Coop Vitality were 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 | 2019 | 2018 |
|---|---|---|
| Current assets | 38,742 | 36,537 |
| Non-current assets | 112,033 | 53,238 |
| – of which right-of-use assets | 56,014 | – |
| Current liabilities | 47,339 | 31,444 |
| – of which current lease liabilities | 9,917 | – |
| Non-current liabilities | 59,221 | 12,353 |
| – of which non-current lease liabilities | 47,640 | – |
| Equity before appropriation of earnings | 44,215 | 45,978 |
| Operating income | 213,289 | 201,413 |
| EBIT | 10,277 | 7,626 |
| Net profit | 7,862 | 5,810 |
| Remeasurement of net defined benefit liability recognised in other comprehensive income | (187) | (4,129) |
| Cash flow from operating activities | 22,050 | 14,140 |

## 18. Financial assets

### Accounting principles

Non-current financial assets comprise loans, time deposits with a term to maturity of more than twelve months, rental guarantee deposits and derivative financial instruments with a positive fair value and a residual term to maturity of more than twelve months. Other than the derivatives measured at fair value through profit or loss, the financial assets are held to collect contractual cash flows comprising solely principal and interest payments and are therefore measured at amortised cost subsequent to initial recognition (refer to note 25.1). Any credit losses on financial assets recognised represent 12 month expected losses and are estimated based on the credit risk of the counterparty. Any impairment is recognised in financial expenses.

| in thousand CHF | 2019 | 2018 |
|---|---|---|
| Loans | 11,827 | 9,522 |
| Other financial assets | 4,627 | 4,386 |
| **Financial assets** | **16,454** | **13,908** |

## 19. Financial liabilities

| in thousand CHF | 2019 | 2018 |
|---|---|---|
| Loans | 8,404 | 5,475 |
| Liabilities to pension funds | 36,498 | 22,822 |
| Bonds | 380,528 | 380,638 |
| Other financial liabilities | 70 | 1,649 |
| **Financial liabilities** | **425,500** | **410,584** |
| – of which current financial liabilities | 44,630 | 29,674 |
| – of which non-current financial liabilities | 380,870 | 380,910 |

Galenica issued two fixed-interest rate bonds for a nominal amount totalling CHF 380.0 million for the purpose of long-term financing in June 2017. One bond of CHF 200.0 million was issued with an annual coupon of 0.50% and a term of 6 years, falling due on 15 June 2023 and the other bond of CHF 180.0 million with an annual coupon of 1.00% and a term of 9½ years, falling due on 15 December 2026. The bonds are traded on the SIX Swiss Exchange under securities no. 36720669 (ISIN CH0367206692) and 36720670 (ISIN CH0367206700) respectively. The bonds closed at 101.85% and 105.35% respectively as at 31 December 2019 (previous year: 100.45% and 100.40% respectively).

### Cash flow from financial liabilities and lease liabilities 2019

| in thousand CHF | 1 January | Proceeds from financial liabilities | Repayment of financial liabilities | Addition to scope of consolidation | Other changes | 31 December |
|---|---|---|---|---|---|---|
| Bank loans | – | 70,000 | (70,000) | – | – | – |
| Loans | 5,475 | 3,516 | (3,072) | 2,431 | 54 | 8,404 |
| Liabilities to pension funds | 22,822 | 13,160 | (12) | 483 | 45 | 36,498 |
| Bonds | 380,638 | – | – | – | (110) | 380,528 |
| Other financial liabilities | 1,649 | – | (14,561) | 14,348 | (1,366) | 70 |
| **Financial liabilities** | **410,584** | **86,676** | **(87,645)** | **17,262** | **(1,377)** | **425,500** |
| Lease liabilities | 245,036 | – | (47,622) | 14,518 | 18,636 | 230,568 |
| **Financial liabilities and lease liabilities** | **655,620** | **86,676** | **(135,267)** | **31,780** | **17,259** | **656,068** |

### Cash flow from financial liabilities 2018

| in thousand CHF | 1 January | Proceeds from financial liabilities | Repayment of financial liabilities | Addition to scope of consolidation | Other changes | 31 December |
|---|---|---|---|---|---|---|
| Bank loans | – | – | (285) | 285 | – | – |
| Loans | 4,135 | 1,955 | (2,043) | 1,380 | 48 | 5,475 |
| Liabilities to pension funds | 18,595 | 4,227 | – | – | – | 22,822 |
| Bonds | 380,747 | – | – | – | (109) | 380,638 |
| Other financial liabilities | 2,813 | – | (2,559) | – | 1,395 | 1,649 |
| **Financial liabilities** | **406,290** | **6,182** | **(4,887)** | **1,665** | **1,334** | **410,584** |

## 20. Trade and other payables

| in thousand CHF | 2019 | 2018 |
|---|---|---|
| Trade payables | 291,789 | 268,972 |
| Contract liabilities | 7,972 | 8,058 |
| Other payables | 24,160 | 21,137 |
| **Trade and other payables** | **323,921** | **298,167** |

Contract liabilities are generally recognised in revenue within 12 months.

## 21. 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 | 2019 | 2018 |
|---|---|---|
| **1 January** | **6,373** | **7,615** |
| Change in accounting standards[1] | (398) | – |
| **1 January adjusted** | **5,975** | **7,615** |
| Addition | 2,611 | 1,173 |
| Use | (1,744) | (1,699) |
| Reversal | (811) | (716) |
| Addition to scope of consolidation | 636 | – |
| **31 December** | **6,667** | **6,373** |
| – of which current provisions | 3,727 | 2,657 |
| – of which non-current provisions | 2,940 | 3,716 |

[1] Adjustment upon adoption of IFRS 16 (refer to note 2 and note 15)

Provisions are recognised for the estimated cost of excess on damage not covered by insurance, contractual liabilities, customer complaints, litigation risk and ongoing legal proceedings. The position also includes a guarantee of CHF 2.0 million (previous year: CHF 2.9 million) for future lease payments related to the sale of a building in 2017.

The cash outflow from the non-current provisions is expected within the next 2 to 4 years.

## 22. Contingent liabilities and commitments

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

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

In March 2017, the Swiss Competition Commission (COMCO) issued a ruling, which imposed a fine of up to CHF 4.5 million on Galenica. The ruling relates to an investigation from 2012. Galenica regards the ruling issued by COMCO as incorrect in fact and in law. Galenica has taken the ruling to the Federal Administrative Court. A decision by the Federal Administrative Court is expected in 2020 at the earliest.

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

Galenica signed purchase agreements to acquire pharmacies and other business in the next few years. The purchase prices will be fixed at the time of transfer of ownership on the basis of net asset value and discounted cash flow. The unrecognised commitments are expected to involve payments of CHF 14.8 million (previous year: CHF 14.1 million) at the most. The purchase rights have an estimated volume of CHF 15.4 million (previous year: CHF 14.6 million). These purchase rights or obligations fall due between 2020 and 2023.

Galenica signed purchase agreements to acquire property, plant and equipment totalling CHF 8.0 million (previous year: CHF 1.5 million). The payments under these purchase commitments become due in 2020.

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

## 23. Employee benefit plans

### Accounting principles

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

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

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

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

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

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

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

As a result of the separation of Galenica from Vifor Pharma in 2017, changes to the Group's pension arrangements were implemented in 2018. The employees and pensioners of the Group previously covered by the Galenica Pension Fund (renamed to Vifor Pharma Pension Fund) were transferred to the Galenicare Pension Fund as at 1 January 2019, resulting in past service costs of CHF 41.2 million due to the alignment of benefits payable in 2018. The Galenicare Pension Fund was then renamed to Galenica Pension Fund and now covers all employees and pensioners of the Group.

All of the Galenica employees work in Switzerland and participate in the Galenica Pension Fund, Bern, which is financed by the employers and the employees. This plan is legally separate from Galenica and qualifies as a defined benefit plan. The pension plan covers the risks of the economic consequences of old age, disability and death in accordance with the Swiss Federal Occupational Retirement, Survivors and Disability Pension Plans Act (BVG/LPP). The pension plan is structured in the legal form of a foundation. All actuarial risks are borne by the foundation and regularly assessed by the Board of Trustees based on an annual actuarial appraisal prepared in accordance with BVG/LPP. The company's liabilities are limited to contributions that are based on a percentage of the insured salary under the Swiss law. Only in cases of a funded status that is significantly below a funded status of 100% as per the BVG/LPP law can Galenica be required to pay additional contributions. The calculations made in these appraisals do not apply the projected unit credit method required by IFRS. If the calculations made in accordance with the provisions of BVG/LPP reveal a funded status of less than 100%, suitable restructuring measures need to be introduced. The Board of Trustees consists of employee and employer representatives.

The defined benefit plan is funded. Plan assets are managed separately from Galenica's assets by the independent pension fund.

The most recent actuarial valuation was prepared as at 31 December 2019. The pension fund assets are invested in accordance with local investment guidelines. Galenica pays its contributions to the pension fund in accordance with the regulations defined by the fund.

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 2019 is for Galenica Pension Fund 115.5% (unaudited) and as at 31 December 2018 104.3% (final).

## Defined benefit plans and long-service awards

| in thousand CHF | Defined benefit plans 2019 | Long-service awards[1)] 2019 | Total 2019 | Defined benefit plans 2018 | Long-service awards[1)] 2018 | Total 2018 |
|---|---|---|---|---|---|---|
| Plan assets measured at fair value | 977,673 | – | 977,673 | 813,096 | – | 813,096 |
| Present value of defined benefit obligation | (1,016,989) | (13,715) | (1,030,704) | (872,208) | (14,595) | (886,803) |
| **Net carrying amount recognised in employee benefit liabilities** | **(39,316)** | **(13,715)** | **(53,031)** | **(59,112)** | **(14,595)** | **(73,707)** |

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

## Change in present value of defined benefit obligation

| in thousand CHF | Defined benefit plans 2019 | Long-service awards 2019 | Total 2019 | Defined benefit plans 2018 | Long-service awards 2018 | Total 2018 |
|---|---|---|---|---|---|---|
| **1 January** | **(872,208)** | **(14,595)** | **(886,803)** | **(780,461)** | **(15,167)** | **(795,628)** |
| Current service cost | (24,533) | (1,363) | (25,896) | (22,789) | (1,811) | (24,600) |
| Past service cost | (137) | 1,464 | 1,327 | (41,181) | – | (41,181) |
| Interest on defined benefit obligation | (7,301) | (120) | (7,421) | (5,510) | (103) | (5,613) |
| Actuarial gain/(loss) | (79,731) | (180) | (79,911) | (15,043) | 1,537 | (13,506) |
| Employee contributions | (15,824) | – | (15,824) | (13,925) | – | (13,925) |
| Benefits/awards paid | 4,724 | 1,181 | 5,905 | 14,542 | 1,002 | 15,544 |
| Change in scope of consolidation | (21,979) | (102) | (22,081) | (7,841) | (53) | (7,894) |
| **31 December** | **(1,016,989)** | **(13,715)** | **(1,030,704)** | **(872,208)** | **(14,595)** | **(886,803)** |

## Change in fair value of plan assets

| in thousand CHF | 2019 | 2018 |
|---|---|---|
| **1 January** | **813,096** | **825,849** |
| Interest on plan assets | 6,962 | 5,822 |
| Remeasurement gain/(loss) | 104,121 | (46,530) |
| Employee contributions | 15,824 | 13,925 |
| Employer contributions | 24,429 | 23,430 |
| Benefits paid | (4,724) | (14,542) |
| Administration cost | (922) | (934) |
| Change in scope of consolidation | 18,887 | 6,076 |
| **31 December** | **977,673** | **813,096** |

## Net defined benefit cost

| in thousand CHF | 2019 | 2018 |
|---|---|---|
| Current service cost | 24,533 | 22,789 |
| Past service cost | 137 | 41,181 |
| Net interest on net defined benefit liability | 339 | 122 |
| Administration cost | 922 | 934 |
| **Net defined benefit cost** | **25,931** | **65,026** |

## Remeasurement of net defined benefit liability

| in thousand CHF | 2019 | 2018 |
|---|---|---|
| Actuarial gain/(loss) due to: | | |
| – Changes in demographic assumptions | – | (7,187) |
| – Changes in financial assumptions | (98,746) | 11,754 |
| – Experience adjustments | 19,015 | (19,610) |
| Remeasurement of plan assets | 104,121 | (46,530) |
| Effect of change in asset ceiling | – | 60,515 |
| **Remeasurement of net defined benefit liability recognised in other comprehensive income** | **24,390** | **(1,059)** |

## Change in assumption and in estimate

In 2019, the decrease of the discount rate from 0.85 % to 0.15 % had a negative impact of CHF 98.7 million to the defined benefit liability.

During 2018, Galenica conducted a review of actuarial valuation parameters, including employee turnover rates and lump sum payment upon retirement. Considering actual historical patterns in the retail business Galenica used increased rates for its 2018 valuation from 100 % BVG 2015 in prior year to 125 % which reduced the defined benefit obligation of the Galenicare Pension Fund by CHF 5.7 million. Furthermore, the assumption on lump sum payments upon retirement was reduced for all pension plans from 50 % in prior year to 30 %. This resulted in an increase of the defined benefit obligation of CHF 26.5 million. Changes in mortality and early retirement assumptions led to another decrease of the defined benefit obligation of the Galenica Pension Fund by CHF 12.9 million. All effects were recognised in other comprehensive income.

## Change in asset ceiling

| in thousand CHF | 2019 | 2018 |
|---|---|---|
| **1 January** | **–** | **(60,081)** |
| Interest expense (income) | – | (434) |
| Change in asset ceiling recognised in other comprehensive income | – | 60,515 |
| **31 December** | **–** | **–** |

### Investment structure of plan assets

| in thousand CHF | 2019 | | 2018 | |
|---|---|---|---|---|
| Cash and cash equivalents | 51,150 | 5.2% | 34,818 | 4.3% |
| Debt instruments | 170,021 | 17.4% | 159,750 | 19.6% |
| Equity instruments | 422,740 | 43.2% | 334,713 | 41.2% |
| Real estate | 210,777 | 21.6% | 191,358 | 23.5% |
| Other investments | 122,985 | 12.6% | 92,457 | 11.4% |
| **Fair value of plan assets** | **977,673** | **100.0%** | **813,096** | **100.0%** |
| Current return on plan assets | | 13.4% | | (4.9%) |

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

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

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

Equity instruments are investments in equity funds and direct investments. These generally have quoted prices in active markets (level 1 of the fair value hierarchy). Equity instruments include shares of Galenica Ltd. with a fair value of CHF 10.9 million (previous year: CHF 10.7 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), infrastructures, senior loans, private equity and receivables. There are receivables from Group companies amounted to CHF 33.6 million (previous year: CHF 21.3 million). Investments in hedge funds are classified as alternative investments. They are primarily used for risk management purposes. In most cases, quoted prices in an active market are not available for hedge funds investments (level 2 or level 3 of the fair value hierarchy).

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

The pension funds manage the assets of 5,184 active members (previous year: 4,870) and 816 pensioners (previous year: 773).

Galenica does not use any pension fund assets.

### Basis for measurement

| | 2019 | 2018 |
|---|---|---|
| Discount rate | 0.15% | 0.85% |
| Salary development | 1.00% | 1.00% |
| Pension development | 0.00% | 0.00% |
| Mortality (mortality tables) | BVG 2015 GT (CMI), 1.5% | BVG 2015 GT (CMI), 1.5% |
| Turnover | BVG 2015 (100%–125%) | BVG 2015 (100%–125%) |

### Sensitivity analysis

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

| | 2019 | | 2018 | |
|---|---|---|---|---|
| in thousand CHF | Variations in assumptions | Impact on DBO | Variations in assumptions | Impact on DBO |
| Discount rate | +0.25% | (36,730) | +0.25% | (29,186) |
| | −0.25% | 39,781 | −0.25% | 30,949 |
| Salary development | +0.25% | 3,121 | +0.25% | 2,626 |
| | −0.25% | (3,086) | −0.25% | (2,140) |
| Mortality | +1 year | 30,333 | +1 year | 23,696 |
| | −1 year | (30,369) | −1 year | (24,189) |

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

The pension obligations have an average duration of 16.5 years (previous year: 15.4 years).

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

The employer contributions to the pension fund are estimated at CHF 25.3 million for 2020.

## 24. Shareholders' equity

### 24.1 Share capital and number of shares

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

Galenica has fully paid-up share capital of CHF 5,000,000, divided into 50,000,000 publicly listed shares with a par value of CHF 0.10 each, as at the reporting date. All shares have the same capital rights with the exception of the treasury shares which do not generate any dividends. Voting rights and restrictions on voting rights are described in detail in Galenica's Annual report 2019 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 2 May 2021 by issuing not more than 5,000,000 fully paid shares.

| Number of shares | Total shares Galenica Ltd. | Treasury shares | Outstanding shares |
|---|---|---|---|
| **Balance as at 31.12.2017** | **50,000,000** | **(992,643)** | **49,007,357** |
| Transactions with treasury shares | – | 169,230 | 169,230 |
| **Balance as at 31.12.2018** | **50,000,000** | **(823,413)** | **49,176,587** |
| Transactions with treasury shares | – | 162,563 | 162,563 |
| **Balance as at 31.12.2019** | **50,000,000** | **(660,850)** | **49,339,150** |

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

### 24.2 Changes in consolidated shareholder's equity

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

In the reporting period, 6,172 treasury shares (previous year: 5,848 treasury shares) were bought at an average price of CHF 56.03 (previous year: CHF 52.05) and 168,735 treasury shares (previous year: 175,078 treasury shares) were issued as share-based payments.

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

The acquisition of non-controlling interests reduced consolidated shareholders' equity by CHF 0.1 million in the previous year.

The Board of Directors will submit a proposal to the Annual General Meeting on 19 May 2020 to pay a dividend of CHF 1.80 per share entitled to receive dividend for the financial year 2019. For this purpose, CHF 0.90 is to be taken from the reserves from capital contributions and CHF 0.90 from the retained earnings. However, no dividend will be paid on treasury shares. Based on the number of treasury shares as at 31 December 2019, the total dividend would amount to CHF 88.8 million.

## 25. Financial instruments

### 25.1 Categories of financial instruments

#### Accounting principles

Galenica classifies its financial assets and financial liabilities at initial recognition. Subsequent measurement is at amortised cost or fair value through profit or loss.

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

Financial assets are generally derecognised when the contractual rights to the cash flows expire. Financial liabilities are derecognised when they have been settled.

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

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

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

**Financial liabilities at fair value through profit or loss**
Financial liabilities classified as at fair value through profit or loss correspond to contingent consideration liabilities from business combinations.

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

#### Carrying amounts of financial instruments 2019

| in thousand CHF | Financial assets at amortised costs | Financial liabilities at fair value through profit or loss | Financial liabilities at amortised costs | Total |
|---|---|---|---|---|
| Cash and cash equivalents | 90,532 | – | – | 90,532 |
| Trade and other receivables | 421,518 | – | – | 421,518 |
| Financial assets | 16,454 | – | – | 16,454 |
| Current financial liabilities | – | – | 44,630 | 44,630 |
| Current lease liabilities | – | – | 47,796 | 47,796 |
| Trade and other payables | – | – | 315,949 | 315,949 |
| Non-current financial liabilities | – | 70 | 380,800 | 380,870 |
| Non-current lease liabilities | – | – | 182,772 | 182,772 |
| **Total** | **528,504** | **70** | **971,947** | |

### Carrying amounts of financial instruments 2018

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

### Net gain/(loss) on financial instruments 2019

| in thousand CHF | Financial assets at amortised costs | Financial liabilities at amortised costs | Total |
|---|---|---|---|
| Net gain/(loss) on foreign exchange | 50 | (231) | (181) |
| Other financial result | (916) | (71) | (987) |
| Interest income | 683 | – | 683 |
| Interest expense | – | (2,720) | (2,720) |
| Interest expense on lease liabilities | – | (2,471) | (2,471) |
| Interest income on impaired trade receivables | 37 | – | 37 |
| Expected credit losses | 1,417 | – | 1,417 |
| **Net gain/(loss) recognised in profit or loss** | **1,271** | **(5,493)** | **(4,222)** |

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

### Net gain/(loss) on financial instruments 2018

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

## 25.2 Fair value measurement

### Accounting principles

**Fair value**

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

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

**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

| in thousand CHF | Carrying amount | 2019 Fair value | Carrying amount | 2018 Fair value |
|---|---|---|---|---|
| Non-current financial liabilities | 342 | 342 | 272 | 272 |
| Bonds (fair value level 1) | 380,528 | 393,330 | 380,638 | 381,620 |
| **Non-current financial liabilities** | **380,870** | **393,672** | **380,910** | **381,892** |

With the exception of non-current financial liabilities the carrying amounts of all financial instruments approximate to the fair value or fair value disclosure is not required (lease liabilities).

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

| in thousand CHF | 2019 | 2018 |
|---|---|---|
| **1 January** | **–** | **150** |
| Arising from business combinations | 70 | – |
| Payments (cash out) | – | (150) |
| **31 December** | **70** | **–** |

## 26. 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.

## 26.1 Liquidity risk

### Liquidity risk management

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

### Maturity profile of financial liabilities 2019

| in thousand CHF | Carrying amount | Total undiscounted cash flows | up to 3 months | 3 to 12 months | 2 to 5 years | Maturities more than 5 years |
|---|---|---|---|---|---|---|
| Trade and other payables | 315,949 | 315,949 | 314,563 | 1,386 | – | – |
| Current financial liabilities | 44,630 | 44,630 | 44,114 | 516 | – | – |
| Current lease liabilities | 47,796 | 49,905 | 12,653 | 37,252 | – | – |
| Non-current financial liabilities | 342 | 342 | – | – | 70 | 272 |
| Bonds | 380,528 | 396,600 | – | 2,800 | 210,200 | 183,600 |
| Non-current lease liabilities | 182,772 | 189,747 | – | – | 134,046 | 55,701 |
| **Total** | **972,017** | **997,173** | **371,330** | **41,954** | **344,316** | **239,573** |

### Maturity profile of financial liabilities 2018

| in thousand CHF | Carrying amount | Total undiscounted cash flows | up to 3 months | 3 to 12 months | 2 to 5 years | Maturities more than 5 years |
|---|---|---|---|---|---|---|
| Trade and other payables | 290,109 | 290,109 | 288,128 | 1,981 | – | – |
| Current financial liabilities | 29,674 | 29,674 | 28,025 | 1,649 | – | – |
| Non-current financial liabilities | 272 | 272 | – | – | – | 272 |
| Bonds | 380,638 | 399,400 | – | 2,800 | 211,200 | 185,400 |
| **Total** | **700,693** | **719,455** | **316,153** | **6,430** | **211,200** | **185,672** |

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 at the reporting date are disclosed.

## 26.2 Credit risk

### Credit risk management

Credit risk arise when a customer or a third party fails to meet its contractual obligations and causes Galenica a financial loss. Credit risk 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 risk is reviewed in the process of reporting to management. Allowances for expected credit losses are made in accordance with uniform guidelines on the measurement of outstanding receivables.

In addition, credit risk 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 | 2019 | 2018 |
|---|---|---|
| Cash and cash equivalents (without cash on hand) | 89,076 | 103,542 |
| Trade and other receivables | 421,518 | 371,648 |
| Loans and other financial assets | 16,454 | 13,908 |
| **Financial assets subject to credit risk** | **527,048** | **489,098** |

The financial assets subject to credit risk are primarily receivables.

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

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

No past due financial assets have been renegotiated. Based on past experience, Galenica considers the creditworthiness of non-past due trade receivables to be good. Trade receivables past due are analysed on an ongoing basis. These receivables are accounted for using individual bad debt allowances, adjusted for forward-looking factors specific to the debtors and the economic environment.

## 27. 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 | 2019 | 2018 |
|---|---|---|
| Current financial liabilities[1] | 44,630 | 28,025 |
| Current lease liabilities | 47,796 | – |
| Non-current financial liabilities[1] | 380,800 | 380,910 |
| Non-current lease liabilities | 182,772 | – |
| Cash and cash equivalents | (90,532) | (104,970) |
| Interest-bearing receivables | (8,811) | (3,517) |
| **Net debt** | **556,655** | **300,448** |
| Equity attributable to shareholders of Galenica Ltd. | 993,497 | 929,463 |
| Non-controlling interests | 6,043 | 4,136 |
| **Shareholders' equity** | **999,540** | **933,599** |
| **Gearing** | **55.7%** | **32.2%** |

[1] Excluding non-interest-bearing financial liabilities

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

## 28. Share-based payments

### Accounting principles

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

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

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

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

### Remuneration for members of the Board of Directors

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

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

### Share plan for members of senior management

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

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

### Long-term incentive plan (LTI)

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

23,592 performance share units (previous year: 23,199 performance share units) were granted to beneficiaries at a fair value of CHF 37.63 (previous year: CHF 45.05) at the beginning of the reporting period for the 2019 LTI plan.

### Employee share plan

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

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

In the reporting period, employees purchased 65,279 shares of Galenica Ltd. (previous year: 63,311 shares) at a price of CHF 36.00 (previous year: CHF 38.25). This includes a discount of CHF 15.41 (previous year: CHF 16.39) per share.

### Share-based payment expense

| in thousand CHF | 2019 | 2018 |
|---|---|---|
| Remuneration for members of the Board of Directors | 1,438 | 1,415 |
| Share plan for members of senior management | 2,002 | 2,132 |
| Long-term incentive plan (LTI) | 962 | 1,048 |
| Employee share plan | 1,006 | 1,037 |
| **Total** | **5,408** | **5,632** |

## 29. Related party transactions

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

### Related party transactions

As at the reporting date, trade receivables and loans to associates and joint ventures amounted to CHF 21.5 million (previous year: CHF 8.4 million). The trade receivables and loans primarily relate to Coop Vitality. The trade payables and loans from associates and joint ventures amounted to CHF 4.0 million (previous year: CHF 4.4 million) and the financial liabilities to pension funds amounted to CHF 36.5 million (previous year: CHF 22.8 million).

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

| in thousand CHF | 2019<br>Associates and joint ventures | 2019<br>Other related parties | 2018<br>Associates and joint ventures | 2018<br>Other related parties |
|---|---|---|---|---|
| Sale of goods | 134,889 | 5,283 | 131,372 | 5,293 |
| Income from services | 6,249 | – | 6,551 | – |
| Other income | 22 | – | 40 | – |
| Purchase of goods | 596 | – | 780 | 2 |
| Other operating costs | – | – | – | 46 |
| Financial income | 135 | – | 152 | – |
| Financial expenses | 9 | – | 10 | – |

### Remuneration of the Board of Directors and the Corporate Executive Committee

| in thousand CHF | 2019 | 2018 |
|---|---|---|
| Remuneration | 3,032 | 2,839 |
| Social security costs and pension expenses | 835 | 719 |
| Share-based payments | 2,328 | 2,166 |
| **Total** | **6,195** | **5,724** |

## 30. Subsequent events

The following transactions occurred between 31 December 2019 and 3 March 2020, the date on which the consolidated financial statements 2019 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 2020 from the date control was obtained.

The purchase consideration was CHF 9.5 million, the fair value of the provisional net assets resulting from these additions was estimated at CHF 3.8 million at the acquisition date. Since the transactions were concluded shortly before the consolidated financial statements were issued, it was not possible to disclose the additional information required by IFRS.

There were no further significant events after the reporting date.

## 31. Group companies

| | Registered office | Equity interest | Method of consolidation | Share capital in thousand | |
|---|---|---|---|---|---|
| **Health & Beauty** | | | | | |
| **Products & Brands** | | | | | |
| G-Pharma AG[1] | CH-Niederbipp | 100% | full | CHF | 100 |
| Swiss Pharma GmbH[1] | DE-Rülzheim | 100% | full | EUR | 51 |
| Verfora Ltd.[1] | CH-Villars-sur-Glâne | 100% | full | CHF | 100 |
| **Retail** | | | | | |
| Amavita Health Care Ltd.[1] | CH-Niederbipp | 100% | full | CHF | 100 |
| Bahnhof Apotheken Thun AG | CH-Thun | 50% | full | CHF | 200 |
| Bahnhof Apotheke Zürich AG | CH-Zürich | 100% | full | CHF | 300 |
| Bichsel Interlaken Holding AG | CH-Interlaken | 95% | full | CHF | 100 |
| Careproduct AG | CH-Oberwil-Lieli | 100% | full | CHF | 100 |
| Coop Vitality AG | CH-Bern | 49% | at equity | CHF | 5,000 |
| Coop Vitality Health Care GmbH | CH-Niederbipp | 49% | at equity | CHF | 20 |
| Coop Vitality Management AG | CH-Bern | 49% | at equity | CHF | 100 |
| Curarex Swiss AG[1] | CH-Frauenfeld | 100% | full | CHF | 100 |
| Galenica Investment AG[1] | CH-Bern | 100% | full | CHF | 1,000 |
| GaleniCare Ltd. | CH-Bern | 100% | full | CHF | 700 |
| GaleniCare Holding Ltd.[1] | CH-Bern | 100% | full | CHF | 50,000 |
| GaleniCare Management Ltd. | CH-Bern | 100% | full | CHF | 500 |
| Grosse Apotheke Dr. G. Bichsel AG | CH-Interlaken | 95% | full | CHF | 200 |
| Laboratorium Dr. G. Bichsel AG | CH-Unterseen | 95% | full | CHF | 200 |
| Laboratorium und Grosse Apotheke Dr. G. Bichsel Holding AG | CH-Interlaken | 95% | full | CHF | 200 |
| MediService Ltd.[1] | CH-Zuchwil | 100% | full | CHF | 363 |
| Puresense AG | CH-Gaiserwald | 40% | at equity | CHF | 100 |
| Sun Store Health Care Ltd.[1] | CH-Niederbipp | 100% | full | CHF | 100 |
| Winconcept Ltd. | CH-Bern | 100% | full | CHF | 100 |
| **Services** | | | | | |
| 1L Logistics AG[1] | CH-Burgdorf | 100% | full | CHF | 100 |
| Alloga Ltd.[1] | CH-Burgdorf | 100% | full | CHF | 8,332 |
| Dauf SA | CH-Barbengo-Lugano | 90.18% | full | CHF | 100 |
| Galexis Ltd.[1] | CH-Niederbipp | 100% | full | CHF | 25,000 |
| HCI Solutions Ltd.[1] | CH-Bern | 100% | full | CHF | 100 |
| Medifilm Ltd. | CH-Oensingen | 100% | full | CHF | 1,300 |
| PharmaBlist Ltd. | CH-Widnau | 100% | full | CHF | 100 |
| Pharmapool Ltd. | CH-Widnau | 100% | full | CHF | 962 |
| Pharmapool Zentralapotheke AG | CH-Widnau | 100% | full | CHF | 100 |
| Unione Farmaceutica Distribuzione SA[1] | CH-Barbengo-Lugano | 90.18% | full | CHF | 2,000 |
| **Corporate** | | | | | |
| Galenica Finanz Ltd.[1] | CH-Bern | 100% | full | CHF | 100 |

[1] Directly held by Galenica Ltd.

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To the General Meeting of
Galenica Ltd., Berne

Berne, 3 March 2020

# 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 2019 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 102 to 149) give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

**Basis for opinion**

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

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

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

**Key audit matters**

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

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

**Impairment risk of goodwill and other intangibles**

| | |
|---|---|
| **Risk** | As disclosed in note 16, goodwill amounts to CHF 755.4 million as at 31 December 2019 and represents a major asset of Galenica. In addition, Galenica recorded intangible assets with indefinite useful lives with a carrying amount of CHF 36.5 million. Both goodwill and intangible assets with indefinite useful lives are tested for impairment at least annually.<br>Auditing management’s annual impairment test was complex and judgmental due to the significant estimation required in the assessment. In particular, the assessment is sensitive to significant assumptions about future market and economic conditions, such as economic growth, expected market share, revenue and margin development. |
| **Our audit response** | We performed audit procedures that included, among others, assessing methodologies and testing the assumptions discussed above, the weighted average cost of capital (WACC), 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 considered the available headroom of CGUs and performed sensitivity analysis of assumptions to evaluate whether changes in assumptions as described in note 16 could cause the carrying amount to exceed its recoverable amount. Our audit procedures did not lead to any reservetions regarding the impairment tests of goodwill and other intangibles. |

**First-time adoption and significance of the new lease standard**

| | |
|---|---|
| **Risk** | As outlined in note 15, Galenica adopted IFRS 16 Leases for the first time in the 2019 consolidated financial statements. Galenica recorded the effect of the transition in the opening balance sheet as at 1 January 2019 and applied certain practical expedients as explained in note 15. The Group used the modified retrospective approach and recorded right-of-use assets of CHF 239.1 million and current and non-current lease liabilities of CHF 245.1 million in aggregate as of that date.<br>The assessment to record right-of-use assets and lease liabilities involves judgment and estimates made by management. In particular, the assessment and calculation include estimating the expected lease term based on contractual rights including extension and termination options, excluding certain payments such as variable lease payments and non-lease components, and discounting the expected payments with a discount rate, generally the incremental borrowing rate. |

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| | |
|---|---|
| | Additionally, right-of-use assets are depreciated over the shorter of the useful life or the end of the lease term, provided ownership is not transferred to the Group at the end of the lease term. Right-of-use assets are tested for impairment if indicators are present that these assets may not be recoverable.<br>The adoption of IFRS 16 Leases was considered important to our audit due to the large number of lease contracts, particularly in the retail segment, the overall amount recorded for right-of-use assets and lease liabilities and the significant judgment involved to calculate and record such assets and liabilities. |
| **Our audit response** | We obtained an understanding of the process implemented by Galenica for the adoption of IFRS 16 Leases. We assessed and tested the opening balance sheet adjustments by obtaining a list of all identified contracts and comparing these contracts to lease payments made in the prior period. We tested a sample of contracts and performed procedures to verify the completeness and accuracy of the data in the lease tool. Additionally, we discussed the methodology applied by Galenica to estimate the lease term, in particular the judgment made to determine whether it is reasonably certain that extension and termination options are exercised. We analyzed the underlying useful life and discussed impairment indicators for right-of-use assets of retail stores with generally lower margins. Finally, we assessed the incremental borrowing rate used to discount lease liabilities and compared the right-of-use assets with the related lease liabilities. Our audit procedures did not lead to any reservations regarding the first-time adoption of IFRS 16 Leases. |

**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

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|---|---|
| Roland Ruprecht<br>Licensed audit expert<br>(Auditor in charge) | Simone Wittwer<br>Licensed audit expert |