

Combined financial statements of the Galenica Santé Group 2014 - 2016

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Combined statement of income

in thousand CHF	Notes	2016	2015	2014
Net sales	7	3,008,851	2,914,917	2,826,272
Other income	8	49,848	45,279	48,639
Operating income		3,058,699	2,960,196	2,874,911
Cost of goods and materials		(2,277,303)	(2,200,987)	(2,150,659)
Personnel costs	9, 29	(407,088)	(388,684)	(366,645)
Other operating costs	10	(213,194)	(214,207)	(206,643)
Share of result of associates and joint ventures	20	4,515	3,439	3,685
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		165,629	159,757	154,649
Depreciation and amortisation	18, 19	(41,810)	(41,239)	(40,901)
Earnings before interest and taxes (EBIT)		123,819	118,518	113,748
Financial income	11	1,036	1,446	2,430
Financial expenses	11	(20,596)	(20,337)	(18,316)
Earnings before taxes (EBT)		104,259	99,627	97,862
Income tax	12	(20,895)	(18,522)	(16,001)
Net profit		83,364	81,105	81,861
Attributable to:				
– Shareholders of Galenica Santé		83,393	81,122	81,824
– Non-controlling interests		(29)	(17)	37
in CHF				
Earnings per share	13	1.67	1.62	1.64

Combined statement of comprehensive income

in thousand CHF	Notes	2016	2015	2014
Net profit		83,364	81,105	81,861
Translation differences		(1)	(5)	(1)
Items that may be reclassified subsequently to profit or loss		(1)	(5)	(1)
Remeasurements of the net defined benefit liability / (asset)	29	41,999	(20,884)	(4,782)
Income tax from remeasurements of the net defined benefit liability / (asset)	12	(9,240)	4,594	1,052
Share of other comprehensive income from joint ventures	20	2,371	(1,262)	(1,033)
Items that will not be reclassified to profit or loss		35,130	(17,552)	(4,763)
Other comprehensive income		35,129	(17,557)	(4,764)
Comprehensive income		118,493	63,548	77,097
Attributable to:				
– Shareholders of Galenica Santé		118,522	63,565	77,060
– Non-controlling interests		(29)	(17)	37

Combined statement of financial position

Assets

in thousand CHF	Notes	31.12.2016	31.12.2015	31.12.2014	1.1.2014
Cash and cash equivalents		9,019	10,500	22,271	18,621
Financial receivables – Galenica Group	14	340,857	92,316	76,363	122,681
Trade and other receivables	15	358,803	336,622	316,068	338,721
Tax receivables		85	208	429	174
Inventories	16	264,716	282,673	275,300	265,402
Prepaid expenses and accrued income – Galenica Group		206	1,478	19,974	2,042
Prepaid expenses and accrued income		18,632	26,236	19,501	31,175
Assets held for sale	17	29,574	—	—	—
Current assets		1,021,892	750,033	729,906	778,816
Property, plant and equipment	18	253,665	254,267	245,860	243,310
Investment properties	18	—	30,352	31,299	31,697
Intangible assets	19	643,090	623,815	623,469	604,651
Investments in associates and joint ventures	20	43,089	40,488	41,608	39,252
Financial assets	21	8,930	8,327	11,535	11,951
Deferred tax assets	12	14,866	23,617	18,911	16,247
Employee benefit assets	29	—	1,815	6,355	—
Non-current assets		963,640	982,681	979,037	947,108
Assets		1,985,532	1,732,714	1,708,943	1,725,924

Liabilities and shareholders' equity

in thousand CHF	Notes	31.12.2016	31.12.2015	31.12.2014	1.1.2014
Financial liabilities – Galenica Group	24	347,054	133,269	148,305	152,739
Financial liabilities	25	2,854	5,269	13,640	19,241
Trade and other payables – Galenica Group	22	5,511	5,574	8,392	6,854
Trade and other payables	23	326,334	313,694	338,614	311,318
Tax payables		12,386	11,149	4,654	6,705
Accrued expenses and deferred income – Galenica Group		1,391	1,833	919	422
Accrued expenses and deferred income		73,853	86,100	58,410	137,476
Provisions	28	2,212	1,110	1,282	833
Current liabilities		771,595	557,998	574,216	635,588
Financial liabilities – Galenica Group	26	763,150	763,775	763,150	763,150
Financial liabilities	27	2,122	5,022	11,079	8,188
Deferred tax liabilities	12	52,648	48,888	46,075	39,853
Employee benefit liabilities	29	60,437	93,694	69,781	54,816
Provisions	28	1,375	4,146	4,378	4,622
Non-current liabilities		879,732	915,525	894,463	870,629
Liabilities		1,651,327	1,473,523	1,468,679	1,506,217
Equity attributable to shareholders of Galenica Santé		329,621	254,042	230,304	209,733
Non-controlling interests		4,584	5,149	9,960	9,974
Shareholders' equity		334,205	259,191	240,264	219,707
Liabilities and shareholders' equity		1,985,532	1,732,714	1,708,943	1,725,924

Combined statement of cash flows

in thousand CHF	2016	2015	2014
Net profit	83,364	81,105	81,861
Income tax	20,895	18,522	16,001
Depreciation and amortisation	41,810	41,239	40,901
(Gain)/loss on disposal of non-current assets	(201)	(181)	(121)
Increase/(decrease) in provisions and employee benefit assets and liabilities	8,161	6,508	3,367
Net financial result	19,560	18,891	15,886
Share of result of associates and joint ventures	(4,515)	(3,439)	(3,685)
Other non-cash items	12,374	9,583	5,807
Change in trade and other receivables	(17,596)	(19,709)	20,617
Change in inventories	19,892	(5,478)	(9,141)
Change in trade and other payables	11,700	(27,905)	28,272
Change in other net current assets	(8,185)	34,882	(86,926)
Interest received	999	1,360	2,375
Interest paid	(19,756)	(19,628)	(17,647)
Other financial receipts/(financial payments)	(153)	34	(89)
Dividends received	4,815	5,270	345
Income tax paid	(16,346)	(8,619)	(13,705)
Cash flow from operating activities	156,818	132,435	84,118
Investments in property, plant and equipment and investment properties	(31,341)	(37,889)	(34,536)
Investments in intangible assets	(3,603)	(5,965)	(7,000)
Investments in associates and joint ventures	(531)	(1,973)	(49)
Investments in financial assets and securities	(360)	(220)	(31)
Proceeds from property, plant and equipment and investment properties	1,668	434	376
Proceeds from intangible assets	—	343	—
Proceeds from financial assets and securities	126	844	870
Purchase of subsidiaries (net cash flow)	(30,283)	(11,349)	(13,251)
Cash flow from investing activities	(64,324)	(55,775)	(53,621)
Dividends paid to Galenica Group	(46,000)	(46,000)	(54,049)
Dividends paid to non-controlling interests	—	(4)	(68)
Proceeds/(repayment) from financial liabilities (net) – Galenica Group	(44,055)	(42,248)	28,005
Repayment of financial liabilities	(3,919)	(173)	(733)
Cash flow from financing activities	(93,974)	(88,425)	(26,845)
Effects of exchange rate changes on cash and cash equivalents	(1)	(6)	(2)
Increase/(decrease) in cash and cash equivalents	(1,481)	(11,771)	3,650
Cash and cash equivalents as at 1 January	10,500	22,271	18,621
Cash and cash equivalents as at 31 December	9,019	10,500	22,271

Combined statement of changes in equity

in thousand CHF	Notes	Share capital	Retained earnings	Accumulated translation differences	Equity attributable to shareholders of Galenica Santé	Non-controlling interests	Equity
Balance as at 1 January 2014		—	209,733	—	209,733	9,974	219,707
Net profit			81,824		81,824	37	81,861
Other comprehensive income			(4,763)	(1)	(4,764)		(4,764)
Comprehensive income			77,061	(1)	77,060	37	77,097
Dividends			(54,049)		(54,049)	(51)	(54,100)
Share-based payments	31		2,309		2,309		2,309
Transactions with Galenica Group	32		(4,749)		(4,749)		(4,749)
Balance as at 31 December 2014		—	230,305	(1)	230,304	9,960	240,264
Net profit			81,122		81,122	(17)	81,105
Other comprehensive income			(17,552)	(5)	(17,557)		(17,557)
Comprehensive income			63,570	(5)	63,565	(17)	63,548
Dividends			(46,000)		(46,000)		(46,000)
Share-based payments	31		3,986		3,986		3,986
Transactions with Galenica Group	32		144		144		144
Change in non-controlling interests	32		2,043		2,043	(4,794)	(2,751)
Balance as at 31 December 2015		—	254,048	(6)	254,042	5,149	259,191
Net profit			83,393		83,393	(29)	83,364
Other comprehensive income			35,130	(1)	35,129	0	35,129
Comprehensive income			118,523	(1)	118,522	(29)	118,493
Dividends			(46,000)		(46,000)		(46,000)
Share-based payments	31		3,130		3,130		3,130
Transactions with Galenica Group	32		(302)		(302)		(302)
Change in non-controlling interests	32		229		229	(536)	(307)
Balance as at 31 December 2016		—	329,628	(7)	329,621	4,584	334,205

Notes to the combined financial statements of the Galenica Santé Group

1 Basis of preparation of the combined financial statements

General information

The Galenica Santé business consists of the two reportable operating segments Health & Beauty and Services.

Galenica Santé Ltd. was incorporated on 13 February 2017 as a direct wholly owned subsidiary of Galenica Ltd. Subsidiaries formerly held by Galenica Ltd. (directly and indirectly) were legally contributed to Galenica Santé Ltd. and Galenica Santé Ltd. became the parent of the Galenica Santé Group on 13 February 2017.

Basis of preparation

With a view to the proposed IPO of Galenica Santé, these combined financial statements have been prepared for the purpose of integration in the prospectus for the initial listing of the shares of Galenica Santé Ltd. as part of the financial disclosures required pursuant to the SIX Swiss Exchange Directive on the Presentation of a Complex Financial History in the Listing Prospectus.

For the purposes of these combined financial statements the “Galenica Santé Group”, “Galenica Santé” or the “Group” comprises all the entities and operations of the Galenica Santé business that were contributed on 13 February 2017 to Galenica Santé Ltd, refer to note 37 for a listing of all entities included in the scope of combination. On 1 July 2015 the portfolio of consumer health care products was legally transferred from Vifor Pharma to Galenica Santé. In these combined financial statements, the consumer health care business has been included from the beginning of the earliest period presented (e.g. 1 January 2014) as if it had always been part of Galenica Santé.

The combined financial statements of Galenica Santé have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB).

The combined financial statements have been prepared based on the financial reporting packages that were used for the preparation of the consolidated financial statements of Galenica, to present the net assets and related historical results of the Galenica Santé business as of and for each of the three years ended 31 December 2016, 2015 and 2014. Generally, Galenica Santé uses the same accounting policies and principles in these combined financial statements as were used for the preparation of the Galenica consolidated financial statements.

The combined financial statements comprise combined statements of income, combined statements of comprehensive income, combined statements of financial position, combined statements of cash flows, combined statements of changes in equity and notes to the combined financial statements.

The combined financial statements are based on historical costs. Non-monetary assets are measured at the lower of cost and net realisable value or recoverable amount. Certain financial assets and financial liabilities are measured at fair value in the statement of financial position. Detailed disclosures on measurement are provided in the summary of significant accounting policies. These policies have been consistently applied to all of the reporting periods presented, unless stated otherwise.

Galenica Santé has not operated as an independent entity. The combined financial statements may therefore not be indicative of the financial position and financial performance that would have been achieved if Galenica Santé had operated as an independent entity or of future results of Galenica Santé.

The combined financial statements were authorised for issue on 24 February 2017 by the management of Galenica Ltd.

Transactions with Galenica Group

Transactions with Galenica Group entities outside the scope of combination of Galenica Santé have not been eliminated and are reported in these combined financial statements, refer to note 32, related party transactions.

Galenica Ltd, as holding company, provided various central services to Galenica Santé. These services were charged to the business unit Galenica Santé by way of management fees and included in their statutory financial statements as historically charged. Management has analysed the corporate costs of Galenica Ltd. In order to more faithfully present the actual costs of Galenica Santé, management has decided to re-allocate costs of central services to Galenica Santé by using different, but more appropriate allocation keys. As a result of this analysis, additional expenses of CHF 3.5 million were recognised in 2014, CHF 5.8 million were recognised in 2015 and CHF 9.2 million were recognised in the 2016 combined financial statements of Galenica Santé and are included in combined equity within “transactions with Galenica Group”, refer to note 32.

Certain employees of Galenica Ltd. provide services to Galenica Santé. Galenica Santé records the costs of share-based payment awards granted by Galenica Ltd. to such employees with a corresponding increase in equity as a contribution from Galenica.

Cash and cash equivalents and cash management

Cash and cash equivalents in the combined statement of financial position comprise the cash and cash equivalents of Galenica Santé's businesses. It consists of cash, sight deposits at financial institutions and time deposits with an original term of three months or less.

Historically, Galenica has performed cash management functions on behalf of Galenica Santé. Galenica manages certain cash pooling activities among Galenica Santé's operating units, including the arrangement of borrowings from and loans to related parties and the transfer of cash balances to Galenica. Cash pooling receivables (payables) are shown in the combined statement of financial position as financial receivables respectively financial liabilities towards Galenica Group. None of Galenica's cash and cash equivalents has been allocated to Galenica Santé in the combined statement of financial position.

Determination of earnings per share

Galenica Santé Ltd. was incorporated on 13 February 2017 with 50,000,000 registered shares. Management has calculated earnings per share using these 50,000,000 registered shares as the numerator, refer to note 13.

First-time adoption of IFRS

These are the first financial statements of the Galenica Santé Group prepared in accordance with IFRS. As such, Galenica Santé is a first-time adopter. However, since these are also the first financial statements of the Galenica Santé Group, no reconciliations from previous GAAP to IFRS are disclosed. The assets and liabilities included in these financial statements have been measured on the basis of the carrying amounts included in Galenica Group's consolidated financial statements.

Published financial reporting standards that have not yet been applied

The IASB and the IFRS Interpretations Committee have issued the following standards, amendments to standards whose application was not yet mandatory for annual periods beginning on or before 1 January 2016. Galenica Santé has opted not to early adopt any of the following standards or amendments to standards or interpretations that are potentially relevant for Galenica Santé. Galenica Santé intends to apply the new or amended standards for the first time in the financial year beginning on or after the date shown:

- IFRS 2 – Classification and Measurement of Share-based Payment Transactions (1 January 2018)
- IFRS 9 – Financial Instruments (1 January 2018)
- IFRS 15 – Revenue from Contracts with Customers (1 January 2018)
- IFRS 16 – Leases (1 January 2019)
- IAS 7 – Disclosure Initiative (1 January 2017)
- IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses (1 January 2017)
- IAS 28 and IFRS 10 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective date to be determined by the IASB)

- IAS 40 – Transfer of Investment Property (1 January 2018)
- IFRIC 22 – Foreign Currency Transactions and Advance Considerations (1 January 2018)
- Annual Improvements 2014-2016 Cycle (1 January 2017 and 1 January 2018)

Galenica Santé is currently assessing the impact of the new and amended standards. Based on the preliminary results of the analysis, Galenica Santé does not expect there to be any material impact on the consolidated financial statements with the exception of IFRS 15 and IFRS 16.

IFRS 15 amends revenue recognition requirements and establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flow arising from contracts with customers. Whereas Galenica Santé does not expect a significant impact on revenue recognition as a result of the application of the new standard, IFRS 15 will require detailed additional disclosures regarding revenue in the notes.

IFRS 16 substantially changes the financial statements as the majority of leases will become on-balance sheet liabilities with corresponding right of use assets on the balance sheet. Amortisation and interest expense will be separately recorded, which will impact EBITDA, EBIT and financial result. The impact is being evaluated as part of a Group-wide project. A reliable estimate of the impact of applying IFRS 16 can only be made once the detailed analysis is completed. The total amount of undiscounted lease commitments is disclosed in note 33.

2 Summary of significant accounting policies

Scope and principles of combination

The combined financial statements of the Galenica Santé Group comprise those entities legally transferred to Galenica Santé Ltd. on 13 February 2017, including subsidiaries, associates and joint ventures listed in note 37. Refer to Basis of preparation of the combined financial statements.

Subsidiaries, associates and joint ventures acquired during the reporting period are included in the combined 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 combination in the reporting period are included in note 6, Business combinations.

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

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

Assets and liabilities as well as income and expenses of subsidiaries are fully included in the combined financial statements from the acquisition date, i.e. the date on which Galenica Santé obtains control.

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

Investments in associates where Galenica Santé holds between 20 % and 50 % of the voting rights and investments in joint ventures are accounted for using the equity method.

Unrealised gains and losses from transactions with associates and joint ventures are eliminated in proportion to Galenica Santé's interest.

Presentation currency and translation of foreign currencies

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

The functional currency of the Galenica Santé companies is the currency of the primary economic environment in which they operate. Transactions in foreign currencies are translated at the rate effective on the transaction date. Monetary items are re-translated into the functional currency using rates as at the reporting date. The resulting exchange gains and losses are recognised in profit or loss.

Exchange rates	Year-end rates				Average rates		
	2016	2015	2014	1.1.2014	2016	2015	2014
1 EUR	1.07	1.09	1.20	1.23	1.09	1.07	1.22

Classification as current or non-current

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

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

Financial assets and financial liabilities

Measurement of financial assets and financial liabilities

Financial assets and financial liabilities are initially recognised at fair value including transaction costs with the exception of financial assets and liabilities classified as "at fair value through profit or loss", for which transaction costs are recognised directly in profit or loss. All purchases and sales are recognised using trade date accounting. Assets that are not carried at fair value through profit or loss are regularly tested for impairment. Financial assets are generally derecognised when the contractual rights to the cash flows expire. Financial liabilities are derecognised when they have been settled.

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

Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities are classified as at fair value through profit or loss if they are acquired or incurred principally for the purpose of selling or repurchasing it in the near term.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They include, but are not limited to, trade receivables and loans to third parties. These types of financial instruments are recognised in the combined statement of financial position at amortised cost using the effective interest rate method less accumulated impairment. Uncollectible loans and receivables are only derecognised if a certificate of loss has been issued.

Financial liabilities at amortised cost

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

Cash and cash equivalents

Cash and cash equivalents include cash, sight deposits at financial institutions and time deposits with an original term of three months or less. Cash and cash equivalents are measured at nominal value.

Trade and other Receivables

Trade and other receivables are carried at their original invoice value. If there is objective evidence that the amounts will not be paid in full, the carrying amount is adjusted accordingly. These bad debt allowances are based on the difference between the carrying amount and the recoverable amount as derived from individual valuations or for groups with comparable credit risk profiles.

Inventories

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

Valuation adjustments are recognised on inventories for slow moving items and excess stock.

Property, plant and equipment and investment properties

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

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

Land and buildings not used for operations are included in investment properties. They are recognised and depreciated on the same basis as property, plant and equipment. They include land and buildings or parts thereof that are being held for an undetermined future use or to generate rental income. The fair value of these properties, which is disclosed separately, is based on external appraisals.

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

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

Intangible assets

Intangible assets include acquired trademarks, patents, licences, purchased or internally developed software and other assets without physical substance. These items are measured at cost less accumulated amortisation and/or impairment. The cost of an intangible asset acquired in a business combination corresponds to its fair value determined at acquisition.

Expenditure on internally developed software is capitalised when the capitalisation criteria are met and future economic benefits from use or sale of the software are expected. Software that is not yet available for use is tested for impairment annually or more frequently if there are indications of impairment.

Amortisation is charged on a straight-line basis over the estimated economic or legal useful life, whichever is shorter as follows:

	Years
Trademarks, patents, licences	5–20
Software	2–7

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

With the exception of one trademark at Vifor Consumer Health, all intangible assets are assessed as having a finite useful life. Intangible assets with indefinite useful lives are not amortised but tested for impairment annually or more frequently if there are indications of impairment.

Any impairment is recorded in profit or loss under depreciation and amortisation and disclosed separately as an impairment.

If intangible assets are sold or derecognised, gains are recognised under other operating income and any losses under other operating costs.

Business combinations and goodwill

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

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

Goodwill is allocated to the cash-generating unit (CGU) or group of CGUs that are expected to benefit from the business combination in which the goodwill arose. Goodwill is tested for impairment annually, or more frequently if there are indications of impairment. The impairment test is based on the estimated future cash flow of the CGU or group of CGUs to which the goodwill belongs. If the recoverable amount (higher of fair value less costs of disposal and value in use) is lower than the carrying amount, the carrying amount is reduced to the recoverable amount by recording an impairment charge.

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

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

If a CGU or group of CGUs is sold, goodwill is taken into account when calculating the profit or loss on the sale. The profit or loss on deconsolidation is recognised in operating income or other operating costs.

Any impairment on goodwill is recognised in profit or loss and disclosed separately.

Research and development

Research costs are recognised directly in profit or loss as incurred. Development costs for major projects are capitalised as intangible assets if the cost can be measured reliably and it can be demonstrated that the project is technically feasible and is expected to generate future economic benefits.

Leases

Galenica Santé has not entered into leases under which Galenica Santé assumes substantially all the risks and rewards of ownership. No leases are treated as finance leases.

Other leases are treated as operating leases. Lease payments are recognised on a straight-line basis directly as operating costs.

Investments in associates and joint ventures

Investments in associates and joint ventures are initially recognised at cost and subsequently accounted for using the equity method. Goodwill paid upon acquisition is included in the carrying amount of the investment. In the accounting periods following the acquisition, the carrying amount of the investment is increased by the share in profit or reduced by the share in loss of the associate. The corresponding amounts are recognised in profit or loss. Transactions that are recognised in comprehensive income of associates and joint ventures are recognised proportionately in comprehensive income.

Non-current financial assets

Non-current financial assets comprise loans, time deposits with a term to maturity of more than twelve months, rental security deposits and derivative financial instruments with a positive fair value and a residual term to maturity of more than twelve months. Loans are assessed for impairment based on creditworthiness of the counterparty. Any impairment is recognised in financial expenses.

Impairment of non-financial assets

Assets are tested for impairment whenever there are indications that they could be impaired. Goodwill and intangible assets with an indefinite useful life or intangible assets that are not yet available for use, are tested for impairment at least annually and more frequently if there are indications of impairment. If the recoverable amount (higher of fair value less costs of disposal and value in use) is lower than the carrying amount, the carrying amount is reduced to the recoverable amount by recording an impairment charge. To determine the value in use, the future cash flows are discounted on a pre-tax basis. Impairments are recognised in profit or loss under depreciation and amortisation and disclosed separately.

Reversal of impairments are recognised immediately in profit or loss. An impairment loss for goodwill is not reversed.

Provisions and contingent liabilities

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

A provision for restructuring is only recorded when there is a detailed formal plan, the expenditures that will be undertaken have been identified, there is evidence that the plan will be implemented and its main features have been announced to those affected by it.

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

Income tax

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

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

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

Employee benefits

The employees of Galenica Santé participate in two employee benefit plans provided by the Galenica Group which are based on Swiss legal requirements. These plans are legally separate from Galenica Santé and are defined benefit plans.

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

All defined benefit plans are funded. Plan assets are managed separately from Galenica Santé's assets by independent pension funds.

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

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

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

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

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

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

Share-based payments

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

The share-based payments are measured at fair value on the grant date. When measuring these transactions, only those conditions which are linked to the price of Galenica's shares (market conditions) are taken into account, along with any non-vesting conditions.

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

Certain employees of Galenica Ltd. provide services to Galenica Santé to a large extent. Galenica Santé records the costs of the share-based payment plans directly assigned to these employees as a contribution from Galenica in equity.

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

Net sales

Net sales, consisting of the revenue from sale of goods and revenue from services, are sales after deduction of price discounts, cash discounts, volume discounts and other discounts as well as taxes linked directly to sales.

Sale of goods

The sale of all products from Galenica Santé's trading companies is recognised as sale of goods. The sale of products is recognised in revenue upon transfer of the principal risks and rewards to the customer once it is probable that future economic benefits will flow to the company and these benefits can be measured reliably. In the retail trade, the transfer of principal risks and rewards occurs with the transfer of ownership to the customer or the legal transfer of ownership in accordance with generally accepted trading practice.

Should significant risks remain with Galenica Santé following the sale of products, the transaction is not considered a sale and revenue is not recognised. Price discounts, cash discounts, volume discounts and other discounts granted to customers are recognised in revenue as sales deductions. Revenue from customer loyalty programmes is deferred and recognised when the award credits are redeemed on the basis of past experience.

Services

Revenue from services includes logistics services, the processing and sale of information, marketing and IT services as well as other contractually agreed services. In order for revenue from services to be recognised, it must be possible to reliably estimate the stage of completion, the amount of revenue, the probability of the inflow of economic benefit and any further costs to completion. The logistics services provided are dependent on volume, while the marketing and IT services are contract-based and measured in accordance with the stage of completion. Access to information made available electronically is calculated in terms of volume or on the basis of subscribers.

Discounts and cash discounts granted to customers are recognised in revenue. In order to determine the stage of completion, experience involving the same or similar services is used as a reference.

Other income

Gains on disposal of property, plant and equipment are recognised at the time of the transfer of ownership and the related transfer of risks and rewards.

Allocated marketing costs and expenses covered by cost-sharing arrangements are recognised as income on the basis of the contractual agreements.

Rental income is based on the provisions of the underlying rental contracts.

Cost of goods and materials

Cost of goods and materials mainly include costs of goods and merchandise from the business sectors Retail and Services. Price discounts, rebates or supplier discounts on the purchase of goods and materials are directly deducted from costs of goods and materials.

3 Financial risk management

Galenica Santé is exposed to various financial risks caused by movements in interest rates, by receivables and by liquidity requirements. These risks are managed at Galenica Group level. Galenica has a risk management programme in place that uses foreign currency financial instruments to limit the impact of the effects of changes in foreign currency exchange rates on the financial performance of Galenica. Galenica Group's financing and financial risk management activities are centralised into Group Treasury, which manages financial exposures of the Galenica Group on account of changes in interest rates, currency risks, credit risks and liquidity in a manner that is consistent with underlying business risks. In addition, capital management of Galenica Santé is also mainly exercised and monitored at the Galenica Group level.

Credit risk management

Credit risks arise when a customer or a third party fails to meet its contractual obligations and causes Galenica Santé a financial loss. Credit risks are minimised and monitored by restricting business relations to known, reliable partners.

Corporate policy ensures that credit checks are performed for customers who are supplied on credit. Trade receivables are subject to active risk management procedures. They are continually monitored and credit risks are reviewed in the process of reporting to management. Necessary allowances are made for foreseeable losses in accordance with uniform Galenica Santé guidelines on the measurement of outstanding receivables.

In addition, credit risks arise in relation to financial assets, comprising cash and cash equivalents, securities, loans and certain derivative financial instruments. The creditworthiness of the counterparties is regularly monitored and reported to management.

Currency risk

Galenica Santé is exposed to foreign exchange rate risks, mainly in relation to EUR, that may affect Galenica's financial position and results in CHF.

4 Estimation uncertainty and assumptions

The preparation of the Group's combined financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense, and the disclosure of contingent liabilities as at the reporting date. Although these estimates and assumptions are made on the basis of all available information and with the greatest of care, the actual results may differ. This applies primarily to estimates and assumptions made with regard to the items set out below.

Deferred tax assets (note 12)

Deferred tax assets on tax losses carried forward are taken into account only if their future realisation is probable. Deferred tax assets are recognised based on assumptions and estimates with regard to future income and expenses relating to the corresponding taxable entity.

Goodwill and intangible assets (note 19)

Goodwill and other intangible assets with an indefinite useful life or that are not yet available for use are tested for impairment at least once a year. This involves estimating the value in use of the cash-generating unit (CGU) or group of CGUs to which the goodwill is allocated. It also requires a forecast of expected future cash flows as well as the application of an appropriate discount rate to calculate the present value of these cash flows.

Employee benefit plans and other non-current employee benefits (note 29)

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

Re-allocation of corporate costs (note 32)

The combined financial statements include re-allocations of corporate costs incurred at Galenica Group level. Such items have been re-allocated to Galenica Santé Group based on different, but more appropriate allocation keys. Management believes that this basis for the re-allocation of expenses is reasonable.

5 Operating segment information

The management approach is used to determine the reportable operating segments. Accordingly, external segment reporting is based on the internal organisational and management structures of Galenica Santé and the internal financial reporting to the chief operating decision maker (CODM). The CODM of Galenica Santé is the Board of Directors of Galenica Ltd.

Galenica Santé operates in Switzerland within the two operating segments Health & Beauty and Services.

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

Certain figures presented in this operating segment note differ from the segment information disclosed in the Annual Report of Galenica Group as a result of assumptions made in the preparation of these combined financial statements. Refer to note 1 "Basis of preparation of the combined financial statements" for information on the consumer health care business presented as part of Products & Brands from 1 January 2014 and "Transactions with Galenica Group" for a description of the re-allocation to Galenica Santé of certain central costs.

Health & Beauty

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

Retail operates at 496 locations Galenica Santé's pharmacy network – the largest in Switzerland. With 329 pharmacies of its own and 167 partner pharmacies, Retail has attractive outlets throughout the country. Galenica Santé's own pharmacies comprise the Amavita brand with 150 branches and the Sun Store brand with 99 branches. Galenica Santé also operates a chain of 69 own pharmacies in partnership with Coop under the Coop Vitality brand. Galenica Santé's pharmacy network also covers the speciality pharmacy MediService, which is focused on medication for treatment of patients in their own homes and 9 Amavita partner pharmacies, 8 majority interests in pharmacies, 2 minority interests in pharmacies and 158 Winconcept partner pharmacies.

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

Services

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

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

Eliminations

Operating activities involve the sales of goods and services between the business sectors.

Sales of goods and services between the segments and resulting unrealised gains are eliminated in the "Eliminations" column. In addition, "Eliminations" include adjustments recorded on Galenica Santé Group level which mainly consist of expenses for share-based payment plans and expenses for IAS 19 (such expenses arise if the current service cost according to the actuarial valuation exceeds the employer contributions for the pension plan).

Segment assets and liabilities include loans and current accounts held with respect to other segments.

These positions are eliminated in the column "Eliminations".

Operating segment information 2016

in thousand CHF	Health & Beauty	Services	Eliminations	Galenica Santé
Net sales	1,436,971	2,328,902	(757,022)	3,008,851
Other income	99,440	18,138	(67,730)	49,848
Intersegmental sales and income	(138,992)	(685,986)	824,978	—
Third party operating income	1,397,419	1,661,054	226	3,058,699
Share of result of associates and joint ventures	5,002	—	(487)	4,515
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	115,955	60,149	(10,475)	165,629
Depreciation and amortisation	(22,477)	(20,237)	904	(41,810)
Earnings before interest and taxes (EBIT)	93,478	39,912	(9,571)	123,819
Interest income				1,036
Interest expense				(19,757)
Other financial result (net)				(839)
Earnings before taxes (EBT)				104,259
Income tax				(20,895)
Net profit				83,364
Assets	1,298,346	721,385	(34,199)	1,985,532
Investments in associates and joint ventures	45,535	—	(2,446)	43,089
Liabilities	1,199,486	427,382	24,459	1,651,327
Investments in property, plant and equipment and investment properties	14,091	17,582	(243)	31,430
Investments in intangible assets	1,089	2,597	(83)	3,603
Employees as at 31 December (FTE)	3,423	1,234	—	4,657

Geographic areas

in thousand CHF	Switzerland	Other countries	Total
Net sales	2,992,021	16,830	3,008,851
Other income	49,204	644	49,848
Third party operating income	3,041,225	17,474	3,058,699
Non-current assets ¹⁾	939,844	—	939,844

1) Without financial assets, deferred tax assets and employee benefit assets

Operating segment information 2015

in thousand CHF	Health & Beauty	Services	Eliminations	Galenica Santé
Net sales	1,393,337	2,244,548	(722,968)	2,914,917
Other income	93,028	13,666	(61,415)	45,279
Intersegmental sales and income	(129,699)	(680,356)	810,055	—
Third party operating income	1,356,666	1,577,858	25,672	2,960,196
Share of result of associates and joint ventures	3,683	—	(244)	3,439
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	111,974	55,466	(7,683)	159,757
Depreciation and amortisation	(23,421)	(19,273)	1,455	(41,239)
Earnings before interest and taxes (EBIT)	88,553	36,193	(6,228)	118,518
Interest income				1,361
Interest expense				(19,628)
Other financial result (net)				(624)
Earnings before taxes (EBT)				99,627
Income tax				(18,522)
Net profit				81,105
Assets	1,059,914	715,882	(43,082)	1,732,714
Investments in associates and joint ventures	44,818	—	(4,330)	40,488
Liabilities	1,013,606	417,322	42,595	1,473,523
Investments in property, plant and equipment and investment properties	14,403	23,922	(422)	37,903
Investments in intangible assets	3,263	3,067	(365)	5,965
Employees as at 31 December (FTE)	3,452	1,176	—	4,628

Geographic areas

in thousand CHF	Switzerland	Other countries	Total
Net sales	2,896,278	18,639	2,914,917
Other income	44,792	487	45,279
Third party operating income	2,941,070	19,126	2,960,196
Non-current assets ¹⁾	948,922	—	948,922

1) Without financial assets, deferred tax assets and employee benefit assets

Operating segment information 2014

in thousand CHF	Health & Beauty	Services	Eliminations	Galenica Santé
Net sales	1,334,744	2,170,508	(678,980)	2,826,272
Other income	93,294	12,537	(57,192)	48,639
Intersegmental sales and income	(121,868)	(638,385)	760,253	—
Third party operating income	1,306,170	1,544,660	24,081	2,874,911
Share of result of associates and joint ventures	3,789	—	(104)	3,685
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	103,654	54,737	(3,742)	154,649
Depreciation and amortisation	(23,888)	(18,778)	1,765	(40,901)
Earnings before interest and taxes (EBIT)	79,766	35,959	(1,977)	113,748
Interest income				2,430
Interest expense				(17,644)
Other financial result (net)				(672)
Earnings before taxes (EBT)				97,862
Income tax				(16,001)
Net profit				81,861
Assets	1,043,587	708,973	(43,617)	1,708,943
Investments in associates and joint ventures	44,432	—	(2,824)	41,608
Liabilities	1,045,672	403,961	19,046	1,468,679
Investments in property, plant and equipment and investment properties	17,185	17,489	(101)	34,573
Investments in intangible assets	4,162	3,303	(436)	7,029
Employees as at 31 December (FTE)	3,363	1,152	—	4,515

Geographic areas

in thousand CHF	Switzerland	Other countries	Total
Net sales	2,783,239	43,033	2,826,272
Other income	46,174	2,465	48,639
Third party operating income	2,829,413	45,498	2,874,911
Non-current assets ¹⁾	942,236	—	942,236

1) Without financial assets, deferred tax assets and employee benefit assets

6 Business combinations

In 2016, 2015 and 2014 the scope of consolidation has changed as a result of the following transactions:

Business combinations 2016

Health & Beauty segment

Acquisition of pharmacies. GaleniCare Holding acquired 100% of the interests in pharmacies at various locations in Switzerland. Upon acquisition, most of these pharmacies were merged with GaleniCare Ltd. or Sun Store SA.

The purchase consideration amounted to CHF 25.3 million, of which CHF 24.1 million was settled in cash. The deferred and contingent purchase price consideration of CHF 1.2 million falls due in the years 2017 and 2020. The goodwill of CHF 17.8 million was allocated to the business sector Retail and corresponds to the added value of the pharmacies based on their locations.

Transaction costs of CHF 0.1 million were recognised in other operating costs.

Services segment

Acquisition of business activities of Streuli Pharma AG. On 1 November 2016 Galexis acquired in an asset deal several business activities from Streuli Pharma AG, a Swiss company specialised in trading of pharmaceutical products. The marketing and sales organisation and associated assets were integrated in Galexis.

The purchase consideration amounted to CHF 5.6 million, of which CHF 4.1 million was settled in cash. The contingent purchase consideration of CHF 1.5 million will be paid in 2018. The fair value of net assets amounts to CHF 1.2 million on the acquisition date. The goodwill of CHF 4.4 million has been 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 were insignificant.

Pro forma figures for acquisitions made in 2016 for the full 2016 financial year

Since their inclusion in the Galenica Group's scope of consolidation, the businesses acquired contributed net sales of approximately CHF 17.0 million and an operating loss (EBIT) of CHF 1.2 million to the Group's results. If these acquisitions had already been concluded by 1 January 2016, they would have contributed additional consolidated net sales of CHF 9.4 million and increased the consolidated operating profit (EBIT) by CHF 1.3 million (unaudited).

Business combinations 2015

Health & Beauty segment

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

The purchase consideration amounted to CHF 8.2 million, of which CHF 5.6 million was settled in cash. CHF 2.6 million was offset against loans receivable. The goodwill of CHF 2.3 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.

Services segment

Acquisition of i-medify AG. On 29 December 2015 Galenica acquired 100% of the shares in the Swiss company i-medify AG. i-medify AG is specialised in development, production, distribution and service support in the field of information technology.

The purchase consideration amounted to CHF 1.5 million, of which CHF 1.0 million was settled in cash. CHF 0.5 million was offset against loans receivable. The goodwill of CHF 0.4 million was allocated to the business sector Services.

Transaction costs were insignificant.

Business combinations 2014

Health & Beauty segment

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

The purchase consideration of CHF 7.3 million was fully settled in cash. The goodwill of CHF 5.5 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.

Services segment

Acquisition of business activities of Brunner Pharma AG. On 1 October 2014 Galexis acquired in an asset deal several business activities from Brunner Pharma AG, a Swiss company specialised in trading of pharmaceutical products. The marketing and sales organisation and associated assets were integrated in Galexis.

The purchase consideration amounted to CHF 15.0 million, of which CHF 6.0 million was settled in cash. The deferred purchase consideration amounted to CHF 9.0 million, of which CHF 5.0 million was paid in 2015 and CHF 4.0 million was paid in 2016. The fair value of net assets amounted to CHF 0.5 million on the acquisition date. The goodwill of CHF 14.5 million was allocated to the business sector Services.

Transaction costs were insignificant.

Business combinations

in thousand CHF	2016 Total Fair value	2015 Total Fair value	2014 Total Fair value
Cash and cash equivalents	2,945	1,214	371
Trade receivables	2,586	1,503	1,222
Inventories	1,935	1,895	757
Property, plant and equipment	1,513	2,530	538
Investment properties	1,146	—	—
Intangible assets	1,230	530	—
Other current and non-current assets	2,539	750	63
Other current and non-current liabilities	(5,260)	(1,457)	(645)
Fair value of net assets	8,634	6,965	2,306
Goodwill	22,248	2,713	19,986
Purchase consideration	30,882	9,678	22,292
Cash acquired	(2,945)	(1,214)	(371)
Offset against loans receivable	—	(3,090)	—
Purchase consideration paid by Galenica Group	—	(375)	—
Deferred consideration	(1,004)	—	(9,020)
Contingent consideration	(1,650)	—	—
Net cash flow from current business combinations	25,283	4,999	12,901
Payment of consideration due to previous business combinations	5,000	6,350	350
Net cash flow	30,283	11,349	13,251

7 Net sales

in thousand CHF	2016	2015	2014
Sale of goods	2,886,673	2,798,281	2,715,067
Services	122,178	116,636	111,205
Net sales	3,008,851	2,914,917	2,826,272

8 Other income

in thousand CHF	2016	2015	2014
Income from own work capitalised	2,416	3,315	2,907
Rental income	4,818	4,718	4,805
Gain on disposal of property, plant and equipment, investment properties and intangible assets	242	238	181
Other operating income	42,372	37,008	40,746
Other income	49,848	45,279	48,639

Other operating income primarily consists of marketing costs and other expenses charged to customers.

9 Personnel costs

in thousand CHF	2016	2015	2014
Salaries and wages	328,758	317,078	303,730
Social security costs and pension expenses	54,828	48,594	43,167
Other personnel costs	23,502	23,012	19,748
Personnel costs	407,088	388,684	366,645
Average number of FTE	4,665	4,590	4,487

Personnel costs include expenses for defined benefit plans of CHF 29.4 million (2015: CHF 26.2 million / 2014: CHF 21.4 million) and for share-based payments of CHF 4.3 million (2015: CHF 4.8 million / 2014: CHF 3.0 million) (refer to note 29 and note 31).

10 Other operating costs

in thousand CHF	2016	2015	2014
Maintenance and repairs	13,206	15,626	10,244
Operating and production costs	43,387	46,339	46,336
Rental and other lease expense	55,669	54,845	54,810
Administration costs	40,188	37,922	36,017
Marketing and sales costs	56,054	57,441	57,919
Non-income taxes	1,077	1,054	1,019
Other operating costs	3,613	980	298
Other operating costs	213,194	214,207	206,643

11 Financial result

in thousand CHF	2016	2015	2014
Interest income	1,036	1,361	2,430
Net foreign exchange differences	—	85	—
Financial income	1,036	1,446	2,430
Interest expense	19,757	19,628	17,644
Net interest expense from employee benefit plans	686	657	581
Other financial costs	52	52	53
Net foreign exchange differences	101	—	38
Financial expenses	20,596	20,337	18,316

12 Income tax

in thousand CHF	2016	2015	2014
Current income tax	17,296	15,306	11,530
Income tax of prior periods	199	29	(136)
Deferred income tax	3,400	3,187	4,607
Income tax	20,895	18,522	16,001

Tax reconciliation

in thousand CHF	2016	2015	2014
Earnings before taxes (EBT)	104,259	99,627	97,862
Weighted income tax rate in %	22.6%	22.0%	22.4%
Expected income tax	23,544	21,964	21,911
Effects of income that is taxable at a lower rate or tax-free	(1,585)	(1,408)	(1,493)
Effects of changes in tax rates	90	(304)	(532)
Effects of unrecognised losses in the current year	313	216	88
Realisation of unrecognised tax losses of prior periods	(183)	(733)	(1,185)
Subsequent recognition of loss carry forwards from prior periods	(850)	—	(7)
Items from prior periods and other items	(434)	(1,213)	(2,781)
Effective income tax	20,895	18,522	16,001
Effective income tax rate in % of EBT	20.0%	18.6%	16.4%

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

Deferred taxes

in thousand CHF	2016	2015	2014	1.1.2014
Deferred tax due to temporary differences				
– Current assets	17,470	19,039	17,264	16,677
– Property, plant and equipment	5,156	5,079	5,863	6,290
– Intangible assets	12,364	11,076	10,955	11,015
– Investments	62,711	21,225	21,515	21,596
– Provisions	165	165	165	165
– Employee benefit plans	(13,296)	(20,213)	(13,954)	(12,060)
– Other temporary differences	477	(542)	(840)	(886)
– Shareholders' equity	(211)	(350)	(115)	(110)
Deferred tax due to temporary differences	84,836	35,479	40,853	42,687
Tax loss carry forwards	(47,054)	(10,208)	(13,689)	(19,081)
Net deferred tax	37,782	25,271	27,164	23,606
Recognised as deferred tax assets in the statement of financial position	14,866	23,617	18,911	16,247
– of which due to recognised tax loss carry forwards	322	961	589	504
– of which due to temporary differences	14,544	22,656	18,322	15,743
Recognised as deferred tax liabilities in the statement of financial position	52,648	48,888	46,075	39,853

Analysis of deferred taxes (net)

in thousand CHF	2016	2015	2014
1 January	25,271	27,164	23,606
Recognised in income tax in profit or loss			
– Addition/(reversal) of temporary differences	39,898	(468)	(252)
– Fiscal realisation of recognised tax loss carry forwards	615	4,018	5,479
– Tax loss carry forwards taken into account for the first time or no longer taken into account	(37,300)	(59)	(88)
– Effects of changes in tax rates	90	(304)	(532)
Recognised in other comprehensive income	9,240	(4,594)	(1,052)
Recognised in shareholders' equity (related to share-based payments)	5	(203)	(2)
Addition to scope of consolidation	(37)	(283)	5
31 December	37,782	25,271	27,164

Temporary differences on which no deferred taxes have been recognised

in thousand CHF	2016	2015	2014
Investments in subsidiaries	23,524	19,824	10,686

Unrecognised tax assets

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

Tax loss carry forwards and tax credits

in thousand CHF	2016		2015		2014	
	Tax loss carry forwards/ tax credits	Tax effect	Tax loss carry forwards/ tax credits	Tax effect	Tax loss carry forwards/ tax credits	Tax effect
Tax loss carry forwards and tax credits	219,745	47,808	59,282	11,691	72,583	14,959
Of which capitalised as deferred tax assets	(1,665)	(322)	(4,627)	(961)	(2,896)	(589)
Of which netted with deferred tax liabilities	(214,379)	(46,732)	(42,437)	(9,247)	(60,096)	(13,100)
Unrecognised tax loss carry forwards and tax credits	3,701	754	12,218	1,483	9,591	1,270
Of which expire:						
– within 1 year	361	74	919	189	3,513	919
– in 2 to 5 years	1,282	257	6,350	598	5,124	6,350
– in more than 5 years	2,058	423	4,949	696	954	4,949

13 Earnings per share

For purposes of the EPS calculations, management has used the number of shares of Galenica Santé Ltd. incorporated on 13 February 2017 with a share capital of 50,000,000 registered shares at a nominal value of CHF 0.10 per share. Basic earnings per share data is calculated as though these shares had been outstanding for all periods presented. There are no dilutive effects from the share-based payments transactions as these are based on Galenica Ltd.'s shares.

in thousand CHF	2016	2015	2014
Number of shares	50,000,000	50,000,000	50,000,000
Average number of treasury shares	—	—	—
Average number of outstanding shares	50,000,000	50,000,000	50,000,000
in thousand CHF	2016	2015	2014
Net profit – attributable to shareholders of Galenica Santé Ltd.	83,393	81,122	81,824
Earnings per share	1.67	1.62	1.64

14 Financial receivables – Galenica Group

in thousand CHF	2016	2015	2014	1.1.2014
Financial receivables – Galenica Group	340,500	91,702	75,476	121,898
Trade receivables – Galenica Group	357	614	887	783
Financial receivables – Galenica Group	340,857	92,316	76,363	122,681

Group-internal transfers of investments and intercompany loans resulted in an increase of financial receivables Galenica Group in 2016 (refer to note 24).

15 Trade and other receivables

in thousand CHF	2016	2015	2014	1.1.2014
Trade receivables	360,676	334,430	311,665	332,419
Other receivables	4,618	5,341	7,138	9,183
Bad debt allowances	(6,491)	(3,149)	(2,735)	(2,881)
Trade and other receivables	358,803	336,622	316,068	338,721

Change in bad debt allowances for trade receivables

in thousand CHF	2016	2015	2014
1 January	(3,149)	(2,735)	(2,881)
Addition	(4,035)	(1,054)	(840)
Use	5	46	103
Reversal	688	594	883
31 December	(6,491)	(3,149)	(2,735)

Goods and services supplied by pharmacies for receivables covered by health insurance companies were invoiced through an invoicing and collection office until October 2016. Receivables from the invoicing and collection office are derecognised only when the invoicing and collection office has been paid by the health insurance companies and there is no longer a risk of loss for Galenica Santé. In 2015, the respective trade receivables amounted to CHF 51.2 million (2014: CHF 62.1 million) and the maximum risk of loss amounted to CHF 73.1 million (2014: CHF 88.8 million).

16 Inventories

in thousand CHF	2016	2015	2014
Gross carrying amounts as at 1 January	295,751	288,613	278,972
Addition to scope of consolidation	1,935	1,895	757
Change in stock	(20,110)	5,243	8,884
Gross carrying amounts as at 31 December	277,576	295,751	288,613
Adjustments as at 1 January	(13,078)	(13,313)	(13,570)
Addition	(925)	(743)	(464)
Use	1,143	978	721
Adjustments as at 31 December	(12,860)	(13,078)	(13,313)
Net carrying amounts	264,716	282,673	275,300

17 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.

18 Property, plant and equipment and investment properties

in thousand CHF	Real estate used for commercial operations	Assets under construction	Other property, plant and equipment	Total property, plant and equipment	Investment properties
Net carrying amounts as at 1.1.2014	151,133	—	92,177	243,310	31,697
Addition	12,637	7,538	13,516	33,691	882
Disposal	(4)	—	(251)	(255)	—
Depreciation	(11,900)	—	(19,524)	(31,424)	(1,280)
Addition to scope of consolidation	57	—	481	538	—
Net carrying amounts as at 31.12. 2014	151,923	7,538	86,399	245,860	31,299
Addition	8,487	12,542	16,528	37,557	345
Disposal	—	—	(253)	(253)	—
Reclassification	2,072	(5,919)	3,847	—	—
Depreciation	(11,902)	—	(19,526)	(31,428)	(1,292)
Addition to scope of consolidation	1,569	—	962	2,531	—
Net carrying amounts as at 31.12. 2015	152,149	14,161	87,957	254,267	30,352
Addition	7,976	7,459	15,458	30,893	537
Disposal	—	—	(320)	(320)	(1,146)
Reclassification	8,624	(17,051)	8,427	—	(29,574)
Depreciation	(12,703)	—	(19,985)	(32,688)	(1,315)
Addition to scope of consolidation	973	—	540	1,513	1,146
Net carrying amounts as at 31.12.2016	157,019	4,569	92,077	253,665	—

Overview as at 31.12.2014

Cost	225,568	7,538	245,361	478,467	45,602
Accumulated depreciation and impairment	(73,645)	—	(158,962)	(232,607)	(14,303)
Net carrying amounts as at 31.12.2014	151,923	7,538	86,399	245,860	31,299

Overview as at 31.12.2015

Cost	237,015	14,161	253,496	504,672	45,947
Accumulated depreciation and impairment	(84,866)	—	(165,539)	(250,405)	(15,595)
Net carrying amounts as at 31.12.2015	152,149	14,161	87,957	254,267	30,352

Overview as at 31.12.2016

Cost	254,774	4,569	269,697	529,040	—
Accumulated depreciation and impairment	(97,755)	—	(177,620)	(275,375)	—
Net carrying amounts as at 31.12.2016	157,019	4,569	92,077	253,665	—

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

Investment properties include non-operating real estate:

in thousand CHF	2016	2015	2014
Fair value	—	35,800	43,900
Rental income	2,279	2,320	1,974
Operating costs of real estate generating rental income	515	445	494

The fair value of the investment property (level 3 of the fair value hierarchy) was calculated by external experts. The investment property was reclassified to assets held for sale as at 31 December 2016 (refer to note 17).

19 Intangible assets

in thousand CHF	Trademarks, patents, licenses, with finite useful lives	Trademark with indefinite useful lives	Acquired software	Internally developed software	Goodwill	Total
Net carrying amounts as at 1.1.2014	5,279	21,590	8,157	9,056	560,569	604,651
Addition	799	—	3,709	2,520	—	7,028
Reclassification	—	—	603	(603)	—	—
Amortisation	(1,564)	—	(3,353)	(3,279)	—	(8,196)
Addition to scope of consolidation	—	—	—	—	19,986	19,986
Net carrying amounts as at 31.12. 2014	4,514	21,590	9,116	7,694	580,555	623,469
Addition	11	—	2,704	3,250	—	5,965
Disposal	(343)	—	—	—	—	(343)
Reclassification	—	—	(22)	22	—	—
Amortisation	(1,432)	—	(3,712)	(3,375)	—	(8,519)
Addition to scope of consolidation	—	—	63	467	2,713	3,243
Net carrying amounts as at 31.12. 2015	2,750	21,590	8,149	8,058	583,268	623,815
Addition	119	—	1,677	1,807	—	3,603
Reclassification	—	—	(222)	222	—	—
Amortisation	(1,239)	—	(3,341)	(3,226)	—	(7,806)
Addition to scope of consolidation	1,176	—	54	—	22,248	23,478
Net carrying amounts as at 31.12.2016	2,806	21,590	6,317	6,861	605,516	643,090
Overview as at 31.12. 2014						
Cost	16,141	21,590	30,860	40,675	580,555	689,821
Accumulated amortisation and impairment	(11,627)	—	(21,744)	(32,981)	—	(66,352)
Net carrying amounts as at 31.12. 2014	4,514	21,590	9,116	7,694	580,555	623,469
Overview as at 31.12. 2015						
Cost	15,552	21,590	33,307	27,759	583,268	681,476
Accumulated amortisation and impairment	(12,802)	—	(25,158)	(19,701)	—	(57,661)
Net carrying amounts as at 31.12. 2015	2,750	21,590	8,149	8,058	583,268	623,815
Overview as at 31.12. 2016						
Cost	16,847	21,590	33,531	29,527	605,516	707,011
Accumulated amortisation and impairment	(14,041)	—	(27,214)	(22,666)	—	(63,921)
Net carrying amounts as at 31.12.2016	2,806	21,590	6,317	6,861	605,516	643,090

Trademark with indefinite useful live

This position includes a trademark with a carrying amount of CHF 21.6 million (2015: CHF 21.6 million / 2014: CHF 21.6 million) that is well known nationally and internationally and actively advertised. This acquired trademark is regarded as having an indefinite useful life for the following reasons: it was created many years ago, it does not expire, and the products sold under the trademark have a history of strong revenue and cash flow performance. Galenica Santé intends and has the ability to support the trademark to maintain its value for the foreseeable future. For impairment testing purposes the trademark has been allocated to the cash-generating unit Vifor Consumer Health in the Products & Brands business sector.

This intangible asset is subject to an annual impairment test or more frequently if there is an indication that it may be impaired. The recoverable amount is determined on the basis of future discounted cash flows. The weighted average cost of capital (WACC) is used to determine the applicable pre-tax discount rate. Future cash flows beyond the three-year planning period are based on the growth rates and capital cost rates before tax set out below, as approved in medium-term planning by management:

in thousand CHF	2016	2015	2014
Carrying amount	21,590	21,590	21,590
Underlying growth rate	1.0 %	1.0 %	1.0 %
Underlying interest rate	6.7 %	6.6 %	6.6 %

According to the results of impairment testing for 2016, 2015 and 2014, no impairment was necessary. Galenica Santé performed a sensitivity analysis taking into account reasonable changes in the assumptions used to calculate the discounted cash flows, such as higher discount rates, lower EBITDA, lower gross margins or lower perpetual growth rates. The sensitivity analysis for 2016, 2015 and 2014 did not reveal any indicators of impairment as at the reporting date.

Goodwill

Goodwill is allocated to the cash-generating unit (CGU) or group of CGUs that is the principal economic beneficiary. Goodwill is allocated to the CGUs Products & Brands, Retail and Services. Management monitors goodwill at business sector level.

Goodwill is subject to an impairment test once a year or more frequently if there are indications of impairment. The impairment tests are based on the discounted cash flow method. The WACC is used to determine the applicable pre-tax discount rate. Goodwill is evaluated on the basis of the medium-term plans for the next three years approved by the management. Cash flows beyond the planning horizon are extrapolated using a perpetual growth rate. The growth rates and capital cost rates before taxes shown below were used.

Goodwill 2016

in thousand CHF	Carrying amount	Growth rate	Underlying data used Interest rate
Products & Brands	26,175	1.0 %	6.8 %
Retail	501,091	1.0 %	6.5 %
Services	78,250	1.0 %	6.6 %
Total	605,516		

Goodwill 2015

in thousand CHF	Carrying amount	Growth rate	Underlying data used Interest rate
Products & Brands	26,175	1.0 %	6.6 %
Retail	483,267	1.0 %	5.7 %
Services	73,826	1.0 %	5.8 %
Total	583,268		

Goodwill 2014

in thousand CHF	Carrying amount	Growth rate	Underlying data used Interest rate
Products & Brands	26,175	1.0 %	6.6 %
Retail	480,932	1.0 %	5.4 %
Services	73,448	1.0 %	5.7 %
Total	580,555		

According to the results of impairment testing for 2016, 2015 and 2014, no impairment was necessary. Galenica Santé performed a sensitivity analysis taking into account reasonable changes in the assumptions used to calculate the discounted cash flows, such as higher discount rates, lower EBITDA, lower gross margins or lower perpetual growth rates. The sensitivity analysis for 2016, 2015 and 2014 did not reveal any indicators of impairment as at the reporting date.

Costs of research and development

During the reporting period, expenses for research and development totalling CHF 12.2 million were recognised directly in other operating costs (2015: CHF 10.7 million / 2014: CHF 10.7 million).

20 Investments in associates and joint ventures

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

Associates

in thousand CHF	2016	2015	2014
Net carrying amount as at 1 January	21,453	20,603	19,852
Share of profit from associates	1,749	1,220	1,096
Dividends received	(699)	(370)	(345)
Net carrying amount as at 31 December	22,503	21,453	20,603

Joint ventures

in thousand CHF	2016	2015	2014
Net carrying amount as at 1 January	19,035	21,005	19,400
Share of profit from joint ventures	2,766	2,219	2,589
Remeasurement of the net defined benefit liability from joint ventures	2,371	(1,262)	(1,033)
Investments	530	1,973	49
Dividends received	(4,116)	(4,900)	—
Net carrying amount as at 31 December	20,586	19,035	21,005

If one specific joint venture is overindebted, Galenica Santé has an unlimited obligation, in proportion to its equity interest, to restructure the company. At the reporting date, this joint venture is not overindebted.

Condensed financial information of Coop Vitality:

in thousand CHF	2016	2015	2014
Current assets	38,771	33,112	32,941
Non-current assets	46,626	46,887	43,742
Current liabilities	32,828	26,241	23,740
Non-current liabilities	10,556	14,907	10,072
Equity before appropriation of earnings	42,013	38,851	42,871
Operating Income	188,966	178,900	159,017
EBIT	7,418	6,069	7,173
Net profit	5,640	4,529	5,283
Remeasurement of the net defined benefit liability (Other comprehensive income)	4,839	(2,576)	(2,108)
Cash flow from operating activities	8,321	8,338	8,066

21 Financial assets

in thousand CHF	2016	2015	2014	1.1.2014
Loans	5,582	5,542	8,185	9,050
Other financial assets	3,348	2,785	3,350	2,901
Financial assets	8,930	8,327	11,535	11,951

Other financial assets include rental guarantee deposits.

22 Trade and other payables – Galenica Group

in thousand CHF	2016	2015	2014	1.1.2014
Trade payables – Galenica Group	5,511	5,574	8,392	6,854
Trade and other payables – Galenica Group	5,511	5,574	8,392	6,854

23 Trade and other payables

in thousand CHF	2016	2015	2014	1.1.2014
Trade payables	294,076	284,760	300,871	280,275
Other payables	32,258	28,934	37,743	31,043
Trade and other payables	326,334	313,694	338,614	311,318

24 Current financial liabilities – Galenica Group

in thousand CHF	2016	2015	2014	1.1.2014
Loans – Galenica Group	347,054	133,269	148,305	152,739
Current financial liabilities – Galenica Group	347,054	133,269	148,305	152,739

Group-internal transfers of investments and intercompany loans resulted in an increase of financial liabilities Galenica Group in 2016 (refer to note 14).

25 Current financial liabilities

in thousand CHF	2016	2015	2014	1.1.2014
Loans	—	216	7,282	18,517
Current portion of non-current financial liabilities	2,854	5,053	6,358	724
Current financial liabilities	2,854	5,269	13,640	19,241

26 Non-current financial liabilities – Galenica Group

in thousand CHF	2016	2015	2014	1.1.2014
Loans – Galenica Group	763,150	763,775	763,150	763,150
Non-current financial liabilities – Galenica Group	763,150	763,775	763,150	763,150

27 Non-current financial liabilities

in thousand CHF	2016	2015	2014	1.1.2014
Loans	472	472	477	578
Other financial liabilities	1,650	4,550	10,602	7,610
Non-current financial liabilities	2,122	5,022	11,079	8,188

Non-current contingent and deferred consideration liabilities from business combinations have been recognised as other financial liabilities at reporting date.

Change in the present value of the defined benefit obligation

in thousand CHF	2016			2015		
	Defined benefit plan	Long-service awards ¹⁾	Total	Defined benefit plan	Long-service awards ¹⁾	Total
1 January	(734,437)	(10,993)	(745,430)	(662,499)	(10,384)	(672,883)
Current service cost	(28,626)	(1,656)	(30,282)	(25,307)	(1,460)	(26,767)
Interest on the defined benefit liability	(5,861)	(97)	(5,958)	(7,567)	(128)	(7,695)
Actuarial gain/(loss)	26,184	(918)	25,266	(29,572)	(154)	(29,726)
Employee contributions	(12,338)	—	(12,338)	(11,835)	—	(11,835)
Benefits/awards paid	9,366	1,045	10,411	2,343	1,133	3,476
31 December	(745,712)	(12,619)	(758,331)	(734,437)	(10,993)	(745,430)

in thousand CHF	2014		
	Defined benefit plan	Long-service awards ¹⁾	Total
1 January	(553,148)	(8,939)	(562,087)
Current service cost	(20,564)	(1,355)	(21,919)
Interest on the defined benefit liability	(12,041)	(210)	(12,251)
Actuarial gain/(loss)	(79,241)	(955)	(80,196)
Employee contributions	(11,209)	—	(11,209)
Benefits/awards paid	13,704	1,075	14,779
31 December	(662,499)	(10,384)	(672,883)

Change in fair value of plan assets

in thousand CHF	2016	2015	2014
1 January	653,551	609,457	546,571
Interest	5,271	7,038	12,101
Remeasurement gains/(losses)	15,815	8,688	34,727
Employee contributions	12,338	11,835	11,209
Employer contributions	21,106	19,756	19,420
Benefits paid	(9,366)	(2,343)	(13,704)
Administration cost	(821)	(880)	(867)
31 December	697,894	653,551	609,457

Net defined benefit cost

in thousand CHF	2016	2015	2014
Current service cost	28,626	25,307	20,564
Net interest on the net defined benefit liability	590	529	371
Administration cost	821	880	867
Defined benefit cost	30,037	26,716	21,802

Remeasurement of net defined benefit liability / (asset)

in thousand CHF	2016	2015	2014
Actuarial gain/(loss)			
– Changes in demographic assumptions	4,100	—	—
– Changes in financial assumptions	310	(32,617)	(78,105)
– Experience adjustments	21,774	3,045	(1,136)
Remeasurement of plan assets	15,815	8,688	34,727
Effect in the change of asset ceiling	—	—	39,732
Remeasurements of net defined benefit liability / (asset) recognised in other comprehensive income	41,999	(20,884)	(4,782)

The actuarial gain in financial assumptions of CHF 0.3 million includes a loss related to the decrease in discount rate from 0.8% to 0.6% which was more than compensated by a gain related to the reduction of interest rate on the accumulated savings of plan participants from 1.6% to 1.0%.

Effect of the asset ceiling

in thousand CHF	2016	2015	2014
1 January	—	—	(39,301)
Interest expense/(income)	—	—	(431)
Change in the asset ceiling (recognised in other comprehensive income)	—	—	39,732
31 December	—	—	—

Investment structure of plan assets

in thousand CHF	2016		2015		2014	
Cash and cash equivalents	18,765	2.7 %	27,734	4.2 %	26,385	4.3 %
Debt instruments	151,610	21.7 %	160,840	24.6 %	163,315	26.8 %
Equity instruments	291,880	41.8 %	271,268	41.5 %	253,957	41.7 %
Real estate	168,091	24.1 %	152,074	23.3 %	120,077	19.7 %
Other investments	67,548	9.7 %	41,635	6.4 %	45,723	7.5 %
Fair value of plan assets	697,894	100 %	653,551	100.0 %	609,457	100.0 %
Current return on investments		3.2 %		2.6 %		8.6 %

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

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

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

Equity instruments are investments in equity funds and direct investments. These generally have quoted prices in active markets (level 1 of the fair value hierarchy).

Real estate relates to both residential property and offices. These can be investments in quoted real estate funds (level 1 of the fair value hierarchy) or direct investments (level 3 of the fair value hierarchy). If real estate is held directly, it is valued by an independent expert.

Other investments consist of hedge funds, insurance linked securities (ILS), senior loans, private equity and receivables. Investments in hedge funds are classified as alternative investments. They are primarily used for risk management purposes. In most cases, quoted prices in an active market are not available for hedge funds investments (level 2 or level 3 of the fair value hierarchy).

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

The pension funds manage the assets of 4,532 active members (2015: 4,419 / 2014: 4,301) and 717 pensioners (2015: 695 / 2014: 687).

Galenica Santé does not use any pension fund assets.

Basis for measurement

Weighted average in %	2016	2015	2014	1.1.2014
Discount rate	0.60	0.80	1.15	2.20
Salary development	1.00	1.50	1.50	1.50
Pension development	0.00	0.00	0.00	0.00
Mortality (mortality tables)	BVG 2015 GT	BVG 2010 GT	BVG 2010 GT	BVG 2010 GT
Turnover	BVG 2015	BVG 2010	BVG 2010	BVG 2010

Sensitivity analysis

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

in thousand CHF	2016		2015		2014	
	Basis for calculation	DBO	Basis for calculation	DBO	Basis for calculation	DBO
Discount rate	0.60 %	745,712	0.80 %	734,437	1.15 %	662,499
	+0.25 %	718,308	+0.25 %	707,749	+0.50 %	616,770
	-0.25 %	775,112	-0.25 %	763,079	-0.50 %	713,205
Salary development	1.00 %	745,712	1.50 %	734,437	1.50 %	662,499
	+0.25 %	747,959	+0.25 %	736,785	+0.25 %	663,692
	-0.25 %	743,528	-0.25 %	732,159	-0.25 %	659,733

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

Maturity structure of pension obligations

in thousand CHF	2016	2015	2014
in 1 year	23,865	22,019	21,304
in 2 years	25,015	22,964	20,876
in 3 years	24,643	24,338	22,012
in 4 years	24,797	24,455	22,885
in 5 years	24,754	23,987	22,892
in 6–10 years	123,026	119,317	109,618

The pension obligations have an average duration of 19.7 years (2015: 19.5 years / 2014: 18.9 years).

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

The employer contributions to the pension funds are estimated at CHF 21.4 million for 2017.

30 Financial instruments

The financial assets of Galenica Santé include cash, trade receivables, other receivables and loans.

Galenica Santé's financial liabilities primarily comprise trade payables, loans and liabilities from deferred and contingent consideration from business combinations. They are used to finance Galenica Santé's operations and acquisitions.

Galenica is mainly exposed to liquidity risks, credit risks and interest rate risks from its financial instruments.

30.1 Categories of financial instruments

Carrying amounts of financial instruments 2016

in thousand CHF	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
Cash and cash equivalents	9,019	—	—	9,019
Financial receivables - Galenica Group	340,857	—	—	340,857
Trade and other receivables	358,803	—	—	358,803
Financial assets	8,930	—	—	8,930
Current financial liabilities - Galenica Group	—	—	347,054	347,054
Current financial liabilities	—	1,850	1,004	2,854
Trade and other payables - Galenica Group	—	—	5,511	5,511
Trade and other payables	—	—	326,334	326,334
Non-current financial liabilities - Galenica Group	—	—	763,150	763,150
Non-current financial liabilities	—	1,650	472	2,122
Total	717,609	3,500	1,443,525	

Carrying amounts of financial instruments 2015

in thousand CHF	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
Cash and cash equivalents	10,500	—	—	10,500
Financial receivables - Galenica Group	92,316	—	—	92,316
Trade and other receivables	336,622	—	—	336,622
Financial assets	8,327	—	—	8,327
Current financial liabilities - Galenica Group	—	—	133,269	133,269
Current financial liabilities	—	1,050	4,219	5,269
Trade and other payables - Galenica Group	—	—	5,574	5,574
Trade and other payables	—	—	313,694	313,694
Non-current financial liabilities - Galenica Group	—	—	763,775	763,775
Non-current financial liabilities	—	4,550	472	5,022
Total	447,765	5,600	1,221,003	

Carrying amounts of financial instruments 2014

in thousand CHF	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
Cash and cash equivalents	22,271	—	—	22,271
Financial receivables - Galenica Group	76,363	—	—	76,363
Trade and other receivables	316,068	—	—	316,068
Financial assets	11,535	—	—	11,535
Current financial liabilities - Galenica Group	—	—	148,305	148,305
Current financial liabilities	—	1,350	12,290	13,640
Trade and other payables - Galenica Group	—	—	8,392	8,392
Trade and other payables	—	—	338,614	338,614
Non-current financial liabilities - Galenica Group	—	—	763,150	763,150
Non-current financial liabilities	—	6,600	4,479	11,079
Total	426,237	7,950	1,275,230	

Carrying amounts of financial instruments 1.1.2014

in thousand CHF	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
Cash and cash equivalents	18,621	—	—	18,621
Financial receivables - Galenica Group	122,681	—	—	122,681
Trade and other receivables	338,721	—	—	338,721
Financial assets	11,951	—	—	11,951
Current financial liabilities - Galenica Group	—	—	152,739	152,739
Current financial liabilities	—	700	18,541	19,241
Trade and other payables - Galenica Group	—	—	6,854	6,854
Trade and other payables	—	—	311,318	311,318
Non-current financial liabilities - Galenica Group	—	—	763,150	763,150
Non-current financial liabilities	—	7,600	588	8,188
Total	491,974	8,300	1,253,190	

Net gain/(loss) on financial instruments 2016

in thousand CHF	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
Change in fair value of contingent consideration	—	2,750	—	2,750
Net gain/(loss) on foreign exchange	(96)	—	(5)	(101)
Loss on receivables and other financial result	(230)	—	(52)	(282)
Interest income	916	—	—	916
Interest expense	—	—	(19,757)	(19,757)
Interest income on impaired trade receivables	120	—	—	120
Change in bad debt allowances	(3,342)	—	—	(3,342)
Net gain/(loss) recognised in profit or loss	(2,632)	2,750	(19,814)	(19,696)

Net gain/(loss) on financial instruments 2015

in thousand CHF	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
Change in fair value of contingent consideration	—	1,000	—	1,000
Net gain/(loss) on foreign exchange	87	—	(2)	85
Loss on receivables and other financial result	(508)	—	(51)	(559)
Interest income	1,268	—	—	1,268
Interest expense	—	—	(19,628)	(19,628)
Interest income on impaired trade receivables	93	—	—	93
Change in bad debt allowances	(414)	—	—	(414)
Net gain/(loss) recognised in profit or loss	526	1,000	(19,681)	(18,155)

Net gain/(loss) on financial instruments 2014

in thousand CHF	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Total
Net gain/(loss) on foreign exchange	(36)	—	(2)	(38)
Loss on receivables and other financial result	(385)	—	(54)	(439)
Interest income	2,363	—	—	2,363
Interest expense	—	—	(17,644)	(17,644)
Interest income on impaired trade receivables	67	—	—	67
Change in bad debt allowances	146	—	—	146
Net gain/(loss) recognised in profit or loss	2,155	—	(17,700)	(15,545)

Fair value

The carrying amounts of all financial assets and financial liabilities approximate to the fair value

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

The fair values of the other non-current financial liabilities are calculated based on the expected cash flows, the current market interest rates and the counterparties' credit risk (level 3 of the fair value hierarchy).

Fair value hierarchy

Galenica measures financial instruments at fair value using the following hierarchies for determining the fair value:

- **Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2:** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- **Level 3:** Unobservable inputs for the asset or liability. These inputs reflect the best estimates of Galenica based on criteria that market participants would use to determine prices for assets or liabilities at the reporting date.

There have been no transfers between Level 1 and Level 2 in the financial year, or any transfers into or out of Level 3.

Financial liabilities measured at fair value

in thousand CHF	2016	2015	2014	1.1.2014
Contingent consideration liabilities from business combinations (Level 3)	3,500	5,600	7,950	8,300

Fair value of contingent consideration liabilities (level 3 of the fair value hierarchy)

in thousand CHF	2016	2015	2014
1 January	5,600	7,950	8,300
Arising from business combinations	1,650	—	—
Unused amounts reversed (recognised in the income statement)	(2,750)	(1,000)	0
Payments (cash out)	(1,000)	(1,350)	(350)
31 December	3,500	5,600	7,950

30.2 Liquidity risk

Maturity profile of financial liabilities 2016

in thousand CHF	Carrying amount	Total undiscounted cash flows	up to 3 months	3 to 12 months	1 to 5 years	Maturities more than 5 years
Trade and other payables – Galenica Group	5,511	5,511	5,511	—	—	—
Trade and other payables	326,334	326,334	320,327	6,007	—	—
Current financial liabilities – Galenica Group	347,054	347,054	—	347,054	—	—
Current financial liabilities	2,854	2,854	—	2,854	—	—
Non-current financial liabilities – Galenica Group	763,150	787,510	—	16,240	771,270	—
Non-current financial liabilities	2,122	2,122	—	—	1,650	472
Total	1,447,025	1,471,385	325,838	372,155	772,920	472

Maturity profile of financial liabilities 2015

in thousand CHF	Carrying amount	Total undiscounted cash flows	up to 3 months	3 to 12 months	1 to 5 years	Maturities more than 5 years
Trade and other payables – Galenica Group	5,574	5,574	5,574	—	—	—
Trade and other payables	313,694	313,694	308,117	5,577	—	—
Current financial liabilities – Galenica Group	133,269	133,269	—	133,269	—	—
Current financial liabilities	5,269	5,269	1,211	4,058	—	—
Non-current financial liabilities – Galenica Group	763,775	788,135	—	16,240	771,895	—
Non-current financial liabilities	5,022	5,022	—	—	3,925	1,097
Total	1,226,603	1,250,963	314,902	159,144	775,820	1,097

Maturity profile of financial liabilities 2014

in thousand CHF	Carrying amount	Total undiscounted cash flows	up to 3 months	3 to 12 months	1 to 5 years	Maturities more than 5 years
Trade and other payables – Galenica Group	8,392	8,392	8,392	—	—	—
Trade and other payables	338,614	338,614	329,889	8,725	—	—
Current financial liabilities – Galenica Group	148,305	148,305	—	148,305	—	—
Current financial liabilities	13,640	13,640	1,791	11,849	—	—
Non-current financial liabilities – Galenica Group	763,150	787,510	—	16,240	771,270	—
Non-current financial liabilities	11,079	11,079	—	—	10,607	472
Total	1,283,180	1,307,540	340,072	185,119	781,877	472

The values presented above are contractually agreed undiscounted cash flows including interest. Wherever the contractually agreed payment amount is liable to change before maturity as a result of variable interest rates, the payment amounts based on the interest rates on the reporting date are disclosed.

30.3 Credit risk

in thousand CHF	2016	2015	2014	1.1.2014
Cash and cash equivalents (without cash on hand)	7,696	9,204	20,983	17,248
Financial receivables – Galenica Group	340,857	92,316	76,363	122,681
Trade and other receivables	358,803	336,622	316,068	338,721
Loans and other financial assets	8,930	8,327	11,535	11,951
Total financial assets subject to credit risk	716,286	446,469	424,949	490,601

The financial assets subject to credit risk are primarily receivables.

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

Except trade and other receivables with Galenica Group, Galenica Santé's financial assets are not exposed to a concentration of credit risks.

No past due financial assets have been renegotiated. Based on past experience, Galenica Santé considers the creditworthiness of non-past due trade receivables to be good. Trade receivables past due are analysed on an ongoing basis. These receivables are accounted for using individual bad debt allowances, which are calculated on the basis of past experience.

As collateral for future deliveries, Galenica Santé has accepted bank guarantees and assignment of receivables from various customers; these total CHF 0.1 million (2015: CHF 0.1 million / 2014: CHF 22.6 million).

Maturity profile of trade receivables

in thousand CHF	2016		2015		2014	
	Gross trade receivables	Bad debt allowances	Gross trade receivables	Bad debt allowances	Gross trade receivables	Bad debt allowances
not past due	306,330	(2,701)	299,872	(360)	282,657	(570)
past due:						
– 1–30 days	41,523	(129)	28,051	(671)	23,244	(164)
– 31–60 days	6,456	(133)	2,432	(294)	2,422	(91)
– 61–90 days	2,149	(256)	1,951	(334)	2,193	(106)
– more than 90 days	4,575	(3,272)	2,738	(1,490)	2,036	(1,804)
Total	361,033	(6,491)	335,044	(3,149)	312,552	(2,735)

30.4 Capital management

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

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

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

in thousand CHF	2016	2015	2014	1.1.2014
Current financial liabilities – Galenica Group ¹⁾	347,054	133,269	148,305	152,739
Current financial liabilities ¹⁾	—	219	7,290	18,541
Non-current financial liabilities – Galenica Group ¹⁾	763,150	763,775	763,150	763,150
Non-current financial liabilities ¹⁾	472	472	479	588
Cash and cash equivalents	(9,019)	(10,500)	(22,271)	(18,621)
Interest-bearing receivables – Galenica Group	(340,500)	(91,702)	(75,476)	(121,898)
Interest-bearing receivables	(19)	(313)	(1,245)	(4,403)
Net debt	761,138	795,220	820,232	790,096
Equity attributable to shareholders of Galenica Santé	329,621	254,042	230,304	209,733
Non-controlling interests	4,584	5,149	9,960	9,974
Shareholders, equity	334,205	259,191	240,264	219,707
Gearing	227.7%	306.8%	341.4%	359.6%

¹⁾ Excluding non-interest-bearing financial liabilities

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

31 Share-based payments

Share-based payments are granted by Galenica to employees of Galenica Santé.

Share plan for members of senior management

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

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

Long-term incentive plan (LTI)

Members of the Corporate Executive Committee of Galenica Santé and certain members of senior management participate in an LTI plan for the allocation of performance units. The number of these performance units is based on the extent to which defined long-term performance targets are attained. An LTI plan always runs for a vesting period of 3 years. At the beginning of each financial year a new LTI plan with a new vesting period of 3 years is issued. At the start of the vesting period a defined number of performance units are individually allocated. The number of performance units allocated is dependent on the defined percentage of the annual salary incorporated into the LTI plan as well as the effective share price at the time of the allocation. At the end of the vesting period performance units are paid out to eligible beneficiaries in the form of registered shares in Galenica.

226 performance units (2015: 406 performance units / 2014: 342 performance units) were granted to beneficiaries at a fair value of CHF 1,473.00 (2015: CHF 744.50 / 2014: CHF 864.50) at the beginning of the reporting period for the 2016 LTI plan.

Employee share plan

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

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

In the reporting period, employees purchased 3,153 registered shares of Galenica (2015: 6,208 registered shares / 2015: 4,799 registered shares) at a price of CHF 913.15 (2015: CHF 728.60 / 2014: CHF 605.60). This includes a discount of CHF 391.35 (2015: CHF 312.25 / 2014: CHF 259.55) per registered share.

Share-based payment expense

in thousand CHF	2016	2015	2014
Share plan for members of senior management	1,428	1,480	963
Long-term incentive plan (LTI)	479	381	199
Employee share plan	1,234	1,938	1,246
Total	3,141	3,799	2,408

32 Related party transactions

Related parties include all companies in the Galenica Group as well as associates, joint ventures, pension funds, members of the Board of Directors of Galenica Ltd. and members of the key management of Galenica Santé.

Transactions with Galenica Ltd. and key management personnel information are disclosed in this related party note based on the allocation keys applied in the preparation of these combined financial statements (refer to note 1, subsection "Transactions with Galenica Group").

Transactions with Galenica Group recorded in equity

in thousand CHF	2016	2015	2014
Re-allocation of central costs of Galenica Ltd. to Galenica Santé	9,240	5,800	3,500
Trademark fees paid to Galenica Ltd. not recognised for IFRS reporting	(6,012)	(5,988)	(5,964)
Purchase of subsidiaries paid by Galenica Ltd.	—	375	—
Purchase of non-controlling interests paid by Galenica Ltd.	307	2,751	—
Transactions on treasury shares Galenica Ltd.	(3,797)	(3,026)	(2,517)
Other transactions with Galenica Group	(40)	232	232
Transactions with Galenica Group recorded in equity	(302)	144	(4,749)

Historically, Galenica has provided services to and funded certain expenses for Galenica Santé. These services were charged to the business unit through management fees. In order to more faithfully present the actual historical costs of Galenica Santé, management has decided to re-allocate central costs to Galenica Santé by using different, but more appropriate allocation keys. As a result of this analysis, additional expenses of CHF 9.2 million were recognised in 2016, CHF 5.8 million were recognised in 2015 and CHF 3.5 million were recognised in the 2014 combined financial statements of Galenica Santé. The tax impact of these costs was not considered.

Galenica Santé has paid trademark fees to Galenica Ltd. which have historically not been considered for IFRS reporting purposes and are therefore not recognised in combined statement of income but shown as a deduction from combined equity.

Entities of Galenica Santé paid to Galenica Group CHF 3.8 million in 2016, CHF 3.0 million in 2015 and CHF 2.5 million in 2014 for treasury shares delivered by Galenica Group to employees of Galenica Santé.

The financial information herein is not necessarily indicative of the combined financial position, results of operations and cash flows of Galenica Santé in the future or what they would have been had Galenica Santé been a stand-alone entity during the periods presented.

As at the reporting date trade receivables and loans from associates and joint ventures amounted to CHF 4.9 million (2015: CHF 3.6 million / 2014: CHF 3.2 million). The receivables and loans primarily relate to Coop Vitality. The trade payables to associates and joint ventures amounted to CHF 0.3 million (2015: CHF 3.5 million / 2014: CHF 1.5 million). There are no liabilities to other related parties.

The transactions with associates and joint ventures shown in the table below largely concern transactions with Coop Vitality. The following table sets out the related party transactions with the remaining part of the Galenica Group under the assumption that Galenica Santé had already been a stand-alone entity since the beginning of 2014:

Related party transactions

in thousand CHF	2016		2015		2014	
	Associates and joint ventures	Galenica Group and other related parties	Associates and joint ventures	Galenica Group and other related parties	Associates and joint ventures	Galenica Group and other related parties
Sale of goods	120,639	647	110,177	918	103,057	167
Income from services	74	1,421	461	1,406	423	1,265
Other income	8,520	5,178	2,551	2,474	1,323	2,446
Purchase of goods	797	55,517	598	57,121	2,780	52,741
Other operating costs	1,432	8,952	2,672	13,817	869	15,705
Financial income	151	386	218	303	—	1,690
Financial expenses	—	19,949	—	20,049	—	17,112

Remuneration of key management of Galenica Santé

in thousand CHF	2016	2015	2014
Remuneration	2,400	1,967	1,429
Social security costs and pension expenses	488	431	285
Share-based payments	916	783	359
Total	3,804	3,181	2,073

Key management consist of the business sector leaders as well as CEO and CFO as allocated to Galenica Santé by Galenica Ltd. (refer to note 1, subsection "Transactions with Galenica Group").

33 Lease liabilities

The table below summarises the maturity profile of lease payments (undiscounted).

in thousand CHF	2016	2015	2014
	Operating leases	Operating leases	Operating leases
Within 1 year	48,582	47,970	45,086
In 2 to 5 years	137,701	129,069	133,019
In more than 5 years	29,542	30,875	36,158
Total	215,825	207,914	214,263

Operating leases essentially consist of payment obligations under rental contracts.

34 Contingent liabilities and commitments

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

Galenica Santé has signed purchase agreements to acquire pharmacies in the next few years. The purchase prices will be fixed at the time of transfer of ownership on the basis of net asset value and discounted cash flow. The unrecognised commitments are expected to involve payments of CHF 20.5 million (2015: CHF 20.1 million / 2014: CHF 6.3 million) at the most. The purchase rights have an estimated volume of CHF 20.9 million (2015: CHF 20.5 million / 2014: CHF 6.7 million). These purchase rights or obligations fall due between 2017 and 2020.

Galenica Santé signed purchase agreements to acquire property, plant and equipment totalling CHF 1.8 million (2015: CHF 7.8 million / 2014: CHF 16.7 million). The payments under these purchase commitments become due in 2017.

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

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

35 Assets pledged to secure own liabilities

No assets were pledged to secure own liabilities (2015: none / 2014: none).

36 Subsequent events

The following transactions occurred between 31 December 2016 and the date the combined financial statements were authorised for publication.

Incorporation of Galenica Santé Ltd.

Galenica Santé Ltd. was incorporated on 13 February 2017 as a direct wholly owned subsidiary of Galenica Ltd. Subsidiaries formerly held by Galenica Ltd. (directly and indirectly) were legally contributed to Galenica Santé Ltd. and Galenica Santé Ltd. became the parent of the Galenica Santé Group on 13 February 2017.

Galenica Santé business unit

Health & Beauty segment

Acquisition of pharmacies. GaleniCare Holding and Sun Store acquired 100 % of the interests in pharmacies at various locations in Switzerland. The net assets of these acquisitions will be consolidated for financial year 2016 from the date control was obtained. The purchase consideration was CHF 16.0 million, the fair value of the provisional net assets resulting from these additions was estimated at CHF 5.6 million on the acquisition date.

Services segment

Acquisition of Pharmapool Ltd. On 10 January 2017 Galexis acquired 100% of the shares in the Swiss company Pharmapool Ltd. Pharmapool is a physicians wholesale 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 provisional net assets was estimated at CHF 14.7 million on the acquisition date.

There were no further significant events after the reporting date.

37 Group companies

Entities included in the combined financial statements as at 31 December 2016.

	Registered office	Capital	Voting rights	Method of consolidation	Share capital in thousand
Health & Beauty					
Products & Brands					
G-Pharma AG	CH-Niederbipp	100 % ¹⁾	100 %	full	CHF 100
Swiss Pharma GmbH	D-Rülzheim	100 % ¹⁾	100 %	full	EUR 51
Vifor Consumer Health Ltd.	CH-Villas-sur-Glâne	100 % ¹⁾	100 %	full	CHF 100
Retail					
Amavita GmbH	CH-Bern	100 % ²⁾	100 %	full	CHF 20
Amavita Health Care Ltd.	CH-Niederbipp	100 % ¹⁾	100 %	full	CHF 100
Aprioris Ltd.	CH-Bern	100 % ²⁾	100 %	full	CHF 100
Bahnhof Apotheken Thun AG	CH-Thun	50 % ²⁾	50 %	full	CHF 200
Coop Vitality AG	CH-Bern	49 % ²⁾	49 %	at equity	CHF 5,000
Coop Vitality Health Care GmbH	CH-Niederbipp	49 % ²⁾	49 %	at equity	CHF 20
Coop Vitality Management AG	CH-Bern	49 % ²⁾	49 %	at equity	CHF 100
Distripharm SA	CH-St-Sulpice	100 % ²⁾	100 %	full	CHF 100
GaleniCare Ltd.	CH-Bern	100 % ²⁾	100 %	full	CHF 700
GaleniCare Holding Ltd.	CH-Bern	100 % ¹⁾	100 %	full	CHF 50,000
GaleniCare Management Ltd.	CH-Bern	100 % ²⁾	100 %	full	CHF 500
Grosse Apotheke Dr. G. Bichsel AG	CH-Interlaken	25 % ²⁾	25 %	at equity	CHF 200
Ingrid Barrage AG	CH-Küsnacht	49 % ²⁾	49 %	at equity	CHF 300
Kloster-Apotheke Muri AG	CH-Muri AG	100 % ²⁾	100 %	full	CHF 100
MediService Ltd.	CH-Zuchwil	100 % ¹⁾	100 %	full	CHF 363
Sun Store Ltd.	CH-St-Sulpice	100 % ²⁾	100 %	full	CHF 485
Winconcept Ltd.	CH-Bern	100 % ²⁾	100 %	full	CHF 100
Services					
1L Logistics AG	CH-Burgdorf	100 % ¹⁾	100 %	full	CHF 100
Alloga Ltd.	CH-Burgdorf	100 % ¹⁾	100 %	full	CHF 8,332
Dauf SA	CH-Barbengo-Lugano	88.8 % ²⁾	88.8 %	full	CHF 100
e-prica AG	CH-Bern	100 % ¹⁾	100 %	full	CHF 100
Galexis Ltd.	CH-Niederbipp	100 % ¹⁾	100 %	full	CHF 25,000
HCI Solutions Ltd.	CH-Bern	100 % ¹⁾	100 %	full	CHF 100
Medifilm Ltd.	CH-Oensingen	100 % ²⁾	100 %	full	CHF 1,300
Triamed Ltd.	CH-Gümligen	100 % ²⁾	100 %	full	CHF 100
Unione Farmaceutica Distribuzione SA	CH-Barbengo-Lugano	88.8 % ¹⁾	88.8 %	full	CHF 2,000

¹⁾ Directly held by Galenica Santé Ltd. from 13 February 2017, before held directly by Galenica Ltd.

²⁾ Indirectly held by Galenica Santé Ltd. from 13 February 2017, before held indirectly by Galenica Ltd.

Report of the independent auditor to the management of Galenica Ltd. on the combined financial statements 2014 – 2016

Opinion

In accordance with the terms of our engagement, we have audited the accompanying combined financial statements, which comprise the combined statement of financial position as at December 31, 2016, 2015 and 2014 and the combined statement of income, combined statement of comprehensive income, combined statement of changes in equity and combined statement of cash flows for the years then ended, and notes to the combined financial statements, including a summary of significant accounting policies, prepared by Galenica Ltd., Bern, (the "Company") for the Galenica Santé business of Galenica Group as described in Note 1 (the "Galenica Santé Group").

In our opinion the accompanying combined financial statements give a true and fair view of the combined financial position of the Galenica Santé Group as at December 31, 2016, 2015 and 2014, and its combined financial performance and its combined cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the combined financial statements section of our report.

We are independent of the Group in accordance with the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA Code) and the requirements of the Swiss audit profession, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Emphasis of matter

We draw attention to Note 1 of the combined financial statements that describes that Galenica Santé Group has not operated as a separate group of entities. These combined financial statements are, therefore, not necessarily indicative of the financial position and financial performance that would have been achieved if the Galenica Santé Group had operated as a separate group of entities. Our opinion is not modified in respect of this matter.

Responsibilities of the management for the combined financial statements

The company's management is responsible for the preparation of the combined financial statements that give a true and fair view in accordance with IFRS and for such internal control as the management determines is necessary to enable the preparation of combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, the management is responsible for assessing Galenica Santé Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Galenica Santé Group or to cease operations, or has no realistic alternative but to do so.

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

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

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

Bern, 24 February 2017
Ernst & Young Ltd.

Roland Ruprecht
Licensed audit expert
(Auditor in charge)

Julian Fiessinger
Licensed audit expert