



Half year report 2017

of the Galenica Group

 **GALENICA**

Galenica – the first choice for health, beauty and wellbeing

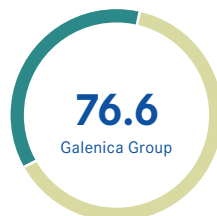
Key figures (unaudited figures)

Net sales¹⁾
in million CHF



● Health & Beauty	730.0
● Services	1,233.6

EBIT adjusted¹⁾²⁾
in million CHF



● Health & Beauty	49.5
● Services	28.7

Employees
Per 30 June 2017



● Health & Beauty	4,623
● Services	1,635

in million CHF	1.1.-30.6.2017	1.1.-30.6.2016	Change
Net sales¹⁾	1,587.5	1,487.1	+6.8%
Health & Beauty	730.0	709.2	+2.9%
Services	1,233.6	1,148.4	+7.4%
EBITDA adjusted¹⁾²⁾	97.0	87.9	+10.3%
in % of net sales	6.1%	5.9%	
EBITDA¹⁾	91.9	81.6	+12.7%
Health & Beauty	60.2	58.0	+3.9%
Services	38.7	30.0	+28.9%
EBIT adjusted¹⁾²⁾	76.6	67.2	+14.1%
in % of net sales	4.8%	4.5%	
EBIT¹⁾	71.5	60.8	+17.6%
Health & Beauty	49.5	46.5	+6.5%
Services	28.7	20.2	+41.9%
Net profit adjusted²⁾	62.1	42.9	+44.6%
Net profit	57.9	37.6	+53.9%
Investment in property, plant and equipment and intangible assets	33.5	17.0	+97.1%
Employees at reporting date (FTE)	4,844	4,614	+5.0%
in million CHF	30.6.2017		
Equity ratio	42.8%		
Net debt	309.2		

Share information

Since 7 April 2017, Galenica shares have been listed on the SIX Swiss Exchange under the ticker symbol GALE.

Price per 30.6.2017	CHF 45.00
Market capitalisation per 30.6.2017	CHF 2,250 million
Earnings per share	CHF 1.16
Earnings per share adjusted ²⁾	CHF 1.24
Shareholders' equity per share	CHF 15.71

¹⁾ Key figures are reported for each Segment not taking into account Corporate and eliminations

²⁾ Excluding the effects of IAS 19

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In view of the IPO on 7 April 2017, the Business unit Galenica Santé of the former Galenica Group restated the financials as of 2014 as if the unit had been a standalone entity (combined financial statements 2014–2016). These combined financial statements form the basis for comparison with the figures for the previous year.

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.

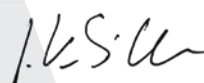
Galenica posted a profit of CHF 57.9 million. On a comparable basis (excluding the effects of IAS 19), net profit was CHF 62.1 million. The profit includes one-off effects of CHF 6.3 million.

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.

730.0

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.





Consolidated interim financial statements 2017



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Consolidated statement of income

Consolidated statement of income

in thousand CHF	1.1.-30.6.2017	1.1.-30.6.2016
Net sales	1,587,488	1,487,066
Other income	30,611	24,714
Operating income	1,618,099	1,511,780
Cost of goods	(1,211,925)	(1,123,191)
Personnel costs	(212,655)	(202,979)
Other operating costs	(103,643)	(105,828)
Share of result of associates and joint ventures	2,037	1,786
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	91,913	81,568
Depreciation and amortisation	(20,398)	(20,777)
Earnings before interest and taxes (EBIT)	71,515	60,791
Financial income	488	425
Financial expenses	(1,445)	(12,993)
Earnings before taxes (EBT)	70,558	48,223
Income tax	(12,691)	(10,621)
Net profit	57,867	37,602
Attributable to:		
- Shareholders of Galenica Ltd. ¹⁾	57,850	37,609
- Non-controlling interests	17	(7)

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

in CHF	1.1.-30.6.2017	1.1.-30.6.2016
Earnings per share	1.16	0.75
Diluted earnings per share	1.16	0.75

Unaudited figures

Consolidated statement of comprehensive income

in thousand CHF	1.1.–30.6.2017	1.1.–30.6.2016
Net profit	57,867	37,602
Translation differences	1	–
Items that may be reclassified subsequently to profit or loss	1	–
Remeasurements of the net defined benefit liability/(asset)	35,706	(45,291)
Income tax from remeasurements of the net defined benefit liability/(asset)	(7,855)	9,964
Share of other comprehensive income from joint ventures	565	(384)
Items that will not be reclassified to profit or loss	28,416	(35,711)
Other comprehensive income	28,417	(35,711)
Comprehensive income	86,284	1,891
Attributable to:		
– Shareholders of Galenica Ltd. ¹⁾	86,267	1,898
– Non-controlling interests	17	(7)

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

Unaudited figures

Consolidated statement of financial position

Consolidated statement of financial position

Assets

in thousand CHF	30.6.2017		31.12.2016	
Cash and cash equivalents		109,251		9,019
Financial assets – Vifor Pharma Group		–		340,857
Trade and other receivables		413,070		358,888
Inventories		268,663		264,716
Prepaid expenses and accrued income		24,767		18,838
Assets held for sale		–		29,574
Current assets	44%	815,751	51%	1,021,892
Property, plant and equipment		252,332		253,665
Intangible assets		686,699		643,090
Investments in associates and joint ventures		43,144		43,089
Financial assets		11,485		8,930
Deferred tax assets		13,242		14,866
Employee benefit assets		21,629		–
Non-current assets	56%	1,028,531	49%	963,640
Assets	100%	1,844,282	100%	1,985,532

Liabilities and shareholders' equity

in thousand CHF	30.6.2017		31.12.2016	
Financial liabilities – Vifor Pharma Group		–		347,054
Financial liabilities		36,293		2,854
Trade and other payables		381,277		331,845
Tax payables		12,802		12,386
Accrued expenses and deferred income		108,740		75,244
Provisions		2,040		2,212
Current liabilities	29%	541,152	39%	771,595
Financial liabilities – Vifor Pharma Group		–		763,150
Financial liabilities		385,723		2,122
Deferred tax liabilities		64,119		52,648
Employee benefit liabilities		55,454		60,437
Provisions		7,842		1,375
Non-current liabilities	28%	513,138	44%	879,732
Liabilities	57%	1,054,290	83%	1,651,327
Share capital		5,000		–
Reserves		780,593		329,621
Equity attributable to shareholders of Galenica Ltd.¹⁾		785,593		329,621
Non-controlling interests		4,399		4,584
Shareholders' equity	43%	789,992	17%	334,205
Liabilities and shareholders' equity	100%	1,844,282	100%	1,985,532

¹⁾ Changes in company structure (refer to note 1)
2017 figures are unaudited

Consolidated statement of cash flows

in thousand CHF	1.1.–30.6.2017	1.1.–30.6.2016
Net profit	57,867	37,602
Income tax	12,691	10,621
Depreciation and amortisation	20,398	20,777
(Gain)/loss on disposal of non-current assets	(44)	(110)
(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 assets and liabilities	2,660	6,128
Net financial result	957	12,568
Share of result of associates and joint venture	(2,037)	(1,786)
Other non-cash items	1,874	4,512
Change in trade and other receivables	(32,243)	(58,313)
Change in inventories	5,153	26,117
Change in trade and other payables	(6,703)	(4,244)
Change in other net current assets	25,093	(4,730)
Interest received	333	420
Interest paid	(903)	(12,566)
Other financial receipts/(payments)	(82)	(91)
Dividends received	2,548	4,116
Income tax paid	(7,949)	(7,178)
Cash flow from operating activities	71,559	33,843
Investments in property, plant and equipment	(14,045)	(15,310)
Investments in intangible assets	(19,428)	(1,701)
Investments in associates and joint ventures	–	(531)
Investments in financial assets and securities	(1,948)	(3,263)
Proceeds from property, plant and equipment and intangible assets	515	229
Proceeds from financial assets and securities	43	40
Proceeds from assets held for sale	39,625	–
Purchase of subsidiaries (net cash flow)	(31,204)	(11,410)
Sale of subsidiaries (net cash flow)	3,220	–
Cash flow from investing activities	(23,222)	(31,946)
Dividends paid to Vifor Pharma Group	–	(46,000)
Proceeds / (Repayment) from financial liabilities (net) – Vifor Pharma Group	3,865	45,317
Repayment loan to Vifor Pharma Group	(360,000)	–
Proceeds from financial liabilities	771,620	–
Repayment of financial liabilities	(363,473)	(1,321)
Purchase of non-controlling interests	(118)	–
Cash flow from financing activities	51,894	(2,004)
Effects of exchange rate changes on cash and cash equivalents	1	–
Increase/(decrease) in cash and cash equivalents	100,232	(107)
Cash and cash equivalents as at 1 January	9,019	10,500
Cash and cash equivalents as at 30 June	109,251	10,393

Unaudited figures

Consolidated statement of changes in equity

Consolidated statement of changes in equity

in thousand CHF	Share capital	Treasury shares	Retained earnings	Equity attributable to shareholders of Galenica Ltd.	Non-controlling interests	Equity
Balance as at 31 December 2015	–	–	254,042	254,042	5,149	259,191
Net profit			37,609	37,609	(7)	37,602
Other comprehensive income			(35,711)	(35,711)		(35,711)
Comprehensive income			1,898	1,898	(7)	1,891
Dividends			(46,000)	(46,000)		(46,000)
Share-based payments			1,033	1,033		1,033
Transactions with Vifor Pharma Group			(2,272)	(2,272)		(2,272)
Change in non-controlling interests			50	50	(118)	(68)
Balance as at 30 June 2016	–	–	208,751	208,751	5,024	213,775
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

Unaudited figures

Notes to the consolidated interim financial statements of the Galenica Group

1. Significant transactions and general information

Separation and listing on the SIX Swiss Exchange

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

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

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

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 2017 for publication on 7 August 2017.

2. Accounting principles

Basis of preparation

The unaudited consolidated interim financial statements have been prepared in accordance with IAS 34 - Interim Financial Reporting – and are based on the financial statements of the individual companies of Galenica as at 30 June 2017, prepared in accordance with uniform principles.

The consolidated interim financial statements have been prepared using the principles of consolidation and accounting policies disclosed in the notes to the combined financial statements 2014–2016 of the Galenica Santé Group, which are part of the listing prospectus dated 24 March 2017 (available on the company's homepage www.galenica.com/publications/downloadcenter).

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

Galenica's consolidated 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.

Notes to the consolidated interim financial statements of the Galenica Group

Estimation uncertainty and assumptions

The preparation of the Group's consolidated interim financial statements in accordance with generally accepted accounting principles 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 2017 Galenica adopted the following amended International Financial Reporting Standards.

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

These changes have no or no material impact on the financial position, financial performance and cash flows of Galenica nor on disclosures in these consolidated interim financial statements.

Scope of consolidation

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

Subsidiaries, associates and joint ventures acquired during the reporting period are included in the consolidated 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 3, Business combinations.

3. Operating segment information

Operating segment information first half of 2017

in thousand CHF	Health & Beauty	Services	Corporate	Eliminations	Group
Net sales	729,973	1,233,555	–	(376,040)	1,587,488
Other income	50,261	14,782	7,306	(41,738)	30,611
Intersegmental sales and income	(68,437)	(342,846)	(6,528)	417,811	–
Third party operating income	711,797	905,491	778	33	1,618,099
Share of result 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	1,091,547	825,924	1,003,731	(1,076,920)¹⁾	1,844,282
Investments in associates and joint ventures	45,276	–	–	(2,132)	43,144
Liabilities	982,946	549,202	561,105	(1,038,963)²⁾	1,054,290
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⁾ Of which elimination of intercompany positions CHF –1,096.7 million and other unallocated amounts CHF 19.8 million

²⁾ Of which elimination of intercompany positions CHF –1,096.7 million and other unallocated amounts CHF 57.7 million

Notes to the consolidated interim financial statements of the Galenica Group

Operating segment information first half of 2016

in thousand CHF	Health & Beauty	Services	Eliminations	Group
Net sales	709,246	1,148,439	(370,619)	1,487,066
Other income	50,580	6,387	(32,253)	24,714
Intersegmental sales and income	(67,292)	(335,712)	403,004	–
Third party operating income	692,534	819,114	132	1,511,780
Share of result of associates and joint ventures	2,114	–	(328)	1,786
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	57,960	30,014	(6,406)	81,568
Depreciation and amortisation	(11,424)	(9,789)	436	(20,777)
Earnings before interest and taxes (EBIT)	46,536	20,225	(5,970)	60,791
Interest income				425
Interest expense				(12,565)
Other financial result (net)				(428)
Earnings before taxes (EBT)				48,223
Income tax				(10,621)
Net profit				37,602
Assets¹⁾	1,298,346	721,385	(34,199)²⁾	1,985,532
Investments in associates and joint ventures ¹⁾	45,535	–	(2,446)	43,089
Liabilities¹⁾	1,199,486	427,382	24,459³⁾	1,651,327
Investments in property, plant and equipment	6,227	9,224	(141)	15,310
Investments in intangible assets	548	1,212	(59)	1,701
Employees as at 30 June (FTE)	3,406	1,208	–	4,614

¹⁾ Figures as at 31 December 2016

²⁾ Of which elimination of intercompany positions CHF –34.8 million and other unallocated amounts CHF +0.6 million

³⁾ Of which elimination of intercompany positions CHF –34.8 million and other unallocated amounts CHF +59.3 million

4. Business combinations

In the first half of 2017, 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, most of these pharmacies were merged with GaleniCare Ltd.

The purchase consideration amounted to CHF 16.0 million, of which CHF 15.2 million was settled in cash. The deferred purchase price consideration of CHF 0.8 million falls due in the second half of 2017. The fair value of the provisional net assets amounts to CHF 5.6 million. The goodwill of CHF 10.4 million was allocated to the business sector Retail and corresponds to the added value of the pharmacies based on their locations.

Transaction costs were insignificant.

Acquisition of Pharmapool Ltd. On 10 January 2017 Galexis acquired 100% of the shares in the Swiss company Pharmapool Ltd. Pharmapool is a physicians' wholesaler who supplies and supports medical practices with medicines, consumables, laboratory products and furnishings. The company also manages the Pharmapool central pharmacy.

The purchase consideration amounted to CHF 27.9 million was settled in cash. The fair value of the net assets amounts to CHF 13.7 million on the acquisition date. The goodwill of CHF 14.2 million was allocated to the business sector Services and corresponds to the added value based on the acquirer-specific synergies expected to arise from the acquisition, the growth in market share and the employees gained.

Transaction costs of CHF 0.3 million were recognised in other operating costs.

Business combinations

in thousand CHF	Pharmapool	Pharmacies	Fair value Total
Cash and cash equivalent	9,996	4,590	14,586
Trade receivables	19,867	1,538	21,405
Inventories	8,564	537	9,101
Other current assets	552	53	605
Property, plant and equipment	1,394	33	1,427
Intangible assets	4,036	–	4,036
Financial assets	149	11	160
Deferred tax assets	559	–	559
Trade payables	(15,017)	(390)	(15,407)
Financial liabilities	(7,000)	(443)	(7,443)
Deferred tax liabilities	(946)	(71)	(1,017)
Employee benefit liabilities	(2,540)	–	(2,540)
Other current and non-current liabilities	(5,878)	(287)	(6,165)
Fair value of net assets	13,736	5,571	19,307
Goodwill	14,162	10,410	24,572
Purchase consideration	27,898	15,981	43,879
Cash acquired	(9,996)	(4,590)	(14,586)
Deferred consideration	–	(789)	(789)
Net cash flow from current business combinations	17,902	10,602	28,504
Payment of consideration due to previous business combinations			2,700
Net cash flow			31,204

Pro forma figures for acquisitions made in the first half of 2017

Since their inclusion in the Galenica Group's scope of consolidation, the businesses acquired contributed net sales of CHF 80.5 million and an operating result (EBIT) of CHF 1.9 million to the Group's results. If these acquisitions had occurred on 1 January 2017, they would have contributed additional net sales of CHF 0.9 million and increased EBIT by CHF 0.1 million.

Disposal of Triamed Ltd. On 1 March 2017 Galenica disposed of its TriaMed® practice software, a management software solution for doctors' practices developed and marketed by HCI Solutions to Swisscom Health Ltd.

The consideration amounted to CHF 4.4 million and was settled in cash. The carrying amount of the disposed net assets amounted to CHF 1.5 million including cash and cash equivalents of CHF 1.1 million. The net profit from this transaction of CHF 2.9 million has been recognised in other income.

5. Significant event

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

6. Changes in financing transactions related to the separation

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

Transactions realised in 2017 before the separation:

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

Transactions realised in 2017 after the separation:

- i) Proceeds from a bridge loan of CHF 360.0 million from a lender bank for the purpose of repayment of financial liabilities to Vifor Pharma Group of CHF 360.0 million.
- ii) Issuance of fixed-interest bonds for a nominal amount totalling CHF 380.0 million for the purpose of long-term financing. The issue consists of two tranches: a tranche of CHF 200.0 million with an annual coupon of 0.50% and a term of 6 years, falling due on 15 June 2023 and a tranche of CHF 180.0 million with an annual coupon of 1.00% coupon and a term of 9 ½ years, falling due on 15 December 2026. The proceeds from the bonds were used to refinance the bridge loan granted in the course of the IPO. The bonds are traded on the SIX Swiss Exchange under securities no. 36720669 and 36720670 respectively. The bonds closed at 100.00% and 99.50% respectively as at 30 June 2017.

7. Material related party transactions

In consideration of future costs for the change of corporate names, branding of product packages and for the assignment of trademark rights, domain names and product rights as well as other contractual obligations related to the separation, Vifor Pharma paid to Galenica an amount of CHF 17.5 million in the first half of 2017.

In connection with the separation, Galenica entered into a call option agreement with Vifor Pharma to acquire treasury shares at the IPO price of CHF 39.00 for up to 2.5% of the registered share capital. On 29 June 2017, Galenica exercised the call option for approx. 1.06 million treasury shares at a total purchase consideration of CHF 41.2 million, which was paid to Vifor Pharma in July 2017.

In addition and as outlined in note 6, various financing transactions occurred in relation to the separation of the Group.

8. 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 20.5 million at the most. The purchase rights have an estimated volume of CHF 20.9 million. These purchase rights or obligations fall due between 2017 and 2020.

9. Subsequent events

The following business combination occurred between 30 June 2017 and the date the consolidated interim financial statements were issued.

Acquisition of a pharmacy. GaleniCare Holding acquired 100% of the interests in a pharmacy located in Switzerland. The net assets of this acquisition will be consolidated for financial year 2017 from the date control was obtained. The purchase consideration was CHF 5.4 million, the fair value of the provisional net assets resulting from this addition was estimated at CHF 2.2 million on 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.

There were no further significant events after the reporting date.

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