

Consolidated financial statements 2020 of the Galenica Group

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Consolidated statement of income

in thousand CHF	Notes	2020	2019
Net sales	6	3,479,753	3,301,002
Other income	7	15,053	13,516
Operating income		3,494,806	3,314,518
Cost of goods		(2,599,093)	(2,453,528)
Personnel costs	8, 24	(442,910)	(464,119)
Other operating costs	9	(147,804)	(142,191)
Share of profit from associates and joint ventures	18	4,486	5,656
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		309,484	260,336
Depreciation and amortisation	15, 16, 17	(96,157)	(90,845)
Earnings before interest and taxes (EBIT)		213,327	169,491
Financial income	10	789	727
Financial expenses	10	(5,523)	(6,825)
Earnings before taxes (EBT)		208,593	163,393
Income taxes	12	(35,875)	(38,093)
Net profit		172,718	125,300
Attributable to:			
– Shareholders of Galenica Ltd.		172,245	124,992
– Non-controlling interests		474	308

in CHF

Earnings per share	11	3.48	2.54
Diluted earnings per share	11	3.48	2.53

Consolidated statement of comprehensive income

in thousand CHF	Notes	2020	2019
Net profit		172,718	125,300
Translation differences		22	(1)
Items that may be reclassified subsequently to profit or loss		22	(1)
Remeasurement of net defined benefit liability	24	(45,018)	24,390
Income taxes from remeasurement of net defined benefit liability	12	7,710	(5,225)
Share of other comprehensive income from joint ventures	18	(1,187)	(92)
Items that will not be reclassified to profit or loss		(38,495)	19,073
Other comprehensive income		(38,474)	19,072
Comprehensive income		134,245	144,372
Attributable to:			
- Shareholders of Galenica Ltd.		133,818	144,132
- Non-controlling interests		427	240

Consolidated statement of financial position

Assets

in thousand CHF	Notes	2020	2019
Cash and cash equivalents		59,781	90,532
Trade and other receivables	14	406,360	421,518
Inventories	13	306,682	277,804
Prepaid expenses and accrued income		39,241	32,995
Current assets		35.9% 812,064	37.2% 822,849
Property, plant and equipment	15	268,055	267,558
Right-of-use assets	16	210,325	224,934
Intangible assets	17	916,222	846,226
Investments in associates and joint ventures	18	22,949	21,482
Financial assets	19	18,471	16,454
Deferred tax assets	12	10,852	10,076
Non-current assets		64.1% 1,446,874	62.8% 1,386,730
Assets		100.0% 2,258,938	100.0% 2,209,579

Liabilities and shareholders' equity

in thousand CHF	Notes	2020	2019
Financial liabilities	20	41,117	44,630
Lease liabilities	16	47,209	47,796
Trade and other payables	21	314,458	323,921
Tax payables		11,829	13,798
Accrued expenses and deferred income		128,588	119,535
Provisions	22	3,580	3,727
Current liabilities		24.2% 546,780	25.1% 553,407
Financial liabilities	20	381,514	380,870
Lease liabilities	16	170,792	182,772
Deferred tax liabilities	12	48,267	37,019
Employee benefit liabilities	24	57,411	53,031
Provisions	22	819	2,940
Non-current liabilities		29.2% 658,803	29.7% 656,632
Liabilities		53.4% 1,205,583	54.8% 1,210,039
Share capital	25	5,000	5,000
Reserves		1,042,282	988,497
Equity attributable to shareholders of Galenica Ltd.		1,047,282	993,497
Non-controlling interests		6,073	6,043
Shareholders' equity	25	46.6% 1,053,355	45.2% 999,540
Liabilities and shareholders' equity		100.0% 2,258,938	100.0% 2,209,579

Consolidated statement of cash flows

in thousand CHF	2020	2019
Net profit	172,718	125,300
Income taxes	35,875	38,093
Depreciation and amortisation	96,157	90,845
(Gain)/loss on disposal of non-current assets	(213)	(340)
Increase/(decrease) in provisions and employee benefit liabilities	(43,722)	116
Net financial result	4,734	6,098
Share of profit from associates and joint ventures	(4,486)	(5,656)
Share-based payments	4,704	5,408
Interest received	358	638
Interest paid	(4,934)	(4,889)
Other financial receipts/(payments)	(226)	(277)
Dividends received	3,087	4,165
Income taxes paid	(25,288)	(22,096)
Cash flow from operating activities before working capital changes	238,763	237,405
Change in trade and other receivables	23,715	(29,447)
Change in inventories	(21,704)	6,809
Change in trade and other payables	(16,053)	20,020
Change in other net current assets	(362)	15,651
Working capital changes	(14,403)	13,033
Cash flow from operating activities	224,360	250,438
Investments in property, plant and equipment	(36,492)	(33,749)
Investments in intangible assets	(19,195)	(19,839)
Investments in associates and joint ventures	(1,256)	–
Investments in financial assets	(6,544)	(9,901)
Proceeds from property, plant and equipment and intangible assets	539	617
Proceeds from financial assets	5,668	3,214
Proceeds from assets held for sale	–	1,872
Purchase of subsidiaries (net cash flow)	(58,369)	(77,108)
Cash flow from investing activities	(115,649)	(134,894)
Dividends paid	(89,216)	(83,924)
Purchase of treasury shares	(183)	(346)
Proceeds from sale of treasury shares	3,961	2,880
Proceeds from financial liabilities	125,973	86,676
Repayment of financial liabilities	(130,771)	(87,645)
Payment of lease liabilities	(49,065)	(47,622)
Purchase of non-controlling interests	(189)	–
Cash flow from financing activities	(139,490)	(129,981)
Effects of exchange rate changes on cash and cash equivalents	27	(1)
Increase in cash and cash equivalents	(30,752)	(14,438)
Cash and cash equivalents as at 1 January ¹⁾	90,532	104,970
Cash and cash equivalents as at 31 December¹⁾	59,781	90,532

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 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
Net profit			172,245	172,245	474	172,718
Other comprehensive income			(38,427)	(38,427)	(47)	(38,474)
Comprehensive income			133,818	133,818	427	134,245
Dividends			(88,963)	(88,963)	(63)	(89,026)
Transactions on treasury shares		6,146	(2,061)	4,085	–	4,085
Share-based payments			4,700	4,700	–	4,700
Change in non-controlling interests			145	145	(334)	(189)
Balance as at 31 December 2020	5,000	(19,817)	1,062,099	1,047,282	6,073	1,053,355

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 2020 for publication on 4 March 2021. The 2020 consolidated financial statements will be submitted for approval to the Annual General Meeting on 12 May 2021.

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 16)

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 17)

Goodwill and other intangible assets with an indefinite useful life are tested for impairment at least once a year. This involves estimating the value in use of the cash-generating unit (CGU) or group of CGUs to which the goodwill is allocated. It also requires a forecast of expected future cash flows as well as the application of an appropriate discount rate to calculate the present value of these cash flows.

Employee benefit plans and other non-current employee benefits (note 24)

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

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 5, Business combinations.

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 2020 Galenica adopted the following amended International Financial Reporting Standards:

- 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 IFRS 16 – Covid-19-Related rent concessions (1 June 2020, early adopted)

These changes have no or no material impact on the financial position, financial performance and cash flows of Galenica nor on disclosures in these consolidated financial statements. 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 2021 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 7, IFRS 9, IAS 39 and IFRS 16 – Interest Rate Benchmark Reform – phase 2 (1 January 2021)
- Amendments to IFRS 3 – Reference to the conceptual framework (1 January 2022)
- Amendments to IAS 16 – Proceeds before intended use (1 January 2022)
- Amendments to IAS 37 – Onerous Contracts – cost of fulfilling a contract (1 January 2022)
- Annual Improvements 2018-2020 Cycle (1 January 2022)
- Amendments to IAS 1 – Classification of liabilities as current or non-current (1 January 2023)

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. Significant event

COVID-19 pandemic

The year 2020 has been impacted by the coronavirus (COVID-19) in particular when the Federal Government decided the lockdown in mid-March. The lockdown was associated with exceptionally high sales particularly at the start of March by pharmacies and other group companies. Our logistic and distribution companies that supply the entire healthcare market recorded sales which exceeded what was believed to be the capacity limits. In April, during the national lockdown and due to many customers and patients having stocked up their inventory in March, customer traffic and sales in pharmacies declined rapidly and the situation for logistics companies in the Services segment returned to normal. From May, there was a gradual normalisation of the businesses with the exception of sales in pharmacies in highly frequented locations such as train stations and airports where a normal sales volume had not yet been achieved.

The decline in sales in pharmacies at high-frequency locations in railway stations and airports due to COVID-19 had a negative impact of 1.9% on the development of sales in the Retail Business sector in 2020.

Development of sales in the Products & Brands Business sector varied widely year-on-year: sales in the cold and beauty product categories as well as travel-related and ibuprofen products were very negatively impacted by COVID-19. Additional sales from hygiene and prevention products only partially compensated for these losses. Due to COVID-19-related declines in sales of Algifor® (ibuprofen) as well as cold, beauty and travel-related products, sales in the Products & Brands Business sector fell 7.2% on a comparable basis (excluding expansion effect) in the Swiss market. In the Services Business sector additional sales due to COVID-19 contributed by an estimated 1.4% to the sales increase.

COVID-19 also caused additional costs. Galenica invested a great deal in protecting employees and customers. Handling the massive volume increases required additional staff and a high degree of coordination. Lessors granted no rent concession, which had no effect on the lease payments.

4. 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 522 locations Galenica's pharmacy network, the largest in Switzerland. With 366 pharmacies of its own and 156 partner pharmacies, Retail has attractive outlets throughout the country. Galenica's own pharmacies comprise the Amavita brand with 179 branches and the Sun Store brand with 94 branches. Galenica also operates a chain of 87 pharmacies in partnership with Coop under the Coop Vitality brand. Galenica's pharmacy network also covers the speciality pharmacy Mediservice, which is focused on medication for treatment of patients at home, 5 majority interests in pharmacies and 151 Winconcept partner pharmacies and 5 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 2020

in thousand CHF	Health & Beauty	Services	Corporate	Eliminations	Group
Net sales	1,671,383	2,631,654	17,581	(840,864)	3,479,753
Intersegmental net sales	(67,330)	(757,243)	(16,291)	840,864	–
Net sales to third parties	1,604,053	1,874,410	1,290	–	3,479,753
Other income	6,591	8,905	856	(1,299)	15,053
Share of profit from associates and joint ventures	3,135	–	–	1,350	4,486
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	196,903	70,574	(221)	42,228¹⁾	309,484
Depreciation and amortisation	(71,281) ²⁾	(25,098)	(34)	256	(96,157)
Earnings before interest and taxes (EBIT)	125,623	45,476	(255)	42,484¹⁾	213,327
Interest income					764
Interest expense					(5,237)
Other net financial result					(261)
Earnings before taxes (EBT)					208,593
Income taxes					(35,875)
Net profit					172,718
Assets	1,601,770	853,364	963,767	(1,159,963)³⁾	2,258,938
Investments in associates and joint ventures	26,471	49	–	(3,571)	22,949
Liabilities	1,108,190	564,372	629,531	(1,096,510)⁴⁾	1,205,583
Investments in property, plant and equipment	19,051	17,739	–	(306)	36,484 ⁵⁾
Investments in intangible assets	6,069	14,556	–	(131)	20,495 ⁶⁾
Employees as at 31 December (FTE)	4,025	1,477	36	–	5,538

¹⁾ Including the effects of IAS 19 from defined benefit plans and long-service awards of CHF 43.0 million

²⁾ Including net impairment on right-of-use assets of CHF -2.7 million (refer to note 16)

³⁾ Of which elimination of intercompany positions CHF -1,151.3 million and other unallocated amounts CHF -8.7 million

⁴⁾ Of which elimination of intercompany positions CHF -1,151.3 million and other unallocated amounts CHF 54.8 million

⁵⁾ Of which non-cash investments of CHF 0.6 million

⁶⁾ Of which non-cash investments of CHF 2.0 million

Geographic areas

in thousand CHF	Switzerland	Other countries	Group
Net sales to third parties	3,452,571	27,182	3,479,753
Non-current assets ¹⁾	1,417,505	46	1,417,551

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 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 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 on right-of-use assets of CHF –0.1 million (refer to note 16)

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

5. 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 2020

Acquisition of pharmacies. Galenica 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 42.6 million, of which CHF 40.1 million was settled in cash and CHF 2.5 million was offset against trade receivables. The fair value of the net identifiable assets amounts to CHF 13.5 million at the acquisition date. The goodwill of CHF 29.1 million was allocated to the Retail and Services business sectors and corresponds to the added value of the pharmacies based on their locations. Transaction costs were insignificant.

Acquisition of Hedoga AG. On 1 July 2020, Galenica acquired 100% of the shares in the Swiss company Hedoga AG. Hedoga AG is the parent company of the Hedoga Group with its two operating companies Iromedica AG (Swiss based) and Dr. A.&L. Schmidgall GmbH & Co KG (Austria based). The main activity of the Hedoga Group is to market over-the-counter (OTC) medicines, medical devices, food supplements and cosmetics.

The purchase consideration amounted to EUR 28.7 million (CHF 30.7 million) and was fully settled in cash. The fair value of the net identifiable assets amounted to CHF 23.7 million at the acquisition date. The goodwill of CHF 7.0 million was allocated to the Products & Brands business sector and corresponds to the added value based on the acquirer-specific synergies expected to arise from the acquisition in strengthening its leading position in the Swiss consumer healthcare (CHC) market and the know-how of the employees gained. The acquisition also strengthens Verfora's export business in selected markets, particularly in Europe. Acquired intangible assets include trademarks with an indefinite useful life of CHF 20.5 million. Transaction costs of CHF 0.5 million were recognised in other operating costs.

Pro forma figures for acquisitions made in 2020 for the full 2020 financial year

Since their inclusion in Galenica's scope of consolidation, the businesses acquired contributed net sales of CHF 29.9 million and an operating result (EBIT) of CHF 2.2 million to the Group's results. If these acquisitions had occurred on 1 January 2020, they would have contributed additional net sales of CHF 34.8 million and increased EBIT by CHF 2.1 million.

Business combinations

in thousand CHF	Hedoga Group	Pharmacies	2020 Total	2019 Total
Cash and cash equivalents	5,119	7,398	12,516	31,475
Trade receivables	3,182	5,937	9,119	12,990
Inventories	4,511	2,646	7,157	7,985
Assets held for sale	–	–	–	1,872
Property, plant and equipment	119	1,374	1,493	24,754
Right-of-use assets	49	10,276	10,325	14,518
Intangible assets	20,774	481	21,255	3,169
Other current and non-current assets	737	2,186	2,923	5,319
Trade payables	(2,201)	(3,130)	(5,331)	(5,451)
Financial liabilities	–	(1,041)	(1,041)	(17,262)
Lease liabilities	(49)	(10,276)	(10,325)	(14,518)
Net deferred tax liabilities	(2,859)	(184)	(3,043)	(5,088)
Other current and non-current liabilities	(5,655)	(2,151)	(7,806)	(7,936)
Fair value of net assets	23,728	13,515	37,242	51,827
Goodwill	7,021	29,122	36,143	63,972
Non-controlling interests	–	–	–	(1,844)
Fair value of previously held interests	–	–	–	(6,738)
Purchase consideration	30,749	42,637	73,386	107,217
Cash acquired	(5,119)	(7,398)	(12,516)	(31,475)
Offset against trade receivables	–	(2,500)	(2,500)	–
Contingent consideration	–	–	–	(70)
Net cash flow from current business combinations	25,630	32,739	58,369	75,672
Payment of consideration due to previous business combinations			–	1,436
Net cash flow from business combinations			58,369	77,108

Business combinations 2019

Acquisition of pharmacies. Galenica 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 is due in 2022. The fair value of the net identifiable assets amounted 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 18). 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. Transaction costs of CHF 0.2 million were recognised in other operating costs.

6. 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 2020

in thousand CHF	Health & Beauty		Services	Corporate	Eliminations	Group
	Products & Brands	Retail				
Sale of goods	110,335	1,477,323	2,510,594	–	(766,598)	3,331,654
Sale of services	1,400	78,812	121,060	17,581	(70,753)	148,099
Net sales	111,735	1,556,135	2,631,654	17,581	(837,351)	3,479,753
Intersegmental net sales	(54,384)	(9,433)	(757,243)	(16,291)	837,351	–
Net sales to third parties	57,351	1,546,702	1,874,410	1,290	–	3,479,753
– of which sale of goods to third parties	55,951	1,475,461	1,800,242	–	–	3,331,654
– of which sale of services to third parties	1,400	71,241	74,169	1,290	–	148,099

Net sales 2019

in thousand CHF	Health & Beauty		Services	Corporate	Eliminations	Group
	Products & Brands	Retail				
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

7. Other income

in thousand CHF	2020	2019
Income from own work capitalised	5,084	5,235
Rental income from operating leases	2,289	2,496
Gain on disposal of property, plant and equipment	357	360
Other operating income	7,322	5,425
Other income	15,053	13,516

8. Personnel costs

in thousand CHF	2020	2019
Salaries and wages	400,770	383,168
Social security costs and pension expenses	13,299	52,194
Other personnel costs	28,841	28,757
Personnel costs	442,910	464,119
Average number of employees (FTE)	5,468	5,264

Personnel costs contain income for defined benefit plans of CHF 17.2 million (previous year: expenses of CHF 25.6 million). Adjusting the pension fund regulations (lower conversion rate) led to past service gain of CHF 48.3 million in social security costs and pension expenses in 2020 (refer to note 24). Expenses for share-based payments of CHF 4.7 million (previous year: CHF 5.4 million) are also a part of personnel costs (refer to note 29).

9. Other operating costs

in thousand CHF	2020	2019
Maintenance and repairs	18,615	16,262
Operating and production costs	53,786	52,260
Rental and other lease expenses ¹⁾	9,253	10,248
Administration costs	36,502	32,950
Marketing and sales costs	27,772	28,849
Non-income taxes	1,733	1,602
Loss on disposal of property, plant and equipment	144	20
Other operating costs	147,804	142,191

¹⁾ Of which other lease expenses (incidental expenses) of CHF 4.2 million (previous year: CHF 4.4 million)

Research and development

During the reporting period, expenses for research and development totalling CHF 15.7 million were recognised directly in other operating costs (previous year: CHF 13.4 million).

10. Financial result

in thousand CHF	2020	2019
Interest income	764	720
Other financial income	25	7
Financial income	789	727
Interest expense	2,867	2,720
Net interest expense from employee benefit plans	49	459
Interest expense on lease liabilities	2,321	2,471
Other financial costs	65	994
Net foreign exchange differences	221	181
Financial expenses	5,523	6,825
Net financial expenses	4,734	6,098

11. 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.

	2020	2019
Number of shares	50,000,000	50,000,000
Average number of treasury shares	(572,925)	(729,702)
Average number of outstanding shares	49,427,075	49,270,298
Effect from share-based payments	57,832	80,529
Theoretical average number of outstanding shares (diluted)	49,484,907	49,350,827

	2020	2019
Net profit – attributable to shareholders of Galenica Ltd. (in thousand CHF)	172,245	124,992
Earnings per share (in CHF)	3.48	2.54
Diluted earnings per share (in CHF)	3.48	2.53

12. 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	2020	2019
Current income taxes	20,940	21,606
Income taxes of prior periods	(203)	(295)
Deferred income taxes	15,137	16,782
Income taxes	35,875	38,093

Tax reconciliation

in thousand CHF	2020	2019
Earnings before taxes (EBT)	208,593	163,393
Weighted income tax rate in % of EBT	17.6%	19.2%
Expected income taxes	36,782	31,327
Effects of changes in tax rates	(880)	(513)
Effects of unrecognised losses in the current year	262	15
Realisation of unrecognised tax losses of prior periods	–	(380)
Recognition of tax losses of prior periods	–	(243)
Items from prior periods and other items	(289)	7,887
Effective income taxes	35,875	38,093
Effective income tax rate in % of EBT	17.2%	23.3%

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 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	2020			2019		
	Deferred tax assets	Deferred tax liabilities	Net carrying amount	Deferred tax assets	Deferred tax liabilities	Net carrying amount
Current assets	2,521	(22,343)	(19,822)	2,733	(23,213)	(20,480)
Property, plant and equipment	20	(5,680)	(5,660)	–	(6,287)	(6,287)
Right-of-use assets	–	(36,096)	(36,096)	–	(40,246)	(40,246)
Intangible assets	9,796	(17,681)	(7,885)	10,802	(14,694)	(3,892)
Investments	–	(10,162)	(10,162)	–	(10,162)	(10,162)
Financial assets	–	(7,411)	(7,411)	–	(8,207)	(8,207)
Lease liabilities	37,390	–	37,390	41,248	–	41,248
Provisions	235	(1,379)	(1,144)	233	(1,117)	(884)
Employee benefit plans	10,334	–	10,334	10,076	–	10,076
Other temporary differences	164	(1,149)	(986)	150	(1,000)	(850)
Shareholders' equity	531	–	531	726	–	726
Deferred taxes due to temporary differences	60,992	(101,902)	(40,910)	65,968	(104,926)	(38,958)
Tax loss carryforwards	3,495	–	3,495	12,015	–	12,015
Gross deferred taxes	64,487	(101,902)	(37,415)	77,983	(104,926)	(26,943)
Netting of assets and liabilities	(53,635)	53,635		(67,907)	67,907	
Net deferred taxes	10,852	(48,267)		10,076	(37,019)	

Analysis of net deferred taxes

in thousand CHF	2020	2019
1 January	(26,943)	(51)
Recognised as income taxes in profit or loss		
– Change in temporary differences	(7,926)	(7,900)
– Fiscal realisation of recognised tax loss carryforwards	(8,614)	(9,424)
– Tax loss carryforwards taken into account for the first time	550	29
– Tax loss carryforwards no longer taken into account	(27)	–
– Effects of changes in tax rates	880	513
Recognised in other comprehensive income	7,710	(5,225)
Recognised in shareholders' equity (related to share-based payments)	(4)	203
Addition to scope of consolidation	(3,043)	(5,088)
Translation differences	1	–
31 December	(37,415)	(26,943)

Temporary differences on which no deferred taxes have been recognised

in thousand CHF	2020	2019
Investments in subsidiaries	434,946	402,565

Tax loss carryforwards and tax credits

in thousand CHF	2020		2019	
	Tax loss carry-forwards/tax credits	Tax effect	Tax loss carry-forwards/tax credits	Tax effect
Tax loss carryforwards and tax credits	23,542	4,013	68,901	12,039
- of which capitalised as deferred tax assets	(1,372)	(290)	–	–
- of which netted with deferred tax liabilities	(19,012)	(3,205)	(68,809)	(12,015)
Unrecognised tax loss carryforwards and tax credits	3,157	518	92	24
Of which expire:				
- within 1 year	2	1	3	1
- in 2 to 5 years	18	7	23	9
- in more than 5 years	3,137	510	66	14

13. 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	2020	2019
Gross carrying amount as at 1 January	294,029	290,757
Addition to scope of consolidation	7,157	7,985
Change in inventories	23,538	(4,713)
Translation differences	19	–
Gross carrying amount as at 31 December	324,743	294,029
Allowance as at 1 January	(16,225)	(14,129)
Addition	(2,252)	(3,518)
Use	418	1,422
Translation differences	(2)	–
Allowance as at 31 December	(18,061)	(16,225)
Net carrying amount as at 31 December	306,682	277,804

14. 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	2020	2019
Trade receivables	397,252	414,179
Bad debt allowances	(7,983)	(8,595)
Other receivables	17,091	15,934
Trade and other receivables	406,360	421,518

Change in bad debt allowances for trade receivables

in thousand CHF	2020	2019
1 January	(8,595)	(10,304)
Addition	(1,112)	(564)
Use	1,176	653
Reversal	553	1,620
Translation differences	(4)	–
31 December	(7,983)	(8,595)

Maturity profile of trade receivables

in thousand CHF	2020			2019		
	Gross trade receivables	Bad debt allowances	Net trade receivables	Gross trade receivables	Bad debt allowances	Net trade receivables
Not past due	354,886	(2,718)	352,168	349,524	(2,140)	347,384
Past due:						
– 1 to 30 days	25,522	(617)	24,905	43,368	(501)	42,867
– 31 to 60 days	6,104	(193)	5,911	9,194	(1,876)	7,318
– 61 to 90 days	3,883	(616)	3,267	5,270	(1,192)	4,078
– more than 90 days	6,856	(3,838)	3,018	6,823	(2,886)	3,937
Total	397,252	(7,983)	389,269	414,179	(8,595)	405,584

15. 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	5–15
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 31.12.2018	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
Addition	9,921	8,270	18,293	36,484
Disposal	–	–	(326)	(326)
Reclassification	617	(1,633)	1,021	4
Depreciation	(15,511)	–	(21,647)	(37,158)
Addition to scope of consolidation	446	–	1,046	1,493
Net carrying amount as at 31.12.2020	167,982	20,211	79,862	268,055

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

Overview as at 31.12.2020

Cost	334,329	20,211	276,168	630,708
Accumulated depreciation and impairment	(166,347)	–	(196,306)	(362,653)
Net carrying amount as at 31.12.2020	167,982	20,211	79,862	268,055

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

16. 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 or 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.

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
Addition	13,751	21	13,772
Reassessment of existing lease contracts	12,397	3	12,400
Depreciation	(48,186)	(184)	(48,370)
Impairment	(2,822)	—	(2,822)
Reversal of impairment	86	—	86
Addition to scope of consolidation	10,276	49	10,325
Net carrying amount as at 31.12.2020	210,074	251	210,325

Lease liabilities

in thousand CHF	2020	2019
Net carrying amount as at 1 January	230,568	245,036
Addition	13,772	9,017
Reassessment of existing lease contracts	12,400	9,619
Interest expense on lease liabilities	2,321	2,471
Repayment of lease liabilities (including interest)	(51,386)	(50,093)
Addition to scope of consolidation	10,325	14,518
Net carrying amount as at 31 December	218,001	230,568
- of which current lease liabilities	47,209	47,796
- of which non-current lease liabilities	170,792	182,772

Leases recognised in profit or loss

in thousand CHF	2020	2019
Rental income from operating leases (included in other income)	2,289	2,496
Short-term lease expense (included in other operating costs)	(1,460)	(1,508)
Low-value lease expense (included in other operating costs)	(19)	(3)
Variable lease expense (included in other operating costs)	(3,590)	(4,343)
Depreciation of right-of-use assets	(48,370)	(47,214)
Impairment of right-of-use assets	(2,822)	(183)
Reversal of impairment of right-of-use assets	86	104
Interest expense on lease liabilities	(2,321)	(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 was CHF 56.5 million (previous year: CHF 55.9 million).

Maturity profile of undiscounted lease liabilities

in thousand CHF	2020	2019
Up to 3 months	13,009	12,653
In 3 to 12 months	36,261	37,252
In 2 years	42,951	44,468
In 3 years	35,974	36,974
In 4 to 5 years	49,108	52,604
In 6 to 10 years	41,843	48,421
In more than 10 years	7,171	7,280
Total future cash flows from undiscounted lease liabilities	226,317	239,652

Possible future cash outflows related to extension options in an amount of CHF 124.9 million (previous year: CHF 114.4 million) are not included in lease liabilities because it is not reasonably certain that these options would be exercised.

The cash outflows for variable lease expenses in 2021 is expected to be similar to the amount recognised in 2020.

Galenica has entered into various lease contracts that have not yet commenced as at 31 December 2020. The future lease payments for these non-cancellable lease contracts amount to CHF 16.5 million (previous year: CHF 4.6 million).

17. 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 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 31.12.2018	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
Addition	1,512	–	18,982	–	20,495
Reclassification	–	–	(4)	–	(4)
Amortisation	(1,189)	–	(6,703)	–	(7,893)
Addition to scope of consolidation	761	20,495	–	36,143	57,399
Net carrying amount as at 31.12.2020	5,739	57,022	61,872	791,588	916,222
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
Overview as at 31.12.2020					
Cost	14,463	57,022	126,352	791,588	989,426
Accumulated amortisation and impairment	(8,724)	–	(64,480)	–	(73,204)
Net carrying amount as at 31.12.2020	5,739	57,022	61,872	791,588	916,222

¹⁾ Including trademarks, patents, licences and customer relationships

Trademarks with indefinite useful lives

This position includes trademarks 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	2020	2019
Carrying amount	57,022	36,528
Growth rate	1.0%	1.0%
Discount rate	6.2%	6.2%

According to the results of impairment testing for 2020 and 2019 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 2020 and 2019 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.

in thousand CHF	2020			2019		
	Carrying amount	Growth rate	Discount rate	Carrying amount	Growth rate	Discount rate
Products & Brands	33,196	1.0%	6.6%	26,175	1.0%	6.6%
Retail	663,798	1.0%	6.5%	636,858	1.0%	6.6%
Services	94,593	1.0%	6.6%	92,412	1.0%	6.6%
Total	791,588			755,445		

According to the results of impairment testing for 2020 and 2019 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 2020 and 2019 did not reveal that a reasonable possible change in assumption would lead to an impairment.

18. Investments in associates and joint ventures

Accounting principles

Investments in associates where Galenica holds between 20% and 50% of the voting rights and investments in joint ventures are initially recognised at cost and subsequently accounted for using the equity method. In the accounting periods following the acquisition, the carrying amount of the investment is increased by the share in profit or reduced by the share in loss 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.

in thousand CHF	2020	2019
Net carrying amount as at 1 January	21,482	26,820
Share of profit from associates and joint ventures	4,486	3,274
Remeasurement of previous investments held at equity	–	2,383 ¹⁾
Change in scope of consolidation	–	(6,738) ¹⁾
Remeasurement of net defined benefit liability from joint ventures	(1,187)	(92)
Investments	1,256	–
Dividends received	(3,087)	(4,165)
Net carrying amount as at 31 December	22,949	21,482
– of which joint ventures	22,540	20,966

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

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	2020	2019
Current assets	38,468	38,742
Non-current assets	110,965	112,033
– of which right-of-use assets	53,146	56,014
Current liabilities	46,469	47,339
– of which current lease liabilities	10,164	9,917
Non-current liabilities	55,609	59,221
– of which non-current lease liabilities	44,477	47,640
Equity before appropriation of earnings	47,354	44,215
Operating income	232,507	213,289
EBIT	12,163	10,277
Net profit	9,399	7,862
Remeasurement of net defined benefit liability recognised in other comprehensive income	(2,423)	(187)
Cash flow from operating activities	20,219	22,050

The net carrying amount of the investment in Coop Vitality is CHF 23.2 million as at 31 December 2020 (previous year: CHF 21.7 million). Unrealised profits are not considered in this amount.

19. Financial assets

Accounting principles

Non-current financial assets comprise loans, time deposits with a term to maturity of more than twelve months, rental guarantee deposits and derivative financial instruments with a positive fair value and a residual term to maturity of more than twelve months. 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. 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	2020	2019
Loans	10,803	11,827
Other financial assets	7,669	4,627
Financial assets	18,471	16,454

20. Financial liabilities

in thousand CHF	2020	2019
Loans	4,643	8,404
Liabilities to pension funds	36,540	36,498
Bonds	380,417	380,528
Other financial liabilities	1,030	70
Financial liabilities	422,631	425,500
- of which current financial liabilities	41,117	44,630
- of which non-current financial liabilities	381,514	380,870

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 101.60% and 105.20% respectively as at 31 December 2020 (previous year: 101.85% and 105.35% respectively).

Cash flow from financial liabilities and lease liabilities 2020

in thousand CHF	1 January	Proceeds from financial liabilities	Repayment of financial liabilities	Addition to scope of consolidation	Other changes	31 December
Bank loans	–	125,000	(125,448)	448	–	–
Loans	8,404	849	(5,263)	594	60	4,643
Liabilities to pension funds	36,498	124	(60)	–	(22)	36,540
Bonds	380,528	–	–	–	(111)	380,417
Other financial liabilities	70	–	–	–	960	1,030
Financial liabilities	425,500	125,973	(130,771)	1,041	887	422,631
Lease liabilities	230,568	–	(49,065)	10,325	26,173	218,001
Financial liabilities and lease liabilities	656,068	125,973	(179,836)	11,366	27,060	640,632

Cash flow from financial 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

21. Trade and other payables

in thousand CHF	2020	2019
Trade payables	289,609	291,789
Contract liabilities	7,045	7,972
Other payables	17,804	24,160
Trade and other payables	314,458	323,921

Contract liabilities are generally recognised in revenue within 12 months.

22. Provisions

Accounting principles

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

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

in thousand CHF	2020	2019
1 January	6,667	5,975
Addition	875	2,611
Use	(2,300)	(1,744)
Reversal	(1,610)	(811)
Addition to scope of consolidation	767	636
31 December	4,398	6,667
- of which current provisions	3,580	3,727
- of which non-current provisions	819	2,940

Provisions are recognised for the estimated cost on damage, contractual liabilities, customer complaints, litigation risk and ongoing legal proceedings. The position also includes a guarantee of CHF 0.9 million (previous year: CHF 2.0 million) for future lease payments related to the sale of a building in a prior period.

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

23. Contingent liabilities and commitments

Accounting principles

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

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

In March 2017, the Swiss Competition Commission (COMCO) 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 2021 at the earliest.

In September 2020, the Swiss Competition Commission (COMCO) opened an investigation against Markant Handels- und Industriewaren-Vermittlungs AG and its customers, inter alia Galexis Ltd. Galenica does not expect the proceedings to result in a sanction against Galexis Ltd., however, a fine cannot be ruled out entirely.

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 7.8 million (previous year: CHF 14.8 million) at the most. The purchase rights have an estimated volume of CHF 10.4 million (previous year: CHF 15.4 million). These purchase rights or obligations fall due between 2021 and 2023.

Galenica signed purchase agreements to acquire property, plant and equipment totalling CHF 37.6 million (previous year: CHF 8.0 million). The payments under these purchase commitments become due in 2021 and 2023.

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

24. Employee benefit plans

Accounting principles

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

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

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

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

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

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

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

The vast majority 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 2020. 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 2020 for Galenica Pension Fund is 117.2% (unaudited) and as at 31 December 2019 115.5% (final).

Defined benefit plans and long-service awards

in thousand CHF	2020			2019		
	Defined benefit plans	Long-service awards ¹⁾	Total	Defined benefit plans	Long-service awards ¹⁾	Total
Plan assets measured at fair value	1,018,461	–	1,018,461	977,673	–	977,673
Present value of defined benefit obligation	(1,060,947)	(14,924)	(1,075,871)	(1,016,989)	(13,715)	(1,030,704)
Net carrying amount recognised in employee benefit liabilities	(42,486)	(14,924)	(57,411)	(39,316)	(13,715)	(53,031)

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

Change in present value of defined benefit obligation

in thousand CHF	2020			2019		
	Defined benefit plans	Long-service awards	Total	Defined benefit plans	Long-service awards	Total
1 January	(1,016,989)	(13,715)	(1,030,704)	(872,208)	(14,595)	(886,803)
Current service cost	(30,050)	(1,364)	(31,414)	(24,533)	(1,363)	(25,896)
Past service cost	48,256	(1,003)	47,253	(137)	1,464	1,327
Interest on defined benefit obligation	(1,488)	(20)	(1,507)	(7,301)	(120)	(7,421)
Actuarial gain/(loss)	(65,354)	(275)	(65,629)	(79,731)	(180)	(79,911)
Employee contributions	(16,387)	–	(16,387)	(15,824)	–	(15,824)
Benefits/awards paid	21,063	1,452	22,515	4,724	1,181	5,905
Change in scope of consolidation	–	–	–	(21,979)	(102)	(22,081)
31 December	(1,060,947)	(14,924)	(1,075,871)	(1,016,989)	(13,715)	(1,030,704)

Change in fair value of plan assets

in thousand CHF	2020	2019
1 January	977,673	813,096
Interest on plan assets	1,458	6,962
Remeasurement gain/(loss)	20,336	104,121
Employee contributions	16,387	15,824
Employer contributions	24,710	24,429
Benefits paid	(21,063)	(4,724)
Administration cost	(1,040)	(922)
Change in scope of consolidation	–	18,887
31 December	1,018,461	977,673

Net defined benefit cost

in thousand CHF	2020	2019
Current service cost	30,050	24,533
Past service cost	(48,256)	137
Net interest on net defined benefit liability	29	339
Administration cost	1,040	922
Net defined benefit cost	(17,138)	25,931

The trustees of the Galenica Pension Fund passed resolutions to make forward-looking modifications with a view to safeguarding the settlement of obligations towards insured members by reducing the conversion rate starting from 1 January 2022. These modifications lead to a decrease in the present value of the defined benefit obligation. The resulting negative past service cost led to a non-recurring decrease in personnel costs of CHF 48.3 million on the date the resolution was passed in 2020.

Remeasurement of net defined benefit liability

in thousand CHF	2020	2019
Actuarial gain/(loss) due to:		
– Changes in demographic assumptions	(16)	–
– Changes in financial assumptions	(16,726)	(98,746)
– Experience adjustments	(48,612)	19,015
Remeasurement of plan assets	20,336	104,121
Remeasurement of net defined benefit liability recognised in other comprehensive income	(45,018)	24,390

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.

The experience adjustments of CHF 48.6 million recorded in 2020 are the result of various elements not expected in the prior year mainly a higher interest credited to the member's accounts, an overall increase of the population and other items as determined by the external actuary.

Investment structure of plan assets

in thousand CHF	2020		2019	
Cash and cash equivalents	6,860	0.7%	51,150	5.2%
Debt instruments	175,843	17.3%	170,021	17.4%
Equity instruments	448,563	44.0%	422,740	43.2%
Real estate	238,632	23.4%	210,777	21.6%
Other investments	148,563	14.6%	122,985	12.6%
Fair value of plan assets	1,018,461	100.0%	977,673	100.0%
Current return on plan assets		2.2%		13.4%

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

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

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

Equity instruments are investments in equity funds and direct investments. These generally have quoted prices in active markets (level 1 of the fair value hierarchy). Equity instruments include shares of Galenica Ltd. with a fair value of CHF 10.7 million (previous year: CHF 10.9 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 33.5 million (previous year: CHF 33.6 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 5,315 active members (previous year: 5,184) and 860 pensioners (previous year: 816).

Galenica does not use any pension fund assets.

Basis for measurement

	2020	2019
Discount rate	0.05 %	0.15 %
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:

in thousand CHF	2020		2019	
	Variations in assumptions	Impact on DBO	Variations in assumptions	Impact on DBO
Discount rate	+0.25 %	(37,336)	+0.25 %	(36,730)
	-0.25 %	40,519	-0.25 %	39,781
Salary development	+0.25 %	3,251	+0.25 %	3,121
	-0.25 %	(2,230)	-0.25 %	(3,086)
Mortality	+1 year	31,640	+1 year	30,333
	-1 year	(32,688)	-1 year	(30,369)

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

The pension obligations have an average duration of 15.9 years (previous year: 16.5 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 27.7 million for 2021.

25. Shareholders' equity

25.1 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 2020 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 31.12.2018	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
Transactions with treasury shares	–	159,410	159,410
Balance as at 31.12.2020	50,000,000	(501,440)	49,498,560

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

25.2 Changes in consolidated shareholder's equity

On 19 May 2020, the Annual General Meeting approved a dividend payment of CHF 89.0 million for the financial year 2019 (previous year: CHF 83.8 million), corresponding to CHF 1.80 per registered share (previous year: CHF 1.70). For this purpose, CHF 0.90 was taken from the reserves from capital contributions (previous year: CHF 1.70) and CHF 0.90 from retained earnings (previous year: none). The dividend was paid out to the shareholders on 26 May 2020.

In the reporting period, 2,884 treasury shares (previous year: 6,172 treasury shares) were bought at an average price of CHF 63.46 (previous year: CHF 56.03) and 162,294 treasury shares (previous year: 168,735 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 in Unione Farmaceutica Distribuzione SA reduced consolidated shareholders' equity by CHF 0.2 million (previous year: none).

The Board of Directors will submit a proposal to the Annual General Meeting on 12 May 2021 to pay a dividend of CHF 1.80 per share entitled to receive dividend for the financial year 2020. 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 2020, the total dividend would amount to CHF 89.1 million.

26. Financial instruments

26.1 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. Expenses for expected credit losses comprise the change in bad debt allowance and receivables directly written off.

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 2020

in thousand CHF	Financial			Total
	Financial assets at amortised costs	liabilities at fair value through profit or loss	Financial liabilities at amortised costs	
Cash and cash equivalents	59,781	–	–	59,781
Trade and other receivables	406,360	–	–	406,360
Financial assets	18,471	–	–	18,471
Current financial liabilities	–	70	41,047	41,117
Current lease liabilities	–	–	47,209	47,209
Trade and other payables	–	–	307,413	307,413
Non-current financial liabilities	–	–	381,514	381,514
Non-current lease liabilities	–	–	170,792	170,792
Total	484,612	70	947,975	

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	

Net gain/(loss) on financial instruments 2020

in thousand CHF	Financial assets at amortised costs	Financial liabilities at amortised costs	Total
Net gain/(loss) on foreign exchange	(98)	(121)	(219)
Other financial result	13	(54)	(42)
Interest income	629	–	629
Interest expense	–	(2,867)	(2,867)
Interest expense on lease liabilities	–	(2,321)	(2,321)
Interest income on impaired trade receivables	136	–	136
Expected credit losses	(511)	–	(511)
Net gain/(loss) recognised in profit or loss	168	(5,364)	(5,196)

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)

26.2 Fair value measurement

Accounting principles

Fair value

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

The fair values of the 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	2020		2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Non-current financial liabilities	1,097	1,097	342	342
Bonds (fair value level 1)	380,417	392,560	380,528	393,330
Non-current financial liabilities	381,514	393,657	380,870	393,672

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)

The fair value of the contingent consideration liabilities from business combinations is CHF 0.1 million as at 31 December 2020 (previous year: CHF 0.1 million). There are no changes in fair value or payments in 2020.

27. Financial risk management

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

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

27.1 Liquidity risk

Liquidity risk management

The aim of liquidity risk management is to provide sufficient cash to meet Galenica's financial liabilities on time while maintaining the flexibility to take advantage of market opportunities and optimum investment conditions. Group Treasury is responsible for raising current and non-current loans as well as for decisions on investments. Apart from financing operations, Galenica's credit standing enables it to borrow 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 2020

in thousand CHF	Carrying amount	Total undiscounted cash flows	up to 3 months	3 to 12 months	1 to 5 years	Maturities more than 5 years
Trade and other payables	307,413	308,534	307,916	618	—	—
Current financial liabilities	41,117	41,117	40,569	548	—	—
Current lease liabilities	47,209	49,270	13,009	36,261	—	—
Non-current financial liabilities	1,097	1,097	—	—	847	250
Bonds	380,417	393,800	—	2,800	209,200	181,800
Non-current lease liabilities	170,792	177,048	—	—	128,034	49,014
Total	948,045	970,865	361,494	40,227	338,081	231,064

Maturity profile of financial liabilities 2019

in thousand CHF	Carrying amount	Total undiscounted cash flows	up to 3 months	3 to 12 months	1 to 5 years	Maturities more than 5 years
Trade and other payables	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

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.

27.2 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	2020	2019
Cash and cash equivalents (without cash on hand)	58,288	89,076
Trade and other receivables	406,360	421,518
Loans and other financial assets	18,471	16,454
Financial assets subject to credit risk	483,119	527,048

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.

28. Capital management

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

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

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

in thousand CHF	2020	2019
Current financial liabilities ¹⁾	40,933	44,630
Current lease liabilities	47,209	47,796
Non-current financial liabilities ¹⁾	380,667	380,800
Non-current lease liabilities	170,792	182,772
Cash and cash equivalents	(59,781)	(90,532)
Interest-bearing receivables	(8,078)	(8,811)
Net debt	571,743	556,655
Equity attributable to shareholders of Galenica Ltd.	1,047,282	993,497
Non-controlling interests	6,073	6,043
Shareholders' equity	1,053,355	999,540
Gearing	54.3%	55.7%

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.

29. Share-based payments

Accounting principles

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

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

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

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

Remuneration for members of the Board of Directors

The members of the Board of Directors receive fixed annual remuneration and can choose whether to receive 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 such as the Galenica Economic Profit 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.

16,802 performance share units (previous year: 23,592 performance share units) were granted to beneficiaries at a fair value of CHF 55.03 (previous year: CHF 37.63) at the beginning of the reporting period for the 2020 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 66,386 shares of Galenica Ltd. (previous year: 65,279 shares) at a price of CHF 48.40 (previous year: CHF 36.00). This includes a discount of CHF 20.76 (previous year: CHF 15.41) per share.

Share-based payment expense

in thousand CHF	2020	2019
Remuneration for members of the Board of Directors	1,316	1,438
Share plan for members of senior management	1,443	2,002
Long-term incentive plan (LTI)	566	962
Employee share plan	1,378	1,006
Total	4,704	5,408

30. 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 13.5 million (previous year: CHF 21.5 million). The trade receivables and loans primarily relate to Coop Vitality. The trade payables and loans from associates and joint ventures amounted to CHF 2.5 million (previous year: CHF 4.0 million) and the financial liabilities to pension funds amounted to CHF 36.5 million (previous year: CHF 36.5 million).

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

in thousand CHF	2020		2019	
	Associates and joint ventures	Other related parties	Associates and joint ventures	Other related parties
Sale of goods	142,721	5,532	134,889	5,283
Income from services	7,077	–	6,249	–
Other income	22	–	22	–
Purchase of goods	493	3	596	–
Other operating costs	22	–	–	–
Financial income	136	–	135	–
Financial expenses	4	–	9	–

Remuneration of the Board of Directors and the Corporate Executive Committee

in thousand CHF	2020	2019
Remuneration	2,564	3,032
Social security costs and pension expenses	758	835
Share-based payments	1,933	2,328
Total	5,254	6,195

31. Subsequent events

The following transactions occurred between 31 December 2020 and 4 March 2021, the date on which the consolidated financial statements 2020 were released for publication.

Acquisition of pharmacies. Galenica acquired 100% of the interests in pharmacies at various locations in Switzerland. The net assets of these acquisitions will be consolidated for financial year 2021 from the date control was obtained.

The purchase consideration was CHF 3.7 million, the fair value of the provisional net assets resulting from these additions was estimated at CHF 0.4 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.

New organisational and management structure. In order to implement its strategy quickly and effectively, Galenica is adapting its organisational and management structure as of 1 January 2021 and this will lead to changes in segment reporting.

There were no further significant events after the reporting date.

32. Group companies

	Registered office	Equity interest	Method of consolidation	Share capital in thousand
Health & Beauty				
Products & Brands				
Dr. A.&L. Schmidgall GmbH & Co KG	AT-Vienna	100%	full	EUR 145
G-Pharma AG ¹⁾	CH-Niederbipp	100%	full	CHF 100
Hedoga AG ¹⁾	CH-Bern	100%	full	CHF 100
Iromedica AG	CH-St.Gallen	100%	full	CHF 500
Schmidgall GmbH	AT-Vienna	100%	full	EUR 36
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
Dr. U. Reinhard AG	CH-Winterthur	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	91.08%	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
Pharma-Info AG	CH-Biel	49%	at equity	CHF 100
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
Pharmeasy Ltd.	CH-Bern	100%	full	CHF 100
Unione Farmaceutica Distribuzione SA ¹⁾	CH-Barbengo-Lugano	91.08%	full	CHF 2,000
Corporate				
Galenica Finanz Ltd. ¹⁾	CH-Bern	100%	full	CHF 100

¹⁾ Directly held by Galenica Ltd.

To the General Meeting of
Galenica Ltd., Berne

Berne, 4 March 2021

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 2020 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 96 to 141) give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, 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 International Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for Accountants (IESBA Code) 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	<p>As disclosed in note 17, goodwill amounts to CHF 791.6 million as at 31 December 2020 and represents a major asset of Galenica. In addition, Galenica recorded intangible assets with indefinite useful lives with a carrying amount of CHF 57.0 million. Both goodwill and intangible assets with indefinite useful lives are tested for impairment at least annually.</p> <p>Auditing management's annual impairment test is considered important to our audit as it depends on various estimates made by management and therefore includes judgmental elements. In particular, the assessment is sensitive to significant assumptions made about future market and economic conditions, such as economic growth, expected market share, revenue and margin development. Moreover, the terminal growth and the discount rate used have an impact on the net present value of the underlying cash generating unit.</p>
Our audit response	<p>We performed audit procedures that included, among others, assessing the methodology 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) including the terminal growth. 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 analyses of assumptions to evaluate whether changes in assumptions as described in note 17 could cause the carrying amount to exceed its recoverable amount. Our audit procedures did not lead to any reservations regarding the impairment tests of goodwill and other intangibles.</p>

Impairment risk of right-of-use assets and change in lease liabilities

Risk	<p>As outlined in note 16, right-of-use assets amounts to CHF 210.3 million and current and non-current lease liabilities to CHF 218.0 million. 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.</p>
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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.

IFRS 16 Leases is 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 in the retail segment for the initiation and processing of changes or new contracts, the reporting of journal entries and the valuation of the right-of-use assets. We tested a sample of contracts and performed procedures to verify the completeness and accuracy of the data in the lease tool. 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 application of IFRS 16 Leases.
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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 he Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.



Auditor's responsibilities for the audit of the consolidated financial statements

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

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



Report on other legal and regulatory requirements

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

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

Ernst & Young Ltd

Roland Ruprecht
Licensed audit expert
(Auditor in charge)

Simone Wittwer
Licensed audit expert