

Welcome to the new Galenica!



(f.l.) Jörg Kneubühler, Chairman of the Board of Directors, Jean-Claude Cléménçon, CEO

Dear Shareholders, Ladies and Gentlemen

Spring 2017 marks a milestone in our company history: the IPO of Galenica Santé – today Galenica – on SIX Swiss Exchange and thus the division of the former Galenica Group into the two independent companies Galenica and Vifor Pharma. Since the first day of trading on 7 April 2017, Galenica has been held by a diversified group of private and institutional investors. The transaction saw the entire share capital placed at the top end of the price range, resulting in a market capitalisation of around CHF 2 billion. The IPO of Galenica is thus the largest in Europe in the first half of 2017. The basis for this major success, besides a convincing track record, was a clear, focused strategy and experienced, well-functioning teams at all levels. Together, we have the goal and the ambition to be the first choice in Switzerland for health, beauty and wellbeing.

Innovations for the healthcare market

Over the last few years, we have proven that we can successfully continue to develop Galenica despite a challenging environment. The first half of 2017 was no exception (see text box page 5). We earn the trust of our customers with professional advice, high-quality services, flexibility, reliability and clear customer focus, for example with personalised offerings. In doing so, we are supported by the political desire of the Swiss government to strengthen the role of pharmacies as the first point of contact for questions related to health and basic medical care.

In the Retail Business sector, we have strengthened the pharmacy network and further harmonised and simplified processes for all pharmacy formats. At the same time, we want to give the market innovations and new models, and test customer acceptance. This includes running pilot projects such as the Aprioris walk-in clinic at the Amavita pharmacy in Adliswil and the Sun Store pharmacy Métropole in Lausanne, and MedCenter, which was launched at the beginning of 2017 at the MediService site in Zuchwil.

In the fourth quarter of 2017, Daniele Madonna, currently Head of Coop Vitality pharmacies, will assume responsibility for the Retail Business sector, taking over from Jean-Claude Cléménçon who will focus fully on his duties as CEO Galenica Group.

In the Products & Brands Business sector, we have expanded the product range. Since May 2017, our portfolio of strong brands such as Algifor®, Anti-Brumm®, Perskindol® and Trioфан® also comprises the newly-acquired iconic brands Merfen® and Vita-Merfen®. In addition, at the beginning of 2017 we launched exclusively in Switzerland Lierac and Phyto – premium brands for skincare and haircare from the French Alès Groupe.

In the Services Business sector, Galexis expanded its offering for self-dispensing physicians with the acquisition of physicians' wholesaler Pharmapool at the beginning of 2017.

Targets for 2017 confirmed

Thanks to the acquisition of physicians' wholesaler Pharmapool, the continuing reinforcement of the pharmacy network, the newly-acquired brand Merfen® and the in-licensed brands A-Derma, Phyto, Lierac and Schüssler salts from Adler, the Galenica Group's growth in the first half of 2017 was well above the market as a whole, which was, however, below expectations. Based on the positive business performance to date, we are confident of achieving the ambitious targets for 2017. Consequently, the outlook regarding dividends also remains unchanged, and Galenica aims to be able to propose a dividend payment of CHF 80 million to the 2018 Annual General Meeting.

More retail expertise on the Board of Directors

The Board of Directors will propose Bertrand Jungo to the 2018 General Meeting for election as a new member of the Board. Bertrand Jungo previously worked for 26 years in leadership positions at Manor, a department store with locations across Switzerland, including 11 years as CEO. He knows the Swiss retail market from the ground up, and has experience in multi-channel retail as well as in the areas of beauty, personal care and international sourcing. His retail expertise makes him the perfect addition to the Board of Directors.

Key figures of the Galenica Group in the first half of 2017

Pleasing development following the IPO

The Galenica Group increased consolidated net sales by 6.8% to CHF 1,587.5 million in the first half of 2017.

The operating result (EBIT) rose by 17.6% to CHF 71.5 million and, on a comparable basis (excluding the effects of IAS 19), grew by 14.1% to CHF 76.6 million. Included in EBIT are one-off effects from the sales of the rights of the TriaMed® medical practice software to Swisscom and of a non-operational building in Schönbühl (canton of Bern), which totalled CHF 7.0 million.

Galenica posted a profit of CHF 57.9 million. On a comparable basis (excluding the effects of IAS 19), net profit was CHF 62.1 million. The profit includes one-off effects of CHF 6.3 million.

Investments increased to CHF 33.5 million (previous year: CHF 17.0 million), primarily as a result of the acquisition of the Merfen® and Vita-Merfen® brands.

Thank you for your trust

Galenica is a dynamic company helping to shape the Swiss healthcare market of the future through innovation. As a reliable, attractive partner and employer, we aim to generate consistently attractive returns with manageable risks. Our employees demonstrate this every day. We would like to thank them sincerely for their tireless commitment. We look forward to continuing to develop Galenica together and thank all our shareholders for their trust.

Bern, 8 August 2017



Jörg Kneubühler
Chairman of the Board
of Directors



Jean-Claude Cléménçon
CEO & Head Retail
Business sector



Health & Beauty Segment

Unique sales platform for strong brands

Net sales and operating result

In the first half of 2017, the Health & Beauty segment increased net sales by 2.9% to CHF 730.0 million. The operating result (EBIT) improved by 6.5% to CHF 49.5 million. Compared to the previous year, return on sales (ROS) increased to 6.8% (previous year: 6.6%). Investments in the Health & Beauty segment in the first half of 2017 were CHF 22.4 million.

The Health & Beauty segment comprises the Retail and Products & Brands Business sectors. In the Retail Business sector, Galenica operates the largest pharmacy network in Switzerland, giving it an excellent distribution network that offers unique potential for the sale of own, exclusive and partner brands. Through its Products & Brands Business sector, Galenica develops and markets own brands and products as well as exclusive brands and products of its business partners.

Potential for synergies further expanded

The Retail Business sector strengthened and expanded its pharmacy network, with a further three locations added. Three new brands from Products & Brands were also introduced in the pharmacies: the Lierac and Phyto skincare and haircare brands of the Alès Groupe as well as Schüssler salts from Adler. Processes for all pharmacy formats continue to be harmonised and simplified. An example of synergy benefit is the cooperation between Amavita and Sun Store and the specialty pharmacy MediService, which is delivering more and more high-priced medications on behalf of the pharmacy formats. MediService also offers this service to the overall market and different independent pharmacies already use it.

Specialist retail partner for exclusive and strong brands

In May 2017, Products & Brands acquired the two well-known wound treatment brands Merfen® and Vita-Merfen®. The successful A-Derma line was also expanded by the addition of sun protection products this spring.

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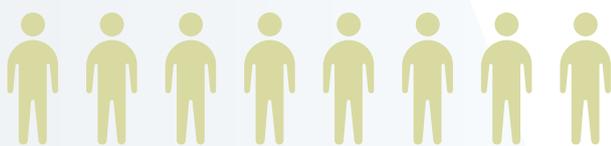
Net sales
in million CHF

Galenica Group CHF 1,587.5 million

49.5

EBIT
in million CHF

Galenica Group CHF 76.6 million



4,623

Number
of employees

Galenica Group 6,294

Retail Business sector

Largest pharmacy network with 500 own and partner pharmacies

Net sales development

The Retail Business sector increased net sales in the first half of 2017 by 2.5% year-on-year to CHF 679.0 million (excluding Coop Vitality). The Swiss pharmacy market as a whole grew by 1.8% (IMS Health first half of 2017, Swiss-medic therapeutic products lists A, B, C, D). Although the volume of high-priced medications increased further, the pharmacy market posted slowed growth compared to other segments. Contributing factors were ongoing shopping tourism in neighbouring countries, the switch to online shopping, frequency decline in many shopping centres, and the flu season, which having started earlier than usual in December 2016 also ended earlier in 2017.

The number of own pharmacies increased by three locations to a total of 332 pharmacies. Together with the Amavita and Winconcept partner pharmacies, Galenica's pharmacy network comprised nearly 500 points of sale in mid-2017. The expansion accounted for 1.3% of the sales growth. On a comparable basis, sales increased by 1.2%.

Lean structures, efficient processes

Processes for all pharmacy formats continued to be harmonised and simplified. An example is the TriaPharm® in-house pharmacy software implemented at Amavita and Sun Store, which was also introduced at the first Coop Vitality pharmacies in the first half of 2017. The aim is to make it available to all Galenica Group pharmacies by the end of the year. After its successful launch at Sun Store and Amavita, direct invoicing to health insurers is also currently being implemented at Coop Vitality.

The now completed consolidation of the central functions of GaleniCare Management at the Bern site has laid the foundation for future efficiency gains. Examples include the deployment of the same technologies for all customer cards and the automated processing of accounts payable invoices. Another example of synergy benefit is the cooperation between Amavita and Sun Store and the specialty pharmacy MediService, which is delivering more and more high-priced medications on behalf of the pharmacy formats.



Health & Beauty Segment

Finally, Coop Vitality has launched “Click & Collect”, allowing customers to order products conveniently at the click of a mouse and collect them from the pharmacy of their choice. In this way, the entire range, including OTC products, is also available to customers online. Sun Store and Amavita will introduce “Click & Collect” in the second half of 2017.

Innovative pilot projects

Three innovative pilot projects were launched in the first half of 2017. The first of these is the Aprioris walk-in clinic with which Galenica is breaking new ground in emergency medical assistance. Under the responsibility of a physician, a care expert provides immediate medical assistance in a room that has been specially set up for this purpose inside the pharmacy. The concept enables rapid access to an initial consultation. The Amavita pharmacy in Adliswil and the Sun Store pharmacy Métropole in Lausanne currently offer this service.

The pilot project Health Maintenance Organisation Insurance Plus (HMO Plus) has a similar purpose. Together with health insurer CSS and the physician network mediX, Galenica now offers an integrated care model in Zurich. Those who are insured with CSS under the alternative insurance model HMO Plus can go to a doctor and now also to a pharmacy to act as the first point of contact in the event of a health problem. Around 20 Amavita and Coop Vitality pharmacies are initially taking part in the project. The “Gesundheitsnetz 2025” (Health Network 2025) of the city of Zurich declared this model the winner of its 2017 project competition.

And finally, at the MediService site in Zuchwil, a pilot project is under way to trial MedCenter, a device that helps patients to obtain medication. Using video telephony and an interactive screen, customers can contact the pharmacist who supervises and monitors dispensing of the medication.

MediService service centre

Celebrating its 20th anniversary this year, MediService has established itself as a service platform for shipping medication; it delivers more and more high-priced medications on behalf of Amavita and Sun Store pharmacies. MediService also offers this service to the overall market and different independent pharmacies already use it. Thanks to its strong position in PharmaCare, MediService has been able to exploit the sustained trend towards more complex therapies and medications and is growing faster than the market in this area. In addition, the entire enterprise was certified according to ISO 9011:2015 in the first half of 2017.

Winconcept, the service offering for independent pharmacies, carried out initial audits for the in-house quality management system Process One. In collaboration with health insurer CSS, a joint quality label is awarded if 70% of the audit objectives are met. The number of Winconcept partner pharmacies decreased slightly in the first half of 2017, notably as some partners sought successors and sold their pharmacies.

Own pharmacies and shareholdings

	30.6.2017	31.12.2016	Change
Amavita pharmacies ¹⁾	153	150	+3
Sun Store pharmacies ¹⁾	98	99	-1
Coop Vitality pharmacies (Joint venture with Coop) ²⁾	70	69	+1
MediService speciality pharmacy ¹⁾	1	1	-
Majority holdings in other pharmacies ¹⁾	8	8	-
Minority holdings in other pharmacies ²⁾	2	2	-
Total own points of sale	332	329	+3

1) Fully consolidated

2) Consolidated at equity level

Independent partners

	30.6.2017	31.12.2016	Change
Amavita partnerships	8	9	-1
Winconcept partner pharmacies	153	158	-5
Total independent partners	161	167	-6

Products & Brands Business sector



Innovative solutions for health and beauty

Net sales development

In the first half of 2017, the Products & Brands Business sector generated net sales of CHF 51.1 million, an increase of 6.8% compared to the first half-year 2016. Thanks to the launch of new beauty products, Products & Brands was able to increase net sales in Switzerland in a declining OTC market (-0.3%, IMS Health first half of 2017) by 3.8% to CHF 38.5 million. Export sales increased by 16.6% to CHF 12.7 million, with Anti-Brumm® in particular posting very pleasing growth in Germany.

Further expanding the strong health portfolio

In spite of an early flu season, the systemic pain relief market leader Algifor® performed well and built on last year's successful launch of Algifor® Liquid capsules 400 mg Ibuprofen. Triofan® maintained its strong market position as the number one nasal decongestant in Switzerland. Merfen® and Vita-Merfen® – iconic Swiss brands in wound disinfection and wound healing – were acquired in May 2017. Vifor Consumer Health can therefore establish a presence in the Swiss market for wound disinfection and wound healing, and has further expanded its position as the preferred partner of pharmacies and drugstores in the Swiss healthcare market. Given the excellent awareness and image of these brands, strong future demand is expected.

Brands marketed at international level showing encouraging results

Since January 2017, the new business unit Global Brands is managing the brands Perskindol® and Anti-Brumm®. Anti-Brumm® was relaunched in the Italian market, and three new Anti-Brumm® products combining insect repellent and sun cream have been successfully launched in Switzerland and Germany, reinforcing the leading positions of the brand. Preparations are under way to enter new markets abroad with Perskindol® and Anti-Brumm® in the future.

Attractive partner services

Strong partner brands like Clearblue® and OralB® are marketed and distributed in all Swiss pharmacies. They showed good results, underpinning successful collaborative relationships. Vifor Consumer Health took over the distribution of Excilor®, a leading brand in anti-fungal nail medication, and launched a new 3-in-1 protection spray. An exclusive contract with Austrian company Adler and close collaboration with the Retail Business sector contributed to the successful launch of Adler's Schüssler mineral salts, an important new category for Vifor Consumer Health.

Beauty sells

There was continuing success for the exclusive Swiss distribution of A-Derma products from French dermo-cosmetics company Pierre Fabre. The A-Derma line was extended to include sun care products in spring 2017. Following the success of A-Derma, Products & Brands took over the national Swiss exclusive distribution for Lierac skin care and Phyto hair care from the French Alès Groupe. These Pharmacy brands had a great start in the first six months of 2017.

Services Segment

Reinforcing customer competitiveness

The Services segment comprises logistics services for the Swiss healthcare market from Alloga (pre-wholesale), Galexis, Unione Farmaceutica Distribuzione and Pharmapool (wholesale), as well as Medifilm, which is active in drug blister packaging. These services are complemented by services from HCI Solutions, which provides master data for the Swiss healthcare market and develops management solutions for pharmacies as well as tools for secure management, communication and distribution of sensitive health data.

Net sales and operating result

The Services segment generated net sales of CHF 1,233.6 million in the first six months of 2017. The sales growth of 7.4% was due in particular to the successful integration of Pharmapool. This was achieved in an overall market whose growth (+3.9%, IMS Health first half of 2017) was driven especially by the sales performance of hospitals (+7.6%, IMS Health first half of 2017) as well as high-priced special medications that are not supplied via wholesale but directly to specialist doctors (doctors: +5.4%, IMS Health first half of 2017).

The operating result (EBIT) improved by 41.9% to CHF 28.7 million. Included in EBIT are one-off positive effects from the sale of the rights of the TriaMed® medical practice software to Swisscom and the sale of a non-operational building in Schönbühl (canton of Bern), which totalled CHF 7.0 million. Excluding these one-off effects, ROS remained unchanged from the previous year at 1.8%.

Investments in the first half of 2017 amounted to CHF 11.1 million, used notably to finance the new ERP software that will gradually be rolled out at Alloga and Galexis over the next few years.

1,233.6

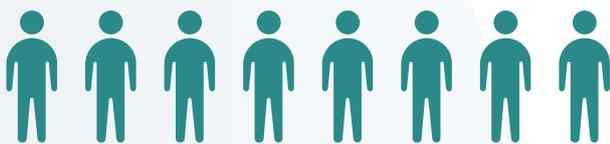
Net sales
in million CHF

Galenica Group CHF 1,587.5 million

28.7

EBIT
in million CHF

Galenica Group CHF 76.6 million



1,635

Number
of employees

Galenica Group 6,294

Services Business sector

Investments in new sales channels and IT

New operating software

In 2017, pre-wholesaler Alloga is celebrating its 60th anniversary as a qualified partner for the pharma industry. At the end of the first half of 2017, the project to switch to SAP's new ERP (enterprise resource planning) system was initiated. In addition, internal capacity for refrigerated storage at 2–8°C is being expanded to meet increased customer demand, with a third cold room due to be operational in the second half of 2017. Finally, investment in technical infrastructure is being stepped up at the Burgdorf site. The roof is being renovated to prepare for the installation of a solar power station. A new transformer and emergency generating capacity have also been installed to ensure fail-safe power supply.

Temperature-controlled end-to-end supply chain

The current market environment is undergoing radical change. Legal requirements such as the Guidelines for Good Distribution Practice of Medicinal Products for Human Use (GDP guidelines) must be complied with and in good time. Since April 2017, Alloga and Galexis have been offering their customers an end-to-end supply chain for temperature-controlled transport. The driver-delivered boxes are significantly lighter than insulated boxes and also take up less storage space for the customer. In addition, delivery by midday is guaranteed. The temperature-controlled supply chain also applies to returns.

As this example shows, Galexis is characterised by innovative offerings, increasing automation and new products. Thanks to these strengths, new exclusive agreements were concluded in the first half of 2017 with well-known providers of beauty products such as Clarins and Coty. With the acquisition of physicians' wholesaler Pharmapool at the start of the year, Galexis also expanded its offering for self-dispensing physicians.

Competitiveness is based on a strong distribution network centred around the Niederbipp and Lausanne-Ecublens sites. Close dialogue with customers also remains a critical factor for success. For this reason, Galexis holds forums with pharmacies and drugstores in various regions of Switzerland to discuss new solutions for the specialist retail trade.

Unione Farmaceutica Distribuzione covers the needs of pharmacies and other business partners throughout Switzerland with webshops. Thus, at Coop Vitality pharmacies, "Click & Collect" was launched in the first half of 2017, with Amavita and Sun Store set to follow.

Medifilm expands its capacity

Having just celebrated its 10th anniversary, Medifilm moved into its new building. Not only does this triple the size of its production area, but also takes environmental aspects into consideration thanks to groundwater cooling and heat pumps. Demand from pharmacies and care homes for blister packaging of medications and food supplements remains high. Medifilm now serves around 7,500 patients throughout Switzerland, thus easing the burden on an increasing number of carers responsible for administering medications.

Trend-setting eHealth offerings

The TriaPharm[®] pharmacy software from HCI Solutions features, among other benefits, direct invoicing to health insurers. It is being introduced at Coop Vitality since the first half of 2017 and the process should be completed by the end of the year. Following the successful Documedis pilot project at the Cantonal Hospital of St. Gallen to check for contraindications when dispensing medications, the first modules are being offered to interested parties.

