Half year report 2018

of the Galenica Group

GALENICA

Galenica – the first choice for health, beauty and wellbeing

Key figures (unaudited figures)

Net sales[1)2)]

in million CHF

- Health & Beauty 745.7
- Services 1,177.1

EBIT adjusted[1)3)]

in million CHF

- Health & Beauty 54.3
- Services 22.3

Employees

as at 30 June 2018

- Galenica Ltd. 38
- Health & Beauty 4,639
- Services 1,651

in million CHF	1.1.–30.6.2018	1.1.–30.6.2017	Change
Net sales[1)2)]	**1,566.1**	**1,552.4**	**+0.9%**
Health & Beauty	745.7	727.5	+2.5%
Services	1,177.1	1,166.9	+0.9%
EBITDA adjusted[1)3)4)]	**94.2**	**97.0**	**–2.9%**
in % of net sales	6.0%	6.3%	
EBITDA[1)4)]	**89.4**	**91.9**	**–2.7%**
Health & Beauty	63.4	60.2	+5.2%
Services[4)]	32.8	38.7	–15.3%
EBIT adjusted[1)3)4)]	**74.9**	**76.6**	**–2.3%**
in % of net sales	4.8%	4.9%	
EBIT[1)4)]	**70.1**	**71.5**	**–2.0%**
Health & Beauty	54.3	49.5	+9.5%
Services[4)]	22.3	28.7	–22.1%
Net profit adjusted[3)4)]	**60.4**	**62.1**	**–2.7%**
Net profit[4)]	**56.5**	**57.9**	**–2.4%**
Investment in property, plant and equipment and intangible assets	21.4	33.5	–36.2%
Employees at reporting date (FTE)	4,891	4,844	+1.0%

in million CHF	30.6.2018	31.12.2017	Change
Equity ratio	45.8%	47.9%	
Capital contribution reserves	479.9	560.9	–14.4%
Net debt	350.7	301.3	+16.4%

Share information

in CHF	30.6.2018	31.12.2017
Share price at reporting date	52.70	50.05
Stock exchange capitalisation at reporting date in million CHF	2,587.9	2,452.8
Shareholders' equity per share at reporting date	16.97	17.50
Earnings per share 1.1.–30.6.	1.15	1.16
Earnings per share adjusted 1.1.–30.6.[3)]	1.23	1.24

1) Key figures are reported for each Segment not taking into account Corporate and eliminations
2) Due to the new IFRS 15 accounting standard, which came into effect on 1 January 2018, the sales for the prior-year period were recalculated
3) Excluding the effects of IAS 19
4) 2017 incl. CHF 7.0 million one-off effects, at net profit level CHF 6.3 million

Half year report 2018

Result and profitability improved

Jörg Kneubühler, Chairman of the Board of Directors,
Jean-Claude Clémençon, CEO

Dear Shareholders, Ladies and Gentlemen,

The first half of 2018 was challenging yet successful. Though our sales growth was slowed by additional price reduction measures for medications, which were significantly higher than originally announced by the authorities, we were still able to considerably improve our result and profitability (see page 5).

Growth through expansion of offering and acquisitions

Our pharmacy network reached the 500 points of sale barrier for the first time in May 2018. Since July 2018, the pharmacy with the highest sales figures in Switzerland, the Bahnhof Apotheke in Zurich main station, has also been fully part of this network.

We also expanded the range in our online shops, which now comprises 16,000 products, more than half as many again as at the end of 2017. Acquired at the beginning of 2018, the company Careproduct also strengthens our knowledge and market position with respect to online sales. In addition, its specific offering also expands the pharmacies' portfolio.

Generic substitution: an active contribution to reducting healthcare costs evolution

The range of services offered in our pharmacies is constantly expanding. Both the Amavita and Sun Store pharmacy formats have introduced the Generics Check, advising customers about which of their medications can be replaced with generics. Galenica makes an active contribution to reducing healthcare costs evolution through generic substitution. On a comparable basis, sales of generics thus rose again in the first half of 2018 (+8.3%). The substitution rate for medications for which a generic is available and for which substitution is also possible increased from 68% to 70%.

Sustainable innovations expand market presence ...

Customers nowadays expect access to healthcare advice and products at all times, wherever they are. In addition to existing points of contact, such as in pharmacies or online, demand for in-home care is also growing. Besides personal home visits, Mediservice offers an increasing number of services in distance healthcare, such as video nursing, which provides services from a central location via a screen to chronically ill patients at home.

... and increase drug and patient safety

Galexis commissioned a new, optimised refrigerated box that guarantees the required temperature of transported goods for 30 hours instead of four, making a further important contribution to drug safety.

An important contribution to patient safety is the E-medication solution Documedis® from HCI Solutions, which was confirmed as a Class I medical device by the Swiss Agency for Therapeutic Products Swissmedic.

The new photovoltaic system on the roof of the Alloga building in Burgdorf should also be noted as an innovation. With a surface area of some 10,000 m², it will be one of the largest systems in the region and demonstrates the Galenica Group's commitment to sustainable energy generation.

Investing in improving efficiency

Over the course of 2018, Medifilm will roll out a new generation of blistering machines that will double the number of blistered units per hour. The machines are also more precise than the current equipment and can produce sachets labelled in three languages. Initiated in 2017, the project to switch to a new ERP (Enterprise Resource Planning) system is advancing according to plan, and a start with initial pilot customers is scheduled in early 2019.

New member of the Board of Directors

The first Annual General Meeting of Galenica Ltd. following the IPO in 2017 took place on 9 May 2018. Shareholders approved all the proposals put forward by the Board of Directors and elected Bertrand Jungo as a new member of the Board. Bertrand Jungo is CEO of media marketing company Admeira and was previously CEO of department store group Manor for 11 years. His expertise boosts retail and digitisation know-how at the highest level of management in our company.

Positive outlook

Due to the aforementioned price reduction measures, we expect sales for 2018 to be at the lower end of the sales forecast range of +2 % to +3 % communicated in March 2018. Thanks to improved profitability, we expect EBIT to be at least at the same level as in 2017, which, excluding the one-off effects in 2017, corresponds to an operational increase of at least 5 %. Consequently, the outlook for dividend payments remains unchanged, and we aim to propose a dividend of at least at the same level as the prior year at our second Annual General Meeting in 2019.

We would like to thank our employees for their tireless commitment and you, our shareholders, for your trust.

Bern, 7 August 2018

Jörg Kneubühler
Chairman
of the Board of Directors

Jean-Claude Clémençon
CEO

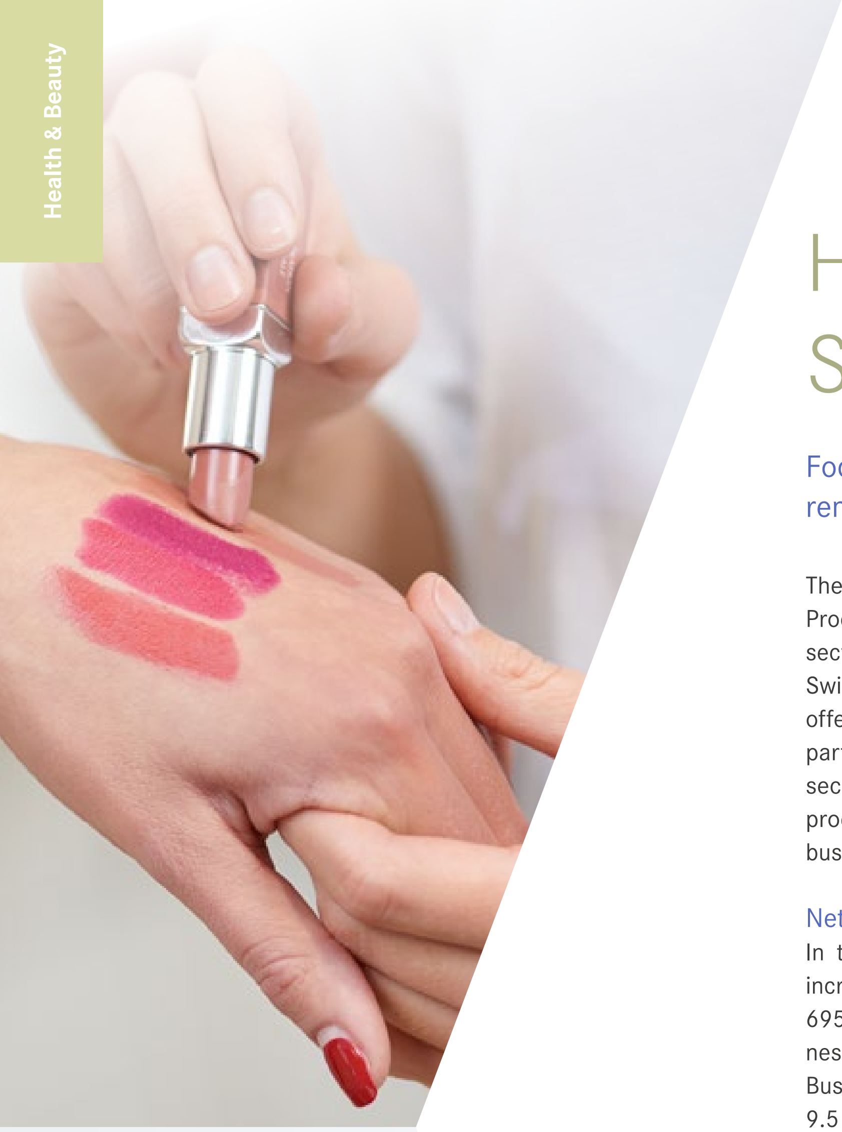
Key figures for the Galenica Group, first half of 2018

The Galenica Group increased consolidated net sales by 0.9 % to CHF 1,566.1 million in the first half of 2018. Sales growth was slowed by additional price reduction measures for medications, which were significantly higher than originally announced by the authorities. The impact of the pleasing expansion effect of the Retail Business sector, consolidated at Group level, was also lower than expected because all pharmacies acquired were already supplied by Galexis before acquisition.

Excluding one-off effects from the prior-year period (CHF 7.0 million) that did not recur in the period under review (sale of rights of the medical practice software Triamed® and a non-operational building in Schönbühl), and excluding the effects of IAS 19, EBIT rose by 7.5 %, and return on sales (ROS) improved from 4.5 % to 4.8 %. Taking into account one-off effects, earnings before interest and taxes (EBIT) declined by 2.0 % to CHF 70.1 million, and excluding the effects of IAS 19, by 2.3 % to CHF 74.9 million.

Excluding the one-off effects from 2017 (CHF 6.3 million) and the effects of IAS 19, net profit increased by 8.2 %. Taking into account one-off effects, net profit declined by 2.4 % to CHF 56.5 million, and excluding the effects of IAS 19 by 2.7 % to CHF 60.4 million.

Investments totalled CHF 21.4 million (prior-year period: CHF 33.5 million including acquisition of the Merfen® and Vita-Merfen® brands) and were made, among other projects, in the new ERP system in the Services Business sector and the renovation and construction of pharmacies.



Health & Beauty Segment

Focus on customer service remains the priority

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.

Net sales and operating result

In the first half of 2018, the Health & Beauty segment increased net sales by 2.5% to CHF 745.7 million, CHF 695.8 million of which was accounted for by the Retail Business sector and CHF 48.7 million by the Products & Brands Business sector. The operating result (EBIT) improved by 9.5% to CHF 54.3 million, while return on sales (ROS) rose markedly by 0.5 percentage points compared to the prior-year period to 7.3% (first half of 2017: 6.8%). This is an impressive result that demonstrates the further improvement in efficiency. Various measures and projects that were launched in recent years are now having a full effect on profitability. These include, for example, the switch to direct invoicing to health insurers, the consolidation of the central functions in the Retail Business sector and the continuing strengthening and optimisation of the pharmacy network. Investments in the Health & Beauty segment in the first half of 2018 totalled CHF 5.4 million.

Expanded online offering

Investments continued to be made in the improvement and expansion of services and product range in the first half of 2018. For example, specific training sessions were organised for employees of all pharmacy formats on new products such as Adler Schüssler mineral salts, which Verfora has been distributing exclusively in Switzerland since 2017. Furthermore, the range in the online shops and the new ordering and pick up service Click & Collect launched in 2017 were also expanded, and already comprised around 16,000 products as of mid-2018, more than half as many again as at the end of 2017. At the same time, additional payment options were introduced for online orders and in-pharmacy purchases.

745.7 Net sales in million CHF

Galenica Group CHF 1,566.1 million

54.3 EBIT in million CHF

Galenica Group CHF 70.1 million

4,639 Number of employees

Galenica Group 6,328

Retail Business sector

Even closer to the customer

Net sales development

The Retail Business sector increased net sales in the first half of 2018 by 2.6% compared to the prior-year period to CHF 695.8 million (excluding Coop Vitality). By way of comparison, medication sales (Rx and OTC products) in the Swiss pharmacy market as a whole grew by 2.9% in the same period (IQVIA, first half of 2018, Swissmedic therapeutic products lists A, B, C, D). By contrast, sales of other products (non-medications) continued to decline.

Nine pharmacies joined the own-pharmacy network in the first half of 2018, including seven acquisitions and two new openings. At the same time, three locations were removed as part of optimisation measures, meaning that Galenica managed 343 own pharmacies as of the end of June 2018. The expansion accounted for 1.0% net of the sales growth. On a comparable basis, sales increased by a total of 1.6%. Together with the Amavita and Winconcept partner pharmacies, the Galenica pharmacy network comprised 500 points of sale throughout Switzerland as of mid-2018.

The sales performance of the Retail Business sector was slowed by the effect of federal price reduction measures as well as the market-wide decline in beauty products. Generic substitution, which is actively promoted by Galenica, also affected sales because of the lower drug prices. By contrast, the Retail Business sector posted good sales for the cold medicines due to the strong flu season.

New offerings and services

The Retail Business sector continued its efforts to strengthen and enhance customer proximity in 2018. As an important part of this process, collaboration throughout the entire Galenica Group was further intensified, notably with Galexis in the area of online shops logistics or with Verfora representatives with regard to new product launches. For instance, employees of all pharmacy formats received training on Adler Schüssler mineral salts after Verfora signed an exclusive partner agreement in 2017 and added the mineral salts to its portfolio.

The online ordering and pick up service Click & Collect introduced at Amavita, Sun Store and Coop Vitality in 2017 was progressively expanded with around 16,000 products available at the end of June 2018, more than half as many again as at the end of 2017 (end of 2017: around 10,000 items). The goal is to continually expand the range in the online shops and to be able to offer it to customers, including via Click & Collect. The fact that Click & Collect meets a customer need is demonstrated by the order volumes, which are growing by the month.

Additional payment tools were introduced in the first half of 2018, meaning that a range of options are available for both online orders and in pharmacies. For example, the payment app Twint has been introduced as a cashless payment option in all Amavita, Sun Store and Coop Vitality pharmacies.

At the beginning of 2018, Galenica took over Careproduct. The company supplies walking frames, wheelchairs, incontinence products and other medical aids both online and offline. The range is geared in particular to older people and people with a disability who want to maintain or improve their mobility level. With Careproduct, the Retail Business sector has strengthened its market position with respect to online sales and expanded its customer offering, as the pharmacy formats are now able, for example, to also supply products that they themselves do not have in stock to their customers via Careproduct, and that are delivered directly to customers' homes.

Growth thanks to more pharmacies

The Retail Business sector also invested significantly in the further strengthening and optimisation of its own pharmacy network in the first half of 2018: it comprised 500 points of sale as of mid-2018.

The second half of 2018 began with the 100% acquisition of the "Bahnhof Apotheke" pharmacy in Zurich main station, which saw Galenica integrate the pharmacy with the highest sales figures in Switzerland, enhancing its network with an extremely successful and strategically well-positioned location.

To make even better use of the strengths and competences of its pharmacies, Coop Vitality has developed a new, modern shop layout with a welcoming atmosphere. All locations are to be gradually renovated according to this concept in the coming years, starting with the locations in Biel/Bienne, Rorschach and Matran in the first half of 2018. The Coop Vitality pharmacies now also perform the Diabetes Check, which was previously only offered at Sun Store and Amavita. In turn, Amavita and Sun Store have introduced the Generics Check, whereby customers are personally advised about which of their medications can be replaced with generics.

Galenica makes an active contribution to reducing healthcare costs evolution through generic substitution. On a comparable basis, sales of generics thus rose again in the first half of 2018 (+8.3%). The substitution rate for medications for which a generic is available and for which substitution is also possible increased from 68% to 70%. A satisfyingly high percentage, taking into account the fact that prescribers often favour the original product for certain pathologies such as mental illnesses.

Own pharmacies and shareholdings

	30.6.2018	31.12.2017	Change
Amavita pharmacies[1]	162	157	+5
Sun Store pharmacies[1]	97	97	–
Coop Vitality pharmacies (Joint venture with Coop)[2]	77	75	+2
MediService speciality pharmacy[1]	1	1	–
Majority holdings in other pharmacies[1]	4	5	–1
Minority holdings in other pharmacies[2]	2	2	–
Total own points of sale	**343**	**337**	**+6**

[1] Fully consolidated
[2] Consolidated at equity level

Independent partners

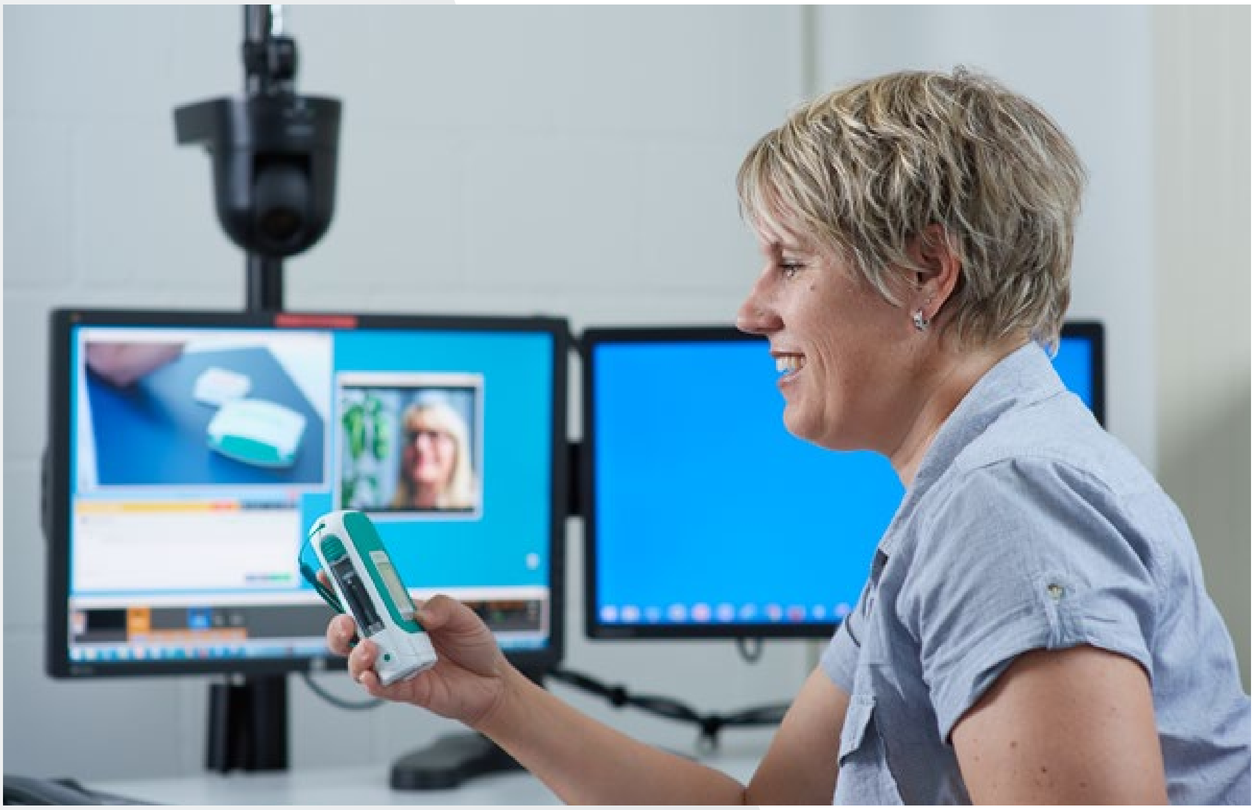
	30.6.2018	31.12.2017	Change
Amavita partnerships	7	8	–1
Winconcept partner pharmacies	150	152	–2
Total independent partners	**157**	**160**	**–3**

Winconcept, the Galenica service provider for independent pharmacies, not only launched a new website in the period under review, but also revised its customer magazine, which affiliated partner pharmacies can now personalise in order to strengthen their brand presence. The Process One quality management system, which is offered to both Winconcept and third-party pharmacies, is registering a growing number of users. With four arrivals and six departures, the number of Winconcept partner pharmacies decreased slightly in the first half of 2018, notably as some partners sought successors and sold their pharmacies, in some cases to Galenica.

The Aprioris pilot project, with its two walk-in clinics at the Amavita pharmacy in Adliswil (Zurich) and the Sun Store Métropole pharmacy in Lausanne, met with a positive response in its first year. The majority of cases were successfully treated and resolved thanks to the competence of the staff involved, and more than 95% of customers would recommend the service and use it again. Though customer flow is not currently in line with expectations, Galenica is benefitting overall from the pilot projects thanks to new experience and know-how, for example in the area of duty of documentation, as well as in processes, procedures and collaboration with partners. Galenica will define further steps in due course.

Mediservice focuses on distance healthcare

In the first half of 2018, Mediservice further strengthened its leading position as a service platform for the care and support of patients with chronic or rare illnesses, expanding its range of high and top price medications for cancer, haemophilia and multiple sclerosis patients. It has also launched services in distance healthcare such as video nursing which provides services from a central location via a screen to chronically ill patients at home.



Products & Brands Business sector

New name, same strategy

Net sales development

In the first half of 2018, Products & Brands generated total sales of CHF 48.7 million, the same level as the prior year.

In the Swiss market, Products & Brands increased sales by a pleasing 3.7 % to CHF 37.3 million. By comparison, the OTC market grew by 1.2 % (IQVIA, first half of 2018) due to a strong flu season.

The sales performance in Products & Brands was driven by the strong growth of OTC products, particularly Algifor® and Merfen®. It was also boosted in the first half of 2018 by one-off additional sales of stocks to wholesalers: due to the change of name of Vifor Consumer Health to Verfora, from July 2018, Verfora, as a new marketing authorisation holder for pharmaceutical products, was not permitted to sell any products or packaging labelled with its former name. To avoid packaging relabelling costs, wholesalers were supplied with large quantities of the products concerned in the second quarter of 2018. It is therefore expected that order volumes will be lower in the second half of the year.

These additional sales of OTC products were offset by lower sales of beauty products, however: the launch of new beauty brands and associated build-up of inventory led to one-off sales in the first half of 2017 that were not repeated in the first half of 2018.

In contrast to the performance in the Swiss market, export sales declined by 10.8 % to CHF 11.3 million, which was attributable in particular to sales generated from the launch of Anti-Brumm® Sun in Germany and Austria in the first half of 2017.

Vifor Consumer Health became Verfora

As part of the division of the former Galenica Group in 2017, Galenica and Vifor Pharma agreed that Vifor Consumer Health would change its name to clearly signal to the market that it is no longer part of Vifor Pharma. The company has therefore been rebranded Verfora as of 1 June 2018. With the new identity, Verfora is able to position itself distinctively as an independent, strong partner for pharmacies and drugstores with its well-known brands and products. Verfora combines the two Latin terms "Veritas" and "Forum". Veritas stands for objectivity, medical evidence and sincerity in the relationship between Verfora and its customer and between the brand and the consumer. The Forum is symbolic of a commitment to open, professional exchange and dialogue.

The introduction of the new packaging with the Verfora branding is proceeding as planned. The Company's strategy continues unchanged, with Verfora positioned as a strong partner for pharmacies and drugstores, standing for an attractive product portfolio and dedicated training and support.

Strong OTC sales

Due to the strong flu season, particularly marked in February and March 2018, as well as supply issues from competitors, the systemic pain relief market leader Algifor® performed very well and clearly exceeded OTC market growth. Algifor® Dolo Forte Liquid, a more concentrated liquid formula, was launched in the Swiss market. Triofan® maintained its strong market position as the number one nasal decongestant in Switzerland. Acquired by Galenica in 2017, the iconic Swiss wound treatment brand Merfen® performed well in the first half of 2018, giving Verfora leadership in the important "wound disinfection" Consumer Healthcare category.

Further development of the portfolio

Significant investments were made in the first half-year 2018 to continue the company's leading programme of education and training at point of sale, for instance with respect to the A-Derma skincare product line or the Adler Schüssler mineral salts. The portfolio of these mineral salts was enhanced with three unique new "Komplexmittel" products, combining six Schüssler mineral salts in one tablet.

In addition, Verfora has taken over the marketing and national distribution of the successful French Oenobiol® range of nutritional beauty supplements.

New Perskindol® and Anti-Brumm® versions

The Global Brands Business unit introduced two new Perskindol® products; a convenient roll-on applicator and a bandage with a cooling effect. Furthermore, in May 2018, a child-friendly and highly effective Anti-Brumm® Kids formula was launched.

Services Segment

Increased growth, improved processes

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 are complemented by services from HCI Solutions, which provides master data for the Swiss healthcare market and offers management software solutions for pharmacies. HCI Solutions also develops tools to securely manage, communicate and distribute sensitive health data and improve patient safety.

Net sales and operating result

The Services segment generated net sales of CHF 1,177.1 million in the first half of 2018, an increase of 0.9% compared to the prior-year period. This was achieved in an overall market whose growth (+3.6%, IQVIA, first half of 2018) was driven especially by the sales performance of hospitals (+6.5%, IQVIA, first half of 2018) as well as by high-priced special medications that are for the most part not supplied via wholesale but directly to specialist doctors (doctors: +2.4%, IQVIA, first half of 2018). At the same time, the federal price reduction measures, which were significantly higher than announced, and strong growth in generics also had an impact on the sales of Services.

The operating result (EBIT) declined by 22.1% to CHF 22.3 million due to one-off effects from the prior-year period totalling CHF 7.0 million that did not recur in the period under review (sale of rights of the medical practice software Triamed® and a non-operational building in Schönbühl). Excluding these one-off effects, EBIT rose by 2.8%.

Return on sales (ROS) was maintained at a high level of 1.9%. Investments in the first half of 2018 amounted to CHF 16.1 million and were used in particular to finance the new ERP software that is being rolled out progressively at Alloga and Galexis.

1,177.1 Net sales in million CHF

Galenica Group CHF 1,566.1 million

22.3 EBIT in million CHF

Galenica Group CHF 70.1 million

1,651 Number of employees

Galenica Group 6,328

Services Business sector

Success thanks to tailored offerings

Pre-wholesaler Alloga put a third cold room into operation at its Burgdorf site in the first half of 2018, expanding internal capacity for the refrigerated storage of medications by around one third. Uninterrupted, temperature-controlled transport logistics is further facilitated by direct docking to the cold room introduced in 2017, thanks to which delivered goods can be transferred straight from the lorry to the refrigerated zone. Initiated in 2017, the Modulo project to switch to SAP's new ERP (Enterprise Resource Planning) system advanced, and a start with initial pilot customers is scheduled in early 2019.

Construction work for the photovoltaic system which is to be installed on the roof of the Alloga building in Burgdorf is progressing as planned: it should go into operation by the end of 2018, providing an average of one megawatt of electricity. It will not only generate electricity for the company's own use, but in summer, shade provided by the solar panels will reduce energy consumption for cooling the building. With a surface area of some 10,000 m^2, it will be one of the largest systems in the region and will quadruple the production capacity of operator Solarstadt Burgdorf AG.

More effective refrigerated box from Galexis

Galexis gained a new partner in the first half of 2018: The Japanese company Shiseido, which produces cosmetics for the specialist retail trade, is banking on Galexis expertise to handle inventory management, shipment preparation and dispatch for Switzerland. Furthermore, in the period under review, Galexis commissioned a new, optimised refrigerated box that guarantees the required temperature of transported goods for 30 hours instead of four, thereby making a further contribution to drug safety. This is particularly important for the rapidly growing market segment of biologics – modern medicines produced using biotechnology that must be stored in cold conditions.

Strong growth in Ticino

Demand for logistics services in Ticino has increased sharply, with Unione Farmaceutica Distribuzione (UFD) growing faster than the market in the first half of 2018. Companies from German- or French-speaking Switzerland that do not employ their own sales staff in Ticino can now use representatives from UFD for promotional purposes, such as advertising campaigns for cosmetics in Ticino pharmacies.

New Medifilm blistering machines set for launch

As of mid-2018, Medifilm served around 8,500 patients throughout Switzerland, increasingly easing the burden of carers responsible for administering medications. Over the course of the year, the company will roll out a new generation of blistering machines that will double the number of blistered units per hour. They are also more precise than the current equipment and can produce sachets labelled in three languages.

HCI: Documedis® recognised as a Class I medical device

The registration of E-medication solution Documedis® as a Class I medical device was confirmed by the Swiss Agency for Therapeutic Products Swissmedic in the first half of 2018. This is thanks to its Clinical Decision Support (CDS) functions, which allow a detailed, patient-specific risk assessment of a medication and provide indications for adjusting drug therapy. CDS from Documedis® is the first system of its kind in Switzerland that complies with the requirements of the Medical Devices Ordinance (MedDO). Following an initial pilot phase, Documedis® will be used in the nine hospitals in the hospital region of St. Gallen as well as the St. Gallen Geriatric Clinic. The certification means that other hospitals in particular can now also use Documedis® as an officially recognised tool for the medication process. Consequently, new users have been acquired.

HCI Solutions is also supporting the further development of online shops and Click & Collect, working intensively to photograph products from the pharmacy range according to a defined standard so that the necessary pictures are available for the online offerings of Amavita, Sun Store and Coop Vitality. The plan is to also offer these images to other interested customers in the online sales market at a later time.

Consolidated interim financial statements 2018

Consolidated interim financial statements 2018

Consolidated statement of income

in thousand CHF	1.1.–30.6.2018	Restated 1.1.–30.6.2017
Net sales	1,566,133	1,552,447
Other income	7,404	13,007
Operating income	**1,573,537**	**1,565,454**
Cost of goods	(1,178,227)	(1,177,035)
Personnel costs	(217,117)	(212,655)
Other operating costs	(91,198)	(85,888)
Share of profit of associates and joint ventures	2,411	2,037
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**89,406**	**91,913**
Depreciation and amortisation	(19,303)	(20,398)
Earnings before interest and taxes (EBIT)	**70,103**	**71,515**
Financial income	399	488
Financial expenses	(1,658)	(1,445)
Earnings before taxes (EBT)	**68,844**	**70,558**
Income tax	(12,366)	(12,691)
Net profit	**56,478**	**57,867**
Attributable to:		
– Shareholders of Galenica Ltd.	56,424	57,850
– Non-controlling interests	54	17

in CHF		
Earnings per share	1.15	1.16
Diluted earnings per share	1.15	1.16

Unaudited figures

Consolidated statement of comprehensive income

in thousand CHF	1.1.–30.6.2018	1.1.–30.6.2017
Net profit	**56,478**	**57,867**
Translation differences	–	1
Items that may be reclassified subsequently to profit or loss	**–**	**1**
Remeasurements of net defined benefit liability/(asset)	(2,218)	35,706
Income tax from remeasurements of net defined benefit liability/(asset)	466	(7,855)
Share of other comprehensive income from joint ventures	(674)	565
Items that will not be reclassified to profit or loss	**(2,426)**	**28,416**
Other comprehensive income	**(2,426)**	**28,417**
Comprehensive income	**54,052**	**86,284**
Attributable to:		
– Shareholders of Galenica Ltd.	53,998	86,267
– Non-controlling interests	54	17

Unaudited figures

Consolidated statement of financial position

Assets

in thousand CHF		30.6.2018		31.12.2017
Cash and cash equivalents		67,802		96,287
Trade and other receivables		426,812		386,754
Inventories		261,380		274,217
Prepaid expenses and accrued income		30,524		30,959
Current assets	43 %	**786,518**	44 %	**788,217**
Property, plant and equipment		249,350		251,413
Intangible assets		720,488		693,091
Investments in associates and joint ventures		46,472		46,477
Financial assets		15,525		12,580
Deferred tax assets		7,743		6,404
Non-current assets	57 %	**1,039,578**	56 %	**1,009,965**
Assets	100 %	**1,826,096**	100 %	**1,798,182**

Liabilities and shareholders' equity

in thousand CHF		30.6.2018		31.12.2017
Financial liabilities		42,570		24,509
Trade and other payables		312,784		293,260
Tax payables		11,224		10,066
Accrued expenses and deferred income		132,375		128,054
Provisions		1,819		2,172
Current liabilities	27 %	**500,772**	25 %	**458,061**
Financial liabilities		381,726		381,781
Deferred tax liabilities		65,119		61,522
Employee benefit liabilities		36,868		29,860
Provisions		4,682		5,443
Non-current liabilities	27 %	**488,395**	27 %	**478,606**
Liabilities	54 %	**989,167**	52 %	**936,667**
Share capital		5,000		5,000
Reserves		827,787		852,280
Equity attributable to shareholders of Galenica Ltd.		**832,787**		**857,280**
Non-controlling interests		4,142		4,235
Shareholders' equity	46 %	**836,929**	48 %	**861,515**
Liabilities and shareholders' equity	100 %	**1,826,096**	100 %	**1,798,182**

2018 figures are unaudited

Consolidated statement of cash flows

in thousand CHF	1.1.–30.6.2018	1.1.–30.6.2017
Net profit	56,478	57,867
Income tax	12,366	12,691
Depreciation and amortisation	19,303	20,398
(Gain)/loss on disposal of non-current assets	(117)	(44)
(Gain)/loss on disposal of assets held for sale	–	(5,164)
(Gain)/loss on disposal of subsidiaries	–	(2,890)
Increase/(decrease) in provisions and employee benefit liabilities	3,552	2,660
Net financial result	1,259	957
Share of profit of associates and joint ventures	(2,411)	(2,037)
Other non-cash items	2,251	1,874
Change in trade and other receivables	(41,950)	(32,243)
Change in inventories	14,711	5,153
Change in trade and other payables	16,524	(6,703)
Change in other net current assets	5,290	25,093
Interest received	279	333
Interest paid	(650)	(903)
Other financial receipts/(payments)	(270)	(82)
Dividends received	3,381	2,548
Income tax paid	(8,417)	(7,949)
Cash flow from operating activities	**81,579**	**71,559**
Investments in property, plant and equipment	(10,787)	(14,045)
Investments in intangible assets	(8,128)	(19,428)
Investments in associates and joint ventures	(1,005)	–
Investments in financial assets and securities	(7,670)	(1,948)
Proceeds from property, plant and equipment and intangible assets	285	515
Proceeds from financial assets and securities	5,916	43
Proceeds from assets held for sale	–	39,625
Purchase of subsidiaries (net cash flow)	(21,025)	(31,204)
Sale of subsidiaries (net cash flow)	–	3,220
Cash flow from investing activities	**(42,414)**	**(23,222)**
Dividends paid	(81,145)	–
Purchase of treasury shares	(176)	–
Proceeds from sale of treasury shares	25	–
Proceeds/(repayment) from financial liabilities (net) – Vifor Pharma Group	–	3,865
Repayment loan to Vifor Pharma Group	–	(360,000)
Proceeds from financial liabilities	17,724	771,620
Repayment of financial liabilities	(4,061)	(363,473)
Purchase of non-controlling interests	(17)	(118)
Cash flow from financing activities	**(67,650)**	**51,894**
Effects of exchange rate changes on cash and cash equivalents	–	1
Increase/(decrease) in cash and cash equivalents	**(28,485)**	**100,232**
Cash and cash equivalents as at 1 January	96,287	9,019
Cash and cash equivalents as at 30 June	**67,802**	**109,251**

Unaudited figures

Consolidated statement of changes in equity

in thousand CHF	Share capital	Treasury shares	Retained earnings	Equity attributable to shareholders of Galenica Ltd.	Non-controlling interests	Equity
Balance as at 31 December 2016	**–**	**–**	**329,621**	**329,621**	**4,584**	**334,205**
Net profit			57,850	57,850	17	57,867
Other comprehensive income			28,417	28,417		28,417
Comprehensive income			**86,267**	**86,267**	**17**	**86,284**
Transactions on treasury shares		(41,186)		(41,186)		(41,186)
Share-based payments			1,888	1,888		1,888
Incorporation of new parent company	5,000		403,919	408,919		408,919
Change in non-controlling interests			84	84	(202)	(118)
Balance as at 30 June 2017	**5,000**	**(41,186)**	**821,779**	**785,593**	**4,399**	**789,992**
Balance as at 31 December 2017	**5,000**	**(38,720)**	**891,000**	**857,280**	**4,235**	**861,515**
Change in accounting standards[1)]			(731)	(731)	(3)	(734)
Balance as at 1 January 2018	**5,000**	**(38,720)**	**890,269**	**856,549**	**4,232**	**860,781**
Net profit			56,424	56,424	54	56,478
Other comprehensive income			(2,426)	(2,426)		(2,426)
Comprehensive income			**53,998**	**53,998**	**54**	**54,052**
Dividends			(81,029)	(81,029)	(116)	(81,145)
Transactions on treasury shares		3,836	(2,838)	998		998
Share-based payments			2,260	2,260		2,260
Change in non-controlling interests			11	11	(28)	(17)
Balance as at 30 June 2018	**5,000**	**(34,884)**	**862,671**	**832,787**	**4,142**	**836,929**

[1)] Adjusted due to restatement IFRS 9 (refer to page 22)
Unaudited figures

On 9 May 2018, the Annual General Meeting approved a dividend payment to be made from capital contribution reserves of CHF 81.0 million, corresponding to CHF 1.65 per registered share, for the financial year 2017 (previous year: none). The dividend was paid out to the shareholders on 16 May 2018.

Notes to the consolidated interim financial statements of the Galenica Group

1. Significant transactions and general information

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 interim financial statements 2018 on 6 August 2018 for publication.

2. Accounting principles

Basis of preparation

The unaudited consolidated interim financial statements of Galenica are based on the financial statements of the individual companies of Galenica as at 30 June 2018, prepared in accordance with uniform principles. Except for the amendments to International Financial Reporting Standards (IFRS) as detailed below, the consolidated interim financial statements have been prepared using the same accounting principles as the consolidated financial statements for the year ending 31 December 2017 and comply with IAS 34 – Interim Financial Reporting. The consolidated interim financial statements should be read in conjunction with the consolidated financial statements for the year ending 31 December 2017 as they update previously reported information.

Galenica's consolidated interim financial statements are prepared in Swiss francs (CHF) and, unless otherwise indicated, figures are rounded to the nearest CHF 1,000.

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

Estimation uncertainty and assumptions

The preparation of the Group's consolidated interim 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. Any adjustments resulting from changes in estimates and assumptions are made during the reporting period in which the original estimates and assumptions changed.

Seasonal influences on operations

Sales in the business sectors in which Galenica operates are not significantly influenced by seasonal or cyclical fluctuations during the financial year.

Income tax

Current income tax is based on an estimate of the expected income tax rate for the full year.

Amendments to IFRS

As at 1 January 2018 Galenica adopted the following new International Financial Reporting Standards relevant for the Group.
- IFRS 9 – Financial Instruments
- IFRS 15 – Revenue from Contracts with Customers

Galenica applies IFRS 9 and IFRS 15 in 2018 for the first time. Galenica recorded the impact of IFRS 9 as at 1 January 2018. The effect of initially applying IFRS 9 was recorded in retained earnings. Prior year numbers have been restated for the impact of IFRS 15. Galenica has not early adopted any other standard or interpretation that has been issued but is not yet effective.

IFRS 9 replaces IAS 39 Financial Instruments and introduces new rules for classification and measurement, particularly for financial assets, for impairment of such assets and for hedge accounting. The adoption of IFRS 9 has introduced new rules to account for impairment losses on receivables. IFRS 9 requires that a forward-looking expected credit loss (ECL) model is applied rather than the incurred loss approach of IAS 39. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that Galenica expects to receive. Galenica has applied the simplified approach and has calculated ECLs based on lifetime expected credit losses. The cumulative effect recorded as at 1 January 2018 was a decrease to retained earnings of CHF 0.7 million.

IFRS 15 supersedes IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations and it applies to all revenue arising from contracts with customers that are in scope of the standard. Galenica has analysed the standard and concluded that it does not have an impact on the timing and amounts recognised but that certain reclassifications and thus amendments in the presentation of the consolidated statement of income are required as stated below.

The impacts of the adoption of IFRS 15 are as follows:
Consideration paid or payable to a customer: Galenica has historically presented on a gross basis certain payments made by suppliers and to customers that following the new guidance in IFRS 15 do not represent consideration for distinct goods or services provided by suppliers and by Galenica and are now recognised as a reduction of cost of goods and revenue. Such payments include advertising arrangements, marketing support, reimbursements for training and slotting fees.

Galenica has applied the full retrospective method upon adoption of IFRS 15 and thus has restated the consolidated interim statement of income for the period ending 30 June 2017.

in thousand CHF	1.1.–30.6.2017 as reported	Restatement IFRS 15	1.1.–30.6.2017 restated
Net sales	1,587,488	(35,041)	1,552,447
Other income	30,611	(17,604)	13,007
Operating income	**1,618,099**	**(52,645)**	**1,565,454**
Cost of goods	(1,211,925)	34,890	(1,177,035)
Personnel costs	(212,655)	–	(212,655)
Other operating costs	(103,643)	17,755	(85,888)
Share of profit of associates and joint ventures	2,037	–	2,037
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**91,913**	**–**	**91,913**

Scope of consolidation

The consolidated interim 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 interim financial statements as at the date when control, significant influence or joint control was obtained. Companies sold during the reporting period are included up to the date when control, significant influence or joint control was lost.

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

3. Operating segment information

Operating segment information first half of 2018

in thousand CHF	Health & Beauty	Services	Corporate	Eliminations	Group
Net sales	745,665	1,177,118	8,684	(365,334)	1,566,133
Intersegmental net sales	(38,505)	(318,790)	(8,039)	365,334	–
Third party net sales	**707,160**	**858,328**	**645**	**–**	**1,566,133**
Share of profit of associates and joint ventures	2,524	–	–	(113)	2,411
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**63,362**	**32,758**	**(121)**	**(6,593)**	**89,406**
Depreciation and amortisation	(9,092)	(10,413)	(17)	219	(19,303)
Earnings before interest and taxes (EBIT)	**54,270**	**22,345**	**(138)**	**(6,374)**	**70,103**
Interest income					394
Interest expense					(1,369)
Other financial result (net)					(284)
Earnings before taxes (EBT)					**68,844**
Income tax					(12,366)
Net profit					**56,478**
Assets	**1,151,996**	**829,783**	**955,037**	**(1,110,720)**[1]	**1,826,096**
Investments in associates and joint ventures	47,899	–	–	(1,427)	46,472
Liabilities	**965,280**	**552,980**	**538,813**	**(1,067,906)**[2]	**989,167**
Investments in property, plant and equipment	5,211	7,720	–	(97)	12,834
Investments in intangible assets	167	8,409	6	(27)	8,555
Employees as at 30 June (FTE)	3,492	1,365	34		4,891

[1] Of which elimination of intercompany positions CHF –1,102.0 million and other unallocated amounts CHF –8.7 million
[2] Of which elimination of intercompany positions CHF –1,102.0 million and other unallocated amounts CHF 34.1 million

Operating segment information first half of 2017

in thousand CHF	Health & Beauty	Services	Corporate	Eliminations	Group
Net sales[1]	727,537	1,166,948	7,173	(349,211)	1,552,447
Intersegmental net sales[1]	(34,447)	(308,236)	(6,528)	349,211	–
Third party net sales[1]	**693,090**	**858,712**	**645**	–	**1,552,447**
Share of profit of associates and joint ventures	2,290	–	–	(253)	2,037
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	**60,212**	**38,676**	**117**	**(7,092)**	**91,913**
Depreciation and amortisation	(10,666)	(9,982)	(18)	268	(20,398)
Earnings before interest and taxes (EBIT)	**49,546**	**28,694**	**99**	**(6,824)**	**71,515**
Interest income					364
Interest expense					(1,085)
Other financial result (net)					(236)
Earnings before taxes (EBT)					**70,558**
Income tax					(12,691)
Net profit					**57,867**
Assets[2]	**1,074,233**	**751,654**	**911,191**	**(938,896)[3]**	**1,798,182**
Investments in associates and joint ventures[2]	47,117	–	–	(640)	46,477
Liabilities[2]	**915,376**	**454,788**	**471,454**	**(904,951)[4]**	**936,667**
Investments in property, plant and equipment	7,240	6,894	–	(37)	14,097
Investments in intangible assets	15,167	4,239	22	–	19,428
Employees as at 30 June (FTE)	3,480	1,333	31		4,844

[1] Restatement upon adoption of IFRS 15 (refer to page 22)
[2] Figures as at 31 December 2017
[3] Of which elimination of intercompany positions CHF –932.3 million and other unallocated amounts CHF –6.6 million
[4] Of which elimination of intercompany positions CHF –932.3 million and other unallocated amounts CHF 27.3 million

4. Business combinations

In the first half of 2018, the scope of consolidation has changed as a result of the following transactions:

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

The purchase consideration amounted to CHF 24.1 million, of which CHF 20.4 million was settled in cash and CHF 2.4 million was offset against loans receivable. The deferred purchase price consideration of CHF 1.3 million falls due in the second half of 2018. The fair value of the provisional net assets amounts to CHF 6.3 million at the acquisition date. The goodwill of CHF 17.9 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 Careproduct AG. On 3 January 2018 Galenicare Holding acquired 100% of the shares in the Swiss company Careproduct AG. The company offers efficient solutions to support and increase the mobility in everyday life of older and disabled people. Careproduct supplies walking frames, wheelchairs, incontinence products and other aids both online and offline.

The purchase consideration amounting to CHF 4.0 million was settled in cash. The fair value of the net assets amounts to CHF 0.4 million at the acquisition date. The goodwill of CHF 3.5 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, the growth in market share particularly in the online distribution. Transaction costs were insignificant.

Business combinations

in thousand CHF	Fair value Total
Cash and cash equivalents	3,389
Trade receivables	2,397
Inventories	1,874
Property, plant and equipment	1,421
Intangible assets	582
Other current and non-current assets	459
Trade payables	(1,203)
Financial liabilities	(1,665)
Other current and non-current liabilities	(543)
Fair value of net assets	**6,711**
Goodwill	21,423
Purchase consideration	**28,134**
Cash acquired	(3,389)
Offset against loans receivable	(2,400)
Deferred consideration	(1,320)
Net cash flow from current business combinations	**21,025**

Pro forma figures for acquisitions made in the first half of 2018

Since their inclusion in Galenica's scope of consolidation, the businesses acquired contributed net sales of CHF 8.5 million and an operating result (EBIT) of CHF 0.2 million to the Group's results. If these acquisitions had occurred on 1 January 2018, they would have contributed additional net sales of CHF 4.4 million and increased EBIT by CHF 0.2 million.

5. Net sales

Galenica separates revenue recognised from contracts with customers into the business sectors.

Net sales first half of 2018

in thousand CHF	Product & Brands	Health & Beauty Retail	Services Services	Corporate	Eliminations	Group
Sale of goods	47,816	668,113	1,129,999	–	(343,840)	1,502,088
Sale of services	837	27,736	47,119	8,684	(20,331)	64,045
Net sales	**48,653**	**695,849**	**1,177,118**	**8,684**	**(364,171)**	**1,566,133**
Intersegmental net sales	(24,351)	(12,991)	(318,790)	(8,039)	364,171	–
Third party net sales	**24,302**	**682,858**	**858,328**	**645**	**–**	**1,566,133**

Net sales first half of 2017

in thousand CHF	Product & Brands	Health & Beauty Retail	Services Services	Corporate	Eliminations	Group
Sale of goods	47,696	652,209	1,121,752	–	(331,310)	1,490,347
Sale of services	986	25,886	45,196	7,173	(17,141)	62,100
Net sales	**48,682**	**678,095**	**1,166,948**	**7,173**	**(348,451)**	**1,552,447**
Intersegmental net sales	(22,414)	(11,273)	(308,236)	(6,528)	348,451	–
Third party net sales	**26,268**	**666,822**	**858,712**	**645**	**–**	**1,552,447**

6. Financial assets and financial liabilities measured at fair value

Fair value

		30.6.2018		31.12.2017
in thousand CHF	Carrying amount	Fair value	Carrying amount	Fair value
Non-current financial liabilities	381,726	381,934	381,781	385,684

With the exception of non-current financial liabilities the carrying amounts of all financial assets and financial liabilities approximate to the fair value. The listed bonds with a carrying amount of CHF 380.0 million have a fair value of CHF 380.9 million as at 30 June 2018 (level 1).

7. Contingent liabilities and commitments

Galenica has signed purchase agreements to acquire pharmacies in the next few years. The unrecognised commitments are expected to involve payments of CHF 5.5 million at the most. The purchase rights have an estimated volume of CHF 6.0 million. These purchase rights or obligations fall due in 2020.

8. Subsequent events

The following business combination occurred between 30 June 2018 and the date the consolidated interim financial statements were released for publication.

Acquisition of a pharmacy. Galenicare Holding acquired 100% of the interests in a pharmacy in Switzerland. The net assets of this acquisition will be consolidated for financial year 2018 from the date control was obtained. The purchase consideration was CHF 3.3 million, the fair value of the provisional net assets resulting from this addition was estimated at CHF 1.3 million at the acquisition date. Since the transaction was concluded shortly before the consolidated interim financial statements were issued, it was not possible to disclose the additional information required by IFRS.

Acquisition of Ingrid Barrage AG. On 2 July 2018 Galenicare Holding acquired the remaining 51% of the shares in the Swiss company Ingrid Barrage AG and thus controls the company since the acquisition date. The company operates a pharmacy located at Zurich mainstation and has been renamed to Bahnhof Apotheke Zurich AG immediately after the acquisition date. The purchase consideration to be paid is based on a formula consisting of the relative share of equity in addition of a contingent consideration payment. The purchase consideraton cannot yet be assessed with sufficient accuracy and will be determined at a later point in time. The acquired net assets assumed and the acquisition-date fair value of the equity interest in the acquiree held immediately before the acquisition date will also be determined at a later point in time. Transaction costs were insignificant.

There were no further significant events after the reporting date.

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