

# **SANASTERA S.p.A.**

**Consolidated Financial Statements  
as at December, 31st 2016**

**SANASTERA S.p.A.**

DOMICILED IN BOLOGNA  
 SHARE CAPITAL EUROS 282.865.000  
 COMMERCIAL REGISTER NUMBER AND FISCAL CODE 02755811201  
 REGISTERED AT N.464697 OF R.E.A. OF BOLOGNA

**CONSOLIDATED FINANCIAL STATEMENTS**

Consolidated Balance Sheet € / 000	Note	As at 31 December 2016	As at 31 December 2015
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	1	13.279	13.683
Goodwill	1	791	791
Property, plant and equipment	2	199.726	207.445
Equity investments	3	1.626	1.617
Deferred Income tax assets	4	14.893	11.315
Other non-current assets	5	25.339	22.302
		<b>255.654</b>	<b>257.153</b>
<b>Current assets</b>			
Inventories	6	574.753	538.613
Trade receivables	7	795.974	779.186
Financial assets at fair value through profit or loss	8	46.713	54.570
Other current assets	9	84.286	81.695
Cash and cash equivalents	10	184.755	77.108
		<b>1.686.481</b>	<b>1.531.172</b>
<b>Total assets</b>		<b>1.942.135</b>	<b>1.788.325</b>
<b>Equity</b>			
<b>Capital and reserves attributable to equity holders of the company</b>			
Share capital	11	282.865	282.865
Share premium	11	100.008	100.008
Legal reserve	11	56.573	56.573
Other reserves	11	88.320	73.151
Available for sale investments	11	539	530
Cash flow hedge	11	(1.977)	(334)
Profit for the period		34.236	39.706
		<b>560.564</b>	<b>552.499</b>
<b>Minority interest in equity</b>		<b>(5)</b>	<b>(5)</b>
<b>Total Equity</b>		<b>560.559</b>	<b>552.494</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	12	87.864	32.458
Derivative financial instruments	12	3.298	74
Deferred income tax liabilities	13	2.764	2.140
Retirement benefit obligations	14	95.561	88.540
Provisions for other liabilities and charges	15	11.008	11.349
		<b>200.495</b>	<b>134.561</b>
<b>Current liabilities</b>			
Trade payables	16	497.049	458.229
Current income tax liabilities	17	3.284	2.609
Borrowings	12	308.109	269.736
Derivative financial instruments	12	3	889
Other liabilities and charges	18	372.636	369.807
		<b>1.181.081</b>	<b>1.101.270</b>
<b>Total liabilities</b>		<b>1.381.576</b>	<b>1.235.831</b>
<b>Total equity and liabilities</b>		<b>1.942.135</b>	<b>1.788.325</b>

<b>Consolidated Statement of comprehensive income</b> € / 000	Note	Year ended 31 December 2016	Year ended 31 December 2015
<b>Revenue</b>			
Sales revenue	19	8.149.597	7.940.402
Other operating income	20	89.968	84.248
		<b>8.239.565</b>	<b>8.024.650</b>
<b>Cost of raw materials, supplies and merchandise</b>			
	21	<b>7.777.199</b>	<b>7.554.268</b>
<b>Gross profit</b>			
		<b>462.366</b>	<b>470.382</b>
<b>Personnel expenses</b>			
Wages and salaries	22	169.180	168.480
Social security, retirement benefits and other benefits	22	56.163	59.465
		<b>225.343</b>	<b>227.945</b>
<b>Other operating expenses</b>			
	23	<b>151.875</b>	<b>150.601</b>
<b>Gross Operating Margin</b>			
		<b>85.148</b>	<b>91.836</b>
<b>Amortization and depreciation</b>			
	24	<b>32.549</b>	<b>29.776</b>
<b>Operating Profit</b>			
		<b>52.599</b>	<b>62.060</b>
Income from equity investments	25	28	26
Finance income	25	4.702	4.254
Finance costs	25	(4.496)	(7.390)
<b>Financial result</b>			
		<b>234</b>	<b>(3.110)</b>
<b>Profit before income tax</b>			
		<b>52.833</b>	<b>58.950</b>
<b>Income tax expense</b>			
	26	<b>18.597</b>	<b>19.244</b>
<b>Profit for the year</b>			
		<b>34.236</b>	<b>39.706</b>
<b>Attributable to:</b>			
Shareholders of the Company		34.236	39.706
Minority interest		-	-
		<b>34.236</b>	<b>39.706</b>
<b>Earnings per shares for profit attributable to the Shareholders of the Company</b>			
- basic	27	<b>12,103</b>	<b>14,037</b>
- diluted	27	<b>12,103</b>	<b>14,037</b>
<b>Profit for the year</b>			
		<b>34.236</b>	<b>39.706</b>
<b>Other comprehensive income:</b>			
Changes in the fair value of available-for-sale equity investments	11	9	18
Fair value losses of the derivatives designated as hedging instruments	11	(1.643)	2.207
Other comprehensive income	11	(5.137)	8.438
<b>Other comprehensive income for the year, net of tax</b>			
		<b>(6.771)</b>	<b>10.663</b>
<b>Total comprehensive income for the year</b>			
		<b>27.465</b>	<b>50.369</b>
<b>Attributable to:</b>			
Shareholders of the Company		27.465	50.369
Minority interest		-	-
		<b>27.465</b>	<b>50.369</b>

**Sanastera S.p.A. Consolidated Financial Statements**
**Changes in Equity**

€ / 000	Share Capital	Share Premium	Legal Reserve	Other reserves	Available for sale equity investments	Cash flow hedge	Group's Profit for the period	Equity of the Group	Minority interest	Minority Profit for the period	Equity of the Minor	Total Equity
<b>December, 31st 2014</b>	282.865	113.118	56.573	37.510	512	(2.541)	33.493	<b>521.530</b>	(5)	-	(5)	<b>521.525</b>
Profit for the period 2014 allocation				33.493			(33.493)	-	-	-	-	-
Dividends distribution		(13.110)		(6.290)				(19.400)			-	(19.400)
Changes in the fair value of available-for-sale equity investments					18			18			-	18
Fair value losses of the derivatives designated as hedging instruments (*)						2.207		2.207			-	2.207
Other changes (*)				8.438				8.438			-	8.438
Profit for the period 2015							39.706	<b>39.706</b>		-	-	<b>39.706</b>
<b>December, 31st 2015</b>	282.865	100.008	56.573	73.151	530	(334)	39.706	<b>552.499</b>	(5)	-	(5)	<b>552.494</b>
Profit for the period 2015 allocation				39.706			(39.706)	-	-	-	-	-
Dividends distribution				(19.400)				(19.400)			-	(19.400)
Changes in the fair value of available-for-sale equity investments					9			9			-	9
Fair value losses of the derivatives designated as hedging instruments (*)						(1.643)		(1.643)			-	(1.643)
Other changes (*)				(5.137)				(5.137)			-	(5.137)
Profit for the period 2016							34.236	<b>34.236</b>		-	-	<b>34.236</b>
<b>December, 31st 2016</b>	282.865	100.008	56.573	88.320	539	(1.977)	34.236	<b>560.564</b>	(5)	-	(5)	<b>560.559</b>

(\*) Net of deferred tax

**Sanastera S.p.A.**  
**Consolidated Financial Statements**

Consolidated Cash Flow Statement € / 000	Note	Year ended 31, December 2016	Year ended 31, December 2015
<b>Operating Profit</b>		<b>52.599</b>	<b>62.060</b>
Income from investments		28	26
Finance income		4.702	4.254
Finance costs		(4.496)	(7.390)
Income tax expense		(18.597)	(19.244)
<b>Profit for the year</b>		<b>34.236</b>	<b>39.706</b>
Amortization and depreciation expense		32.549	29.776
Changes in provisions		5.731	(8.212)
Gain/loss on the disposal of non-current assets		(1.928)	(625)
Changes in inventories		(36.140)	12.659
Changes in trade receivables and other assets		(19.379)	(22.602)
Changes in trade payables and other liabilities		41.438	13.653
Other non-cash changes in liabilities		(5.944)	10.271
<b>Cash flows from operating activities</b>	<b>28</b>	<b>50.563</b>	<b>74.626</b>
Cash receipts from the disposal of non-current assets (residual carrying amount of disposal increased by gains and reduced by losses on the disposal of the assets)		3.078	7.735
Cash paid/get to acquire intangible assets		(3.419)	(3.526)
Cash paid to acquire property, plant and equipment		(20.870)	(25.846)
Cash paid to acquire financial assets		(5.191)	64.314
<b>Cash flows from investing activities</b>	<b>29</b>	<b>(26.402)</b>	<b>42.677</b>
Cash receipts from borrowing		101.088	(21.535)
Cash paid to shareholders (dividends, repayment of capital, other distributions)		(19.400)	(19.400)
Cash paid for the repayment of loans		1.798	(5.203)
<b>Net cash used in financing activities</b>	<b>30</b>	<b>83.486</b>	<b>(46.138)</b>
<b>Net increase/decrease in cash and cash equivalents</b>		<b>107.647</b>	<b>71.165</b>
Cash and cash equivalents at beginning of period		77.108	5.943
<b>Cash and cash equivalents at end of period</b>	<b>31</b>	<b>184.755</b>	<b>77.108</b>

**Sanastera S.p.A.**  
**Consolidated Financial Statements**

Reconciliation of consolidated equity € / 000	Profit for the year		Equity	
	2016	2015	2016	2015
<b>Equity and Profit for the year of SANASTERA S.p.A.</b>	<b>27.466</b>	<b>50.369</b>	<b>560.564</b>	<b>552.499</b>
Equity and Profit for the year of consolidated companies net of the share attributable of Minority interest	34.951	40.234	542.227	534.047
Carrying amounts of consolidated investments (Equity method)	-	-	(542.227)	(534.047)
<b>Consolidation adjustments:</b>				
Dividends	(20.000)	(20.000)	-	-
CERP Rouen SAS investment - equity method effect	(9.811)	(8.836)	-	-
SANACORP GmbH investment - equity method effect	1.767	(22.076)	-	-
Deferred tax expense	(137)	15	-	-
Equity investment depreciation	-	-	-	-
<b>Equity and Profit for the year attributable to equity holders of SANASTERA S.p.A.</b>	<b>34.236</b>	<b>39.706</b>	<b>560.564</b>	<b>552.499</b>
Equity and Profit for the year attributable to Minority Interest	-	-	(5)	(5)
<b>Equity and Profit for the year of the consolidated financial statements</b>	<b>34.236</b>	<b>39.706</b>	<b>560.559</b>	<b>552.494</b>

# **SANASTERA GROUP**

## **NOTES**

**TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**DECEMBER, 31<sup>ST</sup> 2016**

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**A. General information**

Sanastera S.p.A. (hereinafter “Sanastera” or the “Company”) has been incorporated as limited liability company on May 25th, 2007 with a cash contribution of 10 thousand of Euro, and it is domiciled in Italy. The address of its registered office is Piazza Galvani 3, Bologna, Italy. The Company is not listed on the stock exchange.

The shareholders of Sanastera are the following:

<b>Firm Name</b>	<b>Interest in Sanastera</b>	<b>Domicile</b>
Sanacorp Pharmaholding AG	50 %	Planegg, Germany
Astera S.A.	50 %	France, Rouen

On November 28, 2007 a capital increase has been successfully completed; the share capital of Sanastera was increased from € 10.000 to € 50.000.000 with a capital surplus amounting to € 421.171.546 (total equity increase amounting to € 471.171.546) through the contribution in kind of the investments in the following subsidiaries, accounted for the following amounts (on a predecessor basis value) in Sanastera statutory financials:

1. CERP Rouen SAS (Rouen – France) € 141.427.427
2. Sanacorp Pharmahandel GmbH (Planegg – Germany) € 329.734.119

The contribution reports, written by an independent auditor, estimated an equity value of each investment of € 350.000.000 for a total amount of € 700.000.000.

On January 10, 2008 a second capital increase has been successfully completed through a re-allocation of reserves; the share capital of Sanastera was increased from € 50.000.000 to € 282.865.000 through the allocation of share premium reserve for an amount of € 232.865.000.

The core business of Sanastera S.p.A. is the acquisition and management of interests in companies involved in the activities of wholesale pharmaceutical and para-pharmaceutical goods.

Both subsidiaries companies are mainly involved in the business of wholesale pharmaceuticals and para-pharmaceutical and produce goods and supply services in the same business area.

These Group Consolidated Financial Statements were authorised for issue by the Board of Directors on March 13<sup>th</sup>, 2017, in order to be approved by the Supervisory Board on May 9<sup>th</sup> 2017.

## **B. Summary of significant accounting policies**

### **Basis of preparation**

The consolidated financial statements of Sanastera S.p.A. and its subsidiaries ( “Sanastera Group” or the “ Group”) have been prepared in accordance with International Financial Reporting Standards. They have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in the paragraph *Critical accounting estimates and judgements*.

*Standards, amendments and interpretations to existing standards effective after 2016 that have not been early adopted by the Group*

#### *IFRS 9 Financial Instruments*

High impact on notes.

Applying to financial years beginning on or after 1 January 2018.

#### *Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception*

No impact on financial position, cash flows and P/L.

Applying to financial years beginning on or after 1 January 2016.

#### *IFRS 15 Revenue from Contracts with Customers*

No impact on financial position, cash flows and P/L.

Applying to financial years beginning on or after 1 January 2018 .

### **Consolidation**

#### *(a) Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

As mentioned above, Sanastera S.p.A. is a joint venture company formed in 2007, through the contribution in kind of the investments in the following subsidiaries, which are accounted for the following amounts (on a net equity basis value) in Sanastera statutory financials 2016:

1. CERP Rouen SAS (Rouen – France)	€ 241.055.593
2. Sanacorp Pharmahandel GmbH (Planegg – Germany)	€ 301.171.900

The formation of a joint venture is a transaction which is out of scope of IFRS 3 – Business Combination. As consequence, under IAS 8 the Company had to select a proper accounting policy in order to account for the above mentioned transaction. Following the document Assirevi OPI 1, which deals with transactions between entities under common control, and considering that it is not immediately evident that the transaction will produce a significant impact on the cash flows of the entities involved before and soon after it, the formation of the joint venture has been accounted for on a predecessor basis values. Thus the carrying amounts of assets and liabilities previously booked in the financial statements of the companies that contributed their businesses to the joint venture through the contribution in kind mentioned above, have been used to account for the “acquisition” of the two subsidiaries by the Group.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by the Group.

*(b) Transactions and minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

*(c) Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

Where the Group, disregarding the percentage of shareholding, does not have the possibility to exercise a significant influence over an associate, the latter is accounting for under IAS 39.

Sanastera Group comprises Sanacorp Subgroup (Germany), where Sanacorp Pharmahandel GmbH is the parent company, and CERP Rouen Subgroup (France), where CERP Rouen Sas is the parent company.

Sanacorp Pharmahandel GmbH, Planegg - Germany, holds the following subsidiaries:

<b>Firm Name</b>	<b>Domicile</b>	<b>Share in capital</b>
Richard A. L. Witt GmbH	Germany, Planegg	100%
Eurodepot GmbH	Germany, Planegg	100%

CERP Rouen Sas, Rouen - France, holds the following subsidiaries:

<b>Firm Name</b>	<b>Domicile</b>	<b>Share in capital</b>
CERP Rouen Formation SAS	France, Rouen	100,00%
Sobedip SA	Belgium, Brussels	99,99%
CERP SA	Belgium, Brussels	99,99%
Les Pharmaciens Associés SA	Belgium, Brussels	99,80%

The training activity that was a part of CERP Rouen SAS until august 2015, has been contributed in a "ad hoc" subsidiary named CERP Rouen Formation SAS.

**Intangible assets**

After its initial recognition, an internally generated intangible asset, like a separately acquired intangible asset, is to be recognised at cost less any accumulated amortisation and accumulated impairment losses.

## ***Notes to the Consolidated Financial Statements of Sanastera Group***

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Research expense is recognised in the profit or loss in the period in which it arises.

An intangible asset arising from internal development is recognised if, and only if, all the following conditions are met:

- The technical feasibility of completing the intangible asset so that it will be available for use
- the intention to complete the intangible asset and use it
- the ability to use the intangible asset
- how the intangible asset will generate probable future economic benefits
- the availability of adequate technical, financial and other resources to complete the development and to use the intangible asset
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The cost of an internally generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria mentioned above. If no internally generated intangible asset can be recognised, the development expenditure is to be recognised as profit or loss in the period in which it was incurred.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

### ***Property, plant and equipment***

Items of property, plant and equipment are recognised at cost less accumulated depreciation.

Construction in progress for the purpose of production, lease or administrative or any other as yet undefined purpose are recognised at cost less any impairment. Cost includes fees for purchased services. Depreciation of such an asset follows the same principles as those applied to comparable other items of property, plant and equipment and begins as soon as it is completed or operates in the manner intended.

The depreciable amount of an asset, except for land or construction in progress, is allocated on a systematic basis over its expected useful life.

The assets useful lives are reviewed, and adjusted if appropriate, at each balance sheet date:

<b>Type of assets</b>	<b>Expected useful life</b>
Buildings	25 to 33 years
Hereditary building rights	50 years
Land improvements	9 to 25 years
Structural works	20 to 50 years
Leasehold improvements and finishing works	5 to 33 years
Roofing	10 to 20 years
Fixtures	5 to 15 years
Conveyor belts, order picking machines	8 to 10 years
Equipment & fixtures	3 to 25 years
Operating and office equipment	3 to 13 years
Computer hardware	3 to 10 years
Vehicle fleet	2,5 to 6 years

Gains or losses arising from the sale or retirement of an asset are determined as the difference between the disposal proceeds and the carrying amount of the item. They are recognised in profit or loss.

Low-value assets are fully written off in the year of acquisition. They are recognised as disposals in the statement of changes in non-current assets.

### ***Inventories***

Inventories are measured at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale.

Allowances were recognised for inventory risks arising from the range of the product portfolio and the turnover rate of the products.

### ***Financial instruments***

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments recognised as financial assets or financial liabilities are recognised separately. The financial instruments are recognised as soon as Sanastera becomes a party to the contractual provisions of the instruments.

Financial instruments are initially recognised at their fair values. For the purpose of measuring the financial instruments after initial recognition they are classified into the categories defined in IAS 39. Transaction costs which are directly attributable to the acquisition or issue of a financial asset are accounted for when determining the carrying amount, if the financial instruments are not measured at fair value through profit or loss. If the trade date and the settlement date (i.e. the day of delivery) differ, Sanastera chooses the trade date for the initial recognition and/or de-recognition.

### ***Financial assets***

The financial assets mainly comprise trade receivables, receivables from affiliates, receivables from banks, cash in hand, derivative financial assets and marketable securities.

#### ***Financial assets measured at fair value through profit or loss***

Financial assets measured at fair value through profit or loss consist of financial assets held for trading. Financial assets such as interest-bearing securities are classified as held for trading, if they are acquired for the purpose of selling them in the near term.

Derivatives, including embedded derivatives, which were separated from their host contract, are also classified as held for trading, unless they are hedging instruments qualifying for hedge accounting and are effective hedges. Gains or losses on financial assets held for trading are recognised in profit or loss.

#### ***Cash and cash equivalents***

Cash and cash equivalents comprise cash in hand, checks, bank deposits with original maturity of three months or less. Cash and cash equivalents are identical with the respective item in the consolidated cash flow statement.

#### ***Loans and receivables***

Receivables are non-derivative financial assets with fixed or determinable payments, that are not quoted in an active market. One example are trade receivables. After their initial recognition, receivables are measured at amortised cost less impairments. Gains and losses are recognised in Group profit, if the receivables are de-recognised or impaired.

#### ***Available-for-sale financial assets***

Available-for-sale financial assets are any non-derivative financial assets designated as available for sale and not classified in one of the above-stated categories. This category includes certain equity instruments.

After their initial recognition available-for-sale financial assets are measured at fair value, with unrealised gains or losses recognised directly in equity in the reserve for available-for-sale financial assets. This does not apply, if there is an objective indication that an asset may be impaired or if fair

value changes on a debt instrument result from foreign currency fluctuations. The cumulative gains or losses that were recognised in equity are recognised in profit or loss when the financial assets are de-recognised. If a fair value cannot be reliably measured for equity instruments that do not have a quoted market price, they are measured at amortised cost (less impairment losses where applicable). Interest earned on these financial assets is generally recognised as interest income using the effective interest method. Dividends are recognised in profit or loss as soon as there is a legal entitlement to payment.

***Impairment of financial assets***

By every balance sheet date, the carrying amounts of the financial assets which are not measured at fair value through profit or loss, are assessed to see, whether there is any indication (such as considerable financial difficulties of the debtor, significant changes in the technological, economic, legal and market environment of the debtor) that the asset may be impaired. A sustained or significant decline in the fair value of an equity instrument is an actual indication that the asset may be impaired.

The amount of the impairment of loans and receivables is the difference between the asset's carrying amount and the present value of expected future cash flows (except for future loan losses which have not yet occurred). The impairment is recognised in profit or loss. If the amount of the impairment loss decreases in one of the subsequent reporting periods and if this decrease can be traced to a change that has taken place after the recognition of the impairment loss, the impairment loss recognised in an earlier period is reversed and the reversal is recognised in profit or loss. The impairment of trade receivables is recognised in allowance accounts. Whether a credit risk is recognised in an allowance account or accounted for in an impairment of the receivable, depends on the probability of a credit loss.

If receivables are classified as non-recoverable, the impaired asset is de-recognised.

If an available-for-sale asset is impaired, the amount so far recognised in equity is recognised in profit or loss as the difference between cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. Reversals of impairment losses for equity instruments classified as available for sale are not recognised in profit or loss. Reversals of impairment losses for debt instruments are recognised in profit or loss, if the increase in the fair value of the instrument can be traced to an event that took place after the asset was recognised in profit or loss.

***Financial liabilities***

Financial liabilities mainly consist of trade payables, liabilities to banks, derivative financial liabilities and other liabilities.

***Financial liabilities measured at amortised cost***

After their initial recognition, financial liabilities are measured at amortised cost using the effective interest method.

***Financial liabilities measured at fair value through profit or loss***

Financial assets which are measured at fair value through profit or loss include other non-current financial liabilities. Gains or losses on these financial liabilities are recognised in profit or loss.

***Leases***

Leases are finance leases, if substantially all the risks and rewards incidental to legal ownership are transferred to the lessee. All other leases are classified as operating leases.

***The Group as lessor***

Amounts due from lessees under finance leases are recognised as receivables at the amount equal to the net investment in the Group's leases. The recognition of finance lease income is based on a pattern reflecting a constant periodic rate of return on the net investment in the finance lease. Lease income from operating leases is recognised in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred by the lessor in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on a straight-line basis.

**The Group as lessee**

Being the lessee, we recognise finance leases, with substantially all the risks and rewards incidental to legal ownership being transferred to the Group, as assets in the statement of financial position at the inception of the lease. The leased asset is recognised at the lower of fair value or present value of the minimum lease payments. The minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is thus allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. The finance charge is recognised in profit or loss.

The leased assets are depreciated over their useful lives. If there is no reasonable certainty, however, that the Group will obtain ownership by the end of the lease term, the leased asset is depreciated over the shorter of its useful life and the lease term.

Lease payments from operating leases are recognised in profit or loss on a straight-line basis over the lease term. Benefits received or outstanding as an incentive to enter into an operating lease are also depreciated straight-line over the lease term.

***Derivative financial instruments and hedging relationships***

Due to its activities the Group is exposed to interest rate risks.

Interest-rate swaps were designated by the Group as a hedge of such exposure. Derivative financial instruments were not used for speculative purposes.

Gains or losses arising from a change in the fair value of derivative financial instruments designated as effective cash flow hedges are recognised in equity. The ineffective portion of the instruments is recognised in profit or loss. If cash flow hedges of risks associated with binding commitments or foreseeable transactions result in the recognition of an asset or a liability, the associated gain or loss originally recognised in equity will be included in the initial cost of the asset or the liability.

For an effective hedge of the exposure to changes in fair value the hedged item is adjusted by gains or losses on fair value attributable to the hedged risk and the associated amount is recognised in profit or loss. Gains or losses from re-measuring derivatives or the foreign currency component of the carrying amount for non-derivatives, are recognised in profit or loss.

Gains or losses arising from a change in fair value of derivative financial instruments which do not qualify for hedge accounting are recognised in profit or loss when they are incurred.

Hedge accounting is discontinued if the hedging instrument expires or is sold, terminated or exercised or the hedge no longer meets the criteria for hedge accounting. In this case the cumulative gain or loss on the hedging instrument remains in equity until the forecasted transaction occurs. If we do no longer expect the hedged transaction to occur, the cumulative net gains or losses recognised in equity are reported in profit or loss.

Embedded derivatives or other host contracts are accounted for as separate derivatives if their risks and characteristics are no longer closely related to those of the host contract and the host contracts are not measured at fair value with unrealised gains or losses recognised in profit or loss.

***Provisions for pensions and other employee benefits***

Pension provisions are measured in accordance with the projected unit credit method. This method is based not only on the pension payments and vested benefits known on the balance sheet date, but also reflects future salary and pension increase prudently including the relevant actuarial assumptions.

The present value of the defined benefit obligation is recognised in the amount defined in the opinion of an actuarial institute less the fair value of plan assets.

The employee benefit obligation recognised is presented as the present value of the defined benefit obligation reduced by past service cost after offsetting it with the fair value of plan assets. Each asset resulting from such a calculation does not exceed past service cost plus the present value of available refunds and the reduction of future contributions to the plan.

***Other provisions***



The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or the amount receivable and is presented as amounts received for services rendered or goods supplied within the normal course of business, less any trade discounts, VAT or other sales-related tax.

Revenue from the sale of goods is recognised upon shipment and after transfer of the risks and rewards of ownership.

Interest income is recognised on an accrual basis taking into account outstanding receivables and the applicable effective interest rate. The effective interest rate is the interest rate, which, when applied, matches the present value of the estimated future cash inflows over the expected useful life of the financial asset with the net carrying amount.

Dividend income from financial investments is recognised as soon as the shareholder is legally entitled to payment.

**Cost of retirement benefits**

The Sanastera Group uses both defined benefit plans and defined contribution plans.

A defined benefit plan is a pension plan fixing a benefit amount to which an employee is entitled upon retirement and whose amount is determined by various assumptions such as age, years of service and salary.

Defined contribution plans are pension plans under which the subgroup pays fixed contributions into a separate entity. Hence, the Group has no legal or constructive obligation to pay further contributions, if the fund does not hold sufficient assets to pay all employee benefits.

Accounting for defined benefit plans involves determining the cost of benefits using the projected unit credit method requiring an actuarial valuation at each balance sheet date. Actuarial gains or losses are fully recognised in other comprehensive income in the period in which they are incurred. Past service cost is recognised immediately in the amount in which the benefits have vested or straight-line over the average period until the amended benefits become vested.

Under the defined contribution plan the Group pays contractually agreed contributions into a separate pension fund. The Group has no further obligations to pay any amounts beyond the contributions. The respective contributions are recognised under personnel expenses when they become due.

**Government grants**

Government grants for property, plant and equipment are deducted from the respective asset reducing depreciation over the expected useful life accordingly. Cost of the respective asset was reduced by the amount of the government grant received.

**Impairment of assets**

Items of property, plant and equipment and intangible assets are tested for impairment at each reporting date. If any such indication exists the company will have to estimate the recoverable amount of the asset to determine any impairment loss. If the asset does not generate any cash inflows which are independent of other assets, the recoverable amount of the asset will have to be estimated on the basis of the cash generating unit to which the asset belongs. Intangible assets with indefinite useful lives are tested for impairment annually irrespective of whether there is any indication that they may be impaired.

The recoverable amount is the higher amount of the fair value less costs to sell and the value in use of an asset. The value in use is determined on the basis of discounted future cash inflows taking as a basis a pre-tax market price equivalent to the time value of money, which reflects the asset risks not yet recognised in the future cash inflows.

If the recoverable amount of an asset (or a cash-generating unit) is lower than its carrying amount it is written down to its recoverable amount. Any impairment loss is to be recognised immediately in profit or loss, unless the asset has been re-valued. In this case the impairment loss is recognised as a reduction of the revaluation reserve.

The carrying amount of the asset (or the cash-generating unit) is increased to the recoverable amount when reversing an impairment loss in a subsequent period; it may however not exceed the carrying amount that would have been determined, had no impairment loss been recognised before. The reversal of the impairment loss is to be recognised immediately in profit or loss, unless it is recognised as a revaluation amount on the basis of another IFRS standard.

### **Borrowing costs**

Borrowing costs are recognised in the period in which they are incurred.

### **Taxes on income**

The current income tax charge is calculated on the basis of the tax law enacted at the balance sheet date in the countries where the company's subsidiaries operate and generate taxable income.

Tax expense is the aggregate amount of current and deferred income tax.

Current tax is based on the taxable profit for a year. Taxable profit differs from accounting profit as it excludes taxable or deductible items in other years or non-taxable or non-deductible items. The Group's current tax expense is calculated by using the tax rates applicable or fixed by the balance sheet date.

Deferred taxes are the amounts of income taxes payable or recoverable in future periods resulting from the difference between the carrying amounts of the assets and liabilities in the balance sheet and the tax base used to calculate taxable profit. They are recognised using the asset/liability approach. In general, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised.

Deferred taxes are not recognised, if the temporary difference arises from goodwill or the initial recognition of assets and liabilities in a transaction (which is not a business combination) which neither affects taxable or accounting profit.

The carrying amount of a deferred tax asset should be reviewed at each balance sheet date and should be reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of that deferred tax asset to be utilised.

Deferred taxes are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred taxes are recognised either as tax income or tax expense, unless they relate to items recognised in equity; the deferred taxes are then also recognised in equity.

### **Share-based payment transactions**

There are no share-based payments in Sanastera Group.

### **Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are listed below:

- Impairment of goodwill
- Income taxes

***Notes to the Consolidated Financial Statements of Sanastera Group***

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- Fair value of derivatives and other financial instruments
- Revenue recognition

**C. Notes to the consolidated balance sheet**

**Non-current assets**

**(1) Intangible assets and goodwill**

Purchased computer software and licenses were amortised on a straight-line basis over their expected useful lives: 1 to 7 years.

Internally generated intangible assets relate to in-house developed software. These intangible assets were amortised on a straight-line basis over their expected useful lives: 5 to 15 years.

Intangible assets' movements in the year 2016 and 2015 are detailed as follows:

Amounts in € thousand	Purchased		Internally generated		Prepayments	Total
	Computer software	Licenses	Software	Software in development		
<b>Gross carrying amount 31 Dec. 2014</b>	<b>10.413</b>	<b>7.508</b>	<b>49.164</b>	<b>3.854</b>	-	<b>70.939</b>
Addition	781	50	470	2.955	-	4.256
Disposal (gross)	1.730	1.427	179	-	-	3.336
Transfer	34	-	4.509	(4.555)	-	(12)
Change in consolidated group	-	-	-	-	-	-
Reversal of impairment loss	-	-	-	-	-	-
<b>Gross carrying amount 31 Dec. 2015</b>	<b>9.498</b>	<b>6.131</b>	<b>53.964</b>	<b>2.254</b>	-	<b>71.847</b>
Addition	372	611	261	2.172	4	3.420
Disposal (gross)	383	70	-	-	-	453
Transfer	525	-	3.190	(3.719)	-	(4)
Change in consolidated group	-	-	-	-	-	-
Reversal of impairment loss	-	-	-	-	-	-
<b>Gross carrying amount 31 Dec. 2016</b>	<b>10.012</b>	<b>6.672</b>	<b>57.415</b>	<b>707</b>	<b>4</b>	<b>74.810</b>
Cumulative amortisation	7.816	6.144	47.571	-	-	61.531
<b>Carrying amount 31 Dec. 2016</b>	<b>2.196</b>	<b>528</b>	<b>9.844</b>	<b>707</b>	<b>4</b>	<b>13.279</b>
Current amortisation	839	347	2.635	-	-	3.821

Software, both internally generated and purchased, refers mainly to the IT logistic system needed for delivering pharmaceutical goods.

## Notes to the Consolidated Financial Statements of Sanastera Group

Goodwill movements in the year 2016 and 2015 are detailed as follows:

Amounts in € thousand	Goodwill
<b>Gross carrying amount 31 Dec. 2014</b>	<b>27.310</b>
Addition	-
Disposal (gross)	-
Transfer	-
Change in consolidated group	-
Reversal of impairment loss	-
<b>Gross carrying amount 31 Dec. 2015</b>	<b>27.310</b>
Addition	-
Disposal (gross)	-
Transfer	-
Change in consolidated group	-
Reversal of impairment loss	-
<b>Gross carrying amount 31 Dec. 2016</b>	<b>27.310</b>
Cumulative amortisation	26.519
<b>Carrying amount 31 Dec. 2016</b>	<b>791</b>
Current amortisation	-

The goodwill of € 791 thousand figured as assets represents the contribution value of the veterinary activity brought to CERP Rouen SAS in July 2005; considering the level of profitability of this business, impairment test is not required.

The contribution value of the “von der Linde” group was brought to Sanacorp GmbH in 2009 for an amount of € 26.519 thousand; the goodwill has been impaired in 2012 of € 10.511 thousand to a contribution value of € 16.018 thousand; in 2013 the goodwill attributed to the “von der Linde” group has been entirely impaired due to the result of the impairment test performed at the end of the reporting year.

### (2) Property, plant and equipment

Property, plant and equipment mainly comprises office buildings, production plants, leasehold improvements, warehouse and production technology as well as motor vehicles, of Sanacorp subgroup in Germany, and of CERP Rouen subgroup in France and Belgium.

Finance leases regarding Sanacorp Pharmahandel subgroup have been included within “other equipment” for a carrying amount at the closing date of € 7.849 thousand.

## Notes to the Consolidated Financial Statements of Sanastera Group

Details of property, plant and equipment are included in the table below:

Amounts in € thousand	Land, land rights and buildings	Other equipment, operating and office equipment	Prepayments and construction in progress	Total
<b>Gross carrying amount 31 Dec. 2014</b>	<b>212.925</b>	<b>225.204</b>	<b>22.093</b>	<b>460.222</b>
Addition	5.046	17.984	1.810	24.840
Transfer	15.399	6.402	(21.807)	(6)
Disposal	2.130	10.634	2	12.766
Change in consolidated group	-	-	-	-
Reversal of impairment loss	-	-	-	-
<b>Gross carrying amount 31 Dec. 2015</b>	<b>231.240</b>	<b>238.956</b>	<b>2.094</b>	<b>472.290</b>
Addition	3.743	13.619	3.509	20.871
Transfer	1.532	615	(2.144)	3
Disposal	561	10.662	1	11.224
Change in consolidated group	-	-	-	-
Reversal of impairment loss	-	-	-	-
<b>Gross carrying amount 31 Dec. 2016</b>	<b>235.954</b>	<b>242.528</b>	<b>3.458</b>	<b>481.940</b>
Cumulative depreciation	104.503	177.711	-	282.214
<b>Carrying amount 31 Dec. 2016</b>	<b>131.451</b>	<b>64.817</b>	<b>3.458</b>	<b>199.726</b>
Current depreciation	7.952	19.817	-	27.769

With regard to the investment increase of the period it is mainly related to renewals of agency equipment, renewal of fleet of vehicles and office & data equipment.

### (3) Equity investments

Investments in associates are shown in the table below:

Amounts in € thousand	Equity investments
<b>Gross carrying amount 31 Dec. 2014</b>	<b>1.598</b>
Addition	19
Transfer	-
Disposal	-
Change in consolidated group	-
Gains/losses on fair value recognized in equity	-
<b>Gross carrying amount 31 Dec. 2015</b>	<b>1.617</b>
Addition	9
Transfer	-
Disposal	-
Change in consolidated group	-
Gains/losses on fair value recognized in equity	-
<b>Gross carrying amount 31 Dec. 2016</b>	<b>1.626</b>
Cumulative impairment loss	-
<b>Carrying amount 31 Dec. 2016</b>	<b>1.626</b>
Current impairment loss	-

Investments in associates and other investment can be detailed as follows:

Amounts in € thousand		Carrying amount 31 Dec. 2016	Carrying amount 31 Dec. 2015
DZ-Bank	Listed	1.564	1.555
Beteiligungus-AG der bayerischen Volksbanken	Not listed	43	43
Other investments	Listed	4	4
Other investments	Not listed	15	15
<b>Total</b>		<b>1.626</b>	<b>1.617</b>

#### **(4) Deferred income tax assets**

The deferred tax assets totalled € 14.893 thousand and were recognised primarily for deductible temporary differences between the pension provisions, finance lease liabilities, financial instruments and the other provisions in the IFRS financial statements and their tax base. Deferred tax assets were also recognised for differences arising from the measurement of receivables and low-value assets.

Deferred tax assets were composed as follows:

Amounts in € thousand	31 Dec. 2016	31 Dec. 2015
Non-current assets	4	218
Current assets	2.863	2.654
Provisions for pensions and other employee benefits	14.538	12.838
Other liabilities	1.035	811
Finance lease liabilities	322	565
Finance instruments	975	319
<i>( - ) Deferred tax liabilities</i>	<i>(4.844)</i>	<i>(6.090)</i>
<b>Total</b>	<b>14.893</b>	<b>11.315</b>

Deferred tax assets and deferred tax liabilities regarding temporary differences related to the same taxation authority were offset at the reporting date.

**(5) Other non-current assets**

Other non-current assets can be detailed as follows:

Amounts in € thousand	Securities	Long term investments and other loans	Prepayments	Corporation Tax credit	Total
<b>Gross carrying amount 31 Dec. 2014</b>	<b>23.065</b>	<b>3.522</b>	-	<b>2.380</b>	<b>28.968</b>
Addition	30	502	-	-	4.812
Disposal	5.934	471	-	793	1.264
Change in consolidated group	-	-	-	-	-
Gains/losses on fair value recognised in equity	-	-	-	-	-
<b>Gross carrying amount 31 Dec. 2015</b>	<b>17.161</b>	<b>3.554</b>	-	<b>1.587</b>	<b>22.302</b>
Addition	4.310	640	-	-	4.950
Disposal	-	327	-	1.586	1.913
Change in consolidated group	-	-	-	-	-
Gains/losses on fair value recognised in equity	-	-	-	-	-
<b>Gross carrying amount 31 Dec. 2016</b>	<b>21.471</b>	<b>3.867</b>	-	<b>1</b>	<b>25.339</b>
Cumulative impairment loss	-	-	-	-	-
<b>Carrying amount 31 Dec. 2016</b>	<b>21.471</b>	<b>3.867</b>	-	<b>1</b>	<b>25.339</b>
Current impairment loss	-	-	-	-	-

Securities mainly refer to financial investments in long-term securities for an amount of € 21.401 thousand; these are securities meant to be held to maturity between 2018 and 2020 according to the various maturities. The part of these securities getting their maturity in 2016 are classified in the other current assets as Securities - held to maturity (€13.090 thousand).

Long term loans includes long-term loans to employees for a present value of € 3.646 thousand (€ 3.289 thousand in 2015), the nominal value of € 4.404 thousand (€4.221 thousand in 2015) being discounted at a rate of 1,50% (2,00% in 2015).

**Current assets**

**(6) Inventories**

Inventories breakdown is as follows:

Amounts in € thousand	31 Dec. 2016	31 Dec. 2015
Raw materials and supplies	1.707	1.689
Finished goods and work in progress	555.530	517.338
Advances paid	17.516	19.586
<b>Total</b>	<b>574.753</b>	<b>538.613</b>

Write-downs of inventories to net realisable value which were made to take account of their low turnover rate amounted to € 1.316 thousand. A valuation allowance due to price reductions referred to Sanacorp subgroup was deducted as well as of 31 December 2016 in the amount of € 1.424 thousand.



**(7) Trade receivables**

Trade receivables are detailed as follows:

<b>Amounts in € thousand</b>	<b>31 Dec. 2016</b>	<b>31 Dec. 2015</b>
Gross amount	811.579	795.335
Allowances	(15.605)	(16.149)
Carrying amount (net)	<b>795.974</b>	<b>779.186</b>

An allowance was recognised for amounts due from the sale of goods presumed to remain not collectible. The allowance was determined on the basis of the probable collectability of an amount receivable taking into account past experience of debt default.

The trade receivables also include prolongations. Some of the payments deferred are not due within one year. These receivables are due in four years or less. Trade receivables with a residual term of more than one year total € 1.144 thousand.

Allowances for trade receivables are composed as follows:

<b>Gross carrying amount 31 Dec. 2015</b>	<b>16.149</b>
Change in consolidated group	-
Additions - net	2.910
Utilization	(3.454)
Other changes	-
<b>End of period 31 Dec. 2016</b>	<b>15.605</b>

Sanacorp subgroup sold no receivables as part of true sale factoring. Receivables in an amount of € 20.000 thousand were sold as part of an improper factoring. The risk remained by the Company. The net liability amounted to € 19.000 thousand.

**(8) Financial assets at fair value through profit or loss**

The Financial assets at fair value through profit or loss are composed as follows:

Amounts in € thousand	31 Dec. 2016	31 Dec. 2015
Securities - fair value through P&L	-	10
Other securities - fair value through P&L	46.713	54.559
<b>Total</b>	<b>46.713</b>	<b>54.570</b>

The entire amount of € 46.713 thousand was composed of marketable securities owned by CERP Rouen SAS.

The difference between *Securities* and *Other securities* is based on the terms of realising these activities: *Securities* can be realised in one day, while *Other securities* can be realised in a short time period (within three months).

Other financial assets at fair value through profit or loss are presented within 'operating activities' as part of changes in working capital in the cash flow statement.

**(9) Other current assets**

Other current assets are detailed as follows:

Amounts in € thousand	31 Dec. 2016	31 Dec. 2015
Prepaid expenses	2.899	2.393
Receivables from related parties	34.334	20.040
Tax receivables	6.994	6.323
Tax receivables - income tax	2.968	3.764
Securities - held to maturity	13.090	26.116
Other assets	24.001	23.059
<b>Total</b>	<b>84.286</b>	<b>81.695</b>

Prepaid expenses refer to insurance, maintenance contracts, rent and personnel costs.

Receivables from related parties refer mainly to CERP Rouen subgroup financial receivables for the entire amount of € 28.630 thousand. The related parties are detailed in the Note 38.

Tax receivables refer to Sanacorp subgroup (€ 793 thousand) and CERP Rouen subgroup (€ 9.159 thousand) and Sanastera SpA (€ 10 thousand).

Securities held to maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale.

Held-to-maturity financial assets are all included in current assets, due to the fact that all asset have maturity less than 12 months from the balance sheet date.

The fair value of held to maturity financial assets is based on quoted market bid prices.

Held-to-maturity financial assets are denominated in Euro.

The maximum exposure to credit risk at the reporting date is the carrying amount of held to maturity financial assets.

Changes in fair values on securities held to maturity are recognised in the income statement.

Securities held to maturity refer to CERP Rouen subgroup for the entire amount.

Other assets combined receivables from suppliers and other current receivables. This item did not include any receivables with residual terms of more than one year.

**(10) Cash and cash equivalents**

Amounts in € thousand	31 Dec. 2016	31 Dec. 2015
Cash at bank and on hand	184.755	77.108
<b>Total</b>	<b>184.755</b>	<b>77.108</b>

Cash, cash equivalents and bank overdrafts include the following for the purposes of the cash flow statement:

Amounts in € thousand	31 Dec. 2016	31 Dec. 2015
Cash at bank and on hand	184.755	77.108
Bank overdrafts	(301.054)	(262.777)
<b>Total</b>	<b>(116.299)</b>	<b>(185.669)</b>

Bank overdrafts are disclosed in the note 12.

**Equity**

**(11) Equity**

Sanastera S.p.A. has a share capital for an amount of € 282.865 thousand and a premium in the amount of € 100.008 thousand.

The total authorised number of ordinary shares is 2.828.650 with a par value of € 100 per share. All issued shares are fully paid.

Gains and losses on the fair value evaluation are recognised in Equity as follows:

- with reference to *Available for sale investments* the impact of the period on Equity at the reporting date amounts to € 9 thousand;
- with reference to *Cash flow hedge* the fair value net of deferred tax at the reporting date amounts to € (1.977) thousand and the impact of the period on Equity net of deferred tax at the reporting date amounts to € (1.643) thousand.
- with reference to *Other reserves* it mainly includes actuarial losses on pension provision and the impact of the period on Equity, net of deferred tax at the reporting date, amounts to € (5.137) thousand.

In the period deferred taxes were recognized on Equity in the amount of € 2.945 thousand.

The components of equity and their increase/decrease are disclosed in the statements of changes in equity and reconciliation of consolidated equity.

**Non-current liabilities**

**(12) Borrowings and derivative financial instruments**

Borrowings can be detailed as follows:

Amounts in € thousand	31 Dec. 2016	31 Dec. 2015
Bank borrowings	87.641	30.930
Lease liabilities	156	1.448
Other financial liabilities	67	80
<b>Total Borrowings – Non current</b>	<b>87.864</b>	<b>32.458</b>
Bank borrowings	5.727	6.786
Lease liabilities	1.292	1.026
Bank overdrafts	301.051	261.888
Other	39	36
<b>Total Borrowings – Current</b>	<b>308.109</b>	<b>269.736</b>
<b>Total Borrowings</b>	<b>395.973</b>	<b>302.194</b>

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date:

Amounts in € thousand	31 Dec. 2016	31 Dec. 2015
Less than 1 year	308.176	270.896
Between 1 year and 2 years	6.350	4.822
Between 2 years and 5 years	44.822	26.476
Over 5 years	36.625	-
<b>Total Borrowings</b>	<b>395.973</b>	<b>302.194</b>

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the balance sheet dates are as follows:

Amounts in € thousand	31 Dec. 2016	31 Dec. 2015
6 months or less	832	224.812
6-12 months	553	7.581
1-5 years	37.500	20.885
Over 5 years	36.625	-
<b>Total Borrowings</b>	<b>75.510</b>	<b>253.278</b>

Sanastera Group has not interest rate changes exposure for an amount of € 320.463 thousand.

The Sanacorp subgroup during the exercise has contracted two new loans totaling € 50 million that require compliance with some financial key ratio (covenant).

The carrying amounts of the Group's borrowings are denominated in Euro.

## Notes to the Consolidated Financial Statements of Sanastera Group

The table below represents the fair value of the derivative financial instruments:

Amounts in € thousand	31 Dec. 2016	31 Dec. 2015
Liability for derivative financial instruments with counterpart Equity - non current quota	3.298	268
Asset for derivative financial instruments with counterpart Equity - non current quota	-	(194)
<b>Total</b>	<b>3.298</b>	<b>74</b>

Amounts in € thousand	31 Dec. 2016	31 Dec. 2015
Liability for derivative financial instruments - current quota	3	889
<b>Total</b>	<b>3</b>	<b>889</b>

The total liabilities for derivative financial instruments qualifying for hedge accounting (interest rate exposure) which has its counterpart in the equity amounted to € 3.301 thousand.

### (13) Deferred income tax liabilities

Deferred tax liabilities were recognised for tax payable in future periods in respect of differences between IFRS accounting profit and taxable profit. The differences resulted mainly from the measurement of non-current assets.

Deferred tax liabilities developed as follows:

Amounts in € thousand	31 Dec. 2015	Use	Reversal	Appropriation	31 Dec. 2016
Deferred tax liabilities	2.140	-	544	1.168	2.764

Deferred tax assets and deferred tax liabilities regarding temporary differences related to the same taxation authority were offset at the reporting date.

Deferred tax liabilities refer to CERP Rouen (€ 1.161 thousand) and to Sanastera (€ 1.603 thousand); Sanacorp deferred tax liabilities were offset with the deferred tax assets.

### (14) Retirement benefit obligations

Retirement benefit obligations developed as follows:

Amounts in € thousand	31 dic. 2016	31 dic. 2015
Present value of all unfunded benefit obligations	93.035	86.778
Other defined benefit obligations	17.888	16.496
<b>Present value of all defined benefit obligations</b>	<b>110.923</b>	<b>103.274</b>
Unrecognised actuarial gain/loss	-	-
Unrecognised past service cost	-	-
Reinsurance policy and Present value of plan assets recognised against liability	(15.362)	(14.734)
Other recognised/unrecognised amounts	-	-
<b>Retirement benefit obligations</b>	<b>95.561</b>	<b>88.540</b>

The retirement benefit obligations refer to Germany for an amount of € 82.110 thousand and to France for an amount of € 13.451 thousand.

The German retirement benefit obligations include:

## Notes to the Consolidated Financial Statements of Sanastera Group

- a pension plan applicable to all employees,
- commitments made to provide additional benefits to individual employees,
- the benefit agreements concluded with senior employees, the benefit plan of the support fund transferred,
- collective arrangements on continued salary in the case of death and
- lump-sum benefits payable from bonuses or service periods and claims to premiums accrued for such payment.

The present value of all defined benefit obligations totalled € 110.923 thousand on December 31<sup>st</sup>, 2016. The total amount both of insurance cover (€ 10.925 thousand) and of plan assets (€ 4.437 thousand), taken out to protect benefit obligations, was deducted from pension provisions.

The reconciliation of pension provisions from the beginning to the end of the current financial year was as follows taking account of the individual expense items:

Amounts in € thousand	
<b>Pension provision as of 31 Dec. 2015</b>	<b>88.540</b>
Service cost	1.873
Interest cost	1.835
Pensions paid	(3.358)
Capital payments	682
Recognised actuarial net gain/loss for the year	7.290
Contributions to plan assets	(750)
Change in claim to refund from reinsurance policy	(564)
Funeral benefit	13
<b>Pension provision as of 31 Dec. 2016</b>	<b>95.561</b>

The actuarial gains and losses are recognised in other comprehensive income.

The major actuarial assumptions were:

Discount rate	1.5 %
Future salary levels	2.50 %
Inflation rate	1.50 % - 1.75 % p.a.
Future pension levels	after 3 years in each case
Future level of benefits accrued	2.00 % p.a.

### (15) Provisions for other liabilities and charges

Non-current provisions developed as follows:

Amounts in € thousand	31 Dec. 2015	Use	Reversal	Appropriation	Reclassification	31 Dec. 2016
Other non-current provisions						
Obligations from operating activities	314	314	-	316	-	316
Obligations in relation to personnel and social security	7.909	1.562	-	1.551	-	7.898
Employee profit sharing	3.126	902	-	1.677	(1.107)	2.794
Other non-current liabilities	-	-	-	-	-	-
<b>Total non-current provisions</b>	<b>11.349</b>	<b>2.778</b>	<b>-</b>	<b>3.544</b>	<b>(1.107)</b>	<b>11.008</b>

Obligations in relation to personnel and social security refers to long service awards recognized by the German Subgroup to the employees and to pension provisions for retired employees.

Provisions for employee profit sharing, that are bonuses, were recognised in accordance with French Law and CERP Rouen SAS internal regulations.

**Current liabilities**

**(16) Trade payables**

The trade payables developed as follows:

Amounts in € thousand	31 Dec. 2016	31 Dec. 2015
Trade notes & accounts payable	497.047	457.476
Amounts due to related parties	2	753
<b>Total</b>	<b>497.049</b>	<b>458.229</b>

Amounts due to related parties are detailed in the note 38.

**(17) Current income tax liabilities**

The income tax liabilities are detailed as follows:

Amounts in € thousand	31 Dec. 2015	31 Dec. 2015
German Current income tax liabilities	3.278	2.537
French Current income tax liabilities	6	63
Italian Current income tax liabilities	-	9
<b>Total tax provisions</b>	<b>3.284</b>	<b>2.609</b>

**(18) Other liabilities and charges**

Other liabilities and charges are detailed below:

Amounts in € thousand	31 Dec. 2016	31 Dec. 2015
Advance payments received	196.388	182.448
Amounts due to related parties	64.797	73.397
Obligations in relation to personnel and social security	36.300	42.844
Payments received on account of orders	21.806	16.475
Tax liabilities (except Income Tax)	13.184	16.537
Employee profit sharing - under 1 year	1.084	1.162
Retirement provisions - under 1 year	1.167	1.167
Loss provisions for tax reassessment - under 1 year	5.064	5.840
Deferred income	319	557
Contingencies provisions	576	392
Other current liabilities	31.951	28.988
<b>Total</b>	<b>372.636</b>	<b>369.807</b>

Advance payments received are composed mainly by cash deposits of Astera SA shareholders (pharmacists clients of CERP Rouen SAS), interest bearing at the interest rate of 1% while last year was 1.75%.

Amounts due to related parties consist of Sanacorp subgroup cash pooling (€ 7.024 thousand), CERP Rouen subgroup liabilities (€ 49.651 thousand) and Sanastera liabilities (€ 1.065 thousand).

Sanastera liabilities relate to interests accrued on the current accounts with parent companies, for an amount of € 706 thousand, and to other liabilities for an amount of € 359 thousand.

Related parties disclosure is detailed in the note 38.

**D. Notes to the Consolidated statement of comprehensive income**

**(19) Sales revenue**

Revenue of the consolidated companies was mainly generated from the sales of drugs to German, French and Belgium pharmacies during the fiscal period 2016. Commercial rebates and discounts granted to customers are included at this level.

Revenue was recognised at fair value, when risks and rewards of ownership were transferred to the buyer, when the amount of revenue was measured reliably and when payment appeared probable.

**(20) Other operating income**

Other operating income included income from services, advertising cost allowances, cost refund, disposals of other non-current assets and income from the reversal of redundant provisions and valuation allowances. The major items of other operating income were as follows:

Amounts in € thousand	2016	2015
Revenue from advice to pharmacies, workshops and fees	10.923	10.155
Sales services	20.074	18.511
Revenue from sale of data/clearing unit	2.618	2.655
Advertising cost allowances	6.863	6.328
Refund of transport and fuel costs	2.211	2.587
Reversal of provisions and valuation allowances	2.742	2.547
Commissions from affiliated companies	7.060	6.841
Commissions from laboratories	27.286	24.433
Other income	10.191	10.191
<b>Total</b>	<b>89.968</b>	<b>84.248</b>

Other operating income was recognised at fair value. The amount of income could be reliably measured. The inflow, if not received, was probable.

Services fees related to Sanacorp Subgroup for an amount of € 9.613 thousand have been included in Sales revenues (€10.792 thousand in 2015).

**(21) Cost of raw materials, supplies and merchandise**

Cost of raw materials, supplies and merchandise includes also commercial rebates and discounts granted by laboratories (€ 8.275) thousand and specific French Social Security Tax for € 41.238 thousand (€ 39.770 thousand for the previous year).

**(22) Personnel expenses**

Personnel expenses consist of wages and salaries costs (employee profit-sharing plan included), costs of social security, retirement benefits and other benefits. Their break-down can be seen in the income statement.

**(23) Other operating expenses**

Other operating expenses included in particular costs of sub-contracted personnel, sub-contracted forwarding agents, rent, advertising, energy, maintenance as well as office and administration cost.

The major items of other operating expenses were as follows:

Amounts in € thousand	2016	2015
Shipping and freight	60.278	58.881
Cost of land and office space	14.594	15.031
IT, data transfer	9.817	8.988
Subcontracted labour, training fees	17.007	16.845
Allocation of allowances and impairment loss of receivables	2.719	3.584



## Notes to the Consolidated Financial Statements of Sanastera Group

Advertising cost, advice to pharmacies	8.949	8.831
Other non-personnel expenses	5.315	5.141
Non inventory supply	8.166	7.470
Taxes on wages and other taxes	10.353	10.420
Maintenance and repairs	5.375	5.723
Rental	2.040	2.629
Insurance premiums	1.907	2.191
Other expenses	5.355	4.867
<b>Total</b>	<b>151.875</b>	<b>150.601</b>

Other operating expenses were recognised at fair value. The amount of expenses could be measured reliably and the payment, if not yet made, could be reasonably assured.

### (24) Amortisation and depreciation

Amortisation and depreciation developed as follows:

Amounts in € thousand	2016	2015
Intangible assets	3.821	4.382
Tangible assets	27.769	25.923
Other provisions	959	(529)
<b>Total</b>	<b>32.549</b>	<b>29.776</b>

Other provisions refer to CERP Rouen subgroup and are mainly related to the trade receivables (€ 218) thousand, social contingencies (€ 184) thousand, and of the reversal of fiscal contingencies of € 616 thousand.

### (25) Income from equity investments and Finance income and costs

This item included primarily interest income from customer relationships and interest expenses relating to the financing of the business operation. In addition the item included dividends received from other long-term investees and investors.

Interest income was recognised pro rata temporis taking into account the effective rate of return. Dividends were recognised as soon as the legal claim to payment arose.

### (26) Income tax expense

Income taxes included German, French, Belgian and Italian taxes. This was the result of the fact, that all incomes were generated in these countries.

## Notes to the Consolidated Financial Statements of Sanastera Group

The difference between income tax expense expected and recognised was accounted for by the following facts:

Amounts in € thousand	2016
Profit before tax	52.833
Income tax expense expected	24.810
Tax increase due to non-deductible expenses	(502)
Tax-exempt asset increases	(7.603)
Addition/reduction trade tax	912
Differences of impairment loss	-
Different rates for deferred taxes	(368)
Additional tax payments for previous years	1.131
Other differences	217
<b>Income tax expense recognised</b>	<b>18.597</b>
<b>Effective tax rate</b>	<b>35,20%</b>
<b>Profit from ordinary activities</b>	<b>52.833</b>
<b>Income tax</b>	<b>18.597</b>
<b>Net profit for the year</b>	<b>34.236</b>

The Other differences are mainly related to the tax-exempt dividends distributed to Sanastera from its subsidiaries. The rate of tax-exemption of these dividends is 95%.

Deferred taxes were based on the application of current tax rates or tax rates already fixed for the assessment period and are presented as follows:

Amounts in € thousand	2016	2015
Deferred tax income	3.519	4.595
Deferred tax expense	(3.238)	(3.947)
<b>Balance</b>	<b>281</b>	<b>648</b>

### (27) Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

Amounts in € thousand	2016	2015
Profit attributable to equity holders of the company	34236	39.706
Weighted average number of ordinary shares in issue	2.829	2.829
<b>Basic earnings per share</b>	<b>12,103</b>	<b>14,037</b>

Diluted earnings per share has the same calculation of basic earning per share.

### E. Segment reporting

Segment information has not been disclosed as IFRS 8 must be mandatorily applied only by enterprises whose debt or equity securities are publicly traded and those in the process of issuing such securities in public securities markets, and Sanastera S.p.A. is not included in this case.

### F. Notes to the cash flow statement

#### (28) Cash flows from operating activities

The cash flow statement was prepared in accordance with the indirect method and starts with the operating profit.

**(29) Cash flows from investing activities**

Net cash from investing activities comprises all investments and sales made in the reporting period.

**(30) Net cash used in financing activities**

Net cash used in financing activities in the reporting year was defined by the dividend, which was credited to the parent companies intercompany accounts and by the increase in current financial liabilities.

**(31) Cash and cash equivalents at end of period**

Cash and cash equivalents comprised cash and bank balances at each balance sheet date.

**G. Other notes to the annual financial statements**

**(32) Financial instruments**

**a) Carrying amounts and fair values of financial instruments**

The following table sets out the carrying amounts and fair values of the Group's financial instruments. Fair value is the amount for which the rights and/or obligations from such financial instrument would be exchanged between two parties in an arm's length transaction. Given the variety of factors the fair values shown are an indicator of the values actually realisable on the market.

Amounts in € thousand	Carrying amount 31 Dec. 2016	Fair value 31 Dec. 2016	Carrying amount 31 Dec. 2015	Fair value 31 Dec. 2015
Trade receivables	795.974	795.974	779.186	779.186
Cash and cash equivalents	184.755	184.755	77.110	77.110
Other financial assets:				
- Assets available for sale	1.610	1.610	1.611	1.611
- Assets at fair value through profit and loss	46.713	46.713	54.559	54.559
- Assets held to maturity	34.491	34.491	43.206	43.206
- Derivative financial instruments qualifying for hedge accounting	-	-	-	-
- Other receivables and assets	48.481	47.725	34.125	33.193
<b>Total financial assets</b>	<b>1.112.024</b>	<b>1.111.268</b>	<b>989.797</b>	<b>988.865</b>
Financial liabilities	395.909	394.800	303.003	303.008
Other liabilities	4.035	3.879	4.521	4.288
Trade payables	497.049	497.049	458.229	458.229
Miscellaneous financial liabilities:				
- Financial liabilities recognised at fair value through profit or loss	68	68	81	81
- Derivative financial instruments qualifying for hedge accounting	3.301	3.301	1.158	1.158
- Other miscellaneous financial liabilities	301.269	301.269	297.564	297.564
<b>Total financial liabilities</b>	<b>1.201.631</b>	<b>1.200.366</b>	<b>1.064.556</b>	<b>1.064.328</b>

The fair values of the financial instruments were determined on the basis of the market information available on the balance sheet date and the following methods and assumptions:

**Trade receivables and cash and cash equivalents**

Given the short maturity of these financial instruments the fair values are assumed to equal the carrying amounts.

**Other financial assets**

***Available-for-sale financial assets include:***

- Equity shares measured at fair value. The equity shares recognised at fair value were measured on the basis of the quoted market price available on 31 December.
- Equity shares measured at cost. No fair value was determined for equity shares measured at cost, as there was no active market that could have established price quotations or market prices. These are shares in enterprises not listed on a stock exchange, which, as there are no reliably determinable cash flows, were not measured by discounting expected future cash flows. In these cases, the fair values were assumed to equal the carrying amounts.
- Liability components. Most of the liability components were measured at the market prices quoted as of 31 December. Some of the fair values of these components were established by using valuation techniques which are based on market data; the fair value of a small part of the liability components was established by using valuation techniques which were not based on market data.

***Assets at fair value through profit and loss:***

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Assets in this category are classified as current assets.

***Assets held to maturity:***

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturity less than 12 months from the balance sheet date, which are classified as current assets.

***Derivative financial instruments qualifying for hedge accounting:***

Derivative contracts to hedge interest rate exposure. The fair values of the interest rate hedging instruments (e.g. interest rate swaps) were determined on the basis of discounted expected future cash flows using the market interest rates applicable to the remaining period to maturity of the financial instruments.

***Other receivables and assets include:***

Current other receivables and short-term borrowing. These financial instruments are recognised at cost. Given the short maturity of these financial instruments the fair values are assumed to equal the carrying amounts.

**Financial liabilities.**

The fair values of long-term loans are determined as the present values of estimated future cash flows. Interest rates customary in the market are used for discounting in relation to the respective maturity. Given their short maturity, the carrying amounts of current financial liabilities are assumed to be a reasonable approximation of fair value.

**Other liabilities**

The fair values of other liabilities are determined as the present values of estimated future cash flows.

**Trade payables.**

Given the short maturity of these financial instruments the fair values are assumed to equal the carrying amounts.

**Miscellaneous financial liabilities.**

The financial liabilities at fair value through profit or loss include non-current obligations. The non-current liabilities are generally recognised at their present value in the balance sheet; it is assumed, the present values are assumed to equal the fair values of these financial instruments.

**Derivative financial instruments qualifying for hedge accounting.**

Derivative contracts to hedge interest rate exposure. The fair values of the interest rate hedging instruments (e.g. interest rate swaps) were determined on the basis of discounted expected future cash flows using the market interest rates applicable to the remaining period to maturity of the financial instruments.

**Other miscellaneous financial liabilities.** Given the short maturity of these financial instruments the fair values are assumed to equal the carrying amounts.

**b) Net gains or losses**

The following table presents the net gains or losses on financial instruments recognised in the income statement (less derivative financial instruments which qualify for hedge accounting):

Amounts in € thousand	2016	2015
Financial assets and liabilities recognised at fair value through profit or loss	498	36
Available-for-sale financial assets	-	-
Loans and receivables	936	1.003
Financial liabilities measured at cost	(77)	31

The net gains or losses on the financial assets and liabilities recognised at fair value through profit or loss include interest expenses and income for these financial instruments along with the gains or losses on fair value changes.

Net gains or losses on available-for-sale financial assets include among other items income from equity investments and gains recognised on the disposal of these shares.

Net gains or losses on loans and receivables mainly include the amounts resulting from impairment losses and reversals.

**c) Total interest income and expense**

Total interest income and expense for financial assets or financial liabilities that are not measured at fair value through profit or loss, are as follows:

Amounts in € thousand	2016	2015
Total interest income	4.258	4.208
Total interest expense	2.674	3.771

**d) Disclosures on derivative financial instruments, use of derivatives**

The Group designates cash flow hedges to secure interest rate risks. Changes in the fair value of these derivative financial instruments designated as effective cash flow hedges were recognised in equity.

The following derivatives were used to hedge the interest rate exposure:

Amounts in € thousand	up to 1 year		1 to 5 years		more than 5 years		Average
	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015	31 Dec. 2016	31 Dec. 2015	interest rate
Interest-rate swaps (nominal value)	1.275	105.100	31.250	2.525	100.000	30.000	0,24%

The market price of all the derivatives held totalled net incomes for € 3.301 thousand on the balance sheet date. That incomes have been recognized entirely in Equity.

Interest rates will be fixed every six months over the entire term of the contracts. The Company receives a variable return at the respective 6-month EURIBOR and pays the fixed interest rate agreed. Thus, the respective volume corresponded in substance to a fixed-term loan. In addition, there are fixed-rate loans and variable interest income which further reduce the interest rate exposure.

### **(33) Risk management**

The Group risk policy in the use of financial instruments is to be regarded as very conservative. All derivative financial instruments are used solely for hedging an underlying transaction and are held to maturity. Risks on financial instruments arise from interest rate changes, defaults (credit risk) and a lack of liquidity. Management has established an appropriate risk management system to deal with each of these risks.

Given its activities the Group was exposed to financial risks arising from changes in interest rates. Interest rate exposure is mainly to be seen in connection with current and non current liabilities to banks. All of these loans were granted on a variable basis plus a margin.

The Group is not exposed to currency risks, since the purchases and sales of goods are almost all transacted in Euro.

The pharmaceutical wholesale market is heavily regulated by law. Hence, there is no commodity risk in its narrow sense. The purchase prices for prescription drugs are regulated. Selling prices are defined by a profit/price margin less discounts granted. An active accounts receivable management prevents Sanastera from major default risks. The default risk depends mainly on the regulatory measures introduced by the government. There is no concentration of major default risks.

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating are accepted. Customers are not independently rated and risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. However, credit risk of primary financial instruments is limited to their carrying amount which does not significantly differ from the carrying amount.

There is no liquidity risk at present. The Group has available short-term credit lines to a sufficient extent to run its business. The market price risk of all financial instruments is regularly monitored.

**(34) Contingent liabilities and other financial obligations**

There were the following financial obligations not disclosed in the balance sheet:

Amounts in € thousand	2016	2015
<i>As a counterpart to financial liabilities in form of:</i>		
- Mortgage	5.450	1.925
- Guarantee	316	149
<i>As a counterpart to authorised overdraft credit:</i>		
- Letter of intent	33.293	33.484
- Other bank guarantee	-	-
- Rental agreements	7.608	8.060
- Leases	-	-
<b>Total</b>	<b>46.667</b>	<b>43.618</b>

**(35) Members of the Supervisory Board**

Name	Residence
BERTHEUIL ALAIN PIERRE JAQUES - Chairman	Franqueville Saint Pierr - France
SCHNEIDER MATTHIAS - Vice Chairman	Finnigen - Germany
ROUDIERES CORINNE HUGUETTE - Member	Salses Chateau - France
BARTETZKO NORBERT CASPAR EBERHARD - Member	Berlin - Germany
IVEN HOLGER KARL WALTER - Member	Lubeck - Germany
PINTON ARMAND - Member	Orsennes - France
FIORITTI ALBERTO - Member	Bologna - Italy

**(36) Members of Board of Directors**

Name	Residence
LANG HERBERT - Chairman	Planegg - Germany
BRONCHAIN OLIVIER CHRISTIAN - Vice Chairman	Rouen - France
HENNINGS FRANCK HORST - Director	Planegg - Germany
ROUDERGUES ALAIN EMILE JEAN – Director	Rouen - France

**(37) Remuneration of the Board of Directors and the Supervisory Board**

For 2016 were resolved emoluments only for the Supervisory Board, for an amount of € 39 thousand for fixed annual indemnity plus a meeting participation indemnity of € 300 per day. The total cost for the period amounts to € 70 thousand.

**(38) Related party disclosures**

Transactions between the Company and its subsidiaries, which are to be considered related parties, were eliminated upon consolidation and will not be discussed in this paragraph.

The following companies are classified as related parties as of 31 December 2016:

German side:

<b>Firm Name</b>	<b>Domicile</b>
Sanacorp eG Pharmazeutische Großhandlung	Planegg, Germany
Sanacorp Grundstücksverwaltung GmbH	Planegg, Germany
Sanacorp Pharmaholding AG	Planegg, Germany

French side:

<b>Firm Name</b>	<b>Domicile</b>
Astera S.A.	France, Rouen
Eurodep S.A.S.	France, Rouen
Eurodep Exploitant S.A.S.	France, Rouen
Premiere Ligne S.A.S.	France, Reims
Eurolease S.A.S.	France, Rouen
Centrale des Pharmaciens S.A.S.	France, Rouen
Pharmaciens Associés S.A.	France, Rouen
Sophese S.A.	France, Rouen
Isipharm S.A.	France, Rouen
Oxypharm S.A.	France, Rouen
Vitaléa Médical S.A.S.	France, Redon
CERP France	France, Paris
SIPAM S.A.	Martinique, Le Lamentin
Health & Technology	Belgium, Bruxelles

Italian side:

<b>Firm Name</b>	<b>Domicile</b>
Sociedad Europea de Cooperacion Farmaceutica SA	Seville, Spain

Related parties are the members of key management, supervisory bodies and members of their family of all related entities and/or the companies included in the subgroup financial statements.

The amounts of related party transactions are disclosed in the following table:

<b>Amounts in € thousand</b>	<b>2016</b>	<b>2015</b>
<b>Revenue</b>		
- Turnover sale	12.704	12.295
- Other operating income	10.563	9.972
- Maintenance income	-	-
- Management service income	117	117
- Interest income	180	213
<b>Total revenue</b>	<b>23.564</b>	<b>22.597</b>
<b>Purchase</b>		
- Goods	30.418	27.367
- Rent	4.754	4.708
- Sublease	2.545	2.543
- Other services	3.046	3.062
- Interest expense	174	319
<b>Total purchase</b>	<b>40.937</b>	<b>37.999</b>



Amounts in € thousand	2016	2015
<b>Assets</b>		
Trade receivables	128	1.397
Financial receivables	34.398	21.741
<b>Total assets</b>	<b>34.526</b>	<b>23.138</b>
<b>Liabilities</b>		
Trade liabilities	5.480	753
Financial liabilities	56.798	73.528
<b>Total liabilities</b>	<b>62.278</b>	<b>74.281</b>

The receivables from corporate board members do not contain any information on interest rates or other material conditions, because the amounts due related to the procurement of goods.

**(39) Full-time employees**

	2016		2015	
	Reporting date	Average	Reporting date	Average
Office-based staff	1.693	1.697	1.750	1.754
Blue-collar staff	2.664	2.613	2.296	2.411
Apprentices	80	75	68	61
Pre pensioned	0	0	6	6
<b>Total</b>	<b>4.437</b>	<b>4.386</b>	<b>4.120</b>	<b>4.232</b>

Part-time employment was recomputed as full-time-employment.

With reference to the information regarding the performance of the Group, including its forecasted development, as well as the significant events occurring after the reporting date are disclosed in Management Report.

Bologna, March, 13th 2017

On behalf of the Board of Directors  
The Chairman

(Herbert Lang)

On behalf of the Board of Directors  
The Vice Chairman

(Olivier Christian Bronchain)

# Sanastera S.p.A.

Domiciled in Bologna, Piazza Galvani, 3  
Share Capital Euro 282.865.000  
Commercial Register number and Fiscal Code 02755811201  
Bologna Business Register no. 464697

## Management Report

on the

## Consolidated Financial Statements as at December, 31st 2016

Shareholders and Members of Supervisory Board,

The Consolidated Financial Statements as at December 31<sup>st</sup>, 2016 presented for your examination and approval by the Board of Directors, report a Net Profit amounting to € 34.236 thousand, after taxes of € 18.597 thousand.

This Management Report has been prepared covering financial information on Sanastera S.p.A. Consolidated financial statements, prepared in accordance with International Financial Reporting Standards ("IFRS").

### Financial data

The following table shows the Consolidated Income Statements key figures:

Amounts in € thousand	2016	2015
Revenues	8.239.565	8.024.650
Gross Profit	462.366	470.382
Gross Operating Margin	85.148	91.836
Operating Profit	52.599	62.060
<b>Profit for the year</b>	<b>34.236</b>	<b>39.706</b>

Amounts in € thousand	2016	2015
Equity holders of the company	34.236	39.706
Minority interest	-	-
<b>Profit for the year</b>	<b>34.236</b>	<b>39.706</b>

The following table shows the Consolidated Balance Sheet key figures:

Amounts in € thousand	December, 31st 2016	December, 31st 2015	Change	Change %
Non-current assets	255.654	257.153	(1.499)	-1%
Current assets	1.686.481	1.531.172	155.309	10%
<b>Total assets</b>	<b>1.942.135</b>	<b>1.788.325</b>	<b>153.810</b>	<b>9%</b>
Equity	560.559	552.494	8.065	1%
Non-current liabilities	200.495	134.561	65.934	49%
Current liabilities	1.181.081	1.101.270	79.811	7%
<b>Total equity and liabilities</b>	<b>1.942.135</b>	<b>1.788.325</b>	<b>153.810</b>	<b>9%</b>

The following table shows the breakdown of Equity:

Amounts in € thousand	December, 31st 2016	December, 31st 2015	Change	Change %
Share capital	282.865	282.865	-	0%
Share premium	100.008	100.008	-	0%
Legal reserve	56.573	56.573	-	0%
Other reserves	88.320	73.151	15.169	21%
Available for sale investments	539	530	9	2%
Cash flow hedge	(1.977)	(334)	(1.643)	492%
Profit for the period	34.236	39.706	(5.470)	-14%
<b>Group's Equity</b>	<b>560.564</b>	<b>552.499</b>	<b>8.065</b>	<b>1%</b>
Minority reserve	(5)	(5)	-	0%
Minority Profit for the period		-	-	0%
<b>Total Equity</b>	<b>560.559</b>	<b>552.494</b>	<b>8.065</b>	<b>1%</b>

The following table sets out the carrying amounts and fair values of the Group's financial instruments.

Amounts in € thousand	Carrying amount 31 Dec. 2016	Fair value 31 Dec. 2016	Carrying amount 31 Dec. 2015	Fair value 31 Dec. 2015
Trade receivables	795.974	795.974	779.186	779.186
Cash and cash equivalents	184.755	184.755	77.110	77.110
Other financial assets:				
- Assets available for sale	1.610	1.610	1.611	1.611
- Assets at fair value through profit and loss	46.713	46.713	54.559	54.559
- Assets held to maturity	34.491	34.491	43.206	43.206
- Derivative financial instruments qualifying for hedge accounting	-	-	-	-
- Other receivables and assets	48.481	47.725	34.125	33.193
<b>Total financial assets</b>	<b>1.112.024</b>	<b>1.111.268</b>	<b>989.797</b>	<b>988.865</b>
Financial liabilities	395.909	394.800	303.003	303.008
Other liabilities	4.035	3.879	4.521	4.288
Trade payables	497.049	497.049	458.229	458.229
Miscellaneous financial liabilities:				
- Financial liabilities recognised at fair value through profit or loss	68	68	81	81
- Derivative financial instruments qualifying for hedge accounting	3.301	3.301	1.158	1.158
- Other miscellaneous financial liabilities	301.269	301.269	297.564	297.564
<b>Total financial liabilities</b>	<b>1.201.631</b>	<b>1.200.366</b>	<b>1.064.556</b>	<b>1.064.328</b>

## Relations with related parties

The following companies are identified as related parties of Sanastera Group as of December 31, 2016:

German side:

Firm Name	Domicile
Sanacorp eG Pharmazeutische Großhandlung	Planegg, Germany
Sanacorp Grundstücksverwaltung GmbH	Planegg, Germany
Sanacorp Pharmaholding AG	Planegg, Germany

French side:

Firm Name	Domicile
Astera S.A.	France, Rouen
Eurodep S.A.S.	France, Rouen
Eurodep Exploitant S.A.S.	France, Rouen
Premiere Ligne S.A.S.	France, Reims
Eurolease S.A.S.	France, Rouen
Centrale des Pharmaciens S.A.S.	France, Rouen
Pharmaciens Associés S.A.	France, Rouen
Sophese S.A.	France, Rouen
Isipharm S.A.	France, Rouen
Oxypharm S.A.	France, Rouen
Vitaléa Médical S.A.S.	France, Redon
CERP France	France, Paris
SIPAM S.A.	Martinique, Le Lamentin
Health & Technology	Belgium, Bruxelles

Italian side:

Firm Name	Domicile
Sociedad Europea de Cooperacion Farmaceutica SA	Seville, Spain

With reference to the information required about transactions with related parties for the period ended at December, 31<sup>st</sup> 2016, occurred on an arm length's basis, see tables below:

### ➤ Balance Sheet data

Amounts in € thousand	2016	2015
<b>Assets</b>		
Trade receivables	128	1.397
Financial receivables	34.398	21.741
<b>Total assets</b>	<b>34.526</b>	<b>23.138</b>
<b>Liabilities</b>		
Trade liabilities	5.480	753
Financial liabilities	56.798	73.528
<b>Total liabilities</b>	<b>62.278</b>	<b>74.281</b>

➤ **Profit and Loss data**

Amounts in € thousand	2016	2015
<b>Revenue</b>		
- Turnover sale	12.704	12.295
- Other operating income	10.563	9.972
- Maintenance income	-	-
- Management service income	117	117
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- Other services	3.046	3.062
- Interest expense	174	319
<b>Total purchase</b>	<b>40.937</b>	<b>37.999</b>

### Financial indicators

The following tables contain the main financial indicators:

Reclassified Balance sheet:

ASSETS		LIABILITIES	
Operating working capital	1.868.457	Equity	560.564
Extra-operating capital	73.678	Financial liabilities	399.269
	-	Operating liabilities	982.302
<b>Total assets</b>	<b>1.942.135</b>	<b>Total liabilities and equity</b>	<b>1.942.135</b>

Reclassified Income statement:

Sales	8.149.597
Operating production value	8.149.597
Production costs	7.777.199
Gross profit	372.398
Personnel expenses	225.343
Gross Operating Margin	147.055
Amortization and depreciation	32.549
Operating Profit	114.506
Other operating income/charge result	- 61.907
Financial incomes	4.730
EBIT	57.329
Financial expenses	4.496
Profit before income tax	52.833
Income tax	18.597
Minority interest	-
<b>Net profit</b>	<b>34.236</b>

<b>Non-current asset financing margins and ratios</b>		
Primary structure margin	<i>Equity - Non-current asset</i>	€ 319.803
Primary structure ratio	<i>Equity / Non-current asset</i>	233%
Secondary structure margin	<i>(Equity + Non-current financial liabilities) - Non-current asset</i>	€ 520.293
Secondary structure ratio	<i>(Equity + Non-current financial liabilities) / Non-current asset</i>	316%

<b>Financial structure ratios</b>		
Global liabilities ratio	<i>(Non-current liabilities + Current liabilities) / Equity</i>	246,46%
Financial liabilities ratio	<i>Financial liabilities / Equity</i>	71,23%

<b>Profitability ratios</b>		
Net Return on Equity	<i>Profit for the year / Equity</i>	6,11%
Gross Return on Equity	<i>Profit before taxes on income / Equity</i>	9,42%
Return on investment	<i>Gross profit / Net working capital</i>	12,92%
Return on sales	<i>Gross profit / Sales</i>	1,41%

<b>Liquidity indicators</b>		
Current margin	<i>Current asset - Current liabilities</i>	€ 520.293
Current ratio	<i>Current asset / Current liabilities</i>	144%
Treasury margin	<i>(Cash and cash equivalent + receivables) - Current liabilities</i>	-€ 54.460
Treasury ratio	<i>(Cash and cash equivalent + receivables) / Current liabilities</i>	95%

## Risk report

The risks can be classified into the following risk categories:

### Environmental and market risk

Intervention in the health system by respective governments is the main risk in the pharmaceutical market. Among other things, historical and future financing of welfare systems is important in this context, as are changes in health care costs. Basically one has to assume that an economic slowdown will lead to a rise in unemployment and the associated burden on social security systems. The Company does not assume that the fundamental reorganisation of the financing of health services in Germany, which is once again under discussion, will take place during the current legislative period. At the same time, further short-term cost measures by the legislator remain a possibility. Like the AMNOG or new regulations passed by the French government, these can have an adverse direct or indirect effect on pharmaceutical wholesalers in the respective markets.

Depending on the nature and extent of the intervention, wholesalers may be forced to fundamentally change their existing pricing models and the range of services they offer. As a result, it is conceivable that customers will move and that there will be corresponding changes in the respective market shares.

In spite of the fact that third-party ownership is currently prohibited in law, one has to assume that interested market participants will continue to lobby for a change in the existing regulations in the mid to long term. As companies which are closely affiliated to pharmacists, neither Sanacorp Pharmahandel GmbH in Germany, nor the companies of CERP SAS in France and Belgium will participate in these efforts. By consistently developing and expanding existing models for collaboration between independent pharmacies, the companies are however now already preparing themselves and their customers so that they can continue to operate successfully in the market even if trading conditions change.

Apart from changes in the legal framework, future developments concerning the level of competition in the German market have the most impact on profitability. The latter forces wholesalers to grant discounts that are at times barely justifiable operationally and as a consequence leads to a notable deterioration in gross profit. As the branch network continued to become denser and existing locations

were expanded, the level of competition in the German and French markets increased – not only in the affected regions.

As far as pharmacies are concerned, the current changes in the legal framework result in a deterioration of gross profit. The operating companies counteract this risk through active management of accounts receivable.

### **Financial and capital market risks**

Financial and capital market risks arise for the operating companies primarily from the volume of business to be financed by the money and capital market. Among others, these involve liquidity and interest rate risks, as well as risks of non-compliance with agreed financial performance indicators in connection with borrowing.

To limit liquidity risks, the companies use various instruments such as cash pooling or factoring. The regular monitoring of credit lines and the long-term cooperation with a large number of banks also help to counteract the liquidity risk.

It should be noted that current liquidity of the operating companies in Germany, France and Belgium should be regarded as extremely solid.

To hedge against interest rate risk, the operating companies also use derivatives, which are monitored and measured over time. In addition, acquisitions of equity investments and land and buildings are generally financed over longer time periods. With long periods of credit and large deposits, as is customary in the French market, the financial and capital market risk can be reduced considerably.

Any liquidity surpluses are placed in secure investments with the appropriate principal banks. Only banks with a first-class credit rating are considered for this purpose.

### **Operating risk**

Especially in the area of accounts receivable, the operating companies can be exposed to risks from customer liquidity problems or from a deterioration in their creditworthiness. Through continuous and timely management of accounts receivable it is possible to react to any impending customer payment difficulties without delay. There are also guidelines on the deferral of the delivery of goods to public pharmacies and on the deferral of large sales. There is a positive correlation between debtor risk and the risk of higher interest rates.

Potential operating risks also arise from medicine inventories. Fire or other damage may interrupt a branch's operations for longer periods of time. Constant inspections by the Company's internal security management and by public authorities, the use of modern fire alarm systems and inventory insurance cover serve to counteract this risk. Furthermore, constant readiness to deliver to customers is ensured by the branch network. If one branch fails, deliveries can therefore be assumed by other branches.

### **Risk of research and development**

In order to make technological improvements to operating procedures, existing software systems are modified or replaced. Implementation in a live environment can lead to a partial or full systems failure, resulting in loss of sales and profit. To reduce this risk, systems are tested extensively before implementation and are not introduced simultaneously into several branches. Introduction of systems is followed by regular maintenance and adaptations to new circumstances. Furthermore, the existing branch network secures a timely supply from the second nearest location to any customers that may be affected.

### **Legal risk**

On a case-by-case basis, risks could arise for both Sanastera S.p.A. and the operating companies from changes in company or tax law. This risk however is minimised at the individual company level through the use of internal analysis and ongoing contact with external legal and tax advisers.

### **Risks arising from financial instruments**

Due to their activities, the operating companies are primarily exposed to financial risks arising from changes in interest rates. These risks arise directly from liabilities with variable interest rates including credit raised through factoring.

To hedge against interest rate risk, the Company also uses derivatives, which are monitored and measured over time. Acquisitions of equity investments and land and buildings are generally financed over longer time periods.

Risks from financial instruments arise from changes in interest rates, defaults and a lack of liquidity. The management of each company has established an appropriate risk management system for each of these risks.

At 31 December 2016, the amount of borrowing by the operating companies that had been hedged through interest rate swaps amounted to € 132.525 thousand (€ 137.625 thousand in 2015).

As a result of active management of accounts receivable, the operating companies are not exposed to material default risk from trade receivables. The default risk in this area is above all dependant on the interventions by the legislator and their impact on the profitability of pharmacies. There is no concentration of material default risks.

There is no exposure to foreign currency risks, since the pharmaceutical wholesale companies almost exclusively purchase and sell goods in euros. Since the purchase prices for prescription-only medicines are regulated by law, there is no commodity risk in the narrow sense.

Neither Sanastera nor the operating companies are subject to any liquidity risks. They have sufficient short-term and long-term credit available.

## **Report on post-balance sheet events**

There were no significant post-balance sheet events that would have materially affected the financial position, cash flows and profit or loss.

## **Report on expected developments**

It can be assumed that the operating companies will pay dividends to Sanastera S.p.A for financial year 2017 at the previous year's level.

We thank you for your confidence in us and invite you to approve the Consolidated financial statements as presented.

Bologna, March, 13<sup>th</sup> 2017

On behalf of the Board of Directors  
The Chairman

(Herbert Lang)

On behalf of the Board of Directors  
The Vice Chairman

(Olivier Christian Bronchain)