

FULL VERSION

Annual report 2020

OF THE GALENICA GROUP AND GALENICA LTD.

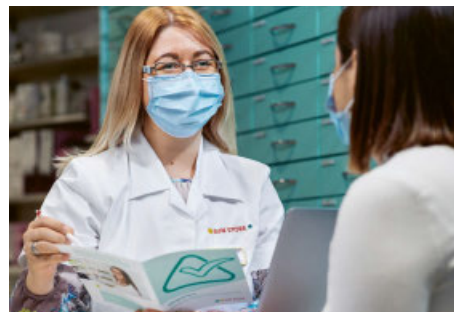


<p>January</p>  <p>Expanded role of pharmacists Pharmacists are now permitted to sell an expanded range of medications for common illnesses without a prescription, thereby enhancing their responsibilities.</p>	<p>February</p>  <p>One year of Dermafora® Derma-cosmetics line Dermafora® from Verfora celebrates its first birthday and is constantly being expanded.</p>	<p>March</p>  <p>High volume Galexis, Alloga and Unione Farmaceutica Distribuzione (UFD) process approximately 60% higher volumes due to the coronavirus pandemic.</p>	<p>April</p>  <p>Change in management New CEO Marc Werner takes over management of the Galenica Group from Jean-Claude Cléménçon.</p>
<p>May</p>  <p>Verfora takes over ThermoCare® Verfora takes over distribution of the well-known ThermoCare® brand for Switzerland and Liechtenstein.</p>	<p>June</p>  <p>Launch of Coop Vitality mail-order pharmacy Coop Vitality is the first pharmacy format to launch its mail-order pharmacy. This marks a key milestone in the Omni-channel strategy.</p>	<p>July</p>  <p>Verfora continues to expand Verfora acquires the Hedoga Group with its well-known brands Osa®, Osanit® and Carmol®.</p>	<p>August</p>  <p>Launch of Amavita mail-order pharmacy Amavita customers can now reorder medications on repeat prescription online and receive them by post.</p>
<p>September</p>  <p>New services for pharmacies Pharma-Info, a joint venture of HCI Solutions and IFAK Data, takes over service offerings for pharmacies from Swiss pharmacy association Pharmasuisse.</p>	<p>October</p>  <p>Vita-Merfen® available again Vita-Merfen®, the well-known and popular ointment for disinfection and wound healing, is available again in pharmacies, drug-stores and through online pharmacy shops.</p>	<p>November</p>  <p>Rapid COVID-19 tests available in pharmacies The first Amavita, Sun Store and Coop Vitality pharmacies offer rapid COVID-19 tests.</p>	<p>December</p>  <p>Renewal for Galenica The Galenica Group announces a new organisational structure from 2021 to meet customer and market needs even better in the future.</p>

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Fast, competent solutions for patients
With their “Primary Care” offerings Amavita, Sun Store and Coop Vitality pharmacies make a significant contribution to the health and safety of patients.

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Information regarding the Sustainability report

As definitive sustainability data are not yet available during the drafting of the Annual report, the Sustainability report is published in the second quarter of the following year. Accordingly, it does not form part of the Annual report and is published on the website at the appropriate time: www.galenica.com. There is, however, one feature on a selected sustainability topic in this Annual report 2020 on page 34.

Key figures 2020

Net sales

in million CHF



● Health & Beauty ¹⁾	1,671.4
● Services ¹⁾	2,631.7

EBIT adjusted²⁾

in million CHF



● Health & Beauty ¹⁾²⁾	123.9
● Services ¹⁾²⁾	45.4

Number of employees

at 31 December 2020



● Galenica Ltd.	40
● Health & Beauty	5,382
● Services	1,783

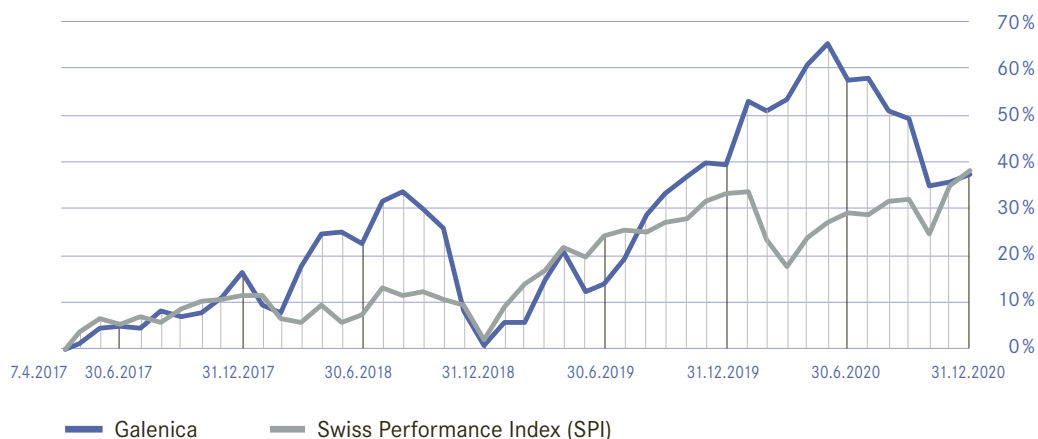
in million CHF	2020	2019	Change
Net sales	3,479.8	3,301.0	+5.4%
Health & Beauty ¹⁾	1,671.4	1,620.8	+3.1%
Services ¹⁾	2,631.7	2,441.0	+7.8%
EBITDA	309.5	260.3	+18.9%
EBITDA adjusted²⁾	213.6	210.4	+1.5%
Health & Beauty ¹⁾²⁾	146.5	146.5	+0.0%
Services ¹⁾²⁾	68.1	65.8	+3.5%
EBIT	213.3	169.5	+25.9%
EBIT adjusted²⁾	168.6	166.9	+1.0%
in % of net sales	4.8%	5.1%	
Health & Beauty ¹⁾²⁾	123.9	123.7	+0.2%
in % of net sales	7.4%	7.6%	
Services ¹⁾²⁾	45.4	44.7	+1.6%
in % of net sales	1.7%	1.8%	
Net profit	172.7	125.3	+37.8%
Net profit comparable²⁾³⁾	138.0	134.2	+2.8%
Total assets	2,258.9	2,209.6	+2.2%
Shareholders' equity	1,053.4	999.5	+5.4%
Equity ratio	46.6%	45.2%	
Capital contribution reserves	351.6	396.1	-11.2%
Net debt adjusted²⁾	353.7	326.1	+8.5%
Debt coverage adjusted ²⁾	1.7×	1.5×	
Gearing adjusted ²⁾	31.9%	31.0%	
Investment in property, plant and equipment and intangible assets	57.0	53.0	+7.5%
Cash flow from operating activities adjusted²⁾	175.3	202.8	-13.6%
Free cash flow²⁾	59.6	67.9	-12.2%
Employees at reporting date (FTE)	5,538	5,449	+1.6%

¹⁾ Reported for each segment not taking into account Corporate and Eliminations

²⁾ For details on the adjusted key figures, refer to the section Alternative performance measures from page 86 onwards of the Annual report 2020 (full version)

³⁾ In 2019, net profit adjusted and excluding one-off effects from changes in the provisions for deferred taxes of CHF -8.4 million due to the Swiss Tax Reform

Share price performance in percent



3.1 %
dividend yield

more than
15,800
shareholders

Share information

in CHF	2020	2019
Share price at reporting date	59.00	59.85
Highest share price for the year	72.25	61.30
Lowest share price for the year	57.15	42.80
Market capitalisation at reporting date in million CHF	2,920.4	2,952.9
Earnings per share ¹⁾	3.48	2.54
Earnings per share comparable ¹⁾²⁾⁷⁾	2.78	2.72
Shareholders' equity per share ¹⁾	21.19	20.16
Gross dividend per share ³⁾	1.80	1.80
– of which paid out from retained earnings	0.90	0.90
– of which paid out from reserves from capital contributions	0.90	0.90
Dividend yield ⁴⁾	3.1%	3.0%
Pay-out ratio comparable ⁵⁾⁷⁾	64.7%	66.2%
Price-earnings ratio (P/E) comparable ⁶⁾⁷⁾	21.2	22.0

¹⁾ Attributable to shareholders of Galenica Ltd.

²⁾ Net profit comparable divided by average number of outstanding shares

³⁾ According to Board of Directors' proposal to Annual General Meeting of 12 May 2021

⁴⁾ Gross dividend per share in relation to the share price at reporting date

⁵⁾ Gross dividend per share in relation to earnings per share comparable

⁶⁾ Share price at reporting date in relation to earnings per share comparable

⁷⁾ In 2019, net profit adjusted and excluding one-off effects from changes in the provisions for deferred taxes of CHF –8.4 million due to the Swiss Tax Reform

1.80
gross dividend
per share in CHF

64.7 %
pay-out ratio
(comparable⁷⁾)

2.78
earnings per share
in CHF
(comparable⁷⁾)

First point of contact for healthcare advice



Daniela Bosshardt, Chairwoman of the Board of Directors, and Marc Werner, CEO

Dear Shareholders, Ladies and Gentlemen,

2020 will go down in the history of the Galenica Group as an exceptional and particularly challenging year. The coronavirus and its consequences placed extreme demands on our various Group companies, especially in the first half of the year.

Galenica passed this test of endurance with flying colours, proving our ability to master difficult situations and special challenges thanks to our outstanding performance. In addition, 2020 clearly highlighted the critical role played by the Galenica Group and its business activities, some of which are systemically relevant to the Swiss healthcare market, whether in the nationwide supply of medicines or as the first point of contact for healthcare advice and support. To read more about the efforts being undertaken by Galenica in relation to patient safety, please see the sustainability coverage from page 34.

Key figures 2020

- Net sales:
CHF 3,479.8 million
 - EBIT adjusted¹⁾:
CHF 168.6 million
 - Net profit adjusted¹⁾:
CHF 138.0 million
 - Investments: CHF 57.0 million
 - Employees: 7,205
(5,538 full-time equivalents)
-

¹⁾ See section "Alternative performance measures" from page 86 onwards in the Annual report 2020 (full version)

Significant impact of COVID-19

At the onset of the COVID-19 pandemic in spring 2020, the points of sale and online shops of Amavita, Sun Store and Coop Vitality pharmacies recorded above-average sales. The logistics companies Alloga, Galexis and Unione Farmaceutica Distribuzione (UFD) were also confronted with unprecedented order volumes during this period. Thanks to the considerable dedication of all employees, delays in deliveries or delivery problems with medicines were reduced to a minimum and operations in the pharmacies were ensured.

The Bichsel Group significantly ramped up its production capacity for infusion and rinsing solutions as well as disinfectants in order to meet the increased demand from hospitals in particular. On account of these domestic production laboratories, the Bichsel Group was classified as a systemically relevant company by the Federal Office for National Economic Supply (FONES) in the year under review.

Of course, COVID-19 also had negative effects on Galenica. To begin with, the decline in sales at pharmacies in high-frequency locations such as railway stations or airports dented results. In addition, the pharmacies were forced to temporarily close their perfumery ranges. At the same time, there was less demand for products for treating colds, which impacted Verfora's sales and also affected the Group's earnings.



Key figures for the Galenica Group 2020

Galenica has adapted its organisational and management structure as of 1 January 2021. The new structure does not affect the reporting for financial year 2020, which is based on the segment and Business sector structure valid until 31 December 2020.

The Galenica Group generated consolidated net sales of CHF 3,479.8 million in 2020, representing a strong increase of +5.4%. The Swiss pharmaceutical market grew by +2.9% in 2020 despite government-mandated price reductions (IQVIA, Pharmaceutical Market Switzerland 2020). With slightly lower volumes (-1.8%, IQVIA Pharmaceutical Market Switzerland 2020), this is a clear indication that market growth was again driven by rising sales of high-priced medications.

The adjusted¹⁾ operating result (EBIT), i.e. excluding the effects of the IFRS 16 (Leases) and IAS 19 (Employee Benefits) accounting standards, amounted to a solid CHF 168.6 million and at +1.0% was up slightly on the previous year (CHF 166.9 million). Due to an accounting gain related to IAS 19 in the amount of CHF 43.0 million, mainly attributable to the adjustment of conversion rates in the Galenica Pension Fund, EBIT increased by 25.9% to CHF 213.3 million (previous year: CHF 169.5 million).

Adjusted¹⁾ return on sales (ROS) declined slightly to 4.8% in the reporting year (previous year: 5.1%). This was due to the strong sales growth with lower margins in the Services Business sector and COVID-19 effects.

Net profit was up 37.8% year-on-year to CHF 172.7 million, influenced heavily by the aforementioned IAS 19 gain. On a comparable basis, adjusted¹⁾ net profit amounted to CHF 138.0 million (+2.8%).

Investments in the financial year totalled CHF 57.0 million (previous year: CHF 53.0 million). They were used in particular for the roll-out of the new ERP system at Alloga and Galexis and for the renovation and modernisation of the Galexis distribution centre in Lausanne-Ecublens. These strategic efficiency projects will require further investments of around CHF 44–48 million until the planned completion of both projects by end-2023.

The Galenica Group's balance sheet remains very strong: adjusted¹⁾ net debt, i.e. excluding lease liabilities, increased by CHF 27.6 million and amounted to CHF 353.7 million at the end of 2020, corresponding to 1.7× adjusted EBITDA (end-2019: 1.5×).

¹⁾ See section Alternative performance measures from page 86 onwards in the Annual Report 2020 (full version).

Further expansion of offline and online pharmacy network

In spite of COVID-19, the Galenica Group continued to develop successfully and at a fast pace. 17 new pharmacies were added in the course of the year, with the network of own and partner pharmacies comprising a total of 522 locations throughout Switzerland at the end of 2020. Furthermore, the new mail-order pharmacy was launched, which delivers prescription medicines to the homes of Amavita, Sun Store and Coop Vitality customers.

Strong expansion of Verfora

Verfora secured the rights to various strong brands that ideally complement the portfolio in 2020. These include Bucco Tantum® and Thermacare® from Angelini Pharma, the pro- and prebiotic products OmniBiotic® from Allergosan and, with the acquisition of the Hedoga Group, the brands Osa®, Osanit® and Carmol®. In addition, the popular ointment Vita-Merfen® was relaunched on the Swiss market at the end of 2020.

Further progress on major projects and expansion of market share

The logistics companies Alloga and Galexis were also able to press ahead with major projects despite additional burdens. At Alloga, the new ERP (enterprise resource planning) system was put into operation with pilot partners, and work began on modernising and renovating the Galexis distribution centre in Lausanne-Ecublens. Galexis was also able to gain further market share in the doctors segment and offer new services such as compulsory pandemic inventories for pharmacies and doctors imposed by the authorities.

Conditions remain challenging

The market environment remains challenging. Various measures taken by the Federal Council to curb costs in the healthcare system are taking effect. Galenica is contributing to these cost reductions as we continue to promote generic substitution: in 2020, the generic substitution rate was increased from around 70% to 72%.

The current tariffs from the service-based remuneration for pharmacists (LOA IV) are only valid until the end of 2021. A new proposal was submitted to the Federal Council in May 2020 by Curafutura and Pharmasuisse with the aim of bringing LOA V into force on 1 January 2022. Further information can be found on pages 30–33.

Galenica prepares for the future

Against the backdrop of rapidly changing conditions, the strategic programmes Omni-channel, Care, Professionals, Efficiency and Transformation were launched in spring 2020 under the leadership of new CEO Marc Werner. The programmes are designed to effectively and rapidly implement the Group's strategy by prioritising key issues and helping to drive forward relevant projects.

In order to create the optimal conditions for its implementation, Galenica has adapted its organisational and management structure as of 1 January 2021. The new structure is consistently focused on customers, promotes collaboration within the Group and strengthens the pharmacy channel, both in stores and online. At the same time, new opportunities for synergy and efficiency are opening up.

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IN SPIE OF COVID-19,
THE GALENICA GROUP
CONTINUED TO DEVELOP
SUCCESSFULLY
AND AT A FAST PACE.

Outlook for 2021

In its new composition and role, the Executive Committee will continue to focus on long-term issues such as the implementation of strategic programmes:

- the further expansion of the Omni-channel strategy and the improved efficiency of the logistics behind it;
- the development of new services and overall offers for patients and customers;
- the expansion and optimisation of the product range and services for business partners in the professional B2B market;
- the further improvement of operational efficiency.

At the same time, the new organisational structure will be implemented and further developed from an operational standpoint.

Thanks to shareholders, business partners, customers and employees

We would like to thank all our customers for their considerable understanding when confronted with partial delays in delivery and reduced availability of products in the spring. We are also grateful to our business partners for their continued close collaboration and trust during the events surrounding COVID-19.

The employees of the Galenica Group made an important contribution to overcoming the coronavirus pandemic in 2020 with their considerable commitment and unique dedication. Their performance deserves great respect and appreciation.

We would like to express our sincere thanks to all our shareholders for their continued confidence after a demanding financial year.

Bern, 9 March 2021



Daniela Bosshardt
Chairwoman of the
Board of Directors



Marc Werner
CEO



Temporary Amavita pharmacy in Zurich main station.

Galenica story

Vision



Health and wellbeing are at the heart of what we do. They are the reason we give our best every day.

Values



WE BUILD TRUST



WE SHOW RESPECT



TOGETHER, WE ARE STRONGER



WE ACT AS ENTREPRENEURS



WE PARTICIPATE WITH PASSION

Customer promise



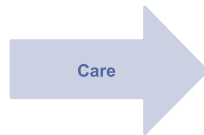
We support people at every stage of life on their journey towards health and wellbeing. With personal and expert advice and a unique range of products and services. Anytime and anywhere in Switzerland.

Strategic programs



Omni-Channel

- Best customer experience anytime and anywhere
- Further development and networking of all online and offline channels
- Expansion of product range



Care

- First point of contact for healthcare advice
- First-class healthcare services
- Preferred cooperation partner



Professionals

- First-choice partner for healthcare professionals
- Leader in e-health



Efficiency

- Simple and efficient, for customers, partners and employees
- Process and cost optimisation



Transformation

- Employees are fit for the future
- Competent, agile teams that decide

Galenica strategy

Galenica is the leading fully integrated healthcare provider in Switzerland and plays a key role in the Swiss healthcare market. We want to sustainably and successfully strengthen our market position and further develop our core competences.

Our vision, values and customer promise set out what drives us, how we work and what we offer. The strategic programmes define what we want to achieve, and how.



Vision

Health and wellbeing are our motivation for everything we do and are at the heart of our vision.



Values

Our five key values guide us in all our activities and form the basis of our shared understanding of cooperation and how we treat one another.



Customer promise

The customer is always the focus of all our activities.



Strategic objectives

In implementation, we work with the Omni-Channel, Care, Professionals, Efficiency and Transformation programmes with the following objectives:

Omni-Channel: We offer our customers the best experience through all channels, anytime and anywhere. To this end, we manage an optimal pharmacy network, which is networked with digital purchasing options. We continuously develop and expand our product range in line with customer requirements.

Care: We develop first-class, needs-based healthcare and therapeutic services – from prevention right through to therapy. In doing so, we support our customers as the first point of contact for healthcare advice in our pharmacies, digitally and at home, and strengthen the role of pharmacies. New cooperation models with partners also contribute to this.

Professionals: We are the first choice when it comes to providing logistics services for pharmacies, drugstores, doctors, hospitals and nursing homes as well as for our partners and suppliers. We continuously optimise and develop our product portfolio and our services. This also applies in e-health, with innovative solutions to promote digitisation in the healthcare market. To this end, we offer our customers added value as a strong partner.

Efficiency: We want to make Galenica easier – for our customers and partners and for our employees. We combine and share our strengths in all our activities, consistently making processes and systems simpler – and digital where possible. At the same time, we create and systematically utilise synergies. By doing so, we reduce costs, sustainably ensure the Group's profitability and release funds for investments in the future and in the development of our employees.

Transformation: Only with continuous development can our employees harness their skills and perform to their full potential. As far as possible, we delegate decision-making to where the knowledge is. Employees have to decide independently on the necessary competencies within the given framework. At the same time, we work in an agile manner, try out new things, learn from our experiences and adapt where necessary.



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IF WE CORRECTLY
AND CONSISTENTLY
IMPLEMENT VISION
AND CUSTOMER PROMISE,
THE FRUITS OF OUR
LABOUR WILL DRIVE THE
SUCCESS OF GALENICA.

Health & Beauty Segment



In the year under review, the Health & Beauty segment comprised the Retail and Products & Brands Business sectors. Retail operates the largest pharmacy network in Switzerland, with over 500 own and partner pharmacies. In addition, together with Mediservice, the Bichsel Group and Curarex Swiss, Galenica provides a unique and specialised range of home care services.

Retail's products and services are offered in pharmacies, as well as online and to patients at home (home care). The Products & Brands Business sector markets and distributes both own consumer products and brands and partner products and brands for the retail segment of the Swiss healthcare market.

As of 1 January 2021, Galenica has introduced a new organisational structure (see page 28).

Net sales and operating result

The Health & Beauty segment recorded net sales of CHF 1,671.4 million in 2020 (+3.1%), CHF 1,556.1 million of which was accounted for by the Retail Business sector and CHF 111.7 million by the Products & Brands Business sector. The growth was driven in particular by strong dynamic expansion activities such as acquisitions in the pharmacy network and product portfolio.

In spite of the persistent negative impact of COVID-19, the Health & Beauty segment managed to increase its adjusted¹⁾ operating result (EBIT), i.e. excluding the effects of the lease accounting standard IFRS 16, by 0.2% to CHF 123.9 million in the year under review. However, adjusted¹⁾ return on sales (ROS) decreased from 7.6% to 7.4%.

This result was achieved in particular thanks to the significant expansion activities in both Business sectors of the segment. Meanwhile, EBIT was dented by COVID-19 on multiple fronts: Pharmacies in high-frequency locations saw declining sales in the first six months and to a lesser extent also in the last six months of the year, while sales of beauty products likewise contracted as the authorities mandated the temporary closure of perfumery departments in the first half of the year, which some cantons reinforced in autumn 2020. The situation was compounded at pharmacies by the additional outlay required for construction and organisational measures to protect employees and customers and to continue day-to-day operations.

Hygiene and social distancing measures resulted in lower demand for Verfora products for colds. Given the uncertainties surrounding the active substance ibuprofen in connection with COVID-19, sales of Algifor[®] also took a hit. Although these uncertainties were ultimately allayed, demand for Algifor[®] remained muted.

Investments in the Health & Beauty segment totalled CHF 25.1 million (previous year: CHF 22.5 million). These were used in particular for pharmacy renovations, the ERP rollout at Mediservice and a new filling facility at Bichsel, as well as for the further development and implementation of the omni-channel strategy.

One of the main areas of focus of the Retail Business sector in the year under review was the continued expansion of the pharmacy network, which at the end of 2020 comprised a total of 522 own points of sale and partner locations, nine more than at end-2019. In addition, Retail strengthened the links between the online and offline worlds, for example by combining the Click & Collect offering with the home delivery service. The new mail-order pharmacy has been launched in phases and since January 2021 covers all three pharmacy formats. It sends prescription medications to customers of the Amavita, Sun Store and Coop Vitality pharmacies at home (see info box on page 16).

The Products & Brands Business sector grew in 2020 mainly thanks to new licensing and distribution agreements. Distribution of the Bucco Tantum[®] brand was taken over from Angelini Pharma, strengthening the cold medication segment. In addition, Verfora has been distributing Thermacare[®] in Switzerland since 2020. The partnership with Institut Allergosan opened the door to the probiotic and prebiotic products segment. And on 1 July 2020, the Hedoga Group with its well-known brands Osa[®], Osanit[®] and Carmol[®] was acquired (for more information, see the info box on page 20). Finally, in October 2020, Vita-Merfen[®] wound ointment was successfully relaunched on the Swiss market.

Net sales
1,671.4
in million CHF

Galenica Group
CHF 3,479.8 million

EBIT
adjusted¹⁾
123.9
in million CHF

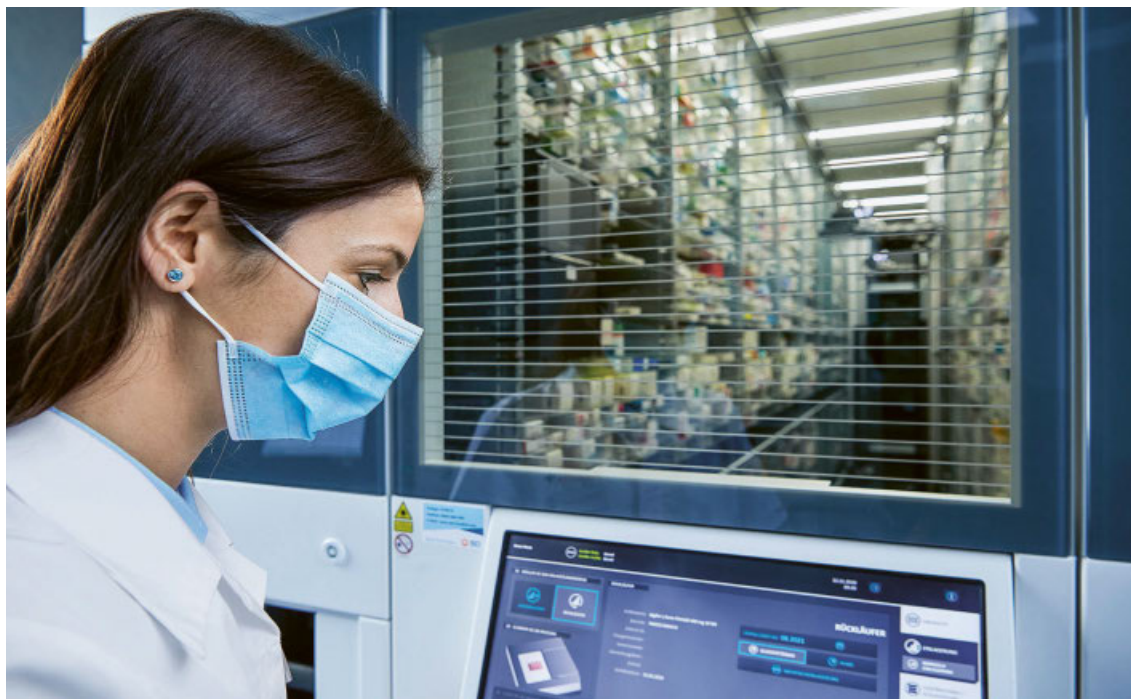
Galenica Group
CHF 168.6 million

Key figures 2020

- Net sales:
CHF 1,671.4 million
 - EBIT adjusted¹⁾:
CHF 123.9 million
 - ROS adjusted¹⁾: 7.4 %
 - Investments:
CHF 25.1 million
 - Employees: 5,382
(4,025 full-time equivalents)
-

¹⁾ See section "Alternative performance measures" from page 86 onwards in the Annual report 2020 (full version)

Retail Business sector



Strong growth in spite of major challenges

Net sales development

The Retail Business sector increased net sales in 2020 by 2.7% to CHF 1,556.1 million (excluding Coop Vitality). The positive sales performance is primarily attributable to the acquisition of the Bichsel Group in 2019 and the significant expansion of the pharmacy network. The expansion (including the Bichsel Group) accounted for +3.2% of the net sales growth. On a comparable basis (excluding expansion effects,) net sales decreased by -0.5%.

Sales were adversely impacted by a one-time effect in 2020, which saw various intra-Group goods transactions discontinued at the beginning of 2020 as part of ongoing process optimisations. This negatively affected sales in the Retail Business sector by 1.7% compared to the previous year. Excluding this one-time effect, organic growth would have amounted to +1.2%. This one-time effect has no impact on the Group's consolidated sales.

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

Lower sales of OTC medicines and beauty products were offset by additional sales in prevention, nutrition and hygiene products.

Companies and formats

- Amavita pharmacies, www.amavita.ch
 - Bichsel Group, www.bichsel.ch
 - Careproduct Ltd., www.careproduct.ch
 - Coop Vitality Ltd., www.coopvitality.ch¹⁾
 - Curarex Swiss Ltd., www.curarex.ch
 - Galenicare Management Ltd., www.galenicare.com
 - Mediservice Ltd., www.mediservice.ch
 - Sun Store pharmacies, www.sunstore.ch
 - Winconcept Ltd., www.winconcept.ch
-

¹⁾ Joint venture with Coop

On the other hand, the three-fold increase in sales by the Amavita and Sun Store online shops coupled with the pleasing 5.7% growth by the Mediservice specialty pharmacy were able to practically compensate for the COVID-19-related decline in sales of 1.7% by the end of the year.

Government-mandated drug price reductions negatively impacted sales growth by 1.6% in 2020.

Finally, the generic substitution deliberately promoted by Galenica also had a dampening effect on sales due to lower drug prices. The already high generic substitution rate was increased from around 70% to 72% as of the end of 2020. The Galenica Group pharmacies therefore contributed more than CHF 63 million to reducing healthcare costs in 2020.

By comparison, medication sales (prescription [Rx] and OTC products) in the Swiss pharmacy market as a whole grew by 2.4% (IQVIA, Pharmaceutical Market Switzerland, 2020), while sales of other products (non-medications) were at +2.1% over the same period (IQVIA, Personal, Patient Care and Nutrition, 2020).

Dynamic expansion and further development of all sales channels

With a total of 17 new pharmacies, the bricks and mortar pharmacy network continued its extremely dynamic development. The newly acquired pharmacies include the well-known Adler Apotheke in Winterthur, which operates a successful own online shop and has mail-order business authorisation. At the same time, there were seven store closures as part of optimisation measures. At the end of 2020, the Galenica pharmacy network comprised 522 pharmacies, of which 366 own pharmacies (+10) and 156 partner pharmacies (-1).

In addition, the Retail Business sector further linked the online and offline worlds, for example by combining the Click & Collect offering with the home delivery service. Furthermore, the new mail-order pharmacy of Coop Vitality was launched in spring 2020, with Amavita following in the second half and Sun Store in January 2021. Amavita, Sun Store and Coop Vitality pharmacies can send prescription medications to their customers at home via the mail-order pharmacy.

Pharmacies as the first point of contact for health advice

The pharmacies clearly demonstrated how intrinsic they are to the Swiss healthcare system as the COVID-19 pandemic took hold, becoming the first point of contact for health advice throughout Switzerland during the lockdown. Since the fourth quarter of 2020, the first pharmacies have – subject to compliance with extensive requirements – been offering the newly approved rapid antigen tests and also PCR tests. At the same time, pharmacies have been preparing to offer COVID-19 vaccinations in the future.

The pharmacy formats also launched new products and services in the year under review, including an offering developed in collaboration with Mobiliar Versicherung. People who want to conclude a life insurance policy with Mobiliar can complete the required health test at all three pharmacy formats. The collaboration with health insurer Groupe Mutuel was also kicked off in the year under review in the form of the new Prima Pharma offering. Customers of health insurer Groupe Mutuel will

Net sales
1,556.1

in million CHF

Galenica Group
CHF 3,479.8 million

Number
of employees

5,199

Galenica Group
7,205

additionally be given the option of receiving the Suncard free of charge in the first year, which they can use to take advantage of special offers in Sun Store pharmacies.

Careproduct overcomes challenges

Careproduct, the provider of mobility aids such as wheelchairs as well as incontinence products, which was acquired by the Galenica Group in 2018, succeeded in overcoming the challenges posed by COVID-19 in the year under review. Medical disposables and incontinence products were ordered more often during lockdown. Alongside this, the range was expanded with products including bandages and ergonomic pillows.

Mediservice records growth in sales and customers

The specialty pharmacy Mediservice, which specialises in the care of people suffering from chronic and rare diseases, experienced greater demand for its services in the wake of COVID-19, such as direct home delivery of medications or therapy support at home. Demand for these services increased in particular among patient groups at increased risk, who require regular lifelong medications, or who are reliant in daily life on support with medication and during therapy. The same was true among patients who, due to COVID-19, were unable to be treated by their doctors at hospitals or medical practices. As an alternative, they were able to be treated via video at home by specialist nursing staff from Mediservice, always in close consultation with the relevant doctors.

Moreover, in 2020 Mediservice further expanded its existing collaborations with doctors and hospitals with integrated and optimal care for chronic patients. Through collaborations like these, in addition to increasing patient satisfaction, Mediservice also plays an active role in increasing efficiency and reducing costs in the healthcare system.

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THE ONLINE AND
OFFLINE WORLDS
WILL BE LINKED
EVEN MORE CLOSELY
FOR CUSTOMERS
IN 2021.

Omni-channel strategy further implemented with mail-order pharmacy

The services of a mail-order pharmacy have been offered to customers by the Amavita and Coop Vitality pharmacies since 2020 and by the Sun Store pharmacies since January 2021. This allows patients to have their prescription medications delivered directly to their home and has taken Galenica an important step closer to integrating its physical points of sale with its webshops.

The mail-order pharmacy is housed at the Galexis distribution centre in Niederbipp. It therefore benefits from direct access to the full product range and well-coordinated, highly efficient processes of Galexis. The service was initially rolled out to patients who have repeat prescriptions. It has now been expanded to include single-prescription orders. Customers order via the online shops of Amavita, Sun Store or Coop Vitality and submit the original prescription to the mail-order pharmacy. As soon as this has been validated, i.e. checked by the pharmacist, the order is placed.

Bichsel Group as a systemically important pillar

In the first half of the year in particular, the Bichsel Group recorded significantly higher demand for infusion and injection solutions, emergency medications and disinfectants due to COVID-19. Orders skyrocketed, especially from hospitals; the Bichsel Group was able to manage these thanks to expanded production capacities at its in-house manufacturing facilities. The Bichsel Group thus made a vital contribution to security of supply during this challenging time and was accordingly classified as a systematically important company by the Federal Office for National Economic Supply (FONES).

The home care unit was also able to ensure care for its patients during the COVID-19 pandemic seamlessly and without any loss of quality. In the area of clinical nutrition, the company additionally attracted new partners such as Tertianum, the largest operator of residential and care homes in Switzerland. The Bichsel Group offering for at-home patients and care home residents includes nutrition drinks, enteral and parenteral nutrition, and antibiotic and pain infusions.

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THE BICHSEL GROUP
MADE A VITAL CONTRI-
BUTION TO SECURITY
OF SUPPLY DURING
THE COVID-19 PANDEMIC.

Own pharmacies and shareholdings

	31.12.2020	31.12.2019	Change
Amavita pharmacies ¹⁾	179	171	+8
Sun Store pharmacies ¹⁾	94	94	–
Coop Vitality pharmacies ²⁾ (joint venture with Coop)	87	84	+3
Mediservice specialty pharmacy ¹⁾	1	1	–
Majority holdings in other pharmacies ¹⁾	5	6	–1
Total own points of sale	366	356	+10

Independent partners

	31.12.2020	31.12.2019	Change
Amavita partners	5	7	–2
Winconcept partner pharmacies	151	150	+1
Total independent partners	156	157	–1

¹⁾ Fully consolidated

²⁾ Consolidated at equity

Products & Brands Business sector



Important acquisitions and new licences

Net sales development

The Products & Brands Business sector, which mainly comprises the business activities of Verfora, realised net sales of CHF 111.7 million in 2020. The year-on-year sales growth of 9.4% could be achieved thanks to new distribution agreements and the strong expansion of the product portfolio, with an expansion effect of +17.3%.

Sales in the core market Switzerland increased by 6.3% to CHF 87.3 million thanks to the expansion activities. Due to COVID-19-related declines in sales of Algifor® (ibuprofen) as well as cold and travel-related products, sales fell 7.2% on a comparable basis (excluding expansion effect). Additional sales of hygiene and prevention products were only partially able to compensate for these losses.

By comparison, the performance of the overall Swiss consumer healthcare market was +3.5% (IQVIA, Consumer Health Market Switzerland, 2020).

Demand for Itinerol®, Triofan® and Anti-Brumm®, which are typically part of a travel first aid kit, also decreased due to less travel. Negative reports on ibuprofen in connection with COVID-19 also had an impact on the growth of Verfora's biggest brand, Algifor®. By contrast, other products such as disinfectant products from Septo Clean® posted significantly higher temporary sales due to COVID-19.

Companies

- G-Pharma AG
 - Verfora AG, www.verfora.ch
-

Export sales totalled CHF 24.4 million, +22.3% year-on-year – primarily as a result of the acquisition of the Hedoga Group.

Vita-Merfen® available again

Vita-Merfen®, the well-known ointment for disinfection and wound healing, has been available again in Swiss pharmacies and drugstores since the fourth quarter of 2020. The product was taken off the market by its former brand owner in 2015 due to production difficulties. Verfora acquired the Merfen® and Vita-Merfen® brands in 2017. While Merfen® for wound disinfection has always been available in the specialist retail trade, Verfora has been working intensively on the relaunch of Vita-Merfen® for the past four years. Marketing authorisation was received from Swissmedic, the Swiss licensing and regulatory body for medicinal products, in the first quarter of 2020.

Continuous further development

Verfora was also a strong partner for the specialist retail trade in the year under review. Therefore, new products were launched, including Anti-Brumm® Naturel roll-on, the first multivitamin and mineral hot drink Veractiv® as well as a warm-up gel from Perskindol® and the innovation Perskindol® Dolo as a phytotherapeutic alternative treatment for arthritis and osteoarthritis.

The company's own derma-cosmetics line Dermafora®, introduced in 2019, was also expanded in 2020 with the launch of a new body care range and an anti-ageing booster.

Closer collaboration with Angelini Pharma

Verfora took over Swiss distribution of the key Bucco Tantum® brand from Angelini Pharma at the start of 2020, strengthening its presence in the cold medication segment. Stronger collaboration was developed with Angelini from 1 July 2020, when Italian pharma company entrusted Verfora with distribution of Thermacare® in Switzerland. Thermacare® products generate heat to help the body rebuild damaged tissue and speed up the healing process.

Net sales

111.7

in million CHF

Galenica Group
CHF 3,479.8 million

Number of employees

183

Galenica Group
7,205



New collaboration with Institut Allergosan

Verfora entered a partnership with Austria's Institut Allergosan in early 2020, and took over distribution of the Omni Biotic® brand in Switzerland, thereby entering the important market for probiotic and prebiotic products. This is one of the fastest-growing segments in the Swiss consumer healthcare market. Institut Allergosan has been one of the world's leading centres of expertise in the field of microbiome research for over 25 years and develops probiotics and prebiotics based on this. The brand was launched in Switzerland several years ago and can now be developed more quickly with the help of Verfora and in close collaboration with Retail.

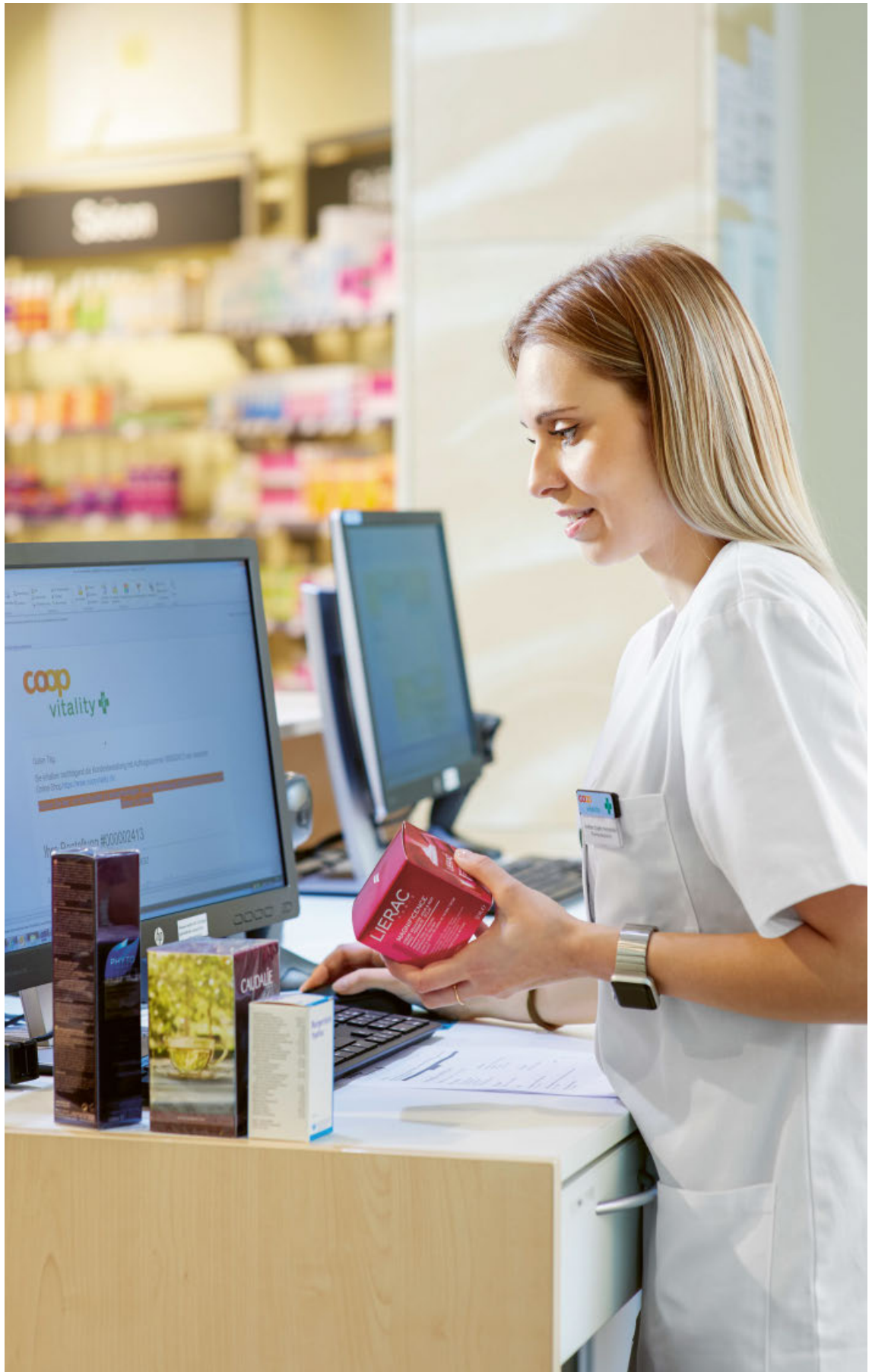
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VERFORA WAS A
STRONG PARTNER
FOR THE SPECIALISED
TRADE ALSO IN 2020.

Acquisition of the Hedoga Group creates significant growth

On 1 July 2020, Galenica acquired the Hedoga Group along with its well-known brands Osa®, Osanit® and Carmol®. This consolidated Verfora's leading position in the Swiss consumer healthcare market and strengthened its positioning as a strong partner for pharmacies and drugstores for over-the-counter medicines and health products. The move also bolstered Verfora's export business in selected markets, particularly in Europe. Osa® and Osanit® include traditional and homeopathic remedies used mainly to treat teething pain in children. Carmol® is a medicinal product (lemon balm spirit) to treat digestive disorders and relieve feelings of discomfort. Hedoga is a Swiss company operating in Switzerland and Austria.





Services Segment



In the year under review, the Services segment comprised logistics services for the Swiss healthcare market from Alloga (pre-wholesale), Galexis, Unione Farmaceutica Distribuzione and Pharmapool (wholesale), as well as Medifilm, which is active in drug blister packaging. These are complemented by services from HCI Solutions, which provides master data for the Swiss health-

care market and offers management software solutions for pharmacies. HCI Solutions also develops tools to securely manage, communicate and distribute sensitive health data and improve patient safety. As of 1 January 2021, Galenica has introduced a new organisational structure (see page 28).

Net sales and operating result

The Services segment generated net sales of CHF 2,631.7 million in 2020, representing a strong increase of 7.8% compared to the previous year. Services therefore clearly exceeded the growth of the overall market of +2.9% (IQVIA, Pharmaceutical Market Switzerland, 2020).

COVID-19 triggered at times extremely high demand for medications and consumables, particularly in March 2020, which then weakened before rising again in the autumn. Overall, these additional sales contributed an estimated 1.4% to annual sales.

At the same time, new customers were acquired. Sales to doctors saw especially dynamic growth, and market share was increased with specialist physicians in particular.

Agreements with suppliers and invoicing models were revised in connection with the new transparency obligations of the new Ordinance on Integrity and Transparency in the Context of Therapeutic Products (OITTP). This technical effect increased 2020 sales in the Services segment by 2.3%. Excluding this technical one-time effect, Services recorded strong growth of 5.5%. This one-time effect has no impact on the Group's consolidated sales.

The negative impact on sales development due to the federally mandated price reduction measures continued in 2020, depressing sales by -1.8%. Excluding this effect, net sales in the Services segment would have risen by 9.6%.

The adjusted¹⁾ operating result (EBIT), i.e. excluding the effects of the lease accounting standard IFRS 16, was increased by 1.6% to CHF 45.4 million. However, adjusted¹⁾ return on sales (ROS) decreased slightly from 1.8% to 1.7%. The positive effects of COVID-19 on sales were offset by considerable additional costs. COVID-19 did not have a significant impact on EBIT in the Services segment overall. The extra costs generated by the coronavirus included protective measures for employees and additional staff resources to manage the high additional volume and to compensate for risk groups who were unable to come to work during the lockdown. EBIT was also affected by additional expenses in distribution in 2020 due to the renovation of the Galexis distribution centre in Lausanne-Ecublens. Although sales to doctors in particular saw dynamic growth and Galenica also gained market share with specialist physicians, this was largely in the area of high-priced medications with a low margin.

Investments totalled CHF 32.3 million in the year under review (previous year: CHF 31.0 million) and were largely used for the modernisation and renovation of the Galexis distribution centre in Lausanne-Ecublens as well as for the gradual roll-out and implementation of the new enterprise resource planning (ERP) software at Alloga and Galexis. Due to the steadily rising risks in connection with cybercrime, additional measures to protect the IT infrastructure and networks were also implemented in 2020.

The temporary record-high goods volumes due to COVID-19 were handled well thanks to the high degree of flexibility and considerable commitment of employees. In addition, Alloga successfully brought the new ERP system into operation with pilot partners. Galexis supported its customers in establishing group practices and medical centres. Galexis also worked with the Retail Business sector on the construction and launch of the new mail-order pharmacy at the Niederbipp site (see info box on page 26).

Net sales
2,631.7
in million CHF
Galenica Group
CHF 3,479.8 million

**EBIT
adjusted¹⁾**
45.4
in million CHF
Galenica Group
CHF 168.6 million

Key figures 2020

- Net sales:
CHF 2,631.7 million
- EBIT adjusted¹⁾:
CHF 45.4 million
- ROS adjusted¹⁾: 1.7%
- Investments:
CHF 32.3 million
- Employees: 1,783
(1,477 full-time equivalents)

¹⁾ See section "Alternative performance measures" from page 86 onwards in the Annual report 2020 (full version)

Services

Business sector



Dynamic trends

Greater warehousing capacity at Alloga

Pre-wholesaler Alloga migrated four more pilot partners to the new enterprise resource planning (ERP) software in summer 2020. This successfully completed the pilot phase; the full roll-out should be completed by 2023.

Alloga also reported exceptionally high volume swings due to COVID-19, which made ensuring on-time processing of orders challenging during the first wave of COVID-19 in the spring. Alloga's partners subsequently increased their buffer stocks at the warehouse, resulting in a need to increase warehousing capacity.

At the same time, in anticipation of a COVID-19 vaccine becoming available at some point, deep-freeze logistics were expanded (see info box on page 26).

Companies

- Alloga Ltd., www.alloga.ch
 - Galexis Ltd., www.galexis.com
 - HCI Solutions Ltd., www.hcisolutions.ch
 - Medifilm Ltd., www.medifilm.ch
 - Pharmapool Ltd., www.pharmapool.ch
 - Unione Farmaceutica Distribuzione Ltd., www.ufd.swiss
-

Galexis manages pandemic inventories for pharmacies, doctors and hospitals

The first half of the year under review at wholesaler Galexis was characterised by COVID-19-related extra shifts and, in some instances, Sunday work. It was necessary to temporarily strengthen logistics with administrative staff to handle the high volumes. Galexis benefited in the second half from demand for higher warehousing capacity from customers who had increased their inventories.

Due to COVID-19, the authorities have indicated that doctors and pharmacies must also have compulsory pandemic inventories of products available, including gloves, disinfectant and masks. As of 2020, Galexis has offered to manage these inventories, resulting in synergy gains and economies of scale for customers.

At the same time, work on rolling out the new ERP system is continuing at Galexis as well. The planning phase was completed in 2020. Implementation will start in 2021, with the order management system being migrated first followed by the warehouse management systems.

During the ongoing renovation and modernisation work in Lausanne-Ecublens, operations were ramped up again for a short period to ensure the security of supply of medications to the population during the first wave of COVID-19. For this reason – and due to unexpected necessary soil remediation work – the building work has been put back by six months. Completion of the work is scheduled for the second quarter of 2022.

Galexis launched a new offering tailored to the needs of specialist doctors such as oncologists, rheumatologists and gastroenterologists in the year under review. These doctors prescribe more high-priced special medications, which need to be transported and stored in an unbroken cold chain. Galexis takes on the logistics for these refrigerated products and provides the doctors with specially equipped refrigerators.

The Galexis strategy initiated in 2020 to assist its customers in establishing group practices and medical centres has already resulted in several successfully implemented projects. Physician wholesaler Pharmapool also had a stable financial year in 2020. The Felan own brand range for independent pharmacists, comprising cost-effective, customised pharma and OTC products, was successfully expanded in the year under review with a nutritional supplement line.

UFD grows throughout Switzerland thanks to “e-box”

Unione Farmaceutica Distribuzione (UFD) ensured the security of medication supplies in Ticino at all times both before and during the lockdown in the spring. A corresponding emergency plan, which was agreed with the cantonal authorities and included the deployment of people required to perform civil defence service, limited interruptions for customers to a minimum. The plan also included early protective measures for employees. In addition, and thanks to the proven quality of services in Ticino, UFD gained further pharmacy customers in 2020.

Net sales
2,631.7

in million CHF

Galenica Group
CHF 3,479.8 million

**Number
of employees**

1,783

Galenica Group
7,205

”

ALLOGA, GALEXIS AND UFD WERE ABLE TO HANDLE THE HIGH ORDER VOLUMES DUE TO COVID-19 WITHOUT MAJOR DELIVERY DELAYS THANKS TO THE CONSIDERABLE COMMITMENT OF ALL EMPLOYEES.

UFD's Switzerland-wide "e-box" logistics solution saw considerably higher volumes compared to 2019 due to increased order numbers in the Galenica Group pharmacy online shops. To meet this continuing higher demand, UFD will open a second distribution centre in Oensingen in 2021. This step will not only improve capacity and delivery performance but also reduce delivery times to end customers thanks to the proximity of the new location to the Galaxis distribution centre in Niederbipp. Moreover, it will strengthen the Galenica Group's online business, as UFD supports the logistics processes for pharmacy online shops with the "e-box", from processing the customer's order to handing over the package to the transport company.

Medifilm increases internal efficiency

Thanks to prudent inventory management, Medifilm was able to deliver orders in full and on schedule at all times, despite shortages of certain medications. As of the end of 2020, nearly 11,000 patients were benefiting from Medifilm's services.

Simplified terms and conditions enabled Medifilm's business partners to directly influence prices through their individual order behaviour. The terms and conditions depend on factors including how time-consuming the blistering work is at Medifilm for the requested medications. Thanks to its in-house system, Medifilm is able to improve operational efficiency, for example by optimising the purchasing, storage and unpacking of medications before blistering.

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AS OF THE END OF 2020,
NEARLY 11,000 PATIENTS
WERE BENEFITING FROM
MEDIFILM'S SERVICES.



COVID-19 presents major challenges for logistics

The temporary record-high goods volumes due to COVID-19 – up as much as 60% – were handled well thanks to the high degree of flexibility and considerable commitment of employees at the logistics companies. Alloga's partners increased their buffer stocks at the warehouse in response to the first COVID-19 wave in the spring, resulting in a need to increase warehousing capacity.

At the same time, in anticipation of a COVID-19 vaccine becoming available at some point, deep-freeze logistics were expanded. The first deliveries of the COVID-19 vaccine Comirnaty® from Pfizer/BioNTech were received by Alloga at the end of 2020. In order for the designated

vaccine centres to be able to commence vaccination in January 2021 as planned, the ampoules – which are stored in ultra-deep freezers at minus 70°C – were picked and distributed directly to the vaccine centres in temperature-controlled boxes together with the requisite vaccination equipment (syringes, cannulas and swabs).

In connection with COVID-19, the authorities have indicated that pharmacies and doctors must also have compulsory pandemic inventories of products available, including gloves, disinfectant and masks. Galaxis is now offering to manage these inventories on behalf of its customers.

HCI Solutions contributes to digitalisation of the healthcare system

HCI Solutions founded joint venture Pharma-Info Ltd. together with partner IFAK Data Ltd. at the end of September. This new company, in which HCI Solutions holds a minority stake, has taken over six service offerings for pharmacies from Swiss pharmacy association Pharmasuisse.

Software solution “Quatron”, which was launched in 2019 to enable independent pharmacists to easily set up an individualised online shop, saw strong demand in 2020, also due to COVID-19.

To ensure pharmacists can send the results of the corona rapid antigen tests introduced at the end of 2020 to the Federal Office of Public Health (FOPH) quickly and easily, HCI Solutions has implemented a corresponding digital interface to the FOPH in the Documedis® e-medication solution. Documedis® is now integrated into almost all e-health platforms of the various cantonal and interregional healthcare networks. These networks are now in the process of setting up so-called reference communities. Once these are certified by the federal government, they can offer an electronic patient record under federal legislation.

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HCI SOLUTIONS HAS IMPLEMENTED A DIGITAL INTERFACE TO THE FEDERAL OFFICE OF PUBLIC HEALTH (FOPH) IN DOCUMEDIS® SO THAT PHARMACISTS CAN REPORT THE RESULTS OF RAPID CORONA TESTS QUICKLY AND EASILY.

Key figures wholesale/pre-wholesale 2020

	Wholesale: Galexis, Unione Farmaceutica Distribuzione	Pre-wholesale: Alloga
Storage		
- Number of prepared boxes	> 10,400,000	–
- Number of delivered order lines	> 41,600,000	> 1,633,000
- Number of prepared packages	> 121,500,000	> 87,381,000
Distribution		
- Annual tonnage	> 14,400	> 7,500
- Number of packages	> 152,000	> 493,000
- Number of pallets	–	> 68,800
Structure		
- Number of items in stock	> 48,500	> 11,000
- Number of suppliers/partners	> 1,100	> 90
- Number of points of sale supplied	> 8,300	> 11,300
Technology		
- Degree of automation in Niederbipp	62%	–
- Degree of automation in Lausanne-Ecublens	41%	–
- Degree of automation in Barbengo-Lugano	37%	–
- Degree of automation in Burgdorf	–	31%

Outlook for 2021

In order to create the optimal conditions for implementing the strategy and strategic programmes, Galenica has adapted its organisational and management structure as of 1 January 2021. Reporting for financial year 2021 will follow the new organisational structure and will now be divided into the two segments “Products & Care” and “Logistics & IT”.

Products & Care

The Products & Care segment comprises the Service Units Pharmacies, Healthcare and Products & Marketing. They develop and market health services and products via the various channels – in pharmacy stores, online or at home – to private customers and patients as well as to business customers and partners.

Pharmacies

The Service Unit Pharmacies supports and relieves the pharmacies with centralised back-office functions, so they can fulfil their important role as the first point of contact for questions about health and wellbeing.

With Amavita, Sun Store and Coop Vitality (joint venture with Coop), Galenica operates the largest pharmacy network in Switzerland, giving it an excellent distribution network for the sale of own, exclusive and partner brands. In addition, Care-product offers efficient solutions to support and improve mobility for elderly and disabled persons.

Healthcare

The Service Unit Healthcare develops offerings for health and prevention services and supports the pharmacies so they can offer care and advisory services in stores, digitally and also at home. Partnerships with players in the healthcare sector are likewise being established for this purpose.

Mediservice cares for patients in a variety of ways, ranging from the direct dispatch of prescription medicines and the monitoring of medications to inhome care. The Bichsel Group specialises in the manufacture of individual medicines and medical devices as well as home care services in the field of home nutrition and home dialysis. Medifilm complements the range with the customised packaging of medicines.

Products & Marketing

The Service Unit Products & Marketing manages Galenica’s product range for the Group’s various own formats and channels, from sales right through to marketing, and for its own pharmacies as well as for the overall market, such as the independent specialist retail trade and doctors.

A large portion of the product portfolio is managed by Verfora. This comprises own and partner brands in the categories of medications, health, prevention and beauty. Furthermore, Win-concept supports owner-managed pharmacies and drugstores in their day-to-day business with a wide range of services. Under the Feelgood’s name, these more than 150 partner pharmacies constitute the largest group of pharmacies in Switzerland.

Logistics & IT

The Logistics & IT segment consists of the Service Units Wholesale & Logistics and IT & Digital Services. They develop and operate the logistics, IT and digital infrastructure and platforms for the entire Galenica Group as well as for customers and partners in the healthcare market.

Wholesale & Logistics

The Service Unit Wholesale & Logistics offers its customers – the Group’s own pharmacies as well as customers in the healthcare market as a whole – an optimised range characterised by high availability and a comprehensive logistics service. The offering likewise includes quality logistics for suppliers with the associated services.

Pre-wholesaler Alloga and wholesalers Galexis, Unione Farmaceutica Distribuzione (UFD) and Pharmapool offer their customers in the Swiss healthcare market logistics and other services, for example own brands for the specialist retail trade and doctors. Customers of the Galenica Group include pharmaceutical companies and suppliers as well as pharmacies, drugstores, physicians, care homes and hospitals.

IT & Digital Services

Alongside the development and operation of internal Group IT as well as digital infrastructures and platforms, HCI Solutions provides the healthcare market with solutions in the area of e-health, including master data for the Swiss healthcare market and management solutions for pharmacies. HCI Solutions also develops tools to securely manage, communicate and distribute sensitive health data and improve patient safety.

Segment structure as of 1 January 2021



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GALENICA IS
A PARTNER FOR
ALL MARKET
STAKEHOLDERS
IN THE HEALTH-
CARE MARKET.

Outlook and priorities for 2021

Products & Care: Services and products via all sales channels

Linking the online and offline worlds: Galenica will link the online and offline worlds more closely. This includes expanding the service offering of the new mail-order pharmacy of Amavita, Sun Store and Coop Vitality.

Expanding the product and service offering: The product range in the online shops and the services offered in the pharmacies as well as to patients at home will likewise be further optimised and expanded.

- With that in mind, Amavita is continuing a pilot project started at the end of 2020 with the online-based dermatologist network onlinedoctor.ch to provide its customers with even better and easier access to dermatology services. Customers with skin problems will still receive competent first-line treatment at Amavita pharmacies, as they have enjoyed to date. For more complex cases, the pharmacist will receive professional support from onlinedoctor.ch, including a medical report and any necessary drug prescriptions.
- A collaboration is being launched with health insurer CSS in the area of prevention services, for example diabetes and allergy tests, for patients covered by supplementary insurance.
- Bichsel’s production capacities at Unterseen near Interlaken will be increased at the start of the second half of 2021 with a new and modern filling facility for solutions in plastic bottles.
- Modifilm wants to gain more individual patients as new customers via the pharmacies.

- Verfora wants to position itself even more strongly in 2021 as the first choice for business partnerships in the professional Swiss B2B consumer healthcare market. Sales promotion services will therefore be further expanded and new products launched in 2021. This approach will be implemented through new licensing and distribution agreements and acquisitions. Existing own brands such as the Algifor® product range will also be expanded.
- In collaboration with Modifilm, the Bichsel Group, Galenicare and Galexis, Galenica also wants to promote interprofessional cooperation for comprehensive support for patients and care home residents, thereby better serving the growth market of “care homes”.

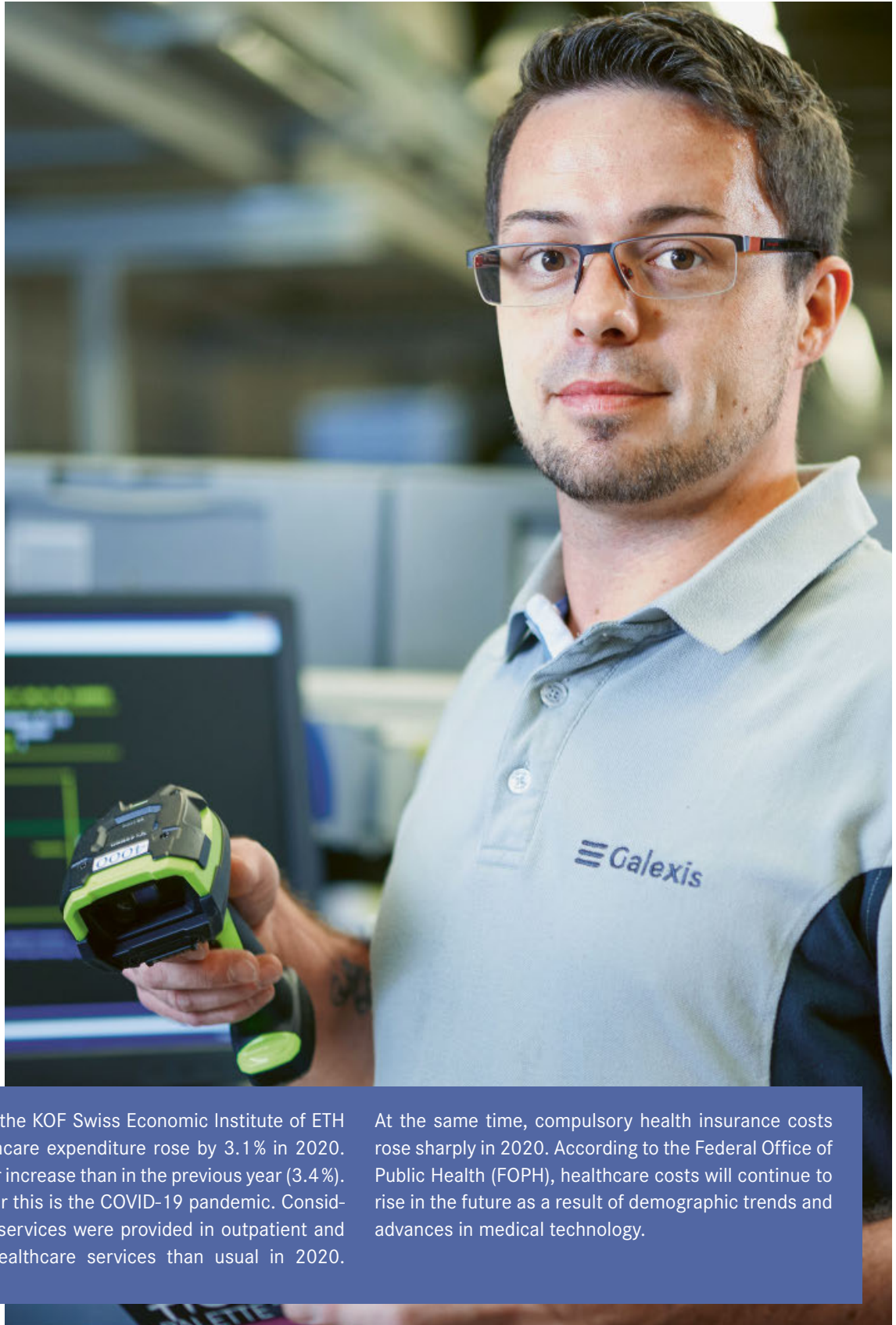
Logistics & IT: Efficiency gains and expansion of logistics and digital offerings

Alloga will focus on various projects to improve the efficiency of internal processes in 2021. Expansion of logistics capacity is also on the agenda, with a particular focus on the logistics required throughout Switzerland in relation to the coronavirus vaccine. The rollout of the ERP system will also be continued. In cooperation with Solarstadt Burgdorf, the photovoltaic system installed on Alloga’s roof will be extended.

Galexis will begin the realisation phase of replacing the ERP software in 2021. The strategy of supporting customers in establishing group practices and medical centres will be continued.

Certification of a first reference community by the federal government is expected in 2021, whereupon this reference community will be able to offer the first electronic patient records under federal legislation with Documedis®.

Political environment



According to the KOF Swiss Economic Institute of ETH Zurich, healthcare expenditure rose by 3.1% in 2020. This is a lower increase than in the previous year (3.4%). The reason for this is the COVID-19 pandemic. Considerably fewer services were provided in outpatient and supporting healthcare services than usual in 2020.

At the same time, compulsory health insurance costs rose sharply in 2020. According to the Federal Office of Public Health (FOPH), healthcare costs will continue to rise in the future as a result of demographic trends and advances in medical technology.

Initial package of measures to contain costs

The Federal Council has divided the healthcare cost containment programme into two packages of measures. These packages are based on recommendations from an international expert group, which approved the report to the Federal Council on “Cost containment measures to relieve the burden on compulsory basic health insurance” in August 2017.

The Federal Council is pursuing the following objectives with the initial package of measures (selection):

- Pilot projects (experimental article) and reimbursement of treatments abroad
- Better-structured tariff negotiations (national tariff organisation)
- Creation of flat-rate outpatient charges
- Reduction in the price of generics (reference price model)
- Improvement of invoice verification

Parliament began consultations on the first package of measures in 2020. During the consultations, the National Council as the first legislative chamber came out against the introduction of a reference price model for medications whose patents have expired. Conversely, it came out in favour of the proposal on flat-rate outpatient charges, which the Council of States was against at the first reading.

Both chambers were in favour of the introduction of an experimental article, which would make it possible to implement innovative, cost-containing pilot projects to ease the burden on premium payers. Parliament will continue consultations on the first package of measures in 2021.

Second package of cost-containment measures submitted for consultation

The second package of measures under the healthcare cost containment programme was submitted for consultation in autumn 2020. The dispatch and draft legislation should be approved and submitted to parliament in 2021. The package includes the following (selection):

Cost targets

The Federal Council sets a national cost target and also recommends that the cantons set cost targets for various outpatient and inpatient cost blocks. If the cost targets are not achieved, the tariff partners should lower the tariffs.

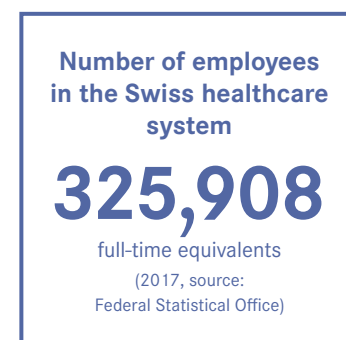
The question of whether patients would have to switch service providers when the budget for the current year is used up is a matter of debate.

Cost targets are being put forward to parliament as an indirect counterproposal to the federal popular initiative “For lower premiums – to curb healthcare costs”.

Initial point of consultation

When they have health problems, insured persons are required always to contact their family doctor as an initial point of consultation.

Family doctors advise the patients, treat them themselves or refer them to other service providers. Specialist doctors can be chosen freely, as long as the initial point of consultation has consented. The initial point of consultation will receive a flat fee from the insurer for each person.



The proposal has been criticised, as 70% of insured persons have already opted voluntarily for an alternative insurance model, such as the family doctor model. In contrast to the proposal of the Federal Council, the first point of contact in alternative insurance models can be chosen freely. This role can be taken on by telemedicine, a pharmacist or a family doctor.

The position of pharmacies as the first point of contact for healthcare advice is a key topic in the Galenica strategy (see also page 10). This also involves partnerships with health insurers for insurance models. Pharmacists have the specialist training and skills needed to provide a widely accessible, efficient and cost-effective initial consultation. For this reason, pharmacies are taking on a major role in the healthcare system and help keep rising costs in the health sector under control.

Patient care programmes

The Federal Council is proposing treatment programmes with the involvement of various services providers throughout the treatment process. It believes that these will lead to better results than unstructured individual measures.

The programmes may be under the supervision of doctors, but it is also possible that other service providers such as pharmacies could provide independent services.

Price models and reimbursements

Price models should ensure rapid, cost-effective access to innovative medicinal products. The Federal Council proposes that marketing authorisation holders should reimburse part of the costs to the insured person. They would benefit from prices no longer having to be published.

Two points have been criticised: The Federal Council would gain far-reaching powers as regards reimbursements. Calls are also being made for medicinal product prices under basic health insurance to be made public.

New LOA V tariff model submitted

Curafutura, the association of innovative health insurers, and pharmacy association Pharmasuisse submitted the new LOA V pharmacy tariff for service-based remuneration together with a proposal for a revised distribution share to the Federal Council in May 2020. Under the proposal, the distribution share and service-based remuneration would be approved as a package. For example, the salary cost of the pharmacy team to provide pharmaceutical services would be removed from the distribution share and instead now be billed via LOA V.

The aim is for the revised distribution share and LOA V to be implemented on 1 January 2022.

1,819
pharmacies
in Switzerland

(2021, source: Pharmasuisse)

281

hospitals with a total
of 580 locations

(2019, source:
Federal Statistical Office)

37,882
doctors
in Switzerland

(2019, source:
Swiss Medical Association)

Electronic patient record delayed

The launch of the electronic patient record has had to be delayed several times. The reason given for the delay by the Swiss Federal Audit Office (SFAO) was the complex certification process as well as the accreditation of the certification authorities. The FOPH has avoided giving a specific launch date, but it is now expected to be in May 2021.

New medical service providers that want to invoice services via basic health insurance must join a certified reference community. The voluntary nature of this for doctors with their own practices will therefore be removed for new service providers.

Mail-order business

The requirements concerning mail order of medicinal products are regulated at the federal level in the Therapeutic Products Act. Subsequent mailing or home delivery of medicinal products by bricks-and-mortar pharmacies, drugstores or private pharmacies belonging to medical practices are not covered by the term “mail-order pharmacy”. The Federal government will be examining the development of a future solution.

During the coronavirus crisis, the Association of Cantonal Pharmacies permitted pharmacies and drugstores to deliver non-prescription medications to the homes of individuals who were not regular customers following a specialist consultation by phone.

Periodic review of drug prices

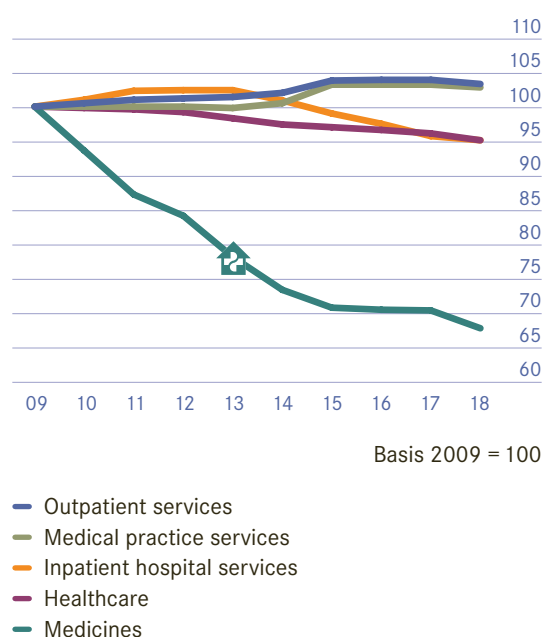
All medicines reimbursed by compulsory health insurance and that are consequently included in the specialties list (SL) are subject to a price review by the FOPH three years after their initial listing. The assessment is based on the criteria of efficacy, suitability and cost-effectiveness and, for several years now, an international price comparison (IPC) and a therapeutic cross-comparison (TCC). Under the three-year review, the Federal Office of Public Health (FOPH) reduced the prices of 257 originator products by an average of 16.3% in 2019, which corresponds to savings of around CHF 120 million. The FOPH completed around 55% of its review for 2020 and reduced the prices of more than 300 medicinal products by an average of 11.0%. Savings of at least CHF 60 million are expected as a result. The review of the remaining medicinal products with further expected savings should be completed by 1 February 2021.

Outlook

The main objective of both packages of measures is to contain costs. There is a risk here of losing focus on efficient service provision, and of the savings leading to cutbacks and rationing. It is also important with all measures to prevent inadequate care and over- and underprovision of care.

In the area of medicinal products, differential pricing for low-priced and innovative high-priced medications should be examined. The price reduction rounds should not result in low-priced medications disappearing from the market and no new inexpensive medications being approved.

Price index medicines and healthcare services



Source: Federal Statistical Office, Swiss consumer price index, IQVIA, conversion basis 2009 Pharmasuisse

Fast, competent solutions for patients



Since the start of 2019, pharmacies have been able to dispense certain prescription medications over the counter without a doctor's prescription, subject to certain conditions. For many patients, this is a fast, safe and straightforward solution when they have acute symp-

toms. In this way, the Galenica pharmacies are making a significant contribution to the safety and health of patients. Pharmacists are increasingly supported by algorithms that have been specially developed for this purpose.

A patient has a runny, puffy nose, watery eyes and constant itching and sneezing. It's immediately clear to him that the start of spring has brought with it the onset of the pollen season. He needs the right medication to relieve his symptoms as soon as possible. When he gets to the Amavita pharmacy, the pharmacist first asks him about his symptoms and clarifies possible risk factors such as severe breathing difficulties. During the focused consultation, she is supported by the Documedis® Primary Care Algorithms module from HCI Solutions. The pharmacist enters all the patient's answers and information in this system. Although he does not have any severe breathing difficulties, he is having trouble sleeping and feels restricted in his day-to-day activities due to his symptoms. The pharmacist rules out an emergency and asks the patient to come to the consultation room for a more in-depth assessment. Here, the patient confirms that he has had the same symptoms every spring for years, and that the doctor has always prescribed medication. Based on what the patient says, the pharmacist concludes that the patient has seasonal allergic rhinitis, otherwise known as hay fever, and due to the severity of the symptoms, that he needs a prescription allergy medication. She rules out other allergies with similar symptoms such as dust mite allergy due to the seasonal nature of the symptoms. The Documedis® module also recommends antihistamine treatment based on the patient information entered. The pharmacist explains to the patient how to take the medication and dispenses it to him.

Improved access to therapeutic products and medical services

Since the start of 2019, pharmacies in Switzerland have been able to dispense certain prescription medications over the counter without a doctor's prescription, subject to certain conditions. For patients, this means fast, safe and straightforward access to therapeutic products and medical services.

Demographic change in Switzerland is posing significant challenges for healthcare. Growing life expectancy is increasing demand for health services, while at the same time, rates of chronic and lifestyle diseases are rising among the population. To ensure continuing access for all to high-quality basic healthcare in the future, new supply models and collaboration between all service providers are needed. Basic healthcare covers all services which, from experience, are used by a majority of the population. Pharmacies play a key role here.

In view of this, the ordinary revision of the Therapeutic Products Act (TPA) came into force on 1 January 2019. The new TPA has resulted in certain drugs being reclassified within the different dispensing categories, among other things. Certain prescription medications can now be dispensed over the counter by a pharmacist in justified cases without a doctor's prescription for indications defined in Annex 2 of the Ordinance on Medicinal Products (VAM). However, this must be documented (for further information, see infobox on Dispensing categories on page 39).

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THE PHARMACY AS THE FIRST POINT OF CONTACT IS NOT ONLY PRACTICAL FOR PATIENTS; IT ALSO RELIEVES THE BURDEN ON THE HEALTHCARE SYSTEM.

Improved basic healthcare

“This change strengthens the role of pharmacists in the healthcare system. It means additional skills and duties for our pharmacists, but also greater responsibility,” explains Carine de Mesmaeker, Head of Health Insurers and Cooperation at Galenicare. The profession of pharmacist has changed significantly in recent years: from producer and seller of therapeutic products to advisor and provider of additional services. “As a pharmacist, these additional skills give me the opportunity to offer customers primary care directly in the pharmacy if the treating physician is not available or the patient doesn’t want to go to the emergency department,” says Nicole Jonin, Managing Pharmacist at Amavita Domdidier. The pharmacy as the first point of contact is not only practical for patients; it also relieves the burden on the healthcare system. Minor accidents no longer have to be treated by a doctor or even at the emergency department, but can be taken care of in the pharmacy.

Documedis® Primary Care Algorithms (PCA.CE)

The Documedis® *Primary Care Algorithms* (PCA.CE) module comprises a set of algorithms for frequent ailments such as allergic rhinitis, irritable stomach, reflux disorders and urinary tract infection. Documedis PCA.CE has been approved by Swissmedic, the Swiss Agency for Therapeutic Products, as a Class I medical device according to Art. 6 of the Medical Devices Ordinance (MedDO). This means that the processes developed by HCI Solutions are certified. Pharmacists are guided through the consultation with the help of algorithms and obtain a recommendation on how to proceed, including suggested medications. They can also document the consultation at the same time. The patient information entered is not saved in Documedis®. The pharmacist however always decides on and is responsible for dispensing the medicinal product and its dosage. The algorithms are only an aid.



Thanks to a dense network of pharmacies, medication and advisory services are easily accessible for the entire Swiss population – without an appointment and long waiting times. According to Nicole Jonin, customers appreciate the fast, competent advice without having to book an appointment, and are also prepared to pay for additional advisory services. Patients have the choice of booking a doctor’s appointment or going to the pharmacy. “This promotes patients’ health literacy and autonomy,” adds Carine de Mesmaeker, highlighting the increased patient-centric focus of healthcare. The key is to understand patient needs and enable patients to handle or correctly manage their own health.

“We have implemented various measures at Galenica in recent years to empower our pharmacies and support them in this new role. These include training, further education, process adjustments in the quality management system as well as developing digital tools such as the Documedis® Primary Care Algorithms module,” explains Andrea Brügger, Health Insurer and Cooperation Specialist at Galenicare.

Quality is the top priority

Easily accessible basic healthcare must ensure equally high quality with a focus on the safety and health of patients. Training and further education for specialists therefore play a key role. “We offer pharmacies web-based training to learn the new processes, skills and how to use the new Documedis® module. All pharmacists and pharmacy assistants are required to complete this training,” explains Andrea Brügger. Pharmacists can also obtain the Certificate of Competence in Medical History in Basic Healthcare Provision to strengthen their new skills. A medical history involves systematic questioning of a patient to record their current symptoms and previous conditions. This further training enables pharmacists to carry out competent, targeted patient consultations at the pharmacy, quickly identify emergency situations and make an initial assessment based on frequent symptoms. In 2019 and 2020, 60 Galenica pharmacists completed the training. A further 200 pharmacists are currently taking the training.

Pharmacists are required to document dispensing of prescription medications without a doctor’s prescription. “As part of our quality management, we have introduced two new processes and developed hard-copy forms for all therapeutic products dispensing that requires documentation,” explains Christa Strahm, Quality Specialist at Galenicare. “These include all legally required details on the health of the patient that have to be documented by the pharmacist, as well as important information on the use of the therapeutic product. The forms support pharmacists in their work and ensure high quality and safety for our patients.” HCI Solutions has also developed additional digital applications as part of Documedis® for the most common illnesses. Pharmacists decide themselves whether they should document these types of consultation digitally or on paper.



THE FOCUS IS ON
THE NEEDS OF PATIENTS.

Increased patient safety thanks to algorithms

“The new Documedis® module guides pharmacists through the consultation using targeted questions and gives recommendations based on the defined algorithms and patient information entered,” explains Regina Andermatten, Head of Medical Data at HCI Solutions. The recommendations support pharmacists in their decisions. Regina Andermatten adds that this ensures the required documentation of category B prescription medications. Algorithms are – in general terms – approaches programmed into software to solve a frequent problem. Using the algorithms in the Documedis® module, the system works out a solution, in this case a treatment or drug recommendation, based on the answers entered during the consultation. These types of intelligent systems have considerable potential to improve healthcare quality and efficiency by supporting diagnoses and treatment decisions. (For further information, see box on Algorithms.)

“The support with medical histories and treatment decisions we get from the algorithms is very worthwhile for us as pharmacists. They’re also easy to use,” says pharmacist Nicole Jonin. HCI Solutions has since also developed algorithms for various non-prescription medicinal products for common ailments that pharmacists wanted support with. One example is worrisome tick bites.

A total of 11 algorithms were rolled out in 2019 and 2020, including for conditions such as allergic rhinitis, conjunctivitis and urinary tract infections. Documedis PCA.CE is a Class I medical device. “HCI Solutions develops the algorithms based on ISO 9001-certified data content,” explains Regina Andermatten. More algorithms are already planned for 2021, including for lumbalgia, earache and sinusitis.

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INTELLIGENT SYSTEMS
HAVE CONSIDERABLE
POTENTIAL TO IMPROVE
HEALTHCARE QUALITY
AND EFFICIENCY.

Changes to the dispensing categories of medicinal products in Switzerland

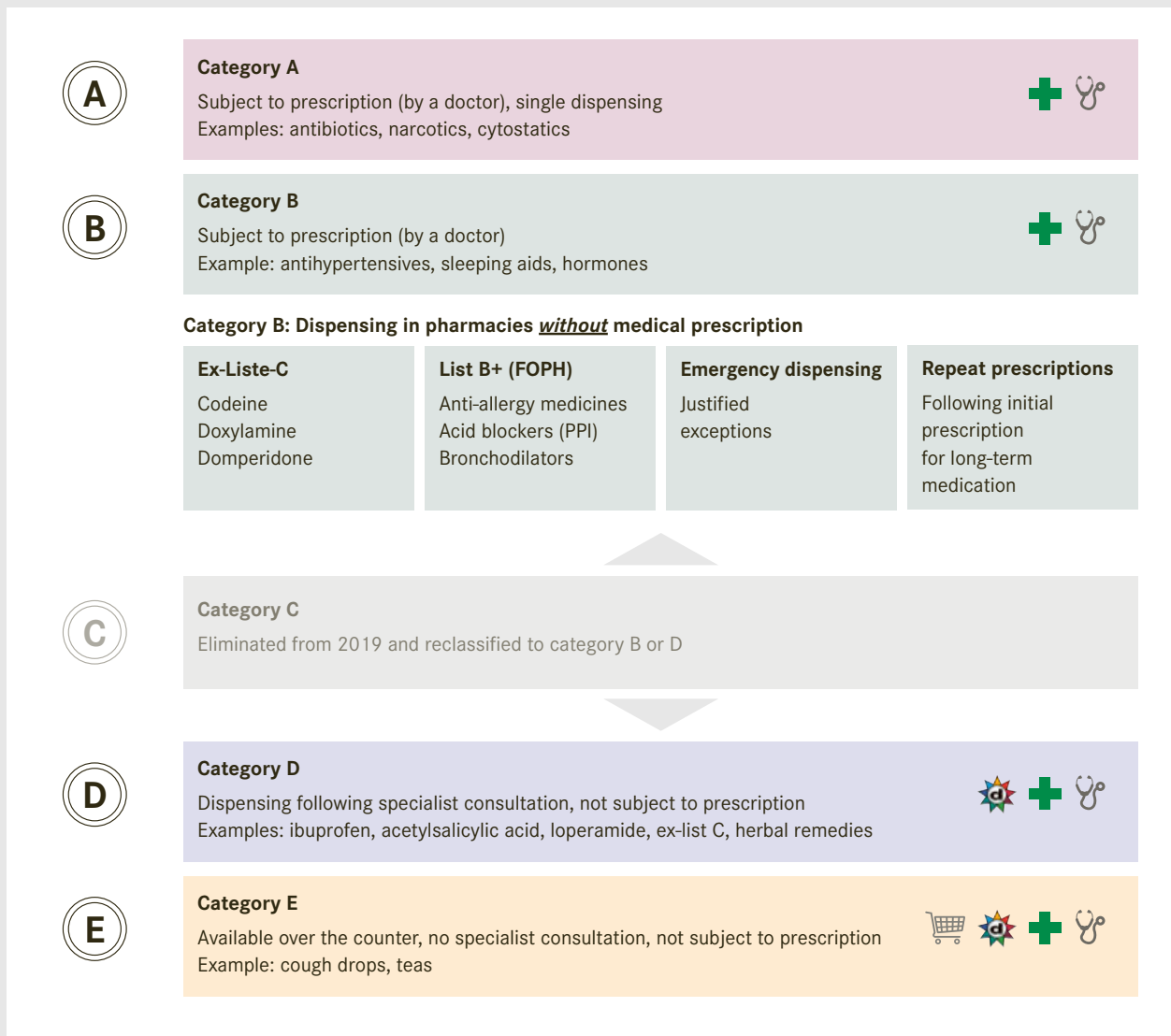
Dispensing of licensed medicinal products is strictly regulated by law in Switzerland. To ensure patient safety, medicinal products are classified into different dispensing categories. Depending on the category, they can be dispensed in pharmacies, drugstores or by retailers. A basic distinction is made between prescription medications, non-prescription medications dispensed after specialist advice and over-the-counter medications.

Until the end of 2018, medications in dispensing categories A and B were mainly dispensed with a doctor's prescription, while those in category C were dispensed after specialist advice under the control of a pharmacist. As part of the revision of the Therapeutic Products Act, the government decided to eliminate the previous dispensing category C and reclassify the medicinal products concerned to category B or D.

Medicinal products with an increased risk of abuse or which could lead to severe interactions with other medicinal products have been reclassified to dispensing category B.

The Federal Council also classified in category B medicinal products for treatment of common illnesses that a survey of pharmacists indicated should be allowed to be dispensed without a doctor's prescription.

Category B medications must be dispensed personally by a pharmacist and documented.



Human Resources



The 2020 reporting year confronted all Business sectors and in particular all employees with major challenges. Nevertheless, the employees of the Galenica Group

rallied to face these challenges together and – with a great deal of passion and motivation – made the best out of the situation.

Overcoming challenges together

The 2020 reporting year was shaped by the coronavirus pandemic in the area of human resources as well. Many of the activities planned for 2020 had to be cancelled, held “remotely” (i.e. virtually) or postponed, such as seminars on the new human resources offering MOVE. Protection concepts had to be developed from the ground up and adapted to the current situation, especially for employees in the pharmacies and logistics. The pandemic also called for innovative solutions and increased flexibility on the part of employees and employers in the area of education and training.

The number of Galenica employees continued to grow in the year under review, mainly due to the expansion activities in the Health & Beauty segment. As of the end of 2020, Galenica employed 7,205 people. Given the increasing number of employees, efficiency is a key topic when it comes to HR processes. Following the harmonisation of the various HR and working time regulations, the HR departments devoted their efforts in 2020 to process innovation and the digitisation of the different HR processes. Alongside the digital application processes that have already been introduced and the electronically supported reviews and appraisals, the focus is now on rolling out the electronic personnel file and tapping into new channels and opportunities to recruit specialists.

Training and development

Employee development

Productive cooperation requires the regular exchange of knowledge between employees. Galenica has developed various instruments to encourage this dialogue. The existing personnel development and training offering was already revised in 2019. While the previous offering concentrated primarily on new managers, the focus of the new MOVE concept has been expanded to Group-wide continuous personnel development. In 2020, MOVE was rolled out in a scaled-back form as part of pilot events. Due to COVID-19, many pilot events had to be postponed or even cancelled completely. Wherever possible, the seminars were held “remotely” (i.e. virtually).

E-learning and events

Group-wide e-learning modules were rolled out in 2020 too, allowing all employees with a business e-mail account to access training on “Information security” and “Antitrust law”. Advanced modules on the topic of “Information security” are already planned for 2021.

New employees were again invited to an induction day (MOVE 1) in 2020 to give them a stronger sense of the culture, development and strategies of the Galenica Group and its companies. Given the special situation, these events could only be held in the summer on a reduced scale. 88 employees took part in the induction days in the year under review.

Number
of employees

7,205

5,308

Women
(74%)

1,897

Men
(26%)

Number of employees



● Galenica Ltd.	40
● Retail	5,199
● Products & Brands	183
● Services	1,783

Investing in employees

The development of its employees is a top priority for Galenica, with special emphasis placed on structured training and development. CHF 3.3 million was invested in further training in 2020 (previous year: CHF 4.0 million).

Training in pharmacies

In addition to the offerings at Group level, the Retail Business sector in particular offers pharmacy employees specific further training modules, such as the CAS course “Management for Pharmacists” in cooperation with the University of Basel. 20 employees took part in the CAS course in 2020. The CAS course was revised in the year under review with respect to more practical application.

The Retail Business sector also covers the costs of the further training as “Specialist Pharmacist in Retail Pharmacy” (FPH in Retail Pharmacy) for its pharmacists. Due to the revision of the Federal Act on Medical Professions (MedBG), certified pharmacists have to complete this federal training course if they want to manage a pharmacy. Galenicare is committed to ensuring that as many pharmacists as possible from all formats complete this training. At the end of 2020, 130 employees were in the programme, which they will complete in 2021.

In light of the revision of MedBG, Galenicare has also developed the FPH certificate of competence in patient history in primary care as further training together with an external provider. This further training strengthens the skills of pharmacists in the area of primary care and qualifies them to diagnose minor ailments and dispense an appropriate prescription drug. In the year under review, 160 pharmacists had already obtained this certificate and 188 were completing training. However, their graduation will be delayed slightly since it was not possible to hold the required training courses due to the lockdown in spring 2020 and the restrictions in the second half of the year.

As of the end of 2020, 466 employees were in possession of the FPH certificate of competence in vaccinations, with another 83 in training.

In addition, the Retail Business sector offered a range of other educational programmes and training courses for its employees, including initial training attended by 50 people to prepare for the impending introduction of LOA V (service-based remuneration for pharmacists).

To strengthen the pharmacy offering in basic medical care, the focus was additionally placed on broad-based training on algorithms and software applications in primary care. The e-learning modules provided for this purpose were completed by 4,500 employees.

As of the end of 2020, an additional 200 pharmacists were receiving training for the rapid antigen tests in pharmacies approved by the government.



THE DEVELOPMENT OF
ITS EMPLOYEES IS A TOP
PRIORITY FOR GALENICA.

Developing talented individuals

The two-year Talent Mentoring Programme continues to be very positively received. Participants (mentees) are given a platform through which to exchange views and experience across the Business sectors. In parallel, knowledge and skills of experienced managers are made available to help develop the next generation of talented individuals, with each mentee being assigned a personal mentor, who supports them on their personal development journey.

Attracting employees

All Business sectors again relied increasingly on social media, particularly on Xing and LinkedIn, to recruit new employees. Recruitment for pharmacies continues to encompass neighbouring countries; however, this has become more complex due to the revised Federal Act on Medical Professions (MedBG) and the requirement for pharmacists to have an FPH in Retail Pharmacy. Galenicare further strengthened its presence in Swiss universities to establish direct contact with pharmacy students and make them enthusiastic about a career as a pharmacist. The aim is to reach students while they are still studying and to encourage them to pursue a career up to manager of a Galenica Group pharmacy.

The recruitment of specialist staff continues to be a challenge in all Business sectors, which is why the Galenica Group is continually modernising its recruitment activities.

Training apprentices

Galenica is putting a lot of effort into training future specialists: in 2020, the Group companies trained 808 apprentices – 723 young women and 85 young men. Of these, 274 completed their apprenticeships, many with flying colours. Having qualified, 113 apprentices have since become Group employees. In 2020, due to the closure of vocational schools owing to COVID-19, only the practical component of the final apprenticeship exams went ahead.

Various communication platforms

Personal and direct exchanges between all employees from all language regions of Switzerland and a total of 81 nations are at the heart of Galenica's communication efforts. The various information events and management meetings within the Business sectors and companies are a good way of ensuring this. Information is provided on current topics in all areas of the company at events and, from the start of 2021, via the newly introduced G-Net (see page 44).

Additionally, a printed version of the employee magazine Spot is sent out twice a year to the homes of all current and retired employees, opening up the Galenica world to their partners and family members.

Headcount trends

	Number of employees		of which part-time employees <90%		Full-time equivalents	
	2020	2019	2020	2019	2020	2019
Galenica Ltd.	40	39	13	10	36	34
Retail	5,199	5,134	2,529	2,433	3,865	3,855
Products & Brands	183	140	66	56	160	120
Services	1,783	1,758	431	398	1,477	1,440
Total	7,205	7,071	3,039	2,897	5,538	5,449
Total employees in %			42.2%	41.0%		

652
Managerial employees

52%
Women

48%
Men

Number of managerial employees

	Total number of managerial employees		of which women		of which men	
	2020	2019	2020	2019	2020	2019
Galenica Ltd.	21	25	6	11	15	14
Retail	399	394	243	238	156	156
Products & Brands	53	52	27	27	26	25
Services	179	170	61	59	118	111
Total	652	641	337	335	315	306
Total employees in %	9.0%	9.1%	4.7%	4.7%	4.4%	4.3%



Greater efficiency by digitising HR processes

Following the harmonisation of the various HR regulations as of 1 January 2020, the next transformation in the human resources area kicked off. With a view to better exploiting Group-wide synergies and improving the efficiency anchored in the business strategy, HR processes are now also being digitised and harmonised throughout the Group wherever possible.

Since 2020, the Retail Business sector already digitised its expenses process, allowing employees to scan their receipts directly using an app and have them approved electronically by their line manager. The expenses are automatically reimbursed with the next month's salary. This digitised process makes collecting paper receipts and filling out physical forms a thing of the past. Medical certificates can also now be submitted electronically. They are saved on a shared database, meaning they no longer have to be filed manually.

Since 2019, all companies in the Galenica Group have also had a digital application management system at their disposal, which enables the entire application process to be handled paperlessly. This not only saves time and resources, but also makes things much more streamlined, transparent and – above all – simpler.

Since 2020, process innovation and the digitisation of the annual HR processes have been on the agenda. Going forward, target agreements with employees and annual review meetings and performance appraisals will no longer be documented and signed physically, but digitally.

Another project in the digitisation pipeline is the electronic personnel file, or “e-Dossier”.

Digital communication platform for all employees

In addition to enhancing efficiency, digitisation opens the door to new possibilities of communication and interaction among employees of the Galenica Group. One of the greatest challenges has been to create a network between employees of the various companies – both at office workstations and in the pharmacies, distribution or warehouses – in order to foster a communal dialogue, provide information and improve knowledge sharing. A digital solution for this was designed in the form of the new digital communication platform G-Net, which went online at the start of 2021. From now on, all employees of the Galenica Group can access the new Galenica intranet using a desktop computer, laptop or directly on a mobile device such as a smartphone. This also includes all employees working in a pharmacy or warehouse. G-Net provides them with information on what's going on with the business and the opportunity to interact with other colleagues in forums and share their specialist knowledge. Office and non-office workers are networked with one another. In addition, the central functions can in future reach all employees quickly and simply via a digital channel.

Employee motivation

The “Comité de Réflexion”

Galenica encourages the exchange of views between employees in all Galenica Group companies and corporate management in an internal think tank, the “Comité de Réflexion”. The more than 20 employees from all country and language regions help to firmly anchor and further shape the corporate culture. The committee meets on a regular basis to discuss current issues. In 2020, one virtual meeting was held, owing to coronavirus.

Annual motto for 2020/2021: Trust, change, connect!

The annual motto for 2020 and 2021 is “Trust, change, connect!”. The three invitations it contains are a perfect fit with the challenging, changing environment of the Galenica Group. The slogan expands on the key value “We build trust” and encourages employees to shape the future with trust and deal positively with and actively support changes in their day-to-day working life. However, the main activities surrounding the annual motto were postponed until 2021 due to coronavirus.

“Opinio” employee survey

As of 2020, the “Opinio” employee survey will no longer be conducted just once every three years but annually and with a reduced set of questions. Going forward the survey will also only be conducted digitally. The online survey focuses on employee motivation and satisfaction. Increasing the frequency to once a year means that it will be possible to assess the general satisfaction and motivation of employees at more frequent intervals and thus to respond more quickly and in a more targeted manner to any needs identified.

A total of 4,379 employees took part in the survey. This corresponds to a response rate of 63%, virtually unchanged from the previous survey in 2017. Employee motivation is good, with a group-wide score of 72 out of a possible 100 points. Particular high scores were given to satisfaction with work (76 out of 100 points), confidence in line management (78 out of 100 points) and interest in the company’s future (80 out of 100 points).

Critical scores were given to areas such as execution, engagement and appreciation. The Executive Committee is discussing these less positively rated areas in depth, and will take measures to further boost employee satisfaction and motivation for the group as a whole.



THE ANNUAL MOTTO FITS PERFECTLY WITH THE CHALLENGING, CHANGING ENVIRONMENT.

Headcount development 2016–2020



Work-life balance

Employees today require flexible working hour arrangements, and the Galenica Group offers many opportunities to facilitate this. The Home Office Regulation introduced at the beginning of 2020 was already made much more flexible in spring and autumn 2020 through application wherever possible in response to the recommendation by the Federal Council. The Home Office Regulation will be reviewed in 2021 on the basis of prevailing employee needs. Employees also appreciate the opportunity to work part time (42% of employees work part time; see page 43).

Health and safety

Health

The health of employees has always been extremely important to Galenica. In the year under review, however, the safety of employees took on a whole new meaning. The specifications laid down by the Federal Office of Public Health (FOPH) to protect employees were implemented within a very short amount of time and subsequently adapted on an ongoing basis, particularly in pharmacies and logistics. The protective measures taken were regularly reviewed by the State Secretariat for Economic Affairs (SECO), the Swiss National Accident Insurance Fund (SUVA) and the responsible cantonal authorities and deemed to be good. To protect employees in administrative roles, the Home Office Regulation was made more flexible and implemented wherever possible.

Regular information events and training courses were once again held as often as possible in 2020, for example with Suva. The Galenica Group now offers all employees a flu shot. Another new development is the collaboration between the Galenica Group and the organisation Carelink, which offers emergency psychological support in crisis situations, for example following a robbery at a pharmacy.

Illnesses

Employees were once again able to take advantage of Galenica Case Management in 2020. Support is provided to employees on sick leave, as well as those at risk of having to take sick leave. Following illness or an accident, the aim is to facilitate a rapid return to work. The number of illnesses increased compared to the previous year to 490.

Accidents

Based on data from Suva and private insurers, Galenica's accident statistics show a decrease in occupational accidents. In 2020, 172 accidents were reported.

Preventive case management with Helsana and collaboration with Movis and Pro-fawo were continued throughout the 2020 financial year to improve safety at work. A regular analysis of absence rates in the Retail and Services Business sectors was also carried out, and measures were drawn up based on the findings.

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THE SPECIFICATIONS LAID DOWN BY THE FOPH TO PROTECT EMPLOYEES WERE IMPLEMENTED WITHIN A VERY SHORT AMOUNT OF TIME AND SUBSEQUENTLY ADAPTED ON AN ONGOING BASIS.

Employee profit-sharing programme

All employees were once again paid a profit-sharing bonus in 2020. The bonus is calculated based on the Group result compared with the previous year.

Every year, employees of Galenica living in Switzerland have the opportunity to purchase between 20 and 80 Galenica shares at a preferential price, regardless of their employment level. In 2020, 18.5% of employees participated in this programme (previous year: 18.7%). These shares are blocked for three years after the date of purchase.

The profit-sharing bonus forms part of the annual bonus for members of Senior Management (MDI) and members of Management (MKA). This is dependent on attaining quantitative and qualitative targets. The share-based remuneration programme LTI (see page 74 in the Remuneration report) for members of the Corporate Executive Committee and certain members of Senior Management focuses on long-term performance; remuneration is withheld for a period of three years.

Employee benefit plans

At the end of 2019, the final steps were taken towards the division of the Galenica Pension Fund. The new Galenica Pension Fund has been up and running since 1 January 2020. Due to increasing life expectancy and declining interest income, the conversion and contribution rates will be updated with effect from 1 January 2022.

Galenica Pension Fund

The Galenica Pension Fund covers the risks and economic consequences of old age, disability and death according to the specifications of the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG). Like the previous foundations, it is legally, organisationally and financially independent of Galenica.

Defined contribution principle

The pension fund is managed according to the defined contribution principle and is generally funded by contributions from the employee and the employer. The contributions made by employee and employer are accrued into individual savings capital for each employee. The savings capital is usually paid out as a lump sum or converted into an annuity on reaching statutory retirement age. In cases of termination of employment, the savings are transferred as vested benefits.

Pension fund reporting

The financial statements of the pension fund provide a true and fair view of the financial position, the results of operations and cash flow. The accounting and valuation principles of the Swiss pension schemes correspond to the Ordinance on Occupational Retirement, Survivors' and Disability Pension Plans (BVV2) and the Swiss GAAP FER accounting and reporting recommendations. Assets and liabilities are recognised on the basis of the financial situation of the pension fund as of the balance sheet date only.

The five key values of Galenica

We participate with **passion** and act as **entrepreneurs**.

We build **trust** through credibility and competence.

We show **respect** and know that **together**, we are **stronger**.

Reporting in the Consolidated financial statements, defined benefit principle

The recording and assessment of benefit obligations in the Consolidated financial statements of the Galenica Group is in accordance with International Financial Reporting Standards (IFRS). The pension scheme is classified here as a defined benefit plan. In addition to recording short-term benefits to employees, benefit obligations for this pension plan following the end of employment are also calculated by actuaries. These actuarial calculations generally result in a lower coverage ratio (ratio of pension fund assets to liabilities). However, these results have no impact on the benefits the pension fund pays. Further information on reporting and the current coverage ratio can be found in the notes to the Consolidated financial statements (see page 126).

Works committee

Representatives of the Galenica Corporate Executive Committee and HR management from all Business sectors met for one virtual meeting with the works committee, which represents all employees of the Galenica Group and which gathers all the staff committee presidents, to discuss issues that went beyond matters addressed by staff committees in the individual Business sectors.

The staff committees generally meet several times per year and are also informed about the topics and resolutions of the works committee meetings.

Social responsibility

Social commitment

As a leading player in the Swiss healthcare market, Galenica is committed at all levels to the welfare of patients. The company is also committed to supporting various social projects and charitable organisations.

I care for you. Since 2018, the Galenica Group has been the main partner of the “I care for you” crowdfunding platform. Galenica can thus contribute, through a focused commitment, to ensuring that numerous different projects have a facility through which to raise funds. The Swiss-based foundation was founded in 2015 and is the first Swiss crowdfunding platform for purely social and humanitarian projects. The platform enables non-profit organisations and individuals to raise funds online for a specific project in a simple, inexpensive way. Donors can see exactly how their donations are used. Each project is checked carefully by the foundation in advance for reliability and integrity. The project initiators receive professional advice and support during implementation. In addition, the foundation requires evidence that successful projects have actually been implemented.

The Galenica Group used its Christmas and New Year card for 2020 to support the foundation “Pestalozzi Children’s Foundation”. CHF 1.00 per card was donated to the foundation.

In addition to this commitment, Galenica selectively supports other projects in the healthcare sector. Furthermore, Galenica Group companies support a number of social projects. A few examples are listed below:

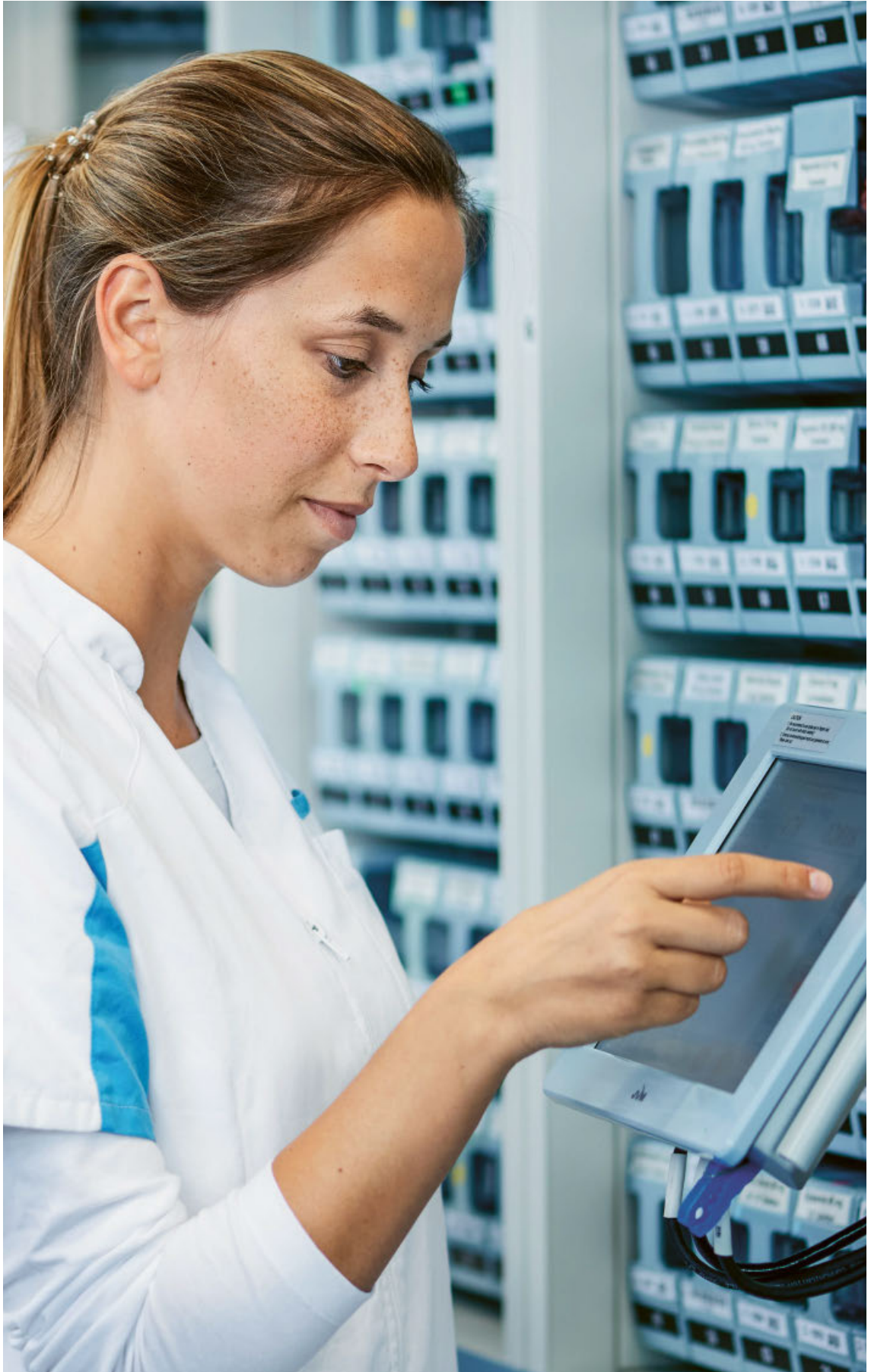
Gewa. The Gewa foundation for workplace integration is a social organisation that aims to integrate people with particular mental challenges into the workplace. The Alloga SC Box had initially been produced and maintained by Alloga employees – since 2012, this task has been performed by the Gewa foundation.

2 × Christmas. In December 2020, Galenicare employees took part in the “2 × Christmas” campaign of the Swiss Red Cross. They filled boxes with non-perishable foods and toiletries, which were then sorted and distributed to people in need and social institutions in Switzerland.

Computers for a good cause. Galexis and HCI Solutions provide IT equipment they no longer need to a good cause. Galexis has been donating its old computers to Bern-based aid organisation Bär und Leu since 2013. The association collects aid supplies for various humanitarian projects and distributes the computers to schools and a family centre in Ukraine. The computers that HCI Solutions no longer needs are used for development projects in Africa via the “Quorum” association – for example, in schools in Cameroon.

Winds of Hope. Aid organisation “Winds of Hope” set up by Dr. Bertrand Piccard supports children with noma, a severe bacterial infection that degrades the bones of the face and primarily affects infants. Throughout the year, Sun Store sells wallets and donates the proceeds to the organisation. The foundation uses these donations to train health workers in developing countries affected by this disease.

Casa Santa Elisabetta. Unione Farmaceutica Distribuzione (UFD) sold cards for International Women’s Day on 8 March 2020 and donated the proceeds to “Casa Santa Elisabetta” in Lugano, an association that supports women and mothers experiencing difficulties.



Corporate Governance



The Corporate Governance report outlines the structures, processes and regulations on which well-functioning corporate governance at Galenica is based. Galenica meets the requirements of Swiss law and those stated in the SIX Swiss Exchange Directive on Information relating to Corporate Governance (Directive Corporate Governance) and follows the recommendations of the

Swiss Code of Best Practice for Corporate Governance of Economiesuisse. The structure of this Corporate Governance report is based on the SIX Swiss Exchange Directive Corporate Governance. The remuneration and profit-sharing for top management are disclosed in a separate Remuneration report (starting on page 68).

Group structure and shareholders

Structure of the Group

Galenica Ltd. is headquartered at Untermattweg 8, 3027 Bern, Switzerland. It is a corporation under Swiss law and, as a holding company, owns all the companies in the Galenica Group directly or indirectly. Galenica Ltd. has been listed on the SIX Swiss Exchange since 7 April 2017 (ticker symbol: GALE). Shares in Group companies are not publicly traded.

The Group's structure and the consolidated subsidiaries and associates are shown in the Financial statements 2020 on page 141. The addresses of the main Group companies are listed on pages 156 and 157. The Articles of Association of Galenica Ltd., the Organisational Regulations as well as the charters of the committees of the Board of Directors can be accessed on the Galenica website (see related links on page 67).

Shareholders

On 31 December 2020, Galenica had 15,813 shareholders, six of which, according to documents submitted to Galenica Ltd. and the SIX Swiss Exchange, were major shareholders holding 3% or more of the voting rights in Galenica Ltd.:

- UBS Fund Management (Switzerland) Ltd., Basel, Switzerland, with 2,671,158 shares
- BlackRock, Inc., New York, USA, with 1,408,808 shares
- Alecta Pensionsförsäkring, Ömsesidigt, Stockholm, Sweden, with 2,000,000 shares
- Credit Suisse Funds Ltd., Zurich, Switzerland, with 1,626,752 shares
- Rudolf Maag, Binningen, Switzerland, with 1,500,000 shares
- Norges Bank (Central Bank of Norway), Oslo, Norway with 1,515,199 shares

No other shareholder disclosed exceeding the 3% threshold of shares.

The transactions disclosed to the Stock Exchange Disclosure Office pursuant to Art. 120 of the Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (FMIA) can be viewed on the Disclosure Office website of the SIX Swiss Exchange (see related links on page 67).

As of 31 December 2020, the pension fund of the Galenica Group was registered with 0.39%.

Cross shareholdings

Galenica Ltd. has no cross shareholdings in companies outside the Galenica Group.

Structure of the share capital

Share capital

On 31 December 2020, the fully paid share capital of Galenica amounted to CHF 5,000,000, divided into 50,000,000 shares with a nominal value of CHF 0.10 each. Galenica shares (securities no. 36 067 446, ISIN CH036 067 446 6) are listed on the SIX Swiss Exchange. As of 31 December 2020, 49,498,560 shares were outstanding (not including treasury shares). The market capitalisation amounted to CHF 2,920.4 million.

Authorised capital

According to Art. 3a of the Articles of Association, the Board of Directors is authorised to increase the share capital of CHF 5,000,000 by a maximum of CHF 500,000 at any time up to and including 2 May 2021 by issuing no more than 5,000,000 fully paid shares.

Conditional capital

According to Art. 3b of the Articles of Association, the share capital may be increased by a maximum of CHF 500,000 by exercising conversion rights or option rights. As of 31 December 2020, Galenica had no conditional capital.

Changes in the capital

Information about changes in the share capital, reserves and distributable profit can be found on page 152 of the Financial statements 2020.

Participation and dividend certificates

Galenica has no participation or dividend certificates.

Registration of shareholders

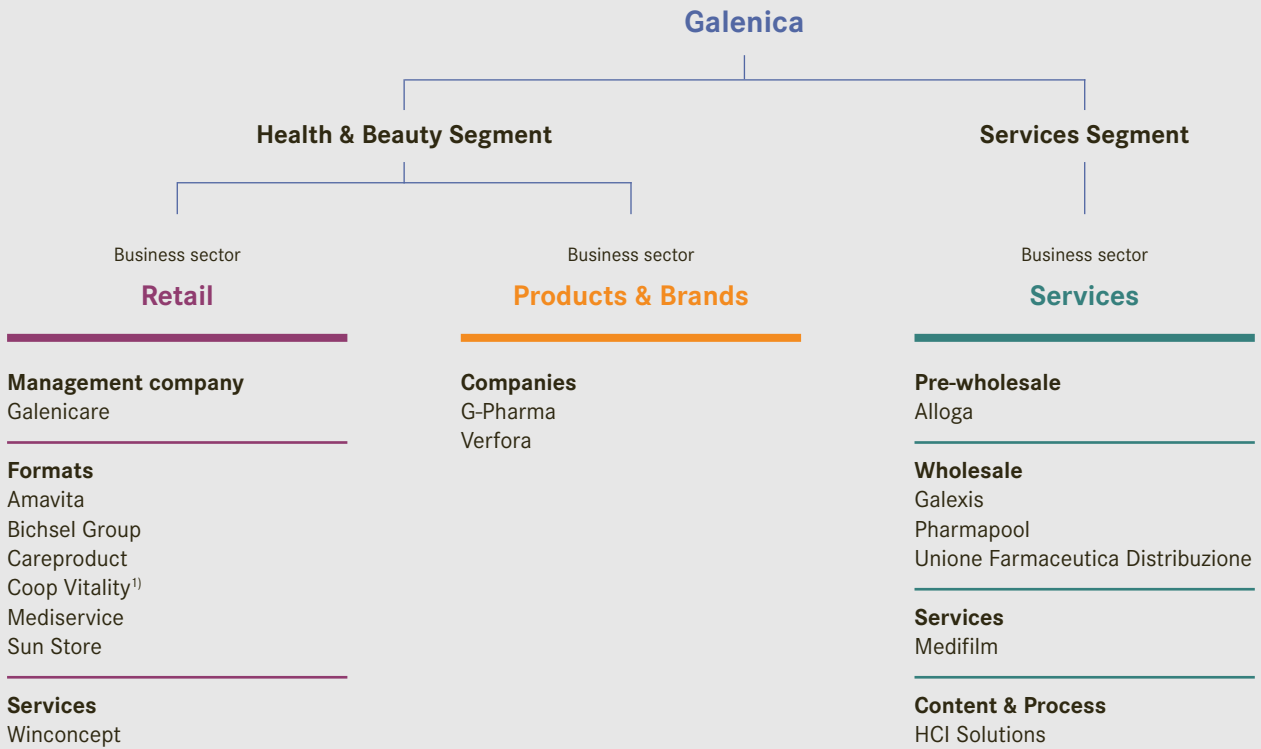
Buyers of shares are entered in the shareholders' register upon request as shareholders with voting rights if they declare explicitly that they have acquired the shares in their own name and for their own account.

Registration and voting rights

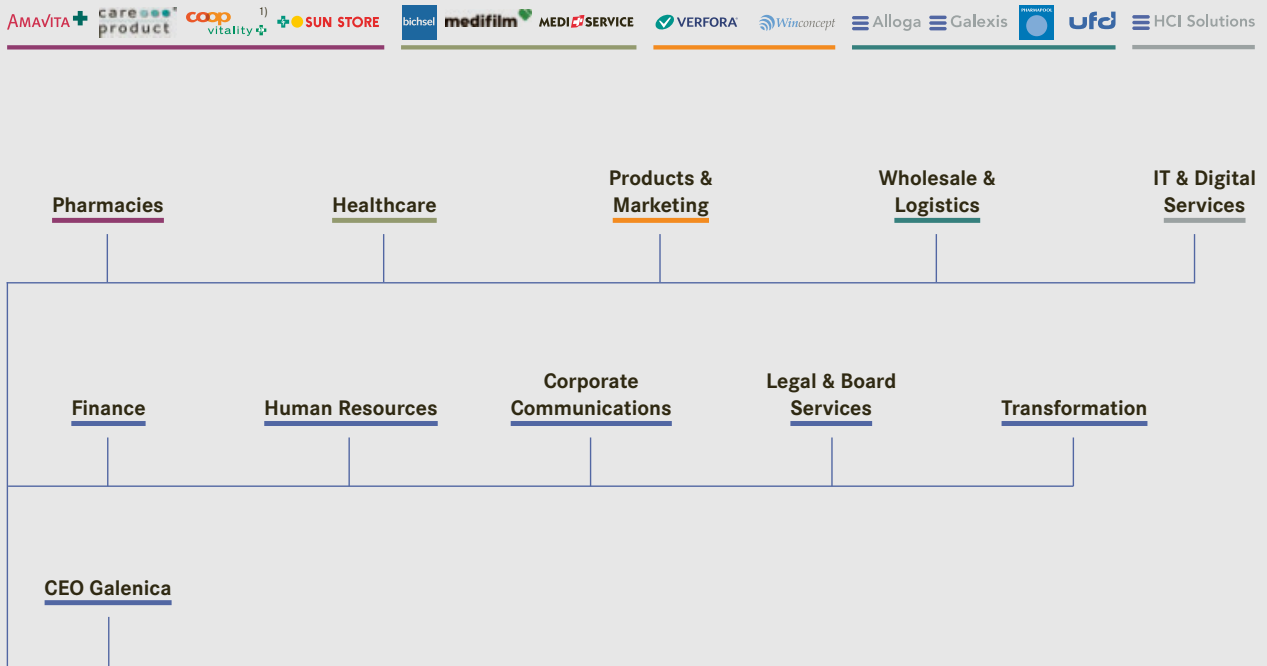
Each registered share entitles the holder to one vote at the Annual General Meeting. Pursuant to Art. 13 of the Articles of Association, voting rights at Galenica are restricted to 5% of the share capital.

Legal entities and partnerships, other groups of persons or joint owners who are interrelated through capital ownership, voting rights, common management or are otherwise linked, as well as individuals or legal entities or partnerships that act in concert to circumvent this provision, are treated as one single entity.

Structure of the Galenica Group until 31.12.2020



Structure of the Galenica Group as of 1.1.2021



¹⁾ Joint venture with Coop

The Board of Directors may refuse registration in the shareholders' register if purchasers do not declare explicitly, upon request, that they have acquired the shares in their own name and for their own account. The Board of Directors is also authorised to cancel any entries in the shareholders' register that came about on the basis of incorrect information or to change these into entries without voting rights, and vice versa.

The Board of Directors may approve exceptions to the voting rights restrictions in order to permit the participation of strategic partners in Galenica Ltd., in an amount not exceeding 20% of the share capital. The Board did not exercise this right in the year under review.

Registration of nominees

A nominee may be registered with voting rights up to a limit of 2% of the share capital entered in the commercial register. Shares in excess of this limit can only be registered if the nominee in question discloses the name, address and number of shares of the person for whose account the nominee holds 0.5% or more of the share capital entered in the commercial register. Galenica has signed an agreement of this nature with three nominees.

Convertible bonds and options

Galenica has no outstanding convertible bonds, nor has it issued any traded options.

The Board of Directors

The Board of Directors of Galenica Ltd. is responsible for the overall management and ultimate supervision of the Group. It determines the strategic goals, the general ways and means to achieve them while harmonising strategy, risks and financial resources, and issues instructions and oversees the managers responsible for conducting the company's businesses. The Board of Directors pursues the aim of increasing enterprise value on a sustainable basis and ensures a balanced relationship between management and control (corporate governance). It decides on the Group's medium-term planning, budget and annual objectives. The values and essential framework of the company's activities are also determined by the Board of Directors. For the Board of Directors, sustainability is of central importance (on sustainability, see also the feature starting on page 34). With regard to personnel, it is responsible for the selection and deselection of the members of the committees, the CEO and the members of the Corporate Executive Committee as well as the organisation of the remuneration system.

The specific duties of the Board of Directors of Galenica Ltd. are based on the Code of Obligations (in particular Art. 716a CO), the company's Articles of Association and its Organisational Regulations (see related links on page 67). Pursuant to the Articles of Association, the Board of Directors consists of five to nine members. It consisted of seven members as of the end of 2020. Pascale Bruderer was elected to the Board of Directors at the Annual General Meeting 2020. Fritz Hirsbrunner did not stand for re-election as a member of the Board of Directors at the General Meeting on 19 May 2020.

Continued on page 57 ►

Committees of the Board of Directors and their chairs and members 2020

	Name	Member since	Independent	Remuneration Committee	Audit and Risk Committee	Strategy Committee	Governance and Nomination Committee
Board of Directors	Daniela Bosshardt Chairwoman	2017	Yes			Member	Chairwoman
	Bertrand Jungo Vice-Chairman	2018	Yes		Member	Chairman	Member
	Pascale Bruderer	2020	Yes	Member			
	Michel Burnier	2017	Yes				Member
	Markus R. Neuhaus	2019	Yes	Member	Chairman	Member	Member
	Philippe Nussbaumer	2017	Yes			Member	
	Andreas Walde	2017	Yes	Chairman	Member		
Number of meetings 2020	8			3	7	7	7
Honorary Chairman	Etienne Jornod						
General Secretary	Markus Dill (until 31.7.2020)						
General Secretary	Barbara Wälchli (as of 1.8.2020)						

Members of the Board of Directors



Daniela Bosshardt, Chairwoman of the Board of Directors, elected since 2017

- Born 1972, Swiss citizen
- Pharmacist, Federal Diploma in Pharmacy, Federal Institute of Technology, Zurich (ETHZ)
- Financial analyst at Bank am Bellevue (1998–2002) and M2 Capital (2003–2004)
- Management consultant in the pharmaceutical, medical technology and biotechnology sectors since 2004
- Member of the Board of Directors of Reprisk Ltd.
- Former Board mandates at Vifor Pharma Ltd. (2008–2019), investiere.ch Verve Capital Partners Ltd. (2017–2019) and Nobel Biocare Ltd. (2010–2014)



Bertrand Jungo, Vice-Chairman of the Board of Directors, elected since 2018

- Born 1965, Swiss citizen
- Business administrator lic.rer.pol., University of Fribourg
- CEO of Swiss department store group Manor from 2006 to 2017
- CEO of Admeira Ltd. from 2017 to 2019; from 2020, member of the Board of Directors
- Member of the Advisory Board of Neoperl Ltd.
- Member of the Advisory Board of the International Retail Summit (IRS) of the Gottlieb Duttweiler Institute (GDI)



Pascale Bruderer, elected since 2020

- Born 1977, Swiss citizen
- Masters in political science
- Member of the National Council from 2002 to 2011
- Member of the Council of States from 2011 to 2019
- Former member of the Social Security and Health Committee
- Former president of the umbrella organisation for disabled people, Inclusion Handicap
- Former managing director of Krebsliga Aargau
- Member of the Board of Directors of Bernexpo AG and TX Group
- Co-owner and member of the Executive Board of Crosssociety AG



Prof. Hon. Dr. Michel Burnier, elected since 2017

- Born 1953, Swiss citizen
- Swiss-registered Doctor of Internal Medicine and Nephrology
- Honorary professor, University of Lausanne, Faculty of Biology and Medicine
- Member of the Swiss Society of Nephrology (former President), European Society of Hypertension (former council member and Treasurer) and Swiss Society of Hypertension (former President)
- Member of the Medicines Committee of the Swiss Association of Pharmacists (until 2001) and the Board of Swissmedic (2002–2010)
- Member of the Board of Directors of Speedel Holding Ltd. from 2007 to 2009
- Member of the Board of Directors of Vifor Pharma Ltd.



Dr. Markus R. Neuhaus, elected since 2019

- Born 1958, Swiss citizen
- Dr. iur., certified tax expert
- Various roles at PwC from 1985, including CEO of PwC Switzerland from 2003 to 2012, member of PwC's Global Board from 2005 to 2007, member of the PwC Network Executive Team from 2010 to 2013, member of PwC's Office of the Global Chairman from 2013 to 2016 and Chairman of PwC Switzerland from 2012 to 2019
- Various other functions, including Vice Chairman of the Zurich Chamber of Commerce, Vice Chairman of Avenir Suisse and Chairman of the Finance and Tax Commission of Economiesuisse
- Member of the Board of Directors of Barry Callebaut AG (Vice Chairman), Baloise Holding AG, Orior AG (Vice Chairman) and Jacobs Holding AG



Dr. Philippe Nussbaumer, elected since 2017

- Born 1969, Swiss citizen
- FPH pharmacist, federal diploma / PhD in pharmaceutical sciences, University of Geneva / dipl. oec. HEC, University of Lausanne
- Federal ski instructor diploma and federal expert J+S; since 2004, Vice-President of the Swiss Snowsports School of Neuchâtel / Les Bugnenets
- Owner and president of the Pharmacie Centrale and the Pharmacie de la Gare in La Chaux-de-Fonds
- Since 2007: Founder, owner and president of Ecopharma SA in La Chaux-de-Fonds
- Since 2012: Member of the Board of Directors of Veripharm Ltd.
- Since 2014: Founder and member of the Board of Directors of the Medi-Centre Ltd. medical centre in La Chaux-de-Fonds

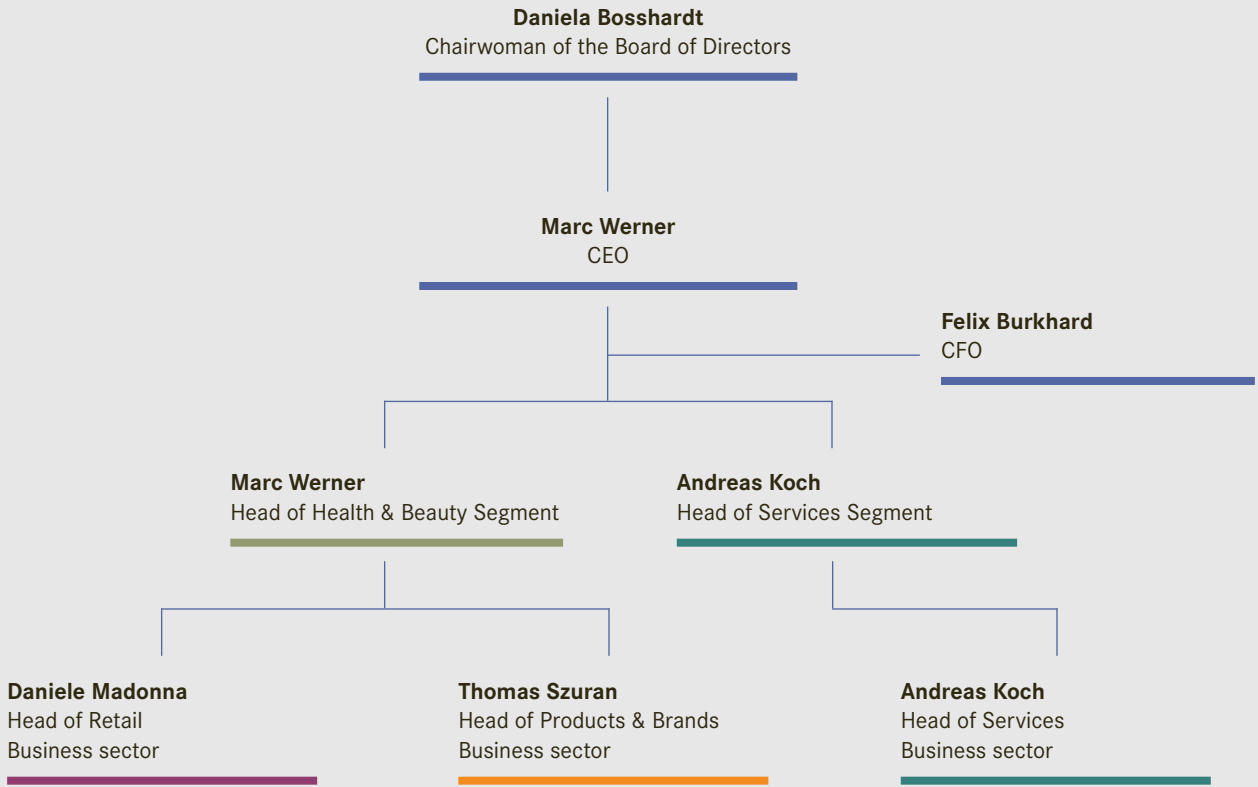


Dr. Andreas Walde, elected since 2017

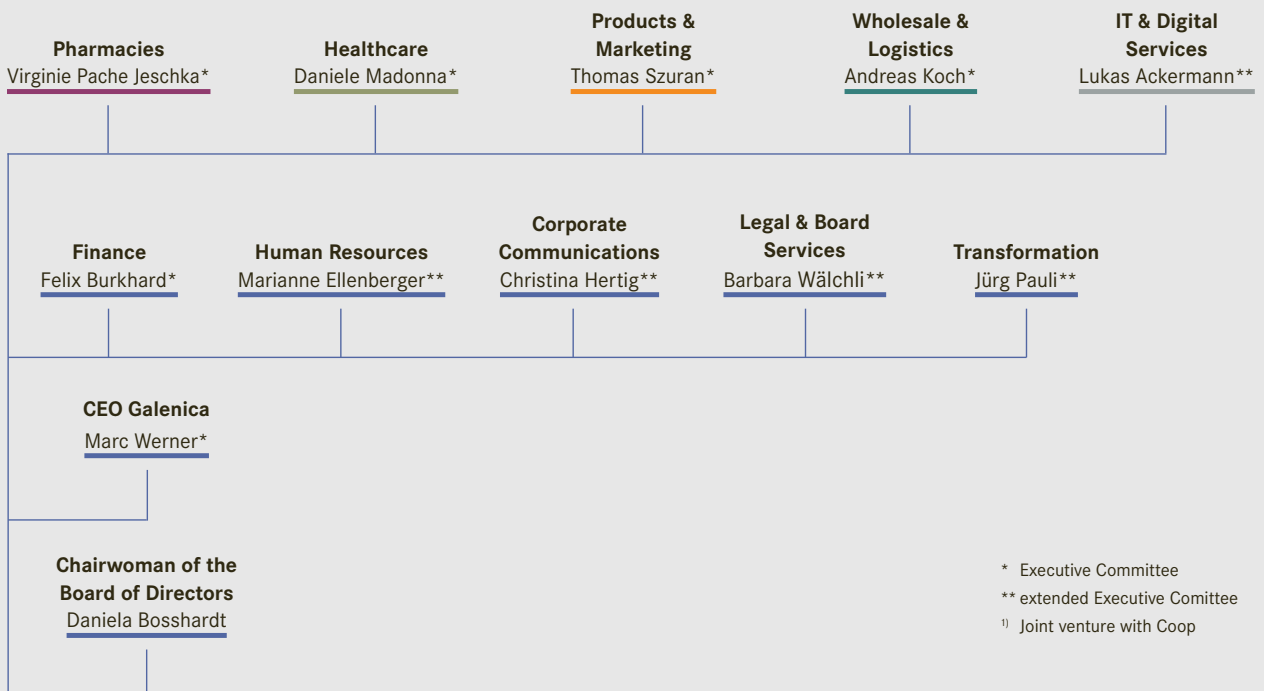
- Born 1962, Swiss citizen
- Attorney-at-law and doctorate in law, University of Basel
- Various legal and management positions in the chemical and pharmaceutical industry for more than 30 years with specialisation in financial and corporate structures, M&A, risk management, compliance and corporate governance: 1988-1996 at Roche, 1998-2010 at Clariant and 2012-2013 at Petroplus, in the latter two among others as Group General Counsel; General Secretary of Vifor Pharma Ltd., former Galenica Group, since 2013
- Former member of the Board of Swiss-Holdings and member of the Board of Scienceindustries
- Former (Board) mandates for several private and (non-Swiss) listed companies as well as former member of the Board of the Society of Swiss Enterprises in Germany

Leadership organisation until 31.12.2020

Status: December 2020



Leadership organisation as of 1.1.2021



* Executive Committee
 ** extended Executive Committee
 1) Joint venture with Coop

In selecting the members of the Board of Directors, care is taken to ensure that competency for each significant area of the Galenica Group's activities is represented and that the necessary specialised expertise is also available. The election of Pascale Bruderer strengthened expertise in health-care policy, home care and digitalisation. The Board of Directors will continue to focus actively on the issue of succession planning and its composition. Attention will be paid in particular to diversity and complementarity in this regard. New members of the Board of Directors are introduced to their responsibilities and gain an overview of the current challenges for the Group and Business sectors at a one-day event. In 2020, an assessment was carried out with external support (Thomas Hammer, Board Consulting). The Board of Directors is a well-constituted team of optimum size, with a range of experience, complementary expertise and a good combination of different personalities. The committees of the Board of Directors carried out a self-assessment in 2020.

The Articles of Association of Galenica Ltd. restrict the ability of its directors to act in the highest management and administrative bodies of other legal entities outside of the Group (Art. 17 (3) of the Articles of Association). This includes, in particular, limiting such outside activity to five mandates in listed legal entities and seven mandates in profit-oriented, non-listed legal entities. None of the members reached this limit in 2020.

None of the members of the Board of Directors was actively involved in Galenica or in any of the companies within the Group in the year under review. This has been the case for the previous three years, with the exception of Jörg Kneubühler, who announced his departure as Chairman of the Board of Directors at the General Meeting of shareholders on 2 May 2019. Based on the criteria of the Swiss Code of Best Practice for Corporate Governance, all members are therefore independent.

Duties of the Chairwoman of the Board of Directors

The Chairwoman is responsible for leading the Board of Directors and the ongoing optimisation of Group strategy. The duties of the Chairwoman include questioning and supporting the CEO and the Corporate Executive Committee with regard to the development of the Group's strategic business planning and financial objectives, and representing the Board of Directors and Galenica externally (the latter in agreement with the CEO). The Chairwoman monitors implementation of decisions taken by the Annual General Meeting and Board of Directors. She also ensures succession planning at the highest management level.

Disclosure of potential conflicts of interest

No member of the Galenica Board of Directors has any significant relations with Galenica or any of its subsidiaries. Philippe Nussbaumer is a pharmacist in the canton of Neuchâtel and is a customer of Galaxis and a Winconcept partner. The business relationships between the companies of the Galenica Group and Philippe Nussbaumer are on an arm's length basis.

Election and term of office

Each member of the Board of Directors, its Chairman, each member of the Remuneration Committee as well as the independent proxy are elected individually by the Annual General Meeting for a term of office of one year, i.e. from one Annual General Meeting to the end of the next. Members may be re-elected.

Internal organisation

The Chairwoman calls a meeting of the Board of Directors at least four times a year and prepares and leads the meetings. The individual agenda items are set by the Chairwoman. She decides on a case-by-case basis whether to involve additional persons in the consultations of the Board of Directors. The Corporate Executive Committee also participates in part of every meeting to report on ongoing business and to explain in more detail the documentation in light of the decisions to be taken. Any member of the Board may request that the Chairwoman call a meeting of the Board of Directors and that items be included on the agenda. The members of the Board receive the documentation they need to prepare for the agenda items in a timely manner, normally ten days before the meeting in question. The Board of Directors constitutes a quorum when the majority of its members are present. Minutes are kept, recording all discussions and resolutions.

In 2020, the Board of Directors held eight meetings. The Board of Directors is also informed on a regular basis about the current state and general development of the Business sectors.

As part of its risk management, the Board of Directors receives from the Corporate Executive Committee an overview of the most important risks, along with preventive measures to be implemented Group-wide as part of the risk management process. This is provided when circumstances require it, but at least twice a year. Further information on this topic can be found on page 65.

Committees

The Board of Directors forms the following committees from its members:

- Governance and Nomination Committee
- Remuneration Committee
- Audit and Risk Committee
- Strategy Committee

The committees prepare the business of the Board of Directors in the areas of activity assigned to them and submit recommendations to the entire Board of Directors. They meet as often as business requires and report to the Board of Directors on activities and results. They draw up their own agendas and keep minutes.

Each committee has its own duties and responsibilities, which are stipulated in a charter. The charters of the committees are published on the Galenica website (see related links on page 67).

Governance and Nomination Committee

The Governance and Nomination Committee comprises four members. This committee supports the Chairwoman and the Board of Directors in the ultimate management and monitoring of the company (corporate governance). It also evaluates the appointment of and changes to members of the Board of Directors and its committees, the CEO and members of the Corporate Executive Committee, and makes appropriate suggestions to the Board of Directors.

In 2020, the Governance and Nomination Committee held seven meetings. The members were Daniela Bosshardt (Chairwoman), Bertrand Jungo, Fritz Hirsbrunner (until 19 May 2020), Michel Burnier (since 19 May 2020) and Markus R. Neuhaus.

Remuneration Committee

The Remuneration Committee is made up of three members, the majority of whom must be independent. The Remuneration Committee carries out the following duties in particular:

- Proposes a remuneration strategy and objectives for the Group and the members of the Corporate Executive Committee to the Board of Directors;
- Proposes to the Board of Directors the salaries and remuneration for the members of the Board of Directors, the Chairwoman, the CEO and the Corporate Executive Committee as a whole;
- Approves the remuneration for the members of the Corporate Executive Committee (excluding the CEO) according to the proposal of the CEO and in agreement with the Chairwoman of the Board of Directors.

Members of the Corporate Executive Committee until 31.12.2020

Name	Member since	Role
Marc Werner	2020	CEO
Felix Burkhard	2017	CFO
Andreas Koch	2020	Head of Services Business sector
Daniele Madonna	2017	Head of Retail Business sector
Thomas Szuran	2019	Head of Products & Brands Business sector

Members of the Corporate Executive Committee as of 1.1.2021

Name	Member since	Role
Marc Werner	2020	CEO
Felix Burkhard	2017	CFO
Andreas Koch	2020	Head of Wholesale & Logistics
Daniele Madonna	2017	Chief Healthcare Officer
Virginie Pache Jeschka	2021	Chief Pharmacies Officer
Thomas Szuran	2019	Chief Products & Marketing Officer

For the regulations in the Articles of Association governing remuneration, see page 63 and the Remuneration report from page 68. The activities and focuses of the Remuneration Committee in the year under review are detailed in the Remuneration report (see page 70).

Audit and Risk Committee

The Audit and Risk Committee comprises three members and supports the Board of Directors in fulfilling its duties with regard to accounting, financial reporting, risk management, compliance, as well as internal and external audits. The Audit and Risk Committee carries out the following duties in particular:

- Audits reports by the Corporate Executive Committee using the company's compliance and risk management process;
- Monitors measures taken by the Corporate Executive Committee for compliance with internal and external regulations;
- Evaluates the effectiveness of the external auditor and approves its fees;
- Evaluates the internal audit programme, accepts reports from Internal Audit and checks whether the Corporate Executive Committee has used appropriate measures to implement Internal Audit's recommendations;
- Submits recommendations to the Board of Directors on the Group's capital structure, financing of investments and acquisitions, and setting of long-term objectives.

Strategy Committee

The Strategy Committee comprises four members and carries out the following duties:

- Monitors, for the attention of the Board of Directors, implementation of the strategy decided on by the Board of Directors;
- Supports the Board of Directors and Corporate Executive Committee in reviewing and further developing the strategy;
- Assesses proposals from the Corporate Executive Committee on strategic issues and gives recommendations to the Board of Directors.

Frequency of meetings of the Board of Directors and its committees in 2020

In 2020, the Board of Directors held eight meetings, together with members of the Corporate Executive Committee. The Remuneration Committee met three times, the Audit and Risk Committee seven times and the Strategy Committee seven times. The Governance and Nomination Committee met seven times. In principle, all the members participate in all the meetings of the Board of Directors. Attendance of meetings of the Board of Directors in 2020 was 97% and that of committee meetings was 98%.

Continued on page 62 ►

Members of the Executive Committee as of 1 January 2021



Marc Werner, CEO

- Born 1967, Swiss citizen
- Federal certified marketing director
- Various management training courses at the International Institute for Management Development (IMD) in Lausanne, London Business School and Harvard Business School
- 1990 to 1995: Head of Sales at Sinomec Ltd. (Zellweger Uster Ltd.)
- 1995 to 1996: Head of Product Management Photofinishing, Federation of Migros Co-operatives
- 1997 to 2000: Head of Marketing and Sales at Minolta (Switzerland) Ltd.
- 2000 to 2004: Head of Marketing & Sales at Bluewin Ltd.
- Joined the Swisscom Group in 2005 as Head of Marketing & Sales at Swisscom Ltd., Head of Service from 2012 to 2013, member of the Group Executive Board from 2013, Head of Private Customers until 2015 and Head of Sales & Services from 2016 to 2019
- Since 2020: CEO and member of the Corporate Executive Committee of the Galenica Group



Felix Burkhard, CFO

- Born 1966, Swiss citizen
- Lic. oec., HSG University of St. Gallen (HSG), and Swiss certified accountant
- 1991-1995: Financial auditor at Revisuisse PriceWaterhouse (Bern) and Head of Finance and Controlling at Amidro Ltd. (Biel/Bienne)
- Joined the former Galenica Group in 1996 as Corporate Controller; Deputy Head of Retail Business sector from 2000; in addition, Head of the Amavita pharmacy chain from 2008; Head of Retail Business sector from 2010 to 2015; member of the Corporate Executive Committee of the Galenica Group since 2010; Head of Strategic Projects from 2015 to 2017
- CFO Galenica Group since 2017



Andreas Koch, Head of Wholesale & Logistics

- Born 1971, German and Swiss citizen
- Education as logistics manager
- Studied business administration at the University of Mannheim and graduated with a degree in business administration
- Program for Executive Development (PED) at IMD Lausanne
- 2000-2009: Consulting and management functions in the field of supply chain management at various consulting firms
- 2009-2015: Head of Supply Chain Management at Galexis and from 2011 also at Alloga - member of both executive committees
- 2015-2019: Head of Alloga
- Since 2019: Head of Galexis
- Since 2020: Head of Services Business sector and member of the Corporate Executive Committee of the Galenica Group



Daniele Madonna, Chief Healthcare Officer

- Born 1977, Swiss citizen
- Federal diploma in pharmacy from the Federal Institute of Technology, Zurich (ETHZ)
- Professional training FPH in retail pharmacy
- CAS in General Management at the University of St. Gallen (HSG) and Program for Executive Development (PED) at IMD, Lausanne
- 2003–2004: Pharmacist at the Olympia Pharmacy and the Victoria Pharmacy in Zurich
- Joined the former Galenica Group in 2004 as Manager of the Coop Vitality pharmacy in Tenero; Regional Sales Manager at Coop Vitality from 2010 to 2014; CEO of Coop Vitality Ltd. in Bern from 2014 to 2017
- Since 2017: Head of Retail Business sector and member of the Corporate Executive Committee of the Galenica Group



Virginie Pache Jeschka, Chief Pharmacies Officer

- Born 1979, Swiss citizen
- Masters in political sciences – University of Lausanne and three semesters in Mainz (Germany)
- 2003 to 2006: Junior Marketing Manager at Danone Schweiz AG (mineral water) in Fribourg
- 2006 to 2010: Category Manager and Head of Sales at L'Oréal – Apothekenkosmetik Schweiz AG in Neuenhof
- 2010 to 2018: Head of Caudalie Suisse and Caudalie D-A-CH GmbH (and Poland ad interim) in Düsseldorf
- Since 2018: Head of Coop Vitality
- Since 2021: Chief Pharmacies Officer and member of the Corporate Executive Committee of the Galenica Group



Dr. Thomas Szuran, Chief Products & Marketing Officer

- Born 1967, Swiss citizen
- Dr. sc. nat. from the Federal Institute of Technology (ETH Zurich)
- Various roles at Abbott Laboratories between 1997 and 2002, including Sales & Marketing Manager for the Eastern European & Mediterranean region
- Sales Director at Pfizer Switzerland (Zurich) from 2002 to 2005 and Country Manager at Pfizer in Israel from 2005 to 2007
- Joined Biomed Ltd. (Dübendorf) in 2008 as Marketing Director, and was CEO of Biomed Ltd. from 2011 to 2018
- Since 2012: Member of the Executive Board and, since 2013, President of the Association of the Swiss Self-Medication Industry (ASSGP)
- Since 2019: Head of Products & Brands Business sector and member of the Corporate Executive Committee of the Galenica Group

Management

The Board of Directors has delegated the management of the company to the CEO in accordance with the Organisational Regulations. The CEO assumes operational management of the Galenica Group and heads the Corporate Executive Committee. The Board of Directors maintains regular contact with the CEO and the members of the Corporate Executive Committee and sometimes invites them or just the CEO to attend its meetings when relevant items are to be discussed. At each meeting, the members of the Corporate Executive Committee are invited to report on their respective Business sectors and to discuss important business matters with the Board.

Duties of the CEO

The CEO is responsible for implementing the strategic and operational objectives approved by the Board of Directors, for preparing the budget and ensuring that it is met, and for the management of the Group. The CEO leads the Corporate Executive Committee and reports to the Chairwoman. Together with the Chairwoman, he prepares the information for the meetings of the Board of Directors. At these meetings, the CEO submits important strategic, HR-related and financial business cases to the Board for consultation and decision-making. The CEO also represents Galenica externally.

Corporate Executive Committee

The instructions and resolutions of the Board of Directors are implemented for each of the Group's Business sectors by the Corporate Executive Committee under the leadership of the CEO. The Board sets appropriate objectives for the CEO and those members of the Corporate Executive Committee allocated to the relevant Business sector and approves the budget. Compliance with these targets is monitored based on monthly reports to the Board, which include key figures and reporting on important events and developments, and on the planning cycle. In the first quarter, the results for the previous year are compared with the planning for that year. In the first quarter of the current financial year, the annual financial statements for the previous year are prepared, and in the second quarter, an initial forecast "Last Estimate 1" for the current financial year is drawn up. The third quarter sees the preparation of the half-year financial statements, and the fourth quarter a second forecast "Last Estimate 2" together with the budget for the following year and medium-term planning for the next two years.

The Articles of Association of Galenica Ltd. restrict the ability of the members of the Corporate Executive Committee to act in the highest management and administrative bodies of other companies, limiting such outside activity to one mandate in listed companies and three mandates in total, subject to prior approval by the Board of Directors (Art. 20 (3) of the Articles of Association). None of the members of the Corporate Executive Committee reached this limit in 2020.

Further information on the other duties of the Board of Directors, Chairwoman and Corporate Executive Committee can be found in the Organisational Regulations published on the Galenica website (see related links on page 67).

Information and monitoring tools

The Board of Directors monitors the Corporate Executive Committee and supervises its working practices. The Galenica Group has a comprehensive electronic information management system. The Board of Directors receives a written report on a quarterly basis and is informed on a monthly basis about the Group's financial and operating performance. In addition, operating performance, opportunities and risks are discussed in depth at meetings attended by members of the Corporate Executive Committee.

Management contracts

No management contracts exist as specified under point 4.4 of the Annex to the SIX Swiss Exchange Directive Corporate Governance.

Remuneration

The regulations in the Articles of Association governing remuneration (incl. profit-sharing, loans, credits and pension benefits) of members of the Board of Directors and the Corporate Executive Committee as well as those governing votes by the Annual General Meeting on remuneration can be found in the Remuneration report from page 68.

Shareholders' rights to participate

The Annual General Meeting is held each year within six months of the close of the financial year. Extraordinary General Meetings are called as often as necessary by a decision of the Annual General Meeting or Board of Directors, at the request of the auditors or at the written request of shareholders representing on aggregate not less than 7% of the share capital entered in the commercial register.

Each share recorded as a share with voting rights in the shareholders' register entitles the holder to one vote at the Annual General Meeting. Shareholders are also entitled to dividends and have other rights pursuant to the Code of Obligations.

Results of the ballots taken at the Annual General Meetings are made available on the Galenica website after each meeting (see related links on page 67).

Voting restrictions and proxy voting

A registered shareholder may be represented at the Annual General Meeting on the basis of a written power of attorney by another representative or the independent proxy to whom instructions may be given in writing or electronically. There are no rules that deviate from legal provisions relating to attendance of the Annual General Meeting.

A shareholder or a beneficiary with voting rights may register for shares which, when added to shares already registered as voting shares in the purchaser's name, do not exceed 5% of all voting shares. See pages 51 and 53 for further details.

Procedure and conditions for lifting restrictions on voting rights

For restrictions on voting rights to be lifted, shareholders who together represent not less than 5% of the share capital entered in the commercial register must request in writing that such an item be included on the agenda no later than 40 days before the Annual General Meeting. The Annual General Meeting must indicate its approval based on at least two-thirds of the votes represented and the absolute majority of the nominal capital represented.

Quorums under the Articles of Association

In addition to the cases cited in Art. 704 of the Code of Obligations, approval by at least two-thirds of the votes represented and the absolute majority of the nominal capital represented is required in the following cases:

- A change in the provisions relating to restrictions on the transfer of registered shares (Art. 15c of the Articles of Association);
- Conversion of registered shares into bearer shares and vice versa (Art. 15d of the Articles of Association).

Convening of the Annual General Meeting

The Articles of Association do not differ from legal regulations with regard to the convening of the Annual General Meeting and the setting of the agenda. The Annual General Meeting is convened by the Board of Directors no later than 20 days before the date of the meeting. The shareholders are invited to attend by a notice placed in official publications. The meeting may also be convened electronically or by sending a letter to all shareholders at the addresses entered in the shareholders' register. The notice of a meeting shall state the items on the agenda, the proposals of the Board of Directors and the requests of any shareholders who have called for a General Meeting to be convened or for a particular item to be included on the agenda.

Inclusion of items on the agenda

Shareholders who together represent not less than 5% of the share capital entered in the commercial register may request that an item be included on the agenda. They must submit such requests in writing no later than 20 days before the scheduled date of the meeting. Agenda items relating to financial year 2020 that are to be dealt with at the Annual General Meeting on 12 May 2021 must be submitted no later than 2 April 2021, and those for the Annual General Meeting on 11 May 2022 no later than 1 April 2022. The items to be included on the agenda must be specified along with the motion on which the shareholder requests a vote.

Shareholders' register

There are no regulations in the Articles of Association regarding a deadline for entry in the shareholders' register. However, for practical reasons the shareholders' register remains closed to entries for several days prior to an Annual General Meeting. This will be the case from Wednesday 5 May 2021 for financial year 2020 and from Wednesday 4 May 2022 for financial year 2021. Shareholders entered in the shareholders' register by Tuesday 4 May 2021 and Tuesday 3 May 2022 respectively may exercise their voting rights at the corresponding Annual General Meeting.

Instructions to the independent proxy holder may be given in writing and also electronically through a platform named Nimbus Shapp® which is used by Galenica. The invitation to the Annual General Meeting, which will be sent to all shareholders on or around 13 April 2021, includes the required login information to create a personal user profile. The instructions must be received by the independent proxy holder by the evening of the penultimate day before the Annual General Meeting, i.e. by Monday 10 May 2021 for the 2021 Annual General Meeting and by Monday 9 May 2022 for the 2022 Annual General Meeting.

Change of control and protective measures

The obligation to make a public offer pursuant to Art. 125 et seq. FinMIA has not been changed in the Articles of Association. The employment contracts of the members of the Corporate Executive Committee and the members of senior management also contain no provisions to this effect.

Auditors

Ernst & Young Ltd., Bern, Switzerland, have been the Galenica Group's auditors since 2017. Roland Ruprecht, certified accountant, a partner at Ernst & Young, has been in charge of the audit since 2017. The fees paid to the Group's auditors Ernst & Young in 2020 for their audit of Galenica and companies within the Galenica Group totalled CHF 799,000.

The fees paid to Ernst & Young and their close collaborators for other services rendered to Galenica and its subsidiaries in the period under review amounted to CHF 63,000 for additional advice in audit matters.

In 2020, Roland Ruprecht attended two meetings of the Audit and Risk Committee. Moreover, the auditors presented their report at the meeting of the Board of Directors on 4 March 2021.

The auditors are regularly informed of new projects. The auditors' activities are reviewed at least once a year by the Audit and Risk Committee. The criteria that are of particular importance in these reviews are: competence in reporting, understanding of the structure of the Group, quality of reporting, compliance with deadlines, independence and costs.

Compliance and Code of Conduct

A commitment to abiding by the law and guidelines (compliance) and acting with integrity is a fundamental part of the corporate culture of the Galenica Group and a consistent focus of its corporate governance. Galenica attaches considerable value to doing business in a manner that is ethically correct and in accordance with the legal requirements in place. Galenica's compliance efforts are based on three pillars: prevention, detection and reaction. Various compliance training sessions were again held in 2020, including Group-wide competition law training. Galenica enforces a zero-tolerance approach to corruption and bribery on the part of employees, partners, suppliers and representatives of third parties. The Board of Directors determined the current status of the various compliance measures at a meeting in the year under review. The Code of Conduct of the Galenica Group is particularly important to the Board of Directors. It contains all key principles in connection with corruption, bribery, gifts and invitations for all employees. Galenica also requests that its suppliers support its efforts in pursuit of sustainable development and has issued a Supplier Code of Conduct to this end. The Galenica Group Code of Conduct and the Supplier Code of Conduct are published on the Galenica website (see related links on page 67).

The Galenica Group operates in Switzerland. Accordingly, the OECD's action plan regarding taxes on multinational companies (BEPS action plan) is not applicable to Galenica.

Information and monitoring tools of the Board of Directors with respect to management

Risk management process

Galenica has a risk management process in place which enables the Board of Directors, the Corporate Executive Committee as well as the relevant management of Group companies to identify and assess potential risks in a timely manner, and take the preventive measures necessary. The goal of this process is to identify and assess significant risks at all management levels and to manage them while making conscious use of the opportunities the process provides.

As part of Group-wide Galenica Risk Management (GRM), the companies in the Group conduct a risk assessment at least twice a year. This standardised process is based on a risk grid in which the most important strategic and operational risks and their possible effects – particularly from a financial and reputational perspective – are identified in line with pre-defined criteria and then evaluated in accordance with the probability of their occurrence and their effect. These risks are entered into a risk matrix for each Business sector and, depending on the importance, also incorporated into the Group risk matrix.

The Board of Directors of Galenica receives an overview of the most important risks from the Corporate Executive Committee when circumstances require it, but at least twice a year. The Board evaluates the overview, adding information as needed, and where required takes decisions on any preventive measures necessary, which will then be implemented Group-wide as part of the risk management process.

Galenica defines risk as the possibility that an event or an action will lead to immediate financial loss or other negative consequences.

Additional information about the management of financial risks can be found in the Notes to the Consolidated financial statements 2020 on pages 135 and 136.

Internal control system

As part of its risk management system, Galenica operates an internal control system (ICS) to provide reliable internal and external financial reporting and to prevent false information and errors about business transactions. The ICS provides the necessary processes and controls to ensure that risks relating to the quality of the company's financial reporting can be detected and managed in a timely manner. A thorough review of the existence of the processes and controls of the Galenica ICS is carried out annually by the external auditors at the time of the interim audit. The results of these reviews are reported to the Audit and Risk Committee. Appropriate measures are taken by management to continually improve the company's processes with regard to the process areas of purchasing, procurement, investments, sales, HR, general financial management and reporting as well as IT controls.

Internal Audit

Internal Audit carries out audits of operational and strategic risk management and the ICS in accordance with the audit plan determined by the Audit Committee. It carries out reviews, analyses and interviews across the Group and helps the Business sectors to meet their targets by ensuring an independent assessment of the effectiveness of the internal control processes. Internal Audit regularly produces reports on its audits and reports directly to the Audit and Risk Committee in writing. The activities of Internal Audit are conducted through contracts issued to external service providers.

Information policy

Galenica and its companies operate an active and transparent information policy towards all their stakeholder groups. Consistency and credibility are two fundamental principles that are reflected in factual, comprehensive and objective communication.

Ad hoc publicity

Important and price-relevant events are communicated in a timely manner via electronic media and in accordance with the SIX Swiss Exchange Directive. Any employees affected are informed first, as long as this is possible in the specific situation and allowed by law.

Periodic publications

Once a year, Galenica publishes an Annual report and a half-year report. The full versions of these publications are available on the Galenica website (see related links on page 67). In addition, Galenica publishes a printed short version of the Annual report which is sent to the shareholders by mail upon request.

The invitation to the Annual General Meeting is sent to shareholders electronically or by mail, and is additionally published in the "Swiss Official Gazette of Commerce".

Internet

All Galenica publications, all media releases and other supplementary information about the Group can be found on the Galenica website (see related links on page 67).

Contact persons and important publication dates

For shareholders

For shareholders in relation to Corporate Governance:
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For investors

Felix Burkhard, CFO
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For the media

Christina Hertig, Head of Corporate Communications
phone +41 58 852 85 17, media@galenica.com

Agenda 2021/2022

- Annual General Meeting 2021: 12 May 2021
- Half-year report 2021: 3 August 2021
- Annual report 2021: 8 March 2022
- Annual General Meeting 2022: 11 May 2022

Further important dates can be found on the Galenica website (see related links on page 67).

Brand management

Philosophy and implementation

Galenica – Health and wellbeing are at the heart of what we do.

Galenica seeks to be recognised as a reliable, dynamic and efficient Group within the healthcare market, which creates value for all stakeholder groups with high-quality products and services. Thus, Galenica also invests its energies in looking after its brands. Galenica stands for quality and professionalism, for credibility and transparency, and for reliability and continuity. There is a clear focus on the vision "Health and wellbeing are at the heart of what we do. They are the reason we give our best every day." in the support line. Group Corporate Communications is responsible for implementing Galenica's corporate brand communications.

Corporate identity

Galenica is a broad-based Group which manages well-established company, product and service brands in the healthcare market. Products and services under the Galenica brand guarantee a high level of quality. The communication philosophy "as centralised as necessary and as decentralised as possible" is also reflected in brand management. This means giving the individual companies under the Galenica umbrella room to address target groups in the best way possible for the market segment and product involved. That is why Galenica companies operate under their own names in the market. At the same time, over and above this diversity, the Galenica Group seeks in particular to express clearly the shared identity of the companies comprising the Group. Galenica therefore strives to present a uniform corporate design where possible and reasonable.

Company brands of the Group

Organisational basis

Since January 2021, the Galenica Group is structured in two segments: Products & Care and Logistics & IT. The Products & Care segment comprises the Service Units Pharmacies, Healthcare and Products & Marketing. The Logistics & IT segment consists of the Service Units Wholesale & Logistics and IT & Digital Services. The Group companies are assigned to the Service Units on the basis of their core activities. The Galenica brand is supported at all levels by the descriptor (the support line) used with the logo. At Group level, it is the broad basis of the vision that is communicated; at company level, it is the fact that the company is part of the Galenica Group that is signalled.

Many of the companies in which Galenica has more than a 50% holding follow this strategy and use the common corporate design. New companies are integrated progressively in line with a clearly defined process. Important strategic marketing considerations are taken into account when dealing with well-established and well-known brands.

Basic guidelines on corporate design are summarised in two handbooks for staff and external partners, and include all areas of application, such as corporate stationery, printed products, company signs and website design. The handbook for employees is available in printed and electronic form, while the handbook for external partners is available in electronic form. In addition, internal training sessions on how to use the Galenica corporate design take place as needed for new employees; the sessions are also open to existing employees interested in refreshing or deepening their knowledge.

Protection of the Group's brands

Galenica systematically fosters and protects its company brands in all countries where it is active and guarantees a high standard of quality.

Product and service brands

The Galenica company brands are supplemented by the product and service brands of the companies within the Group, focused on the customers of the individual Business sectors: for example, the products of Verfora, the offering of the pharmacy formats Amavita and Sun Store, and the range offered by segment Logistics & IT including logistics and the databases and software products in the area of information management. The presentation of these products and services is tailored to markets and customers specific to individual companies and, therefore, differs from the Group corporate design. The corporate design and the accompanying communication and marketing measures are defined and implemented by the relevant company. Special events and activities organised in conjunction with the branding of products and services along with customer surveys during the year under review can be found in the sections for the Business sectors of the Galenica Group starting on page 12.

Protection of product and service brands

Product and service brands are systematically fostered and protected by the individual companies in the countries where they are marketed.

Related links

www.galenica.com

- **Organisation:** About Galenica / Organisation
- **Board of Directors:** About Galenica / Organisation / Board of Directors
- **Publications:** Publications
- **Articles of Association:** Publications / Downloadcenter / Corporate Governance
- **Organisational Regulations:** Publications / Downloadcenter / Corporate Governance
- **Committees of the Board of Directors:** About Galenica / Organisation / Board of Directors / Downloads
- **Annual General Meeting:** Investors / Information for shareholders / Annual General Meeting
- **Code of Conduct of the Galenica Group:** Publications / Downloadcenter / Company
- **Supplier Code of Conduct:** Publications / Downloadcenter / Company
- **Press releases:** Media / Press releases
- **Dates to remember:** Investors / Investor calendar

www.six-exchange-regulation.com

- **SIX Swiss Exchange; Significant shareholders:** News / Published notifications / Significant shareholders
-

Remuneration report



In this report, Galenica provides an overview of its remuneration model and remuneration principles. The following pages outline the process and responsibilities under which remuneration of the members of the Board of Directors and Corporate Executive Committee is determined, and the remuneration components applicable at top management level. The remuneration system as well as its reporting is in accordance with the

Code of Obligations, the Ordinance against Excessive Remuneration in Listed Companies Limited by Shares (VegüV), the Directive of the SIX Swiss Exchange on Information Relating to Corporate Governance (Directive Corporate Governance) and the recommendations of the Swiss Code of Best Practice for Corporate Governance issued by Economiesuisse.

Letter from the Chair of the Remuneration Committee

Dear Shareholders,

On behalf of the Board of Directors and the Remuneration Committee of Galenica, I am pleased to present the Remuneration report for 2020.

The remuneration policy of Galenica aims to attract, motivate and retain best-in-class employees who are entrepreneurially minded, success-oriented and have high personal standards. The remuneration system is designed to support the achievement of the strategic goals defined by the Board of Directors and to provide appropriate compensation in a competitive employment market and in a complex sector. It is aligned with the long-term Group strategy and its pay-for-performance philosophy. The remuneration system of Galenica aims to strengthen the overall market position of the company while delivering the expected returns to its shareholders.

Galenica posted a solid result in a challenging market environment in 2020. Despite the negative repercussions of the COVID-19 pandemic on our business, we were able to secure the jobs of our employees and did not apply for any kind of state support. Further, we followed our regular dividend payment policy in 2020 and will continue to do so for 2021. In this context, the Board of Directors decided that the usual payment modalities of the incentive plan can be applied without adjustments for the financial year 2020. Specifically, the original performance targets were not amended and no changes were made with regard to the performance assessment at year end. Regarding the short-term bonus, the GEP target for 2020 was not fully met, resulting in an average payout factor of 81.2%. Under the long-term incentive 2018–2020, the GEP target for 2018 to 2020 was partially met. This resulted in an overall payout factor of 78.1%. Further details on the performance achieved and the payouts under the incentive plans are provided in this report.

The Remuneration Committee reviewed the remuneration system for the Corporate Executive Committee in the year under review. Based on this analysis, the Remuneration Committee concluded that overall, the remuneration structure is appropriate and in line with standard market practice. However, the Remuneration Committee proposed changes with regard to the performance evaluation, which have been approved by the Board of Directors and will be implemented in 2021: the introduction of a growth and a sustainability object in the short-term bonus (STI) and the introduction of relative total shareholder return (TSR) as a performance indicator in the long-term remuneration (LTI).

You can find detailed information on our remuneration system and the remuneration awarded in 2020 to the Corporate Executive Committee and the Board of Directors in this report. The Remuneration report will be submitted to shareholders at the Annual General Meeting on 12 May 2021 for a non-binding consultative vote.

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



Andreas Walde
Chairman of the Remuneration Committee

Governance: principles and responsibilities in setting compensation

The guiding principles for the remuneration of the Board of Directors and the Corporate Executive Committee as well as the responsibilities for the remuneration system of Galenica are defined in the Articles of Association of Galenica. They include the provisions on the Remuneration Committee (Art. 21 of the Articles of Association) and remuneration (Art. 22 of the Articles of Association; see related links on page 82).

Each year, the Board of Directors submits the maximum remuneration of the Board of Directors and the Corporate Executive Committee to the Annual General Meeting for binding approval. Such approval is prospective for the next financial year following the Annual General Meeting. In addition, the Annual General Meeting holds a consultative annual vote on the Remuneration report for the year under review (Art. 22 (1) of the Articles of Association).

On the basis of the Articles of Association and the decisions of the Annual General Meeting, the remuneration strategy and the related remuneration system for the members of the Board of Directors and the Corporate Executive Committee are determined by the Board of Directors based on a proposal from the Remuneration Committee. The Board of Directors also decides on an annual basis on the individual remuneration of the Chair of the Board of Directors and the CEO as well as the aggregate remuneration for the other members of the Corporate Executive Committee based on a proposal from the Remuneration Committee. The remuneration of members of the Board of Directors is determined by the Board of Directors based on a proposal from the Remuneration Committee within the limits set by the Annual General Meeting.

Remuneration Committee

The Remuneration Committee consists of three members of the Board of Directors, all of whom are independent from Galenica and are elected annually by the Annual General Meeting. At the 2020 Annual General Meeting, Andreas Walde (Chairman), Markus Neuhaus (new member) and Pascale Bruderer (new member) were elected as members of the Remuneration Committee.

The Remuneration Committee reviews and approves the remuneration principles and programmes of Galenica, including the design of the incentive plans, determines the performance indicators and targets for the CEO and the other members of the Corporate Executive Committee at the beginning of the financial year and assesses the extent to which these targets have been achieved at year end. The Remuneration Committee is responsible for setting the individual target remuneration of the members of the Corporate Executive Committee and proposes the CEO's target remuneration to the Board of Directors in consultation with the Chair of the Board of Directors.

At each meeting of the Board of Directors, the Chair of the Remuneration Committee reports on the Remuneration Committee's current topics of discussion and decisions. The minutes of the meetings are made available to the members of the Board of Directors.

The Chair of the Board of Directors is invited to all meetings of the Remuneration Committee (right of attendance, no voting rights), except those dealing with their own remuneration. The CEO is invited to attend discussions on a case-by-case basis, but not to discussions of agenda items that concern their performance or remuneration.

The Remuneration Committee reviewed the remuneration system for the Corporate Executive Committee in the reporting year. Based on this analysis, the Remuneration Committee concluded that overall, the remuneration structure is appropriate and in line with standard market practice. However, the Remuneration Committee proposed changes with regard to the performance evaluation, which have been approved by the Board of Directors and will be implemented in 2021: the introduction of a growth and a sustainability objective in the short-term bonus (STI) and the introduction of relative total shareholder return (TSR) as a performance indicator in the long-term remuneration (LTI). Further information on these changes can be found in the Outlook on page 81.

Otherwise, the Remuneration Committee also performed its regular duties in the reporting year, in particular setting performance targets and evaluating their achievement, determining the remuneration of the members of the Board of Directors and the Corporate Executive Committee and preparing the Remuneration report and the Annual General Meeting. In addition, the Remuneration Committee conducted a self-assessment of its functioning. It rated its discussions and decision-making as efficient and appropriate, and the support of the Board of Directors in matters of remuneration as effective.

Further details on the Remuneration Committee can be found in the Corporate Governance section (see page 50) as well as in the Remuneration Committee Charter, which can be found on the Galenica website (see related links on page 82).

Benchmarking and external advisors

In order to ensure its continued attractiveness as an employer, Galenica regularly compares its remuneration levels with those of relevant peers. Generally, Galenica considers market median levels as being competitive.

The last benchmark study of the remuneration of the Corporate Executive Committee was carried out by the Remuneration Committee in 2018. The Board of Directors received support on this from Klingler Consultants. Overall, the benchmark study showed the remuneration of the Corporate Executive Committee to be in line with the market in terms of

Responsibility for the remuneration process

Level of authority	CEO	Remuneration Committee	Board of Directors	Annual General Meeting
Remuneration policy		proposes	approves	
Financial performance objectives for short-term bonus		proposes	approves	
Individual performance objectives for short-term bonus	proposes (except for his own objectives)	proposes (CEO) approves (Executive Committee)	approves	
Remuneration of members of the Board of Directors		proposes	approves	approves maximum possible remuneration for the Board of Directors for the following year
Remuneration of the CEO		proposes (in consultation with CBD ¹⁾)	approves	approves maximum possible remuneration for the Corporate Executive Committee including the CEO for the following year
Remuneration of members of the Corporate Executive Committee	proposes (in consultation with the CBD)	approves (remuneration per member)	is informed, approves (total amount)	

¹⁾ CBD = Chair of the Board of Directors

In 2020, the Remuneration Committee held 3 ordinary meetings and no ad hoc meeting according to the annual schedule.

Activities of the Remuneration Committee during the year

Subject	1 st quarter	2 nd / 3 rd quarter	4 th quarter
Remuneration policy		- Benchmarking and review	- Benchmarking and review
Remuneration of Board of Directors		- Review of compensation regulations	- Determination of remuneration (following year)
Remuneration of Corporate Executive Committee	- Performance evaluation (previous year) - Short-term bonus payout (STI, previous year) - LTI vesting (previous period) - Performance objectives for short-term bonus and LTI (current year/period)		- Target remuneration (basic salary, following year) - Target bonus (STI, following year) - LTI allocation (following year)
Remuneration governance	- Remuneration report - AGM preparation		- Preparation of Remuneration report - Annual meeting schedule and topics (following year) - Galenica Group salary review (following year) - Remuneration Committee self-assessment

In 2020, all members attended all meetings of the Remuneration Committee, which corresponds to an attendance rate of 100%.

structure and levels. The benchmark includes listed and private companies of a similar size (in terms of market capitalisation) that were active in comparable sectors in Switzerland (with a focus on health, logistics and retail). The Remuneration Committee is planning to undertake another external benchmark study of the remuneration of the Corporate Executive Committee by 2021.

The remuneration of the Board of Directors was also reviewed in 2018. This market comparison was carried out by Agnès Blust Consulting. Approximately 20 Swiss industrial companies of a similar size to Galenica in terms of market capitalisation (between CHF 1 billion and CHF 4 billion), sales and number of employees that were listed on the SIX Swiss Exchange (excluding the financial sector) were used as a peer group. The study showed that the remuneration of the Board of Directors was also in line with the market.

The Remuneration Committee may decide to consult external advisors on specific compensation matters. In 2020, Agnès Blust Consulting provided services related to executive compensation, especially in the context of the review of the compensation system applicable to the Corporate Executive Committee. This company does not have any other mandates with Galenica.

Remuneration system of the Board of Directors

The remuneration of members of the Board of Directors is independent of the performance of the company and comprises a fixed compensation depending on the function they assume on the Board of Directors and on its committees, either as a member or chair. Such remuneration is paid 50% in cash and 50% in restricted shares, or if the Board member so decides, 100% in restricted shares. The shares are blocked for a period of five years. In addition, after a period of two years, each member of the Board is required to hold shares of Galenica equal in value to one times the annual compensation. Remuneration settled in the form of shares of Galenica was paid at the average price for the month of December 2020, i.e. CHF 58.71 per share, net of a 25% discount. The payment was made in January 2021.

Remuneration amounts of the Board of Directors

(in thousand CHF, per year)

Chair of the Board of Directors	350
Vice-Chair of the Board of Directors	130
Board member	110
Committee chair	30
Committee member	10

The cash remuneration and the shares are paid in January for the previous business year.

Based on the regulation, the members of the Board of Directors have the option of joining the Galenica Pension Fund. All contributions (employer and employee contributions for savings and risk) are born by the member of the Board of Directors.

The remuneration system of the Board of Directors in 2020 remained unchanged compared to previous year.

Remuneration system of the Corporate Executive Committee

In order to attract talented employees, reward performance, promote the loyalty of key talents and ensure their long-term commitment to Galenica, Galenica offers competitive remuneration. The remuneration model applicable to the Corporate Executive Committee is based on three components: a fixed remuneration (including a base salary and benefits), a short-term bonus and a long-term incentive.

Remuneration components

The remuneration of the Corporate Executive Committee consists of a fixed compensation, which depends on the employee's functional level, benefits and a variable remuneration. The variable remuneration allows members of the Corporate Executive Committee to participate in the success of Galenica and to be rewarded for their individual contributions. The variable remuneration for the Corporate Executive Committee includes a short-term bonus (STI) and a long-term incentive (LTI). While the short-term awards compensation for the annual profit of Galenica and for the individual performance, the purpose of the LTI is to reward long-term performance and to harmonise the interests of shareholders with those of the executives.

The remuneration system rewards short-term success as well as long-term performance and sustainable value creation for customers and shareholders in a balanced way. In order to align the interests of members of the Corporate Executive Committee with the interests of shareholders, a portion of the short-term bonus (32%) and the long-term remuneration is awarded in shares of Galenica. In addition, after a period of five years, each member of the Corporate Executive Committee is required to hold shares of Galenica equal in value to at least 75% of their fixed annual base salary and target bonus.

The ratio between annual base salary and variable elements for the Corporate Executive Committee is defined in the Articles of Association of Galenica. The aggregate of the maximum possible variable elements irrespective of the effective payout is limited to 300% of the base salary of the CEO and to 250% of the base salary of each of the members of the Corporate Executive Committee. Thereof, the short-term bonus must not exceed 200% of the base salary of the CEO and 150% of the salary of each member of the Corporate Executive Committee (Art. 22 (7) Articles of Association of Galenica Ltd.; see further links on page 82).

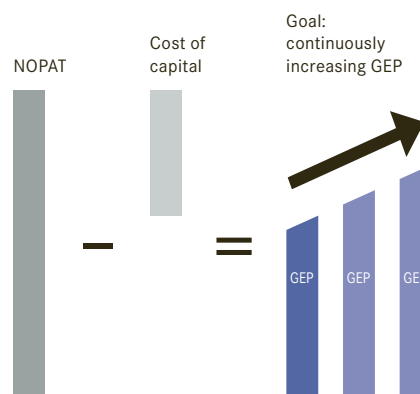
In addition to the remuneration components mentioned above, the members of the Corporate Executive Committee are eligible to participate in the share acquisition plan where employees are invited every year to acquire a certain number of blocked shares of Galenica at a discounted price (more information in the Notes to the Consolidated financial statements 2020 on page 139 and in the Human Resources section on page 46).

Galenica economic profit (GEP) as a performance indicator

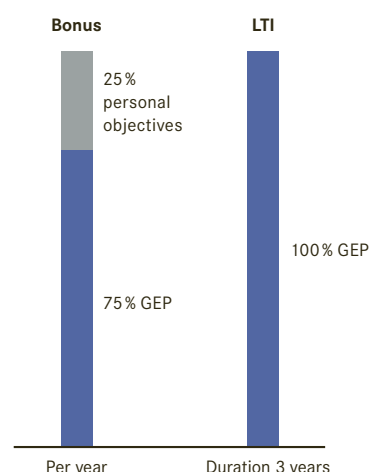
The short-term bonus and the long-term remuneration depend primarily on the achievement of the Galenica economic profit (GEP). The GEP is a measure designed to reflect the principles of value-based management derived from an economic value added (EVA) approach. It is based on the understanding that in the interests of shareholders and other important stakeholder groups, Galenica will strive to achieve a long-term investment return which exceeds the weighted average cost of capital. GEP is the key indicator in Galenica's value-based management concept. It comprises different values, such as Net operating profit after tax (NOPAT), cost of capital (WACC) and invested capital. The Board of Directors considers the economic value added (EVA) approach to be a sound, recognised and meaningful concept that is in line with sustainable value creation. GEP is calculated as the Net operating profit after tax (NOPAT) less the weighted average cost of capital (WACC) over the average invested capital. The extent to which the GEP increase is achieved has a 75% impact on the short-term bonus and a 100% impact on the number of shares allocated under the long-term incentive plan. Therefore, poor performance inevitably has a negative impact on the total remuneration (fewer shares, with each of them potentially having a lower value). However, the remuneration system does not include any particular malus provisions. Further information on GEP can be found in the Value based management section, under Alternative performance measures in the Annual Report 2020 (full version) from page 94 onwards.

Relevant parameter: Galenica economic profit (GEP)

GEP: Net operating profit after tax (NOPAT) minus weighted average cost of capital over the average invested capital



Influence on variable remuneration of the GEP increase



Overview of the remuneration components for the Corporate Executive Committee

Remuneration component	Vehicle	Purpose	Performance measures
Annual base salary	Monthly cash salary	- Attract and retain employees	
Pension & benefits	Pension and insurances Fringe benefits	- Protect against risks - Attract and retain employees	
Short-term bonus (STI)	Annual bonus in cash & shares blocked for 5 years	- Compensate for annual performance	Combination of financial objectives for the Group and individual objectives: - Galenica economic profit (75%) - Individual objectives (25%)
Long-term incentive (LTI)	PSU with a 3-year performance vesting	- Compensate for long-term performance - Align to shareholders' interests	Galenica economic profit and share price appreciation

Share ownership guidelines

After a period of five years, each member of the Corporate Executive Committee is required to hold shares of Galenica equal in value to at least 75% of their fixed annual base salary and target bonus.

Annual base salary (fixed)

The annual base salary is the fixed compensation reflecting the scope and key areas of responsibility of the function, the skills required to fulfil the function and the individual experience and competencies of the respective Corporate Executive Committee member. The base salary is determined according to typical market practice (external benchmark) and the Group internal salary structure. A base salary at median of the benchmark is considered competitive and thus suitable to reward the expected level of skills and competencies. The base salary is typically reviewed annually based on market salary trends, the company's ability to pay salaries at a particular level based on its financial performance and the evolving experience of the individual in the function. The annual base salary is paid out in cash in 13 monthly instalments.

Short-term incentive (short-term bonus, STI variable)

The annual short-term bonus aims to reward the achievement of the financial objectives of Galenica and recognises individual contributions to the company's performance over a financial year.

The target bonus, i.e. the amount paid out if all performance objectives are reached at 100%, is defined individually and annually, before the beginning of the performance year. The target bonus is expressed as a percentage of the annual base salary and varies depending of the function in the organisation and on the impact of the function on the overall business result. The target bonus for the CEO amounts to 50% of annual base salary and ranges from 40% to 45% of annual base salary for the other members of the Corporate Executive Committee.

The achievement of financial objectives of Galenica is weighted at 75% and individual objectives at 25%. As in previous years, the financial objective of Galenica for 2020 was the GEP.

For both the GEP and individual objectives, a threshold, a target, a cap and a payout curve are defined against which the results are assessed. The payout curve starts when the threshold is reached, which gives entitlement to 50% of the target bonus. Achievement of all objectives results in a bonus payment of 100%. The total bonus is capped and has an upper limit of 200% of the target bonus.

The achievement of the GEP and of the individual objectives is assessed by the Remuneration Committee for the CEO and submitted to the Board of Directors for approval. The attainment of the individual objectives by the other members of the Corporate Executive Committee is assessed by the CEO and, in consultation with the Chair of the Board of Directors, submitted to the Remuneration Committee for approval.

The payment of the short-term bonus is made in the subsequent year after the publication of the Annual report. The CEO and other members of the Corporate Executive Committee are required to draw 32% of their bonus in Galenica shares; the rest is paid out in cash. A discount of 25% on the average stock market price for the month of December 2020 applies to the shares. The shares remain blocked for five years.

If employment ends due to termination, the calculation and payment for a completed assessment period (=financial year) are based on the effective performance and results. In the event of departure during an assessment period that is still ongoing, 80% of the target bonus is paid on a pro rata basis.

Long-term incentive (LTI, variable)

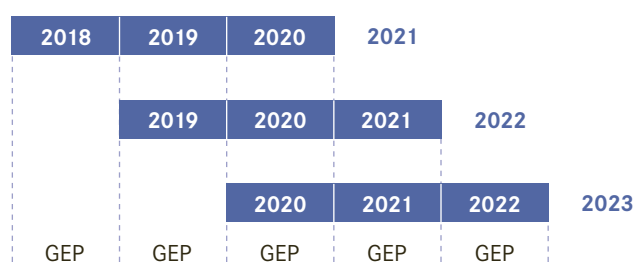
The objective of the long-term incentive is to promote the strategy of Galenica, long-term thinking, alignment to shareholders' interests and the creation of sustainable value for customers and shareholders over the long term. In addition, the long-term incentive aims to strengthen loyalty to Galenica and identification with the company.

The CEO, members of the Corporate Executive Committee and selected members of Senior Management participate in the LTI.

The LTI is based on performance share units (PSU), which are granted to participants after the release of the results for the preceding year and which convert into shares of Galenica subject to the attainment of a performance target over a three-year period defined by the Remuneration Committee. PSU are virtual; no real shares are issued.

The number of PSU allocated at the beginning of the plan period depends on a defined percentage of the annual base salary of the participant as well as the average share price during the final month prior to allocation, i.e. February. In 2020, the LTI grant for the CEO amounts to 50% of annual base salary and ranges from 25% to 35% of annual base salary for the other members of the Corporate Executive Committee.

LTI three-year programme



The factors exerting a significant influence on the value of the LTI are the operating performance of the Galenica Group and the share price performance of Galenica shares over the three-year plan period. The operating performance objective for the three-year plan period is defined by the Remuneration Committee. For the LTI 2020-2022, it was a GEP increase reflecting the risk and return requirements of the shareholders over the plan period. A threshold level of performance for the GEP is determined, below which there is no payout, as well as a target level of performance (100% payout) and a cap (200% payout). A linear interpolation is applied between the threshold and the cap. The number of PSU initially allocated is multiplied by the payout factor depending on the achievement of the GEP target at the end of the three-year plan period to provide for the number of Galenica shares that will be allocated at the end of the plan period.

As a rule, the three-year plan period must be completed in order for employees to be eligible for the payment of shares. If the employment is terminated within a plan period, an LTI payment of 80% of the pro-rata target entitlement will be made. Where a plan period has been concluded but the results have not yet been published, the entitlement will be calculated and paid out after the annual results have been published. In the event of a change of control at Galenica, the PSU granted and outstanding will be treated as if the LTI had been completed and the target had been achieved at 100%.

Pensions and other employee benefits

Employee benefit plans consist mainly of retirement plans and insurance plans that are designed to protect employees against the risks of disability and death. The CEO and the members of the Corporate Executive Committee are covered by the pension scheme applicable to all employees. The pension solution of Galenica fulfils the legal requirements of the Swiss Federal Law on Occupational Pension Schemes (BVG) and is in line with what is being offered in the market.

Except for the expense allowance and the entitlement to a company car in line with the car policy of Galenica, the CEO and the members of the Corporate Executive Committee do not receive any particular additional benefits. The private use of the company car is disclosed at fair value in the remuneration table under other remuneration.

Share ownership guideline

Members of the Corporate Executive Committee are required to hold shares of Galenica equal in value to at least 75% of their fixed annual base salary and target bonus within a period of five years of their appointment to the Corporate Executive Committee.

Employment contracts

The CEO and the members of the Corporate Executive Committee are employed under employment contracts of unlimited duration and are subject to a notice period of a maximum of 12 months. They are not entitled to any severance packages, termination payments or change-of-control payments. The employee contracts do not include non-competition clauses. With regard to clawback, the statutory claims for repayment apply (see among others Art. 678 (2) of the Code of Obligations, CO).

Remuneration awarded for 2020 and 2019

Remuneration awarded to the Board of Directors for 2020 and 2019

Comments to the remuneration tables of the members of the Board of Directors

In 2020, the Board of Directors consisted of seven members, as it did in 2019. The total remuneration awarded to the Board of Directors amounts to CHF 1.6 million and is in line with the amount of CHF 1.9 million approved at the Annual General Meeting in 2019. It is an decrease of 3.8% compared to previous year (remuneration was reduced for the function of Chair of the Board of Directors beginning from the 2019 Annual General Meeting).

Remuneration awarded to the CEO and the members of the Corporate Executive Committee for 2020 and 2019

Comments to the remuneration tables of the members of the Corporate Executive Committee

In 2020, Marc Werner, CEO as of 1 April 2020, was the member of the Corporate Executive Committee with the highest remuneration.

The remuneration awarded to the CEO in the year 2020 and the Corporate Executive Committee amounts to CHF 3.9 million and is in line with the amount of CHF 6.0 million approved at the Annual General Meeting in 2019. It is an decrease compared to previous year, for the following reasons:

- The base salaries were lower compared with the previous year (-8.6%). This is due to the new composition of the Corporate Executive Committee. The base salary of one member of the Corporate Executive Committee was increased for 2020 to bring it closer to the level of the other members of the Corporate Executive Committee.
- The payout under the short-term bonus was significantly lower in 2020 due to the COVID-19 pandemic compared to the previous year.

- The LTI grant value increased by 62.8% versus the previous year. The high increase is attributable to the fact that the LTI grants to members of the Corporate Executive Committee who stepped down in the reporting year are reported in full (even though some of the entitlement is forfeited). The LTI grants to new members are also fully disclosed. The value of the LTI grants for individual members of the Corporate Executive Committee was not increased versus the previous year.
- The variable compensation in the year 2020 amounted to 109% of the annual base salary for the CEO and ranged between 61% and 75% of the annual base salary for the other members of the Corporate Executive Committee.

Performance in 2020

The Galenica Group generated consolidated net sales of CHF 3,479.8 million in 2020, representing a strong increase of 5.4%. The adjusted¹⁾ operating result (EBIT), i.e. excluding the effects of the IFRS 16 (Leases) and IAS 19 (Employee Benefits) accounting standards, amounted to a solid CHF 168.6 million and slightly increased by +1.0% compared to the previous year (CHF 166.9 million). Thanks to an extraordinary IAS 19 book profit of CHF 49.8 million due to the adjustment of the conversion rates in the Galenica Pension Fund, reported EBIT increased by 25.9% to CHF 213.3 million (previous year: CHF 169.5 million). Adjusted¹⁾ return on sales (ROS) declined slightly to 4.8% in the year under review (previous year: 5.1%). This was due to the strong sales growth with lower margins in the Services Business sector and COVID-19 effects. Net profit was up 37.8% year-on-year to CHF 172.7 million, influenced heavily by the aforementioned IAS 19 gain. On a comparable basis, adjusted¹⁾ net profit amounted to CHF 138.0 million (+2.8%).

¹⁾ See section Alternative performance measures from page 86 onwards in the Annual report 2020 (full version).

Payout factor 2019 and 2020

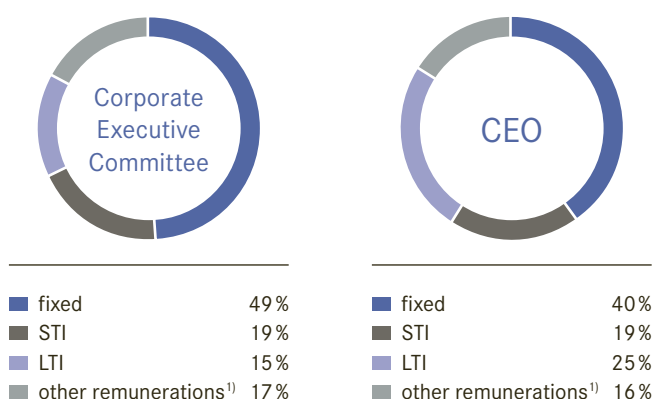
Payout factor for short-term bonus (STI, one-year basis)

2019		125.8%
2020		81.2%

Payout factor for LTI (three-year basis)

2017-2019		121.1%
2018-2020		78.1%

Ratio between fixed and variable remuneration 2020 (remuneration awarded)



¹⁾ Including costs for employee benefit plans and social security charges

Remuneration of the members of the Board of Directors in 2020

Net payments in thousand CHF	Salary				Number of shares	
	Salary in cash	Equivalent in shares ¹⁾	Other remuneration ²⁾	Total	Held as at 31.12.2020 ³⁾	Allocated for 2020
Daniela Bosshardt, Chairwomen	—	467	22	489	14,185	7,946
Pascale Bruderer (from 20 May 2020)	—	100	5 ⁴⁾	105	—	1,703
Michel Burnier	60	80	6	146	6,903	1,362
Fritz Hirsbrunner (until 19 May 2020)	—	80	3	83	9,852	1,362
Bertrand Jungo	88	117	12 ⁵⁾	217	2,963	2,001
Markus R. Neuhaus	—	211	11	222	3,812	3,604
Philippe Nussbaumer	—	160	8	168	10,269	2,724
Andreas Walde	75	100	10	185	10,279	1,703
Remuneration of the members of the Board of Directors⁶⁾	223	1,315	77	1,615	58,263	22,405
<i>Maximum amount according to GM resolution</i>				<i>1,900</i>		

¹⁾ The amounts include the calculated discount of 25 %, granted due to the five-year blocking period

²⁾ Other remuneration corresponds to the social security charges due from the member of the Board of Directors but paid by Galenica. Employer's contributions to social security charges for 2020 amounted to CHF 77,000 (not included in the above amount)

³⁾ Shares held by related parties of members of the Board of Directors are included in the declaration of the totals disclosed above

⁴⁾ The employer's contributions to the pension fund as well as the employee's contributions were paid by Pascale Bruderer

⁵⁾ The employer's contributions to the pension fund as well as the employee's contributions were paid by Bertrand Jungo

⁶⁾ See pages 53, 58 and 59 of the Corporate Governance section for roles and membership of committees

Remuneration of the members of the Board of Directors in 2019

Net payments in thousand CHF	Number of months	Salary			Total	Number of shares	
		Salary in cash	Equivalent in shares ¹⁾	Other remuneration ²⁾		Held as at 31.12.2019 ³⁾	Allocated for 2019
Chair of the Board of Directors							
Jörg Kneubühler, Chairman (until 2 May 2019) ⁴⁾	4	82	109	11 ⁵⁾	202	n/a	1,813
Daniela Bosshardt, Chairwoman (from 3 May 2019)	8	—	311	12	323	7,822	5,179
Members of the Board of Directors							
Daniela Bosshardt (until 2 May 2019)	4	—	71	6	77	n/a ⁶⁾	1,184
Michel Burnier	12	—	160	6	166	4,239	2,664
Fritz Hirsbrunner	12	—	200	7	207	7,157	3,330
Bertrand Jungo	12	80	107	11	198	1,187	1,776
Markus R. Neuhaus (from 3 May 2019)	8	—	124	7	131	1,740	2,072
Philippe Nussbaumer	12	—	160	8	168	7,605	2,664
Andreas Walde	12	—	196	10	206	7,023	3,256
Remuneration of the members of the Board of Directors⁷⁾		162	1,438	78	1,678	36,773	23,938
<i>Maximum amount according to GM resolution</i>					<i>1,900</i>		

¹⁾ The amounts include the calculated discount of 25 %, granted due to the five-year blocking period

²⁾ Other remuneration corresponds to the social security charges due from the member of the Board of Directors but paid by Galenica. Employer's contributions to social security charges for 2019 amounted to CHF 78,000 (not included in the above amount)

³⁾ Shares held by related parties of members of the Board of Directors are included in the declaration of the totals disclosed above

⁴⁾ Jörg Kneubühler received CHF 300,000 for consultancy services from 3 May 2019

⁵⁾ Both the employer's and employee's contributions to the pension fund were paid by Jörg Kneubühler

⁶⁾ Included in the balance above (7,822 shares)

⁷⁾ See from page 60 (annual report 2019) of the Corporate Governance section for roles and membership of committees

Remuneration of the members of the Corporate Executive Committee in 2020

in thousand CHF	Total	of which Marc Werner, CEO (as of 1 april 2020)
Base salary	1,855	375
Short-term bonus in cash (STI) ¹⁾	449	106
Short-term bonus in shares (STI) ²⁾	282	67
Long-term incentive ³⁾	700	236
Contributions to pension funds	328	69
Other remuneration ⁴⁾	48	16
Remuneration awarded⁵⁾	3,662	869
Social security costs	276	64
Remuneration of the members of the Corporate Executive Committee⁵⁾	3,938	933
<i>Maximum amount according to GM resolution</i>	<i>6,000</i>	

Five members in 2020

¹⁾ The short-term bonus for the reporting year, which is paid out in the following year

²⁾ The amounts include the calculated discount of 25 %, granted due to the five-year blocking period

³⁾ Performance share units falling due after three years are included with the fair value at allocation based on the estimated target achievement

⁴⁾ Including private use of company car

⁵⁾ Including remuneration of Jean-Claude Cléménçon until 31 March 2020 (stepped down from the Corporate Executive Committee as CEO effective 31 March 2020) and of Christoph Amstutz until 31 August 2020 (stepped down from the Corporate Executive Committee as Head of the Services Business sector effective 31 August 2020). Jean-Claude Cléménçon and Christoph Amstutz received a total of CHF 411,000 after their respective exits from the Corporate Executive Committee. This amount is not included in the disclosed amount

Remuneration of the members of the Corporate Executive Committee in 2019

in thousand CHF	Total	of which Jean-Claude Cléménçon, CEO
Base salary	2,029	450
Short-term bonus in cash (STI) ¹⁾	792	206
Short-term bonus in shares (STI) ²⁾	437	129
Long-term incentive ³⁾	430	99
Contributions to pension funds	387	103
Other remuneration ⁴⁾	57	11
Remuneration awarded⁵⁾	4,132	998
Social security costs	292	68
Remuneration of the members of the Corporate Executive Committee⁵⁾	4,424	1,066
<i>Maximum amount according to GM resolution</i>	<i>5,800</i>	

Five members in 2019

¹⁾ The short-term bonus for the reporting year, which is paid out in the following year

²⁾ The amounts include the calculated discount of 25 %, granted due to the five-year blocking period

³⁾ Performance share units falling due after three years are included with the fair value at allocation based on the estimated target achievement (IFRS 2). The total remuneration of the LTI Programme 2019–2021 for the Corporate Executive Committee amounts to CHF 430,000, of which CHF 99,000 is related to Jean-Claude Cléménçon. Calculated with 19/36 months for the CEO as retired with effect from 31 July 2020

⁴⁾ Including private use of company car

⁵⁾ Including remuneration of Torvald de Coverly Veale, member of the Corporate Executive Committee and Head of Products & Brands Business sector until 13 January 2019

Short term incentive (STI)

In 2020, a GEP of CHF 43.9 million was achieved (see Value based management section, under Alternative performance measures in the Annual report 2020 [full version] from page 94 onwards). This corresponds to a decrease in GEP of 8.7% over the prior year. Regarding the part of GEP the short-term bonus payment (STI), this represents a payout factor of 73.6% for the financial year 2020.

Individual performance is measured using 3–5 qualitative and quantitative personal objectives specifically defined for each Corporate Executive Committee member. The average personal payout factor for the members of the Corporate Executive Committee is 104%.

Consequently, the overall bonus payout percentage amounts to 83.3% for the CEO and ranges from 80.2% to 81.5% of the target value for the other members of the Corporate Executive Committee. This compares to a payout of 134.6% for the CEO and of 100.0% to 132.1% of the target value for the other Corporate Executive Committee members in 2019.

Long-term incentive

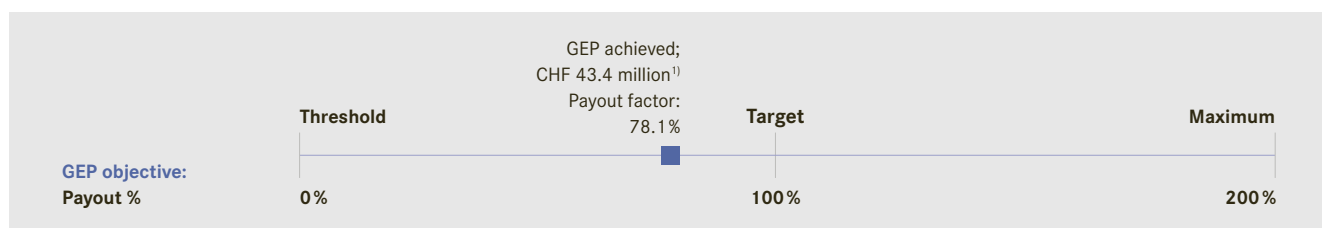
For the LTI plan 2018–2020, payable in early 2021, the GEP achievement was CHF 43.4 million. This represents a payout factor of 78.1%.

Performance under the short-term bonus in 2020

KPIs	2020 objectives	Payout	2020 results
Group financial performance (75% weighting)	Maximum	220%	GEP achieved: CHF 43.9 million Payout factor: 73.6%
	Target	100%	
	Threshold	50%	
Personal objectives (25% weighting)	3–5 quantitative and qualitative KPIs	0%–150%	Average payout factor Corporate Executive Committee (incl. CEO): 104%
Payout CEO			83.3%
Payout Corporate Executive Committee (without CEO)			80.2%–81.5%



Performance under the LTI 2018–2020



¹⁾ Based on an old GEP definition valid at the time of the LTI 2018–2020

Other remuneration

Options

Neither the members of the Board of Directors nor the members of the Corporate Executive Committee hold tradable options.

Loans and credits

Galenica did not grant any loans or credits to members of the Board of Directors, members of the Corporate Executive Committee or related persons in 2020.

Former members of the Board of Directors and Corporate Executive Committee

Galenica did not pay any remuneration to former members of the Board of Directors or Corporate Executive Committee in 2020.

Shareholdings of the Corporate Executive Committee and the Board of Directors

Equity overhang and dilution as of 31 December 2020

The equity overhang, defined as the total number of PSU outstanding (56,999 unvested PSU) divided by the total number of outstanding shares (49,498,560 shares) is 0.12%.

The burn rate, defined as the total number of equities (shares and performance share units) granted in 2020 (124,850 shares and 18,720 PSU) divided by the total number of outstanding shares, is 0.29%.

Shareholdings and rights to performance share units of members of the Corporate Executive Committee 2020

	Number of shares held as of 31.12.2020 ¹⁾	Long-term Incentive Programme (LTI) Performance share units (PSU) ²⁾			
		PSU granted in 2020 (potential vesting at 31.12.2022) ³⁾	PSU granted in 2019 (potential vesting at 31.12.2021) ³⁾	PSU granted in 2018 (settled at 31.12.2020) ³⁾	PSU pending
Marc Werner	80	3,442	—	—	3,442
Felix Burkhard	16,287	1,990	3,028	2,284	7,302
Andreas Koch	1,690	967	606	428	2,001
Daniele Madonna	6,328	1,130	1,612	1,194	3,936
Thomas Szuran	1,375	1,303	1,983	—	3,286

¹⁾ Shares held by related parties of members of the Corporate Executive Committee are also included in the totals disclosed above

²⁾ Each PSU transforms into a number (between 0 and 2) of shares at vesting and based on GEP target achievement

³⁾ The allocated PSU are taken into account with the target value. The shares corresponding to the PSU are transferred to the beneficiaries in the subsequent year

Shareholdings and rights to performance share units of members of the Corporate Executive Committee 2019

	Number of shares held as of 31.12.2019 ¹⁾	Long-term Incentive Programme (LTI) Performance share units (PSU) ²⁾			PSU pending
		PSU granted in 2019 (potential vesting at 31.12.2021) ³⁾	PSU granted in 2018 (potential vesting at 31.12.2020) ³⁾	PSU granted in 2017 (settled at 31.12.2019) ³⁾	
Jean-Claude Cléménçon	5,191	2,634	4,152	5,739	12,525
Felix Burkhard	14,080	3,028	2,925	3,527	9,480
Christoph Amstutz	5,779	1,719	1,661	1,980	5,360
Daniele Madonna	3,690	1,612	1,529	1,467	4,608
Thomas Szuran	80	1,983	—	—	1,983

¹⁾ Shares held by related parties of members of the Corporate Executive Committee are also included in the totals disclosed above

²⁾ Each PSU transforms into a number (between 0 and 2) of shares at vesting and based on GEP target achievement

³⁾ The allocated PSU are settled with the target value. The shares corresponding to the PSU are transferred to the beneficiaries in the subsequent year

Outlook

In 2020, the Remuneration Committee conducted a review of the remuneration system of the Corporate Executive Committee. Based on this analysis, the Remuneration Committee concluded that the remuneration structure overall is appropriate and aligned with market practice. In terms of performance measurement and governance, the Remuneration Committee proposed several changes that were approved by the Board of Directors and will be implemented in 2021:

- Introduction of a growth performance objective and a sustainability objective in the Short-term Incentive Programme (STI);
- Introduction of a relative total shareholder return (TSR) performance condition in the Long-term Incentive Programme (LTI);
- Revision of the termination rules in the LTI;
- Introduction of clawback and malus provisions in the LTI.

		Current		New
STI	Performance objectives	75 % GEP	➔	50 % GEP
		25 % individual objectives		25 % growth
LTI	Performance objectives	100 % GEP	➔	50 % GEP
				50 % relative TSR
	Terms & conditions	Termination rules	➔	Stricter termination rules
		No clawback and malus provisions		New clawback and malus provisions

¹⁾ ESG stands for Environmental, Social and Governance

Further details about those changes are provided below.

Short-term Incentive Programme (STI)

The performance metrics under the STI will continue to include the Group's financial objectives with a weighting of 75 % and individual objectives with a weighting of 25 %.

The financial performance, currently fully based on GEP, will in future comprise a growth component in the form of the annual net sales growth of the Group. This growth component will account for one third of the financial performance (25% of the overall STI).

The individual performance will be refined to include a maximum of three individual objectives, cascaded from the strategic objectives defined for the Group. At least one of these individual objectives will refer to sustainability, chosen on the basis of the core environmental, social and governance (ESG) topics identified in the sustainability strategy of Galenica. For 2021, the ESG objective will relate to customer satisfaction.

The other characteristics of the STI will remain unchanged.

Long-term Incentive Programme (LTI)

In order to further strengthen the link with shareholders' interests, the LTI will include a new performance objective: the total shareholder return (TSR), measured in relation to a peer group of relevant companies. The peer group will include SMIM companies except financial services, real estate and companies active in a very cyclical business (such as Adecco, Dufry, Kühne+Nagel and OC Oerlikon). The objective will be to outperform half of the peer companies (100 % payout). There will be no vesting for performance within the

lower quartile of the peer group and the cap of 200% will be reached when Galenica is the best company in the peer group.

The relative TSR will account for 50% of the performance assessment of the LTI. The remaining 50% will continue to be subject to GEP performance. GEP is now calculated as a three-year average during the plan period.

In addition, and in order to reinforce good governance principles, the Board of Directors decided to strengthen the termination rules and to introduce clawback and malus provisions.

In case of voluntary resignation or termination for cause, or due to performance and/or behavior issues, the unvested awards will forfeit. Furthermore, clawback and malus provisions will apply in case of financial restatement due to material non-compliance with any accounting reporting standards, or in case a participant acts in violation of the law or internal regulations of Galenica.

The Board of Directors trusts that those changes are well aligned with the business strategy and with shareholders' interests.

Related links

www.galenica.com

- **Articles of Association Galenica Ltd., Art. 21 (Remuneration Committee):** Publications / Downloadcenter / Corporate Governance
 - **Articles of Association Galenica Ltd., Art. 22 (Remuneration):** Publications / Downloadcenter / Corporate Governance
 - **Remuneration Committee Charter:** About Galenica / Organisation / Board of Directors
-

To the General Meeting of
Galenica Ltd., Berne

Berne, 4 March 2021

Report of the statutory auditor on the remuneration report

We have audited the remuneration report of Galenica Ltd. for the year ended 31 December 2020. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained on pages 76 to 80 of the remuneration report.



Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance. The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.



Auditor's responsibility

Our responsibility is to express an opinion on the remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

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



Opinion

In our opinion, the remuneration report for the year ended 31 December 2020 of Galenica Ltd. complies with Swiss law and articles 14–16 of the Ordinance.

Ernst & Young Ltd

Roland Ruprecht
Licensed audit expert
(Auditor in charge)

Simone Wittwer
Licensed audit expert

Alternative performance measures and Financial statements 2020



In addition to information based on IFRS, management uses alternative performance measures to assess the financial and operational performance of Galenica. Management believes that these non-IFRS financial performance measures provide useful information regarding Galenica's financial and operational performance. The

financial statements of Galenica are based on the financial statements of the individual companies of Galenica, prepared in accordance with uniform principles. The Board of Directors released the financial statements 2020 on 4 March 2021 for publication.

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Alternative performance measures 2020 of the Galenica Group

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Definitions of alternative performance measures

The annual report, the half year report and other communication to investors contain certain financial performance measures, which are not defined by IFRS. In addition to information based on IFRS, management uses these alternative performance measures to assess the financial and operational performance of the Group. Management believes that these non-IFRS financial performance measures provide useful information regarding Galenica's financial and operational performance. Alternative performance measures are used in Galenica's value-based management as the basis for management's incentive and remuneration schemes. Such measures may not be comparable to similar measures presented by other companies. The main alternative performance measures used by Galenica are explained and/or reconciled with the IFRS measures in this section.

The alternative performance measures are unaudited.

IAS 19 – Employee benefits

The pension plans of Galenica are organised in legally independent pension funds and are based purely on the defined contribution principle as stated in the Swiss "BVG" law. Nevertheless, Galenica's pension plans are classified as defined benefit pension plans under IAS 19.

Galenica's results are influenced by external parameters that cannot be managed by the Group and the management is of the opinion that such an impact should be excluded when it comes to assess the performance of the Galenica Group. For this reason, Galenica also evaluates its performance by adjusting personnel costs as if those plans were defined contribution plans (adjustments for the effects of IAS 19). For these adjustments, the costs of defined benefit plans and long-service awards determined in accordance with IAS 19 are replaced by an expense based on the employer's contribution and long-service awards for the period of service.

IFRS 16 – Leases

Since 1 January 2019, lessees have to account for most leases on balance sheet by recognising lease liabilities and corresponding right-of-use assets. The right-of-use assets are depreciated over the lease term and the lease liabilities generate interest expense in the statement of income. Variable lease payments, not dependent on an index or rate, such as sales-based rental expenses are accounted for as operating expenses when they are incurred. With its large network of retail pharmacies, IFRS 16 has a significant impact on Galenica's balance sheet and the presentation of lease related expenses in the consolidated statement of income.

Galenica has lease agreements with fixed and variable lease payments and these payments affect various line items in the statement of income making comparisons across individual pharmacies and points-of-sale difficult. For this reason management also monitors results by adjusting the statement of income and balance sheet as if lease agreements were still accounted for as operating leases, e.g. all lease expense is presented in other operating costs on a straight-line basis and the depreciation of the right-of-use assets and the interest expense on the lease liabilities are removed. Income taxes are also adjusted accordingly.

These adjustments allow management to evaluate results with periods prior to the introduction of IFRS 16. In addition, IFRS 16 adjusted measures are important for Galenica's value-based management and therefore for management's incentive and remuneration schemes. As the type and duration of rental agreements under IFRS 16 have a significant influence on the invested capital and accordingly on the return on invested capital (ROIC) and on the Galenica economic profit (GEP), the invested capital is stated after removing lease liabilities. This minimises the risk that management makes decisions that are not in the interest of Galenica due to potential incentives when concluding leases.

Organic growth of net sales

Organic growth of net sales shows the development of net sales for the business sectors Products & Brands, Retail and Services excluding the effects of acquisitions, new license agreements, openings and closures of pharmacies (effect of net expansion). It provides a “like-for-like” comparison with previous periods. In the Products & Brands business sector, organic growth of net sales is calculated only including existing business activities with a full year period comparison. In the Retail business sector, organic growth of net sales is calculated only including points of sales with a full year period comparison. In order to show the impact of mandatory price reductions of medications reimbursed by health insurers on net sales transparently, organic growth of net sales is also disclosed without the effect of price reductions.

Organic growth of net sales 2020

in thousand CHF	Products & Brands	Retail	Services
Net sales	111,735	1,556,135	2,631,654
Change to previous period	9.4%	2.7%	7.8%
Effect of net expansion	17,698 ¹⁾	47,852 ²⁾	—
In % of net sales of previous period	17.3%	3.2%	—
Net sales excluding effect of net expansion	94,036	1,508,283	2,631,654
Organic growth of net sales⁴⁾	-7.9%	-0.5%	7.8%
Mandatory price reductions ³⁾	—	24,670	42,794
In % of net sales of previous period	—	1.6%	1.8%
Net sales excluding effect of net expansion and mandatory price reductions	94,036	1,532,953	2,674,447
Organic growth of net sales excluding price reductions	-7.9%	1.1%	9.6%

¹⁾ The effect of net expansion is calculated only including business activities without a full year period comparison (acquisitions and new license agreements)

²⁾ The effect of net expansion is calculated only including point of sales without a full year period comparison (acquisitions, openings and closure of pharmacies)

³⁾ Mandatory price reductions of medications reimbursed by health insurers of the specialities list (SL/LS) released by the Federal Office of Public Health (FOPH), calculated based on volumes of previous period

⁴⁾ Including one-time effect due to change in intra-Group transactions: reduction of net sales by 1.7% in the Retail Business sector, increase of net sales by 2.3% in the Services Business sector

Organic growth of net sales 2019

in thousand CHF	Products & Brands	Retail	Services
Net sales	102,121	1,515,726	2,441,048
Change to previous period	11.3%	6.0%	2.9%
Effect of net expansion	8,481 ¹⁾	79,836 ²⁾	—
In % of net sales of previous period	9.2%	5.6%	—
Net sales excluding effect of net expansion	93,640	1,435,890	2,441,048
Organic growth of net sales	2.1%	0.4%	2.9%
Mandatory price reductions ³⁾	—	26,329	54,466
In % of net sales of previous period	—	1.8%	2.3%
Net sales excluding effect of net expansion and mandatory price reductions	93,640	1,462,219	2,495,514
Organic growth of net sales excluding price reductions	2.1%	2.2%	5.2%

¹⁾ The effect of net expansion is calculated only including business activities without a full year period comparison (acquisitions, new license agreements)

²⁾ The effect of net expansion is calculated only including point of sales without a full year period comparison (acquisitions, openings and closure of pharmacies)

³⁾ Mandatory price reductions of medications reimbursed by health insurers of the specialities list (SL/LS) released by the Federal Office of Public Health (FOPH), calculated based on volumes of previous period

Adjusted consolidated statement of income

Galenica's consolidated statement of income adjusted by IAS 19 effects related to employee benefits (defined benefit plans and long-service awards) and IFRS 16 lease effects allowing financial results to be assessed on a comparable basis.

Adjusted consolidated statement of income 2020

in thousand CHF	As reported	Adjustments		Adjusted
		IAS 19	IFRS 16	
Net sales	3,479,753	–	–	3,479,753
Health & Beauty ¹⁾	1,671,383	–	–	1,671,383
Services ¹⁾	2,631,654	–	–	2,631,654
Other income	15,053	–	–	15,053
Operating income	3,494,806	–	–	3,494,806
Cost of goods	(2,599,093)	–	–	(2,599,093)
Personnel costs	(442,910)	(41,621)	–	(484,531)
Other operating costs	(147,804)	–	(52,886)	(200,690)
Share of profit from associates and joint ventures	4,486	(1,363)	(7)	3,115
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	309,484	(42,985)	(52,893)	213,606
Health & Beauty ¹⁾	196,903	–	(50,396)	146,507
Services ¹⁾	70,574	–	(2,497)	68,077
Depreciation and amortisation	(96,157)	–	51,107	(45,051)
Earnings before interest and taxes (EBIT)	213,327	(42,985)	(1,787)	168,556
Return on sales (ROS) ²⁾	6.1%	(1.2%)	(0.1%)	4.8%
Health & Beauty ¹⁾	125,623	–	(1,712)	123,911
Return on sales (ROS) ²⁾	7.5%	–	(0.1%)	7.4%
Services ¹⁾	45,476	–	(75)	45,401
Return on sales (ROS) ²⁾	1.7%	–	–	1.7%
Net financial expenses	(4,734)	49	2,321	(2,364)
Earnings before taxes (EBT)	208,593	(42,936)	534	166,191
Income taxes	(35,875)	7,670	(37)	(28,241)
Net profit	172,718	(35,266)	497	137,950
Attributable to:				
– Shareholders of Galenica Ltd.	172,245	(35,272)	498	137,471
– Non-controlling interests	474	6	–	480

¹⁾ Reported for each Segment not taking into account Corporate and Eliminations

²⁾ Calculated as EBIT divided by net sales

in CHF	As reported	Adjustments		Adjusted
		IAS 19	IFRS 16	
Earnings per share	3.48	(0.71)	0.01	2.78
Diluted earnings per share	3.48	(0.71)	0.01	2.78

Adjusted consolidated statement of income 2019

in thousand CHF	As reported	Adjustments		Adjusted
		IAS 19	IFRS 16	
Net sales	3,301,002	—	—	3,301,002
Health & Beauty ¹⁾	1,620,785	—	—	1,620,785
Services ¹⁾	2,441,048	—	—	2,441,048
Other income	13,516	—	—	13,516
Operating income	3,314,518	—	—	3,314,518
Cost of goods	(2,453,528)	—	—	(2,453,528)
Personnel costs	(464,119)	91	—	(464,028)
Other operating costs	(142,191)	—	(50,031)	(192,222)
Share of profit from associates and joint ventures	5,656	(23)	53	5,686
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	260,336	68	(49,978)	210,426
Health & Beauty ¹⁾	194,220	—	(47,749)	146,471
Services ¹⁾	68,003	—	(2,229)	65,774
Depreciation and amortisation	(90,845)	—	47,294	(43,551)
Earnings before interest and taxes (EBIT)	169,491	68	(2,684)	166,875
Return on sales (ROS) ²⁾	5.1%	—	(0.1%)	5.1%
Health & Beauty ¹⁾	126,270	—	(2,570)	123,700
Return on sales (ROS) ²⁾	7.8%	—	(0.2%)	7.6%
Services ¹⁾	44,793	—	(114)	44,679
Return on sales (ROS) ²⁾	1.8%	—	—	1.8%
Net financial expenses	(6,098)	459	2,471	(3,168)
Earnings before taxes (EBT)	163,393	527	(213)	163,707
Income taxes ³⁾	(38,093)	41	145	(37,907)
Net profit⁴⁾	125,300	568	(68)	125,800
Attributable to:				
– Shareholders of Galenica Ltd.	124,992	561	(69)	125,484
– Non-controlling interests	308	7	1	316

¹⁾ Reported for each Segment not taking into account Corporate and Eliminations

²⁾ Calculated as EBIT divided by net sales

³⁾ Including one-off expense of CHF 8.4 million related to the change of provisions for deferred taxes due to Swiss Tax Reform

⁴⁾ Net profit comparable of CHF 134.2 million is calculated as net profit adjusted without one-off tax expense of CHF 8.4 million.

Earnings per share comparable would be CHF 2.72

in CHF	As reported	Adjustments		Adjusted
		IAS 19	IFRS 16	
Earnings per share	2.54	0.01	—	2.55
Diluted earnings per share	2.53	0.01	—	2.54

Free cash flow

The free cash flow shows Galenica's capacity to pay dividends and repay debt and repay equity. It provides information on the remaining cash and cash equivalents from the operating cash flow, reduced by all lease payments and after consideration of investment activities.

Free cash flow

in thousand CHF	2020	2019
Cash flow from operating activities before working capital changes	238,763	237,405
Payment of lease liabilities	(49,065)	(47,622)
Cash flow from operating activities before working capital changes adjusted	189,698	189,783
Working capital changes	(14,403)	13,033
Cash flow from operating activities adjusted	175,295	202,816
Cash flow from investing activities without M&A ¹⁾	(57,280)	(57,786)
Free cash flow before M&A	118,015	145,030
Cash flow from M&A ²⁾	(58,369)	(77,108)
Free cash flow	59,646	67,922

¹⁾ Cash flow from investing activities without purchase and sale of subsidiaries (net cash flow)

²⁾ Cash flow from purchase and sale of subsidiaries (net cash flow)

Cash conversion

	2020	2019
Cash conversion ¹⁾	73.3%	74.8%

¹⁾ Calculated as EBITDA adjusted less CAPEX (investments in property, plant and equipment and intangible assets) divided by EBITDA adjusted

Capital management

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

Galenica defines the capital that it manages as invested interest-bearing liabilities and equity. Galenica uses a system of financial control based on various key performance indicators. Capital is monitored based on the gearing, for example, which expresses net debt as a percentage of shareholders' equity including non-controlling interests and is communicated regularly to management as part of internal reporting. The debt coverage expresses net debt as a multiple of earnings before interest, taxes, depreciation and amortisation (EBITDA). Debt coverage ratio provide information about the creditworthiness of the Group. Galenica has no covenants requiring a minimum level of debt coverage.

Total assets and shareholders' equity are adjusted for the cumulative effects of the IAS 19 and IFRS 16 adjustments and net debt is adjusted for lease liabilities.

Total assets

in thousand CHF	2020	2019
Total assets	2,258,938	2,209,579
Cumulative effects of IAS 19 adjustments	(5,522)	(4,154)
Cumulative effects of IFRS 16 adjustments	(209,818)	(224,419)
Total assets adjusted	2,043,599	1,981,006

Net debt

in thousand CHF	2020	2019
Current financial liabilities ¹⁾	40,933	44,630
Current lease liabilities	47,209	47,796
Non-current financial liabilities ¹⁾	380,667	380,800
Non-current lease liabilities	170,792	182,772
Cash and cash equivalents	(59,781)	(90,532)
Interest-bearing receivables	(8,078)	(8,811)
Net debt	571,743	556,655
Lease liabilities (current and non-current)	(218,001)	(230,568)
Net debt adjusted	353,741	326,087

¹⁾ Excluding non-interest-bearing financial liabilities

Shareholders' equity

in thousand CHF	2020	2019
Shareholders' equity	1,053,355	999,540
Cumulative effects of IAS 19 adjustments	51,475	48,246
Cumulative effects of IFRS 16 adjustments	5,251	4,754
Shareholders' equity adjusted	1,110,081	1,052,540

Equity ratio

	2020	2019
Equity ratio ¹⁾	46.6%	45.2%
Equity ratio adjusted ²⁾	54.3%	53.1%

¹⁾ Calculated as shareholders' equity divided by total assets

²⁾ Calculated as shareholders' equity adjusted divided by total assets adjusted

Gearing

	2020	2019
Gearing ¹⁾	54.3%	55.7%
Gearing adjusted ²⁾	31.9%	31.0%

¹⁾ Calculated as net debt divided by shareholders' equity

²⁾ Calculated as net debt adjusted divided by shareholders' equity adjusted

Debt coverage

	2020	2019
Debt coverage ¹⁾	1.8×	2.1×
Debt coverage adjusted ²⁾	1.7×	1.5×

¹⁾ Calculated as net debt divided by EBITDA

²⁾ Calculated as net debt adjusted divided by EBITDA adjusted

Value based management

Galenica has an integrated value-based management concept in place that derived from an economic value added (EVA) approach. It is based on the understanding that in the interest of shareholders and other important groups of stakeholders, Galenica will strive to achieve a long-term investment return which exceeds the weighted average cost of capital (WACC). Targets, plans, performance measurement and management compensation are aligned to increase the enterprise value.

Invested capital

Invested capital corresponds to current and fixed operating assets less cash and cash equivalents and non-interest-bearing current liabilities. In the following, invested capital is calculated indirectly via equity and net debt.

in thousand CHF	2020	2019
Shareholders' equity adjusted	1,110,081	1,052,540
Net debt adjusted	353,741	326,087
Deferred tax assets ¹⁾	(518)	—
Deferred tax liabilities ¹⁾	49,638	38,570
Invested capital	1,512,942	1,417,197
Average invested capital	1,465,070	1,364,517

¹⁾ Without deferred taxes due to IAS 19 and IFRS 16 as already taken into account in shareholders' equity adjusted

Net operating profit after tax (NOPAT) and return on invested capital (ROIC)

Net operating profit after tax (NOPAT) is the profit before interest and after depreciation, amortisation and taxes. It is calculated from the operating result (EBIT adjusted) less calculatory income taxes.

Return on invested capital (ROIC) is calculated as NOPAT divided by the average of invested capital. This measure of performance integrates both measures of profitability and measures of capital efficiency.

in thousand CHF	2020	2019
EBIT adjusted	168,556	166,875
Net financial income from financial assets	724	(253)
Net operating profit before taxes	169,280	166,622
Calculatory tax rate (20%)	(33,856)	(33,324)
Net operating profit after taxes (NOPAT)	135,424	133,298
Return on invested capital (ROIC)¹⁾	9.2%	9.8%

¹⁾ Calculated as NOPAT in % of average invested capital

Galenica economic profit (GEP)

The most important key figure in Galenica's value-based management concept is the Galenica economic profit (GEP). The GEP illustrates the result of the Galenica Group after consideration of the cost of capital. GEP is a measure designed to reflect the principles of value-based management derived from an economic value added (EVA) approach. GEP is calculated as the NOPAT less the WACC over the average invested capital.

in thousand CHF	2020	2019
Net operating profit after taxes (NOPAT)	135,424	133,298
Cost of capital ¹⁾	(91,567)	(85,282)
Galenica economic profit (GEP)	43,857	48,016

¹⁾ Calculated as average invested capital multiplied with WACC (weighted average cost of capital) of 6.25%

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Consolidated statement of income

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

in CHF

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

Consolidated statement of comprehensive income

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

Consolidated statement of financial position

Assets

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

Liabilities and shareholders' equity

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

Consolidated statement of cash flows

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

¹⁾ Cash and cash equivalents include cash, sight deposits at financial institutions and time deposits with an original term of three months or less. Cash and cash equivalents are measured at nominal value.

Consolidated statement of changes in equity

in thousand CHF	Share capital	Treasury shares	Retained earnings	Equity attributable to shareholders of Galenica Ltd.	Non-controlling interests	Equity
Balance as at 1 January 2019	5,000	(32,199)	951,851	924,652	4,125	928,777
Net profit			124,992	124,992	308	125,300
Other comprehensive income			19,140	19,140	(68)	19,072
Comprehensive income			144,132	144,132	240	144,372
Dividends			(83,758)	(83,758)	(166)	(83,924)
Transactions on treasury shares		6,235	(3,376)	2,859	–	2,859
Share-based payments			5,612	5,612	–	5,612
Addition to scope of consolidation			–	–	1,844	1,844
Balance as at 31 December 2019	5,000	(25,964)	1,014,461	993,497	6,043	999,540
Net profit			172,245	172,245	474	172,718
Other comprehensive income			(38,427)	(38,427)	(47)	(38,474)
Comprehensive income			133,818	133,818	427	134,245
Dividends			(88,963)	(88,963)	(63)	(89,026)
Transactions on treasury shares		6,146	(2,061)	4,085	–	4,085
Share-based payments			4,700	4,700	–	4,700
Change in non-controlling interests			145	145	(334)	(189)
Balance as at 31 December 2020	5,000	(19,817)	1,062,099	1,047,282	6,073	1,053,355

Notes to the consolidated financial statements of the Galenica Group

1. Group organisation

General information

Galenica is a fully-integrated healthcare provider in Switzerland. Galenica operates a network of pharmacies, develops and offers own brands and products, exclusive brands and products from business partners as well as a variety of on-site health services and tests for customers. Galenica is also a provider of pre-wholesale and wholesale distribution and database services in the Swiss healthcare market.

The parent company is Galenica Ltd., a Swiss company limited by shares with its head office in Bern. The registered office is at Untermattweg 8, 3027 Bern, Switzerland. Shares in Galenica Ltd. are traded on the SIX Swiss Exchange under securities no. 36067446 (ISIN CH0360674466).

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

2. Accounting principles

Basis of preparation

The consolidated financial statements of Galenica have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB), as well as the interpretations of the IFRS Interpretations Committee (IFRIC) and the provisions of Swiss law.

The consolidated financial statements are based on the financial statements of the individual companies of Galenica, prepared in accordance with uniform accounting principles. The reporting period comprises twelve months to 31 December.

The consolidated financial statements have been presented on a historical cost basis. Non-monetary assets are measured at the lower of cost and net realisable value or recoverable amount. Certain financial assets and financial liabilities are measured at fair value in the statement of financial position. Detailed disclosures on measurement are provided in the summary of significant accounting policies.

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

Due to rounding, numbers presented throughout this report may not add up precisely to the totals provided. Totals are calculated using the underlying amount rather than the presented rounded number.

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

Classification as current or non-current

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

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

Estimation uncertainty, assumptions and judgments

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

Leases (note 16)

IFRS 16 defines the lease term as the non-cancellable period of a lease together with the options to extend or terminate a lease, if the lessee is reasonably certain to exercise that option. Where a lease includes the option for the Group to extend the lease term, Galenica applies judgment in assessing whether it is reasonably certain that the option will be exercised. This will take into account the length of the time remaining before the option is exercisable, current trading, future trading forecasts as to the ongoing profitability of the point of sale and the level and type of planned future capital investment. A reassessment of the remaining life of the lease could result in a recalculation of the lease liability and a material adjustment to the associated balances.

Goodwill and intangible assets (note 17)

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

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

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

Scope of consolidation

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

Subsidiaries, associates and joint ventures acquired during the reporting period are included in the financial statements as at the date when control, significant influence or joint control was obtained. Companies sold during the reporting period are included up to the date when control, significant influence or joint control was lost.

Details of changes in the scope of consolidation in the reporting period are included in note 5, Business combinations.

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

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

Assets and liabilities as well as income and expenses of subsidiaries are consolidated from the acquisition date, i.e. the date on which Galenica obtains control.

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

Amendments to IFRS

As at 1 January 2020 Galenica adopted the following amended International Financial Reporting Standards:

- Amendments to IFRS 3 – Definition of a Business (1 January 2020)
- Amendments to IAS 1 and IAS 8 – Definition of Material (1 January 2020)
- Amendments to IFRS 7, IFRS 9 and IAS 39 – Interest Rate Benchmark Reform (1 January 2020)
- Amendments to IFRS 16 – Covid-19-Related rent concessions (1 June 2020, early adopted)

These changes have no or no material impact on the financial position, financial performance and cash flows of Galenica nor on disclosures in these consolidated financial statements. Galenica has not early adopted any other standard or interpretation that has been issued but is not yet effective.

Future amendments to IFRS

The IASB has issued various new and amended standards and interpretations with effective dates in the financial year 2021 or later. Galenica has not early adopted any of the following amendments to standards or interpretations that are potentially relevant for Galenica. Galenica intends to apply the new or amended standards for the first time in the financial year beginning on or after the date shown below:

- Amendments to IFRS 7, IFRS 9, IAS 39 and IFRS 16 – Interest Rate Benchmark Reform – phase 2 (1 January 2021)
- Amendments to IFRS 3 – Reference to the conceptual framework (1 January 2022)
- Amendments to IAS 16 – Proceeds before intended use (1 January 2022)
- Amendments to IAS 37 – Onerous Contracts – cost of fulfilling a contract (1 January 2022)
- Annual Improvements 2018-2020 Cycle (1 January 2022)
- Amendments to IAS 1 – Classification of liabilities as current or non-current (1 January 2023)

Galenica is currently assessing the impact of these amendments. Based on a preliminary analysis, Galenica does not expect a material impact on the consolidated financial statements.

3. Significant event

COVID-19 pandemic

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

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

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

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

4. Operating segment information

The management approach is used to determine the reportable operating segments. Accordingly, external segment reporting is based on the internal organisational and management structures of Galenica and the internal financial reporting to the chief operating decision maker (CODM). The CODM of Galenica is the Board of Directors of Galenica Ltd. Galenica operates in Switzerland within the two operating segments Health & Beauty and Services.

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

Health & Beauty

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

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

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

Services

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

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

Corporate

The activities included within Corporate mainly comprise Galenica's central operations, which include Group Management and Corporate functions such as Accounting, Controlling, Tax, Treasury, Insurance, Human Resources, Legal Services, General Secretariat, Communications and Investor Relations.

Corporate charges management fees to the other business units and operating segments for the organisational and financial management services that it provides.

Eliminations

Operating activities involve the sales of goods and services between the operating segments.

Sales of goods and services between the operating segments and resulting unrealised gains are eliminated in the Eliminations column. In addition, Eliminations include adjustments recorded on Group level which mainly consist of costs for IAS 19 from defined benefit plans and long-service awards.

Segment assets and liabilities include loans and current accounts held with respect to other segments. These positions are eliminated in the Eliminations column.

Operating segment information 2020

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

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

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

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

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

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

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

Geographic areas

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

¹⁾ Without financial assets and deferred tax assets

The Board of Directors of Galenica Ltd. acting as chief operating decision maker (CODM) allocates resources and monitors performance of the Group's operating segments Health & Beauty and Services on the basis of information prepared in accordance with IFRS with exception of defined benefit plans and long-service awards, which are recognised at Group level.

In the Health & Beauty segment with its large network of pharmacies the accounting for leases is of particular importance. The Group continues to prepare information as if its leases were accounted for as operating leases (e.g. in line with Galenica's accounting policies prior to the adoption of IFRS 16). Those figures are relevant for management incentive and remuneration plans. However, Galenica has determined that the figures including the effects of IFRS 16 are used by the CODM for monitoring and resource allocation decisions and therefore presents its segment reporting as above.

Operating segment information 2019

in thousand CHF	Health & Beauty	Services	Corporate	Eliminations	Group
Net sales	1,620,785	2,441,048	18,279	(779,110)	3,301,002
Intersegmental sales	(83,751)	(678,370)	(16,989)	779,110	–
Net sales to third parties	1,537,034	1,762,678	1,290	–	3,301,002
Other income	4,963	9,138	654	(1,239)	13,516
Share of profit from associates and joint ventures	6,332	–	–	(676)	5,656
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	194,220	68,003	(233)	(1,654)¹⁾	260,336
Depreciation and amortisation	(67,950) ²⁾	(23,210)	(50)	365	(90,845)
Earnings before interest and taxes (EBIT)	126,270	44,793	(283)	(1,289)¹⁾	169,491
Interest income					720
Interest expense					(5,650)
Other net financial result					(1,168)
Earnings before taxes (EBT)					163,393
Income taxes					(38,093)
Net profit					125,300
Assets	1,515,577	837,523	986,135	(1,129,656)³⁾	2,209,579
Investments in associates and joint ventures	25,215	–	–	(3,733)	21,482
Liabilities	1,133,723	545,373	600,885	(1,069,942)⁴⁾	1,210,039
Investments in property, plant and equipment	19,496	14,924	–	(258)	34,162 ⁵⁾
Investments in intangible assets	2,970	16,035	–	(152)	18,853 ⁶⁾
Employees as at 31 December (FTE)	3,975	1,440	34	–	5,449

¹⁾ Including the effects of IAS 19 from defined benefit plans and long-service awards of CHF 0.1 million

²⁾ Including net impairment on right-of-use assets of CHF -0.1 million (refer to note 16)

³⁾ Of which elimination of intercompany positions CHF -1,120.1 million and other unallocated amounts CHF -9.5 million

⁴⁾ Of which elimination of intercompany positions CHF -1,120.1 million and other unallocated amounts CHF 50.2 million

⁵⁾ Of which non-cash investments of CHF 0.7 million

⁶⁾ Of which non-cash investments of CHF 0.9 million

Geographic areas

in thousand CHF	Switzerland	Other countries	Group
Net sales to third parties	3,278,616	22,386	3,301,002
Non-current assets ¹⁾	1,360,200	–	1,360,200

¹⁾ Without financial assets and deferred tax assets

5. Business combinations

Accounting principles

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

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

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

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

If a cash-generating unit (CGU) or group of CGUs is sold, goodwill is taken into account when calculating the profit or loss on disposal. The profit or loss on deconsolidation is recognised in operating income or other operating costs.

Business combinations 2020

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

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

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

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

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

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

Business combinations

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

Business combinations 2019

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

The purchase consideration amounted to CHF 34.9 million, of which CHF 34.8 million was settled in cash. The deferred purchase price consideration of CHF 0.1 million is due in 2022. The fair value of the net identifiable assets amounted to CHF 14.9 million at the acquisition date. The goodwill of CHF 20.0 million was allocated to the Retail business sector and corresponds to the added value of the pharmacies based on their locations. Transaction costs were insignificant.

Acquisition of Bichsel Interlaken Holding AG. On 1 May 2019, Galenica acquired 95% of the shares in the Swiss company Bichsel Interlaken Holding AG. Bichsel Interlaken Holding AG is the parent company of the Bichsel Group with its two operating companies Grosse Apotheke Dr. G. Bichsel AG, where Galenica held already 25% of the shares and Laboratorium Dr. G. Bichsel AG (refer to note 18). The Bichsel Group is specialised in manufacturing individual medicines and medical devices, offering home care services in the field of home dialysis and clinical home nutrition throughout Switzerland and operates a public pharmacy situated in a prime location. The remaining 5% of the shares were retained by the Bichsel family. Non-controlling interests have been measured at the proportionate share of net identifiable assets.

The purchase consideration amounted to CHF 72.3 million and was fully settled in cash. The fair value of the net identifiable assets amounted to CHF 36.9 million at the acquisition date. The goodwill of CHF 44.0 million was allocated to the Retail business sector and corresponds to the added value based on the acquirer-specific synergies expected to arise from the acquisition in strengthening the leading position in the market of home care for patients, broadening the access to hospitals and healthcare providers and the know-how of the employees gained. Transaction costs of CHF 0.2 million were recognised in other operating costs.

6. Net sales

Accounting principles

Net sales represent revenue from contracts with customers from the sale of goods or rendering of services. Revenue is recognised in the amount that reflects the consideration to which Galenica expects to be entitled when the promised goods or services are transferred to customers. Revenue is stated net of any price, volume, cash or other types of discounts (e.g. slotting fees that do not represent a distinct performance obligation) and exclusive of VAT.

Where invoices are issued, payment terms in Switzerland usually range between 10 and 30 days, for both goods and services.

Sale of goods

Revenue from sale of goods is recognised at the point in time the Group satisfies a performance obligation by transferring control over the products to its customers. For retail pharmacy sales, this is when the customer takes possession of the products at the point-of-sale and for wholesale transactions control transfers upon shipment of the products to the customer.

Galenica has determined that its customer loyalty programs represent separate performance obligations to which revenue is allocated based on relative stand-alone selling prices, which considers historical redemption patterns. Revenue is deferred and recognised when the award credits are redeemed, which is typically 2 to 4 months after the sale of the initial products. At the end of each period, unredeemed credits are reflected as contract liabilities and included in trade and other payables in consolidated statement of financial positions.

Refund liabilities from contracts with customers are estimated based on actual sales volumes for the financial year and refund percentages as agreed with customers. These liabilities are usually settled in the subsequent financial year. Revenue from gift cards purchased by customers is deferred as contract liabilities until goods or services are transferred, which is typically within 12 months after the sale of the gift card. Any amounts not expected to be redeemed are recognised based on historical redemption patterns.

Customer returns are not material.

Sale of services

Revenue from services includes logistics services, the processing and sale of information and IT services as well as other contractually agreed services. The performance obligations are either satisfied over time or at a point in time (i.e. when volumes are handled) depending on the type of services rendered. Revenue is recognised using a pattern of transfer that depicts Galenica's performance.

Net sales 2020

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

Net sales 2019

in thousand CHF	Health & Beauty		Services	Corporate	Eliminations	Group
	Products & Brands	Retail				
Sale of goods	100,753	1,449,135	2,339,719	–	(731,273)	3,158,334
Sale of services	1,368	66,591	101,329	18,279	(44,899)	142,668
Net sales	102,121	1,515,726	2,441,048	18,279	(776,172)	3,301,002
Intersegmental net sales	(53,549)	(27,264)	(678,370)	(16,989)	776,172	–
Net sales to third parties	48,572	1,488,462	1,762,678	1,290	–	3,301,002
– of which sale of goods to third parties	47,204	1,422,885	1,688,245	–	–	3,158,334
– of which sale of services to third parties	1,368	65,577	74,433	1,290	–	142,668

7. Other income

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

8. Personnel costs

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

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

9. Other operating costs

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

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

Research and development

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

10. Financial result

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

11. Earnings per share

When calculating diluted earnings per share, the weighted average number of outstanding shares during the reporting period is adjusted assuming conversion of all potentially dilutive effects that would occur if Galenica's obligations were converted.

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

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

12. Income taxes

Accounting principles

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

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

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

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

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

Tax reconciliation

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

In 2019, the effects in other items are mainly the result of the abolition of the privileged holding tax status of Galenica Ltd. in the course of the Swiss Tax Reform (accepted on 19 May 2019) and the accompanying transition measures due to the change of the Swiss tax law. With this tax reform, various cantons have reduced their tax rates. As there were offsetting effects from deferred tax assets and deferred tax liabilities in cantons where the changes in tax rate was substantively enacted as at 31 December 2019, the changes in tax rates had no material impact on income taxes in the consolidated statement of income. Excluding these effects in the net amount of CHF 8.4 million, the effective income tax expense would have been 18.2% of EBT.

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

Deferred taxes

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

Analysis of net deferred taxes

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

Temporary differences on which no deferred taxes have been recognised

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

Tax loss carryforwards and tax credits

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

13. Inventories

Accounting principles

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

Inventory allowances are recognised on inventories for slow moving items and excess stock.

Cost of goods mainly include costs of goods and merchandise from the business sectors Retail and Services. Price discounts, rebates or supplier discounts and other payments received from suppliers that are not payment for distinct goods or services provided by Galenica and thus on the purchase of goods are directly deducted from costs of goods.

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

14. Trade and other receivables

Accounting principles

Trade receivables are initially measured at the transaction price determined in accordance with IFRS 15. Other receivables are carried at original invoice value. Allowances for uncollectable amounts are estimated based on expected credit losses, using life-time expected credit losses for trade receivables (simplified approach). These bad debt allowances are based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment for individual allowances or for groups with comparable credit risk profiles.

Any impairment losses are recognised in profit or loss in other operating costs.

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

Change in bad debt allowances for trade receivables

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

Maturity profile of trade receivables

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

15. Property, plant and equipment

Accounting principles

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

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

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

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

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

Assets are tested for impairment whenever there are indications that they could be impaired. Any impairment is recognised in profit or loss under depreciation and amortisation and disclosed separately as an impairment. Reversal of impairments on property, plant and equipment and investment properties are recognised immediately in profit or loss.

in thousand CHF	Real estate ¹⁾	Assets under construction	Other property, plant and equipment	Total property, plant and equipment
Net carrying amount as at 31.12.2018	162,434	6,897	75,659	244,990
Addition	9,139	5,319	19,704	34,162
Disposal	(129)	–	(346)	(475)
Reclassification	79	(445)	383	17
Depreciation	(15,111)	–	(20,779)	(35,890)
Addition to scope of consolidation	16,097	1,803	6,854	24,754
Net carrying amount as at 31.12.2019	172,509	13,574	81,475	267,558
Addition	9,921	8,270	18,293	36,484
Disposal	–	–	(326)	(326)
Reclassification	617	(1,633)	1,021	4
Depreciation	(15,511)	–	(21,647)	(37,158)
Addition to scope of consolidation	446	–	1,046	1,493
Net carrying amount as at 31.12.2020	167,982	20,211	79,862	268,055

Overview as at 31.12.2019

Cost	326,777	13,574	268,194	608,545
Accumulated depreciation and impairment	(154,268)	–	(186,719)	(340,987)
Net carrying amount as at 31.12.2019	172,509	13,574	81,475	267,558

Overview as at 31.12.2020

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

¹⁾ Part of a building used for business purposes is subleased. The net carrying amount of this part of the building cannot be separated and disclosed in detail

16. Leases

Accounting principles

A lease is a contract in which the right to use an asset (the underlying asset) is granted for an agreed-upon period in return for consideration. Galenica has lease contracts for vehicles and a large number of contracts for real estate, mainly store locations, which include fixed rental payments and variable sales-based components. The significant majority of these lease contracts concerns locations of the pharmacies in the Retail business sector.

Galenica determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain at inception of the contract to be exercised. Galenica has the option, under some of its leases, to lease the assets for additional terms of several (three, five or more) years. Galenica applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. In doing so, Galenica considers all relevant factors including economic incentives. Galenica reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise, or not to exercise, the option to renew (e.g. a change in business strategy).

At the commencement date right-of-use assets are capitalised at a value equivalent to the lease liability, plus initial direct costs and lease payments made before the commencement date, less any lease incentives received.

Galenica uses the recognition exemptions for lease contracts that have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets).

The lease liability represents the net present value of fixed or in substance fixed lease payments over the lease term. Lease liabilities are discounted using the incremental borrowing rate if the rate implicit in the lease is not readily determinable. Non-lease components are not included in the lease liabilities and are accounted for in accordance with applicable standards. The interest charge is presented as interest expense on lease liabilities.

Right-of-use assets are depreciated over the shorter of the useful life of the right-of-use asset or the lease term.

Right-of-use assets are tested for impairment whenever there are indications that they could be impaired. Any impairment is recognised in profit or loss under depreciation and amortisation and disclosed separately as an impairment. Reversal of impairments on right-of-use assets are recognised immediately in profit or loss.

Right-of-use assets

in thousand CHF	Real estate	Vehicles	Total right-of-use assets
Net carrying amount as at 1.1.2019	239,073	—	239,073
Addition	9,017	—	9,017
Reassessment of existing lease contracts	9,619	—	9,619
Depreciation	(47,102)	(112)	(47,214)
Impairment	(183)	—	(183)
Reversal of impairment	104	—	104
Addition to scope of consolidation	14,045	473	14,518
Net carrying amount as at 31.12.2019	224,573	361	224,934
Addition	13,751	21	13,772
Reassessment of existing lease contracts	12,397	3	12,400
Depreciation	(48,186)	(184)	(48,370)
Impairment	(2,822)	—	(2,822)
Reversal of impairment	86	—	86
Addition to scope of consolidation	10,276	49	10,325
Net carrying amount as at 31.12.2020	210,074	251	210,325

Lease liabilities

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

Leases recognised in profit or loss

in thousand CHF	2020	2019
Rental income from operating leases (included in other income)	2,289	2,496
Short-term lease expense (included in other operating costs)	(1,460)	(1,508)
Low-value lease expense (included in other operating costs)	(19)	(3)
Variable lease expense (included in other operating costs)	(3,590)	(4,343)
Depreciation of right-of-use assets	(48,370)	(47,214)
Impairment of right-of-use assets	(2,822)	(183)
Reversal of impairment of right-of-use assets	86	104
Interest expense on lease liabilities	(2,321)	(2,471)

For one of the operating buildings Galenica acts as lessor. The related amount is insignificant.

The total cash outflow for leases including short-term leases, leases of low-value-assets and variable lease expenses was CHF 56.5 million (previous year: CHF 55.9 million).

Maturity profile of undiscounted lease liabilities

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

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

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

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

17. Intangible assets

Accounting principles

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

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

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

	Years
Trademarks, patents, licences, customer relationships	5–20
Software	2–15

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

With the exception of trademarks at Verfora, all intangible assets are assessed as having a finite useful life. Intangible assets with indefinite useful lives are not amortised but tested for impairment annually or more frequently if there are indications of impairment. Intangible assets with finite useful lives are tested for impairment whenever there are indications that they could be impaired. Any Impairment is recognised in profit or loss in depreciation and amortisation and disclosed separately as an impairment.

in thousand CHF	Intangible assets with finite useful lives ¹⁾	Trademarks with indefinite useful lives	Software	Goodwill	Total intangible assets
Net carrying amount as at 31.12.2018	4,953	36,528	34,956	691,473	767,910
Addition	84	–	18,769	–	18,853
Reclassification	–	–	(17)	–	(17)
Amortisation	(2,073)	–	(5,588)	–	(7,661)
Addition to scope of consolidation	1,692	–	1,477	63,972	67,141
Net carrying amount as at 31.12.2019	4,656	36,528	49,597	755,445	846,226
Addition	1,512	–	18,982	–	20,495
Reclassification	–	–	(4)	–	(4)
Amortisation	(1,189)	–	(6,703)	–	(7,893)
Addition to scope of consolidation	761	20,495	–	36,143	57,399
Net carrying amount as at 31.12.2020	5,739	57,022	61,872	791,588	916,222
Overview as at 31.12.2019					
Cost	12,190	36,528	114,890	755,445	919,053
Accumulated amortisation and impairment	(7,534)	–	(65,293)	–	(72,827)
Net carrying amount as at 31.12.2019	4,656	36,528	49,597	755,445	846,226
Overview as at 31.12.2020					
Cost	14,463	57,022	126,352	791,588	989,426
Accumulated amortisation and impairment	(8,724)	–	(64,480)	–	(73,204)
Net carrying amount as at 31.12.2020	5,739	57,022	61,872	791,588	916,222

¹⁾ Including trademarks, patents, licences and customer relationships

Trademarks with indefinite useful lives

This position includes trademarks that are well known nationally and internationally and actively advertised. These acquired trademarks are regarded as having indefinite useful lives for the following reasons: they were created many years ago, they do not expire, and the products sold under the trademarks have a history of strong revenue and cash flow performance. Galenica intends and has the ability to support the trademarks to maintain their values for the foreseeable future.

For impairment testing purposes the trademarks have been allocated to the cash-generating unit Verfora in the Products & Brands business sector. The recoverable amount (higher of fair value less costs of disposal and value in use) is determined on the basis of future discounted cash flows. Cash flows beyond the three-year planning period are based on the growth rates and discount rates before tax set out below, as approved in medium-term planning by management:

in thousand CHF	2020	2019
Carrying amount	57,022	36,528
Growth rate	1.0%	1.0%
Discount rate	6.2%	6.2%

According to the results of impairment testing for 2020 and 2019 using value in use calculations, no impairment was necessary. Galenica performed a sensitivity analysis taking into account reasonable changes in the assumptions used to calculate the discounted cash flows, such as higher discount rates, lower EBITDA, lower gross margins or lower perpetual growth rates. The sensitivity analysis for 2020 and 2019 did not reveal that a reasonable possible change in assumption would lead to an impairment.

Goodwill

Accounting principles

Goodwill is allocated to the cash-generating unit (CGU) or group of CGUs that are expected to benefit from a business combination. Management monitors goodwill at business sector level.

Goodwill is tested for impairment annually, or more frequently if there are indications of impairment. The impairment test is based on the discounted cash flow method. The WACC is used to determine the applicable pre-tax discount rate. The recoverable amount (higher of fair value less costs of disposal and value in use) of each CGU is determined on the basis of the medium-term plans for the next three years approved by management. Cash flows beyond the three-year planning period are extrapolated using a perpetual growth rate. If the recoverable amount is lower than the carrying amount, the carrying amount is reduced to the recoverable amount by recording an impairment charge.

Any impairment on goodwill is recognised in profit or loss and disclosed separately. An impairment loss for goodwill is not reversed.

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

According to the results of impairment testing for 2020 and 2019 using value in use calculations, no impairment was necessary. Galenica performed a sensitivity analysis taking into account reasonable changes in the assumptions used to calculate the discounted cash flows, such as higher discount rates, lower EBITDA, lower gross margins or lower perpetual growth rates. The sensitivity analysis for 2020 and 2019 did not reveal that a reasonable possible change in assumption would lead to an impairment.

18. Investments in associates and joint ventures

Accounting principles

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

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

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

¹⁾ Due to the acquisition of the remaining 75% in Grosse Apotheke Dr. G. Bichsel AG as at 1 May 2019, the previously held equity interest has been remeasured to fair value. The resulting gain of CHF 2.4 million has been recognised in profit or loss in share of profit from associates and joint ventures

In case Coop Vitality were overindebted, Galenica has an unlimited obligation, in proportion to its equity interest, to restructure the company. At the reporting date, this joint venture is not overindebted.

Condensed financial information of Coop Vitality:

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

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

19. Financial assets

Accounting principles

Non-current financial assets comprise loans, time deposits with a term to maturity of more than twelve months, rental guarantee deposits and derivative financial instruments with a positive fair value and a residual term to maturity of more than twelve months. Other than the derivatives measured at fair value through profit or loss, the financial assets are held to collect contractual cash flows comprising solely principal and interest payments and are therefore measured at amortised cost subsequent to initial recognition. Any credit losses on financial assets recognised represent 12 month expected losses and are estimated based on the credit risk of the counterparty. Any impairment is recognised in financial expenses.

in thousand CHF	2020	2019
Loans	10,803	11,827
Other financial assets	7,669	4,627
Financial assets	18,471	16,454

20. Financial liabilities

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

Galenica issued two fixed-interest rate bonds for a nominal amount totalling CHF 380.0 million for the purpose of long-term financing in June 2017. One bond of CHF 200.0 million was issued with an annual coupon of 0.50% and a term of 6 years, falling due on 15 June 2023 and the other bond of CHF 180.0 million with an annual coupon of 1.00% and a term of 9½ years, falling due on 15 December 2026. The bonds are traded on the SIX Swiss Exchange under securities no. 36720669 (ISIN CH0367206692) and 36720670 (ISIN CH0367206700) respectively. The bonds closed at 101.60% and 105.20% respectively as at 31 December 2020 (previous year: 101.85% and 105.35% respectively).

Cash flow from financial liabilities and lease liabilities 2020

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

Cash flow from financial liabilities 2019

in thousand CHF	1 January	Proceeds from financial liabilities	Repayment of financial liabilities	Addition to scope of consolidation	Other changes	31 December
Bank loans	–	70,000	(70,000)	–	–	–
Loans	5,475	3,516	(3,072)	2,431	54	8,404
Liabilities to pension funds	22,822	13,160	(12)	483	45	36,498
Bonds	380,638	–	–	–	(110)	380,528
Other financial liabilities	1,649	–	(14,561)	14,348	(1,366)	70
Financial liabilities	410,584	86,676	(87,645)	17,262	(1,377)	425,500
Lease liabilities	245,036	–	(47,622)	14,518	18,636	230,568
Financial liabilities and lease liabilities	655,620	86,676	(135,267)	31,780	17,259	656,068

21. Trade and other payables

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

Contract liabilities are generally recognised in revenue within 12 months.

22. Provisions

Accounting principles

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

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

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

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

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

23. Contingent liabilities and commitments

Accounting principles

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

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

In March 2017, the Swiss Competition Commission (COMCO) issued a ruling, which imposed a fine of up to CHF 4.5 million on Galenica. The ruling relates to an investigation from 2012. Galenica regards the ruling issued by COMCO as incorrect in fact and in law. Galenica has taken the ruling to the Federal Administrative Court. A decision by the Federal Administrative Court is expected in 2021 at the earliest.

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

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

Galenica signed purchase agreements to acquire pharmacies and other business in the next few years. The purchase prices will be fixed at the time of transfer of ownership on the basis of net asset value and discounted cash flow. The unrecognised commitments are expected to involve payments of CHF 7.8 million (previous year: CHF 14.8 million) at the most. The purchase rights have an estimated volume of CHF 10.4 million (previous year: CHF 15.4 million). These purchase rights or obligations fall due between 2021 and 2023.

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

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

24. Employee benefit plans

Accounting principles

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

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

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

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

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

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

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

The vast majority of the Galenica employees work in Switzerland and participate in the Galenica Pension Fund, Bern, which is financed by the employers and the employees. This plan is legally separate from Galenica and qualifies as a defined benefit plan. The pension plan covers the risks of the economic consequences of old age, disability and death in accordance with the Swiss Federal Occupational Retirement, Survivors and Disability Pension Plans Act (BVG/LPP). The pension plan is structured in the legal form of a foundation. All actuarial risks are borne by the foundation and regularly assessed by the Board of Trustees based on an annual actuarial appraisal prepared in accordance with BVG/LPP. The company's liabilities are limited to contributions that are based on a percentage of the insured salary under the Swiss law. Only in cases of a funded status that is significantly below a funded status of 100% as per the BVG/LPP law can Galenica be required to pay additional contributions. The calculations made in these appraisals do not apply the projected unit credit method required by IFRS. If the calculations made in accordance with the provisions of BVG/LPP reveal a funded status of less than 100%, suitable restructuring measures need to be introduced. The Board of Trustees consists of employee and employer representatives.

The defined benefit plan is funded. Plan assets are managed separately from Galenica's assets by the independent pension fund.

The most recent actuarial valuation was prepared as at 31 December 2020. The pension fund assets are invested in accordance with local investment guidelines. Galenica pays its contributions to the pension fund in accordance with the regulations defined by the fund.

The final funded status pursuant to BVG/LPP is not available until the first quarter of the subsequent year. The projected funded status as at 31 December 2020 for Galenica Pension Fund is 117.2% (unaudited) and as at 31 December 2019 115.5% (final).

Defined benefit plans and long-service awards

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

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

Change in present value of defined benefit obligation

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

Change in fair value of plan assets

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

Net defined benefit cost

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

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

Remeasurement of net defined benefit liability

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

Change in assumption and in estimate

In 2019, the decrease of the discount rate from 0.85% to 0.15% had a negative impact of CHF 98.7 million to the defined benefit liability.

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

Investment structure of plan assets

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

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

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

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

Equity instruments are investments in equity funds and direct investments. These generally have quoted prices in active markets (level 1 of the fair value hierarchy). Equity instruments include shares of Galenica Ltd. with a fair value of CHF 10.7 million (previous year: CHF 10.9 million).

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

Other investments consist of hedge funds, insurance linked securities (ILS), infrastructures, senior loans, private equity and receivables. There are receivables from Group companies amounted to CHF 33.5 million (previous year: CHF 33.6 million). Investments in hedge funds are classified as alternative investments. They are primarily used for risk management purposes. In most cases, quoted prices in an active market are not available for hedge funds investments (level 2 or level 3 of the fair value hierarchy).

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

The pension funds manage the assets of 5,315 active members (previous year: 5,184) and 860 pensioners (previous year: 816).

Galenica does not use any pension fund assets.

Basis for measurement

	2020	2019
Discount rate	0.05 %	0.15 %
Salary development	1.00 %	1.00 %
Pension development	0.00 %	0.00 %
Mortality (mortality tables)	BVG 2015 GT (CMI), 1.5 %	BVG 2015 GT (CMI), 1.5 %
Turnover	BVG 2015 (100 % - 125 %)	BVG 2015 (100 % - 125 %)

Sensitivity analysis

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

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

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

The pension obligations have an average duration of 15.9 years (previous year: 16.5 years).

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

The employer contributions to the pension fund are estimated at CHF 27.7 million for 2021.

25. Shareholders' equity

25.1 Share capital and number of shares

Accounting principles

When treasury shares in Galenica Ltd. are acquired, they are deducted from shareholders' equity. Gains and losses from buying and selling treasury shares in Galenica Ltd. are recognised directly in shareholders' equity.

Galenica has fully paid-up share capital of CHF 5,000,000, divided into 50,000,000 publicly listed shares with a par value of CHF 0.10 each, as at the reporting date. All shares have the same capital rights with the exception of the treasury shares which do not generate any dividends. Voting rights and restrictions on voting rights are described in detail in Galenica's Annual report 2020 in the chapter Corporate Governance (unaudited).

According to Article 3a) of the Articles of Association, the Board of Directors is authorised to increase the share capital of CHF 5,000,000 by a maximum of CHF 500,000 at any time up to and including 2 May 2021 by issuing not more than 5,000,000 fully paid shares.

Number of shares	Total shares		
	Galenica Ltd.	Treasury shares	Outstanding shares
Balance as at 31.12.2018	50,000,000	(823,413)	49,176,587
Transactions with treasury shares	–	162,563	162,563
Balance as at 31.12.2019	50,000,000	(660,850)	49,339,150
Transactions with treasury shares	–	159,410	159,410
Balance as at 31.12.2020	50,000,000	(501,440)	49,498,560

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

25.2 Changes in consolidated shareholder's equity

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

In the reporting period, 2,884 treasury shares (previous year: 6,172 treasury shares) were bought at an average price of CHF 63.46 (previous year: CHF 56.03) and 162,294 treasury shares (previous year: 168,735 treasury shares) were issued as share-based payments.

The expense for share-based payment transactions, allocated over the vesting period, has been recognised in personnel costs and accrued in consolidated shareholders' equity.

The acquisition of non-controlling interests in Unione Farmaceutica Distribuzione SA reduced consolidated shareholders' equity by CHF 0.2 million (previous year: none).

The Board of Directors will submit a proposal to the Annual General Meeting on 12 May 2021 to pay a dividend of CHF 1.80 per share entitled to receive dividend for the financial year 2020. For this purpose, CHF 0.90 is to be taken from the reserves from capital contributions and CHF 0.90 from the retained earnings. However, no dividend will be paid on treasury shares. Based on the number of treasury shares as at 31 December 2020, the total dividend would amount to CHF 89.1 million.

26. Financial instruments

26.1 Categories of financial instruments

Accounting principles

Galenica classifies its financial assets and financial liabilities at initial recognition. Subsequent measurement is at amortised cost or fair value through profit or loss.

Measurement of financial assets and financial liabilities

With the exception of trade receivables, financial assets and financial liabilities are initially measured at fair value plus or minus directly attributable transaction costs, if those financial instruments are not subsequently measured at fair value through profit or loss. Trade receivables are initially measured at the transaction price resulting from the revenue transaction. All purchases and sales of financial instruments are recognised using trade date accounting.

Financial assets are generally derecognised when the contractual rights to the cash flows expire. Financial liabilities are derecognised when they have been settled.

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

Financial assets at amortised cost

This category includes trade and other receivables as well as loans and other financial assets such as rental deposits. These financial assets are subsequently measured at amortised cost using the effective interest rate method less expected credit losses. Expected credit losses are based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Changes in expected credit losses due to changes in estimated credit risk are determined at each reporting date and charged to profit or loss. Galenica uses the simplified approach to determine its bad debt allowances for trade receivables using lifetime expected credit losses. Expenses for expected credit losses comprise the change in bad debt allowance and receivables directly written off.

Uncollectible loans and receivables are only derecognised if a certificate of loss has been issued.

Financial liabilities at fair value through profit or loss

Financial liabilities classified as at fair value through profit or loss correspond to contingent consideration liabilities from business combinations.

Financial liabilities at amortised costs

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

Carrying amounts of financial instruments 2020

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

Carrying amounts of financial instruments 2019

in thousand CHF	Financial assets at amortised costs	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised costs	Total
Cash and cash equivalents	90,532	–	–	90,532
Trade and other receivables	421,518	–	–	421,518
Financial assets	16,454	–	–	16,454
Current financial liabilities	–	–	44,630	44,630
Current lease liabilities	–	–	47,796	47,796
Trade and other payables	–	–	315,949	315,949
Non-current financial liabilities	–	70	380,800	380,870
Non-current lease liabilities	–	–	182,772	182,772
Total	528,504	70	971,947	

Net gain/(loss) on financial instruments 2020

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

Net gain/(loss) on financial instruments 2019

in thousand CHF	Financial assets at amortised costs	Financial liabilities at amortised costs	Total
Net gain/(loss) on foreign exchange	50	(231)	(181)
Other financial result	(916)	(71)	(987)
Interest income	683	–	683
Interest expense	–	(2,720)	(2,720)
Interest expense on lease liabilities	–	(2,471)	(2,471)
Interest income on impaired trade receivables	37	–	37
Expected credit losses	1,417	–	1,417
Net gain/(loss) recognised in profit or loss	1,271	(5,493)	(4,222)

26.2 Fair value measurement

Accounting principles

Fair value

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

The fair values of the fixed-rate bonds derived from quoted prices (level 1 of the fair value hierarchy).

Fair value hierarchy

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

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

Fair value

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

With the exception of non-current financial liabilities the carrying amounts of all financial instruments approximate to the fair value or fair value disclosure is not required (lease liabilities).

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

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

27. Financial risk management

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

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

27.1 Liquidity risk

Liquidity risk management

The aim of liquidity risk management is to provide sufficient cash to meet Galenica's financial liabilities on time while maintaining the flexibility to take advantage of market opportunities and optimum investment conditions. Group Treasury is responsible for raising current and non-current loans as well as for decisions on investments. Apart from financing operations, Galenica's credit standing enables it to borrow funds at an advantageous rate. To ensure that Galenica can meet its payment obligations in good time, liquidity is monitored centrally. Group Treasury monitors the cash flows using rolling liquidity planning. This takes into account the maturities of the financial instruments as well as the cash flows from operating activities.

Maturity profile of financial liabilities 2020

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

Maturity profile of financial liabilities 2019

in thousand CHF	Carrying amount	Total undiscounted cash flows	up to 3 months	3 to 12 months	1 to 5 years	Maturities more than 5 years
Trade and other payables	315,949	315,949	314,563	1,386	—	—
Current financial liabilities	44,630	44,630	44,114	516	—	—
Current lease liabilities	47,796	49,905	12,653	37,252	—	—
Non-current financial liabilities	342	342	—	—	70	272
Bonds	380,528	396,600	—	2,800	210,200	183,600
Non-current lease liabilities	182,772	189,747	—	—	134,046	55,701
Total	972,017	997,173	371,330	41,954	344,316	239,573

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

27.2 Credit risk

Credit risk management

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

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

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

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

The financial assets subject to credit risk are primarily receivables.

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

Galenica's financial assets are not exposed to a concentration of credit risk.

No past due financial assets have been renegotiated. Based on past experience, Galenica considers the creditworthiness of non-past due trade receivables to be good. Trade receivables past due are analysed on an ongoing basis. These receivables are accounted for using individual bad debt allowances, adjusted for forward-looking factors specific to the debtors and the economic environment.

28. Capital management

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

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

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

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

¹⁾ Excluding non-interest-bearing financial liabilities

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

29. Share-based payments

Accounting principles

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

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

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

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

Remuneration for members of the Board of Directors

The members of the Board of Directors receive fixed annual remuneration and can choose whether to receive it in full or in part (50%) in shares of Galenica Ltd. The amount settled in shares is paid out with a discount of 25%. The shares may not be traded for the first five years for tax reasons.

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

Share plan for members of senior management

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

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

Long-term incentive plan (LTI)

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

16,802 performance share units (previous year: 23,592 performance share units) were granted to beneficiaries at a fair value of CHF 55.03 (previous year: CHF 37.63) at the beginning of the reporting period for the 2020 LTI plan.

Employee share plan

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

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

In the reporting period, employees purchased 66,386 shares of Galenica Ltd. (previous year: 65,279 shares) at a price of CHF 48.40 (previous year: CHF 36.00). This includes a discount of CHF 20.76 (previous year: CHF 15.41) per share.

Share-based payment expense

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

30. Related party transactions

Related parties include all companies of the Galenica Group as well as associates, joint ventures, pension funds, members of the Board of Directors and members of the Corporate Executive Committee.

Related party transactions

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

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

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

Remuneration of the Board of Directors and the Corporate Executive Committee

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

31. Subsequent events

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

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

The purchase consideration was CHF 3.7 million, the fair value of the provisional net assets resulting from these additions was estimated at CHF 0.4 million at the acquisition date. Since the transactions were concluded shortly before the consolidated financial statements were issued, it was not possible to disclose the additional information required by IFRS.

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

There were no further significant events after the reporting date.

32. Group companies

	Registered office	Equity interest	Method of consolidation	Share capital in thousand
Health & Beauty				
Products & Brands				
Dr. A.&L. Schmidgall GmbH & Co KG	AT-Vienna	100%	full	EUR 145
G-Pharma AG ¹⁾	CH-Niederbipp	100%	full	CHF 100
Hedoga AG ¹⁾	CH-Bern	100%	full	CHF 100
Iromedica AG	CH-St.Gallen	100%	full	CHF 500
Schmidgall GmbH	AT-Vienna	100%	full	EUR 36
Swiss Pharma GmbH ¹⁾	DE-Rülzheim	100%	full	EUR 51
Verfora Ltd. ¹⁾	CH-Villars-sur-Glâne	100%	full	CHF 100
Retail				
Amavita Health Care Ltd. ¹⁾	CH-Niederbipp	100%	full	CHF 100
Bahnhof Apotheken Thun AG	CH-Thun	50%	full	CHF 200
Bahnhof Apotheke Zürich AG	CH-Zürich	100%	full	CHF 300
Bichsel Interlaken Holding AG	CH-Interlaken	95%	full	CHF 100
Careproduct AG	CH-Oberwil-Lieli	100%	full	CHF 100
Coop Vitality AG	CH-Bern	49%	at equity	CHF 5,000
Coop Vitality Health Care GmbH	CH-Niederbipp	49%	at equity	CHF 20
Coop Vitality Management AG	CH-Bern	49%	at equity	CHF 100
Curarex Swiss AG ¹⁾	CH-Frauenfeld	100%	full	CHF 100
Dr. U. Reinhard AG	CH-Winterthur	100%	full	CHF 100
Galenica Investment AG ¹⁾	CH-Bern	100%	full	CHF 1,000
Galenicare Ltd.	CH-Bern	100%	full	CHF 700
Galenicare Holding Ltd. ¹⁾	CH-Bern	100%	full	CHF 50,000
Galenicare Management Ltd.	CH-Bern	100%	full	CHF 500
Grosse Apotheke Dr. G. Bichsel AG	CH-Interlaken	95%	full	CHF 200
Laboratorium Dr. G. Bichsel AG	CH-Unterseen	95%	full	CHF 200
Laboratorium und Grosse Apotheke Dr. G. Bichsel Holding AG	CH-Interlaken	95%	full	CHF 200
MediService Ltd. ¹⁾	CH-Zuchwil	100%	full	CHF 363
Puresense AG	CH-Gaiserwald	40%	at equity	CHF 100
Sun Store Health Care Ltd. ¹⁾	CH-Niederbipp	100%	full	CHF 100
Winconcept Ltd.	CH-Bern	100%	full	CHF 100
Services				
1L Logistics AG ¹⁾	CH-Burgdorf	100%	full	CHF 100
Alloga Ltd. ¹⁾	CH-Burgdorf	100%	full	CHF 8,332
Dauf SA	CH-Barbengo-Lugano	91.08%	full	CHF 100
Galexis Ltd. ¹⁾	CH-Niederbipp	100%	full	CHF 25,000
HCI Solutions Ltd. ¹⁾	CH-Bern	100%	full	CHF 100
Medifilm Ltd.	CH-Oensingen	100%	full	CHF 1,300
Pharma-Info AG	CH-Biel	49%	at equity	CHF 100
PharmaBlist Ltd.	CH-Widnau	100%	full	CHF 100
Pharmapool Ltd.	CH-Widnau	100%	full	CHF 962
Pharmapool Zentralapotheke AG	CH-Widnau	100%	full	CHF 100
Pharmeasy Ltd.	CH-Bern	100%	full	CHF 100
Unione Farmaceutica Distribuzione SA ¹⁾	CH-Barbengo-Lugano	91.08%	full	CHF 2,000
Corporate				
Galenica Finanz Ltd. ¹⁾	CH-Bern	100%	full	CHF 100

¹⁾ Directly held by Galenica Ltd.

To the General Meeting of
Galenica Ltd., Berne

Berne, 4 March 2021

Statutory auditor's report on the audit of the consolidated financial statements



Opinion

We have audited the consolidated financial statements of Galenica Ltd., and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2020 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 96 to 141) give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.



Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

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



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to

our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements.

Impairment risk of goodwill and other intangibles

Risk	<p>As disclosed in note 17, goodwill amounts to CHF 791.6 million as at 31 December 2020 and represents a major asset of Galenica. In addition, Galenica recorded intangible assets with indefinite useful lives with a carrying amount of CHF 57.0 million. Both goodwill and intangible assets with indefinite useful lives are tested for impairment at least annually.</p> <p>Auditing management's annual impairment test is considered important to our audit as it depends on various estimates made by management and therefore includes judgmental elements. In particular, the assessment is sensitive to significant assumptions made about future market and economic conditions, such as economic growth, expected market share, revenue and margin development. Moreover, the terminal growth and the discount rate used have an impact on the net present value of the underlying cash generating unit.</p>
Our audit response	<p>We performed audit procedures that included, among others, assessing the methodology and testing the assumptions discussed above, the weighted average cost of capital (WACC), and technical input parameters used by Galenica. We involved our internal valuation specialists to assist us with these audit procedures. In addition, we assessed the cash flow projections for all cash generating units (CGUs) including the terminal growth. These procedures included an assessment of the historical accuracy of management's estimates and evaluation of business plans. In particular, we considered the available headroom of CGUs and performed sensitivity analyses of assumptions to evaluate whether changes in assumptions as described in note 17 could cause the carrying amount to exceed its recoverable amount. Our audit procedures did not lead to any reservations regarding the impairment tests of goodwill and other intangibles.</p>

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

Risk	<p>As outlined in note 16, right-of-use assets amounts to CHF 210.3 million and current and non-current lease liabilities to CHF 218.0 million. The assessment to record right-of-use assets and lease liabilities involves judgment and estimates made by management. In particular, the assessment and calculation include estimating the expected lease term based on contractual rights including extension and termination options, excluding certain payments such as variable lease payments and non-lease components, and discounting the expected payments with a discount rate, generally the incremental borrowing rate.</p>
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Additionally, right-of-use assets are depreciated over the shorter of the useful life or the end of the lease term, provided ownership is not transferred to the Group at the end of the lease term. Right-of-use assets are tested for impairment if indicators are present that these assets may not be recoverable.

IFRS 16 Leases is considered important to our audit due to the large number of lease contracts, particularly in the retail segment, the overall amount recorded for right-of-use assets and lease liabilities and the significant judgment involved to calculate and record such assets and liabilities.

Our audit response

We obtained an understanding of the process in the retail segment for the initiation and processing of changes or new contracts, the reporting of journal entries and the valuation of the right-of-use assets. We tested a sample of contracts and performed procedures to verify the completeness and accuracy of the data in the lease tool. We analyzed the underlying useful life and discussed impairment indicators for right-of-use assets of retail stores with generally lower margins. Finally, we assessed the incremental borrowing rate used to discount lease liabilities and compared the right-of-use assets with the related lease liabilities. Our audit procedures did not lead to any reservations regarding the application of IFRS 16 Leases.



Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and the remuneration report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



Responsibility of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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



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

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

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



Report on other legal and regulatory requirements

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

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

Ernst & Young Ltd

Roland Ruprecht
Licensed audit expert
(Auditor in charge)

Simone Wittwer
Licensed audit expert

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Statement of income of Galenica Ltd.

in thousand CHF	2020	2019
Investment income	54,400	46,150
Financial income	22,843	18,568
Other income	23,851	23,015
Income	101,094	87,733
Personnel costs	(13,660)	(13,222)
Financial expenses	(3,104)	(3,993)
Depreciation and amortisation	(12)	(2,343)
Other expenses	(5,511)	(5,411)
Expenses	(22,287)	(24,969)
Profit for the year before taxes	78,807	62,764
Direct taxes	(2,599)	(1,587)
Profit for the year	76,208	61,177

Statement of financial position of Galenica Ltd.

Assets

in thousand CHF	2020		2019	
Cash and cash equivalents		30,712		20,822
Receivables				
– Third parties		106		48
– Group companies		327,078		349,597
Prepaid expenses and accrued income				
– Third parties		1,127		469
Current assets	38.2%	359,023	38.9%	370,936
Financial assets		269,500		301,612
Investments		311,657		280,720
Property, plant and equipment		–		1
Intangible assets		–		11
Non-current assets	61.8%	581,157	61.1%	582,344
Assets	100.0%	940,180	100.0%	953,280

Liabilities and shareholders' equity

in thousand CHF	2020		2019	
Other liabilities				
– Third parties		5,233		4,327
– Group companies		2		2
Accrued expenses and deferred income				
– Third parties		6,093		7,073
– Group companies		–		200
Current liabilities	1.2%	11,328	1.2%	11,602
Interest-bearing liabilities				
– Third parties		380,000		380,070
Non-current liabilities	40.4%	380,000	39.9%	380,070
Liabilities	41.6%	391,328	41.1%	391,672
Share capital		5,000		5,000
Legal capital reserves				
– Reserves from capital contributions		351,612		396,094
Legal retained earnings				
– General legal retained earnings		1,000		1,000
– Reserves for treasury shares		11,600		22,000
Voluntary retained earnings				
– Free reserve		102,400		76,000
– Profit brought forward from the previous year		1,032		337
– Profit for the year		76,208		61,177
Shareholders' equity	58.4%	548,852	58.9%	561,608
Liabilities and shareholders' equity	100.0%	940,180	100.0%	953,280

Notes to the financial statements of Galenica Ltd.

Principles

The financial statements of Galenica Ltd. with registered office in Bern, Switzerland have been prepared in accordance with Article 957 et seqq. of Title 32 of the Accounting law based on the Swiss Code of Obligations (CO). Where not prescribed by law, the significant accounting and valuation principles applied are described below.

Financial assets

Financial assets include non-current loans to Group companies of CHF 268.4 million (previous year: CHF 300.9 million).

Investments

The list of the Group companies is shown on page 141.

Non-current interest-bearing liabilities

The non-current interest-bearing liabilities are recognised at nominal value.

in thousand CHF	2020	2019
Bond 0.5% (15 June 2017–15 June 2023) ISIN CH0367206692	200,000	200,000
Bond 1.0% (15 June 2017–15 December 2026) ISIN CH0367206700	180,000	180,000
Other financial liabilities	–	70
Non-current interest-bearing liabilities	380,000	380,070

Share capital

As at 31 December 2020, the share capital of Galenica amounted to CHF 5,000,000, divided into 50,000,000 fully paid-up and publicly listed shares with nominal value of CHF 0.10 each.

Authorised capital

According to Article 3a) of the Articles of Association, the Board of Directors is authorised to increase the share capital of CHF 5,000,000 by a maximum of CHF 500,000 at any time up to and including 2 May 2021 by issuing not more than 5,000,000 fully paid shares.

Reserves from capital contributions

The reserves from capital contributions have been reduced to CHF 351.6 million (previous year: CHF 396.1 million) due to the dividend paid out to the shareholders on 26 May 2020 taken from the reserves from capital contributions in the amount of CHF 44.5 million (previous year: CHF 83.8 million).

Release of hidden reserves

In 2020, hidden reserves of CHF 17.5 million were released (previous year: CHF 17.5 million).

Subordinated loans

As at 31 December 2020, no subordinated loans were granted to Group companies (previous year: CHF 190.0 million).

Contingent liabilities

As at 31 December 2020, total contingent liabilities amounted to CHF 788.5 million (previous year: CHF 745.5 million), including issued guarantees to Group companies of CHF 658.5 million (previous year: CHF 615.3 million) as well as CHF 130.0 million (previous year: CHF 130.0 million) for guarantees to secure intraday transactions for Group companies in connection with the zero balance cash pooling.

Full-time equivalents

The average number of full-time equivalents for the reporting period amounted to 36 (previous year: 34).

Treasury shares

Galenica shares owned by subsidiaries:

	Number	in CHF
As at 31 December 2018	823,413	29,764,564
1 st quarter 2019		
– Bought	833	39,202
– Sold	(56,100)	(2,570,197)
2 nd quarter 2019		
– Bought	320	16,157
– Sold	(37,958)	(1,704,314)
3 rd quarter 2019		
– Bought	1,253	67,657
– Sold	(74,677)	(3,839,145)
4 th quarter 2019		
– Bought	3,766	222,797
– Sold	–	–
As at 31 December 2019	660,850	21,996,721
1 st quarter 2020		
– Bought	396	24,927
– Sold	(57,734)	(3,617,429)
2 nd quarter 2020		
– Bought	500	34,238
– Sold	(28,090)	(1,687,366)
3 rd quarter 2020		
– Bought	780	52,283
– Sold	(76,470)	(5,288,665)
4 th quarter 2020		
– Bought	1,208	71,573
– Sold	–	–
As at 31 December 2020	501,440	11,586,282

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

Major shareholders

	Number of shares	% of share capital
As at 31 December 2020		
UBS Fund Management (Switzerland) AG, Switzerland	2,671,158	5.3
Alecta Pensionsförsäkring, Sweden	2,000,000	4.0
Credit Suisse Funds AG, Switzerland	1,626,752	3.3
BlackRock, Inc., USA	1,408,808 ¹⁾	3.1
Norges Bank (Central Bank of Norway), Norway	1,515,199	3.0
Rudolf Maag, Switzerland	1,500,000	3.0
As at 31 December 2019		
UBS Fund Management (Switzerland) AG, Switzerland	2,482,860	5.0
BlackRock, Inc., USA	2,239,120 ¹⁾	4.9
Alecta Pensionsförsäkring, Sweden	2,000,000	4.0
Credit Suisse Funds AG, Switzerland	1,626,752	3.3
Rudolf Maag, Switzerland	1,500,000	3.0

¹⁾ Options not considered

No other shareholder has announced a crossing of the 3% threshold of shares.

Shareholdings of the members of the Board of Directors and the members of the Corporate Executive Committee

Shareholdings of the members of the Board of Directors

Number of shares	Held as at 31.12.2020	Shares Allocated for 2020	Held as at 31.12.2019	Shares Allocated for 2019
Daniela Bosshardt	14,185	7,946	7,822	6,363
Pascale Bruderer	–	1,703	–	–
Michel Burnier	6,903	1,362	4,239	2,664
Fritz Hirsbrunner	–	–	7,157	3,330
Bertrand Jungo	2,963	2,001	1,187	1,776
Markus R. Neuhaus	3,812	3,604	1,740	2,072
Philippe Nussbaumer	10,269	2,724	7,605	2,664
Andreas Walde	10,279	1,703	7,023	3,256
Shares of the members of the Board of Directors	48,411	21,043	36,773	22,125

Shares held by related parties to members of the Board of Directors are included in the declaration of the number of shares they hold.

Shareholdings of the members of the Corporate Executive Committee

Number of shares	Held as at 31.12.2020	Held as at 31.12.2019
Marc Werner	80	–
Jean-Claude Cléménçon	–	5,191
Felix Burkhard	16,287	14,080
Christoph Amstutz	–	5,779
Andreas Koch	1,690	–
Daniele Madonna	6,328	3,690
Thomas Szuran	1,375	80

Shares held by related parties to members of the Corporate Executive Committee are included in the disclosed numbers.

Information relating to the number and value of participations rights of the members of the Board of Directors and the members of the Corporate Executive Committee are disclosed in the Remuneration Report (pages 76 to 80).

In 2020, 10,201 performance share units (previous year: 11,420 performance share units) with fair value at grant date of CHF 699,768 (previous year: CHF 429,727) have been allocated to the members of the Corporate Executive Committee. In 2020, 1,807 performance share units (previous year: 3,024 performance share units) with fair value at grant date of CHF 123,988 (previous year: CHF 113,782) have been allocated to other employees of Galenica Ltd.

Shareholders' equity

Shareholders' equity developed as follows:

in thousand CHF	Share capital	Reserves from capital contributions	General legal retained earnings	Reserves for treasury shares ¹⁾	Free reserve	Available earnings	Shareholders' equity
Balance as at 31 December 2018	5,000	479,852	1,000	29,800	25,200	43,337	584,189
Allocation to free reserve					43,000	(43,000)	–
Adjustment to the reserves for treasury shares				(7,800)	7,800		–
Dividends		(83,758)					(83,758)
Profit for the year						61,177	61,177
Balance as at 31 December 2019	5,000	396,094	1,000	22,000	76,000	61,514	561,608
Allocation to free reserve					16,000	(16,000)	–
Adjustment to the reserves for treasury shares				(10,400)	10,400		–
Dividends		(44,482)				(44,482)	(88,964)
Profit for the year						76,208	76,208
Balance as at 31 December 2020	5,000	351,612	1,000	11,600	102,400	77,240	548,852

¹⁾ Owned by subsidiaries

Proposal of the Board of Directors for the appropriation of available earnings and reserves from capital contributions

At the Annual General Meeting as at 12 May 2021, the Board of Directors will propose the following allocation of available earnings and reserves from capital contributions:

in CHF	2020	2019
Appropriation of available earnings		
Balance brought forward	1,032,257	337,297
Profit for the year	76,207,951	61,176,684
Available earnings at the disposal of the Annual General Meeting	77,240,208	61,513,981
Dividend per share CHF 0.90 (2019: CHF 0.90)	(45,000,000) ¹⁾	(44,481,724)
Allocation to free reserve	(32,000,000)	(16,000,000)
Balance to be carried forward	240,208	1,032,257
Appropriation of reserves from capital contributions		
Reserves from capital contributions	351,612,027	396,093,751
Dividend per share CHF 0.90 (2019: CHF 0.90) paid out of reserves from capital contributions	(45,000,000) ¹⁾	(44,481,724)
Balance to be carried forward	306,612,027	351,612,027

¹⁾ The proposed dividend payment and appropriation of reserves from capital contributions covers all issued shares. However, no dividend will be paid on treasury shares. As a result, the total dividend amount payable depends on the number of treasury shares held on the distribution date. Based on the number of treasury shares held as at 31 December 2020, the total dividend would amount to CHF 89.1 million

The Board of Directors proposes to issue a dividend for fiscal year 2020 of CHF 1.80 per registered share. For this purpose, CHF 0.90 is to be taken from the reserves from capital contributions and CHF 0.90 from retained earnings. On the part taken from the reserves from capital contributions, the dividend can be distributed without deduction of Swiss withholding tax of 35%. Natural persons living in Switzerland are not liable for income tax on the dividend paid from the reserves from capital contributions.

Assuming the Annual General Meeting approves the dividend, payments will be made on 19 May 2021.

To the General Meeting of
Galenica Ltd., Berne

Berne, 4 March 2021

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Galenica Ltd., which comprise the statement of income, statement of financial position and notes (pages 147 to 152), for the year ended 31 December 2020.



Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.



Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements for the year ended 31 December 2020 comply with Swiss law and the company's articles of incorporation.



Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.



Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation.

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

Ernst & Young Ltd

Roland Ruprecht
Licensed audit expert
(Auditor in charge)

Simone Wittwer
Licensed audit expert



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