Annual Report 2017

Zur Rose Group

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215 Mio.

in net proceeds

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6.5%

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Profile

Operating under the Zur Rose and DocMorris brands, the Swiss-based Zur Rose Group is Europe's leading online pharmacy and one of Switzerland's foremost wholesale suppliers to medical doctors. Through its business model, it helps to ensure safe, reliable and high-quality pharmaceutical care, while also excelling in developing innovative medicines management services to increase the effectiveness of the medication process. This creation of added value, the strong focus on patients and the commitment to supply medication at low cost for the benefit of payors and patients make the Group an important strategic partner for all healthcare stakeholders.

The Zur Rose Group is headquartered in Frauenfeld, from where it also serves the Swiss market. Customers in Germany and Austria are primarily supplied from Heerlen (NL). Furthermore, the Group holds a majority interest in BlueCare in Winterthur, the leading provider of networking systems in the Swiss healthcare market. Employing more than 1,000 people at its various locations, Zur Rose Group generated revenue of CHF 983 million in 2017. Zur Rose Group AG's shares (ticker symbol ROSE, Swiss security no. 4261528, ISIN CH0042615283) are traded on SIX Swiss Exchange.

Key Financials

	2017	2016	2015
	in CHF million	in CHF million	in CHF million
Revenue	**982.9**	879.5	834.4
Year-on-year revenue growth in %	**11.8**	5.4	–8.9
Gross margin in % of revenue	**14.9**	15.0	15.1
Earnings before interest, taxes, depreciation and amortisation (EBITDA) after adjusting extraordinary costs 2017	**–6.0**	2.1	15.8
in % of revenue	**–0.6**	0.2	1.9
EBITDA	**–21.2**	2.1	15.8
Earnings before interest and taxes (EBIT) after adjusting extraordinary costs 2017	**–18.1**	–7.1	8.4
in % of revenue	**–1.8**	–0.8	1.0
EBIT	**–38.3**	–7.1	8.4
Net operating income after adjusting extraordinary costs 2017	**–16.3**	–12.8	3.4
in % of revenue	**–1.7**	–1.5	0.4
Net operating income	**–36.3**	–12.8	3.4
Equity	**294.2**	103.8	72.8
in % of total assets	**64.4**	39.7	31.2
Investments	**22.0**	21.2	15.5
Number of employees in FTEs at year-end	**1,106**	752	716

Letter to Shareholders

Dear Shareholders

The growth strategy introduced by the Zur Rose Group at the end of 2016 is bearing fruit. Europe's leading online pharmacy in 2017 increased sales by double digits to CHF 982.9 million. The dynamic growth is the result of the marketing campaign in Germany and an encouraging performance in Switzerland. For 2018, management expects further accelerated growth of more than 20 percent in local currency terms.

For the Zur Rose Group, the 2017 financial year marked a milestone in the company's 25-year history. By raising funds under the IPO and the listing on the SIX Swiss Exchange, the company has created the capital base for implementing a dynamic growth strategy. The net proceeds from the IPO of CHF 215 million have enabled the defined growth initiatives to be pursued and the corporate bond of CHF 50 million to be repaid. With an equity ratio of 64.4 percent, the company is solidly financed and also has a stable anchor shareholder base.

Investments in the market are paying off — The Zur Rose Group in 2017 successfully continued the broad-based marketing campaign in Germany aimed at attracting new customers for the purpose of accelerated growth. Consolidated sales increased by 11.8 percent year-on-year to CHF 982.9 million. The growth momentum confirmed the effectiveness of marketing expenses at the expense of short-term profit performance. Profit was burdened as scheduled by around CHF 15 million due to further future-oriented expenses and non-recurring costs in connection with the IPO. The reported operating result (EBITDA) is minus CHF 21.2 million and net income/(loss) is minus CHF 36.3 million. Adjusted for the aforementioned extraordinary expenses, EBITDA would amount to minus CHF 6 million.

Cooperation and innovation boost the Swiss business — In 2017, Zur Rose succeeded in strengthening its strong market position by further developing innovative services and partnerships with Migros, Medbase and health insurers. With sales up 6.3 percent to CHF 500 million, Zur Rose in Switzerland grew well above the market average. In the doctors' segment, the company increased its market share by 0.6 percentage points to 23.6 percent. The partnership with Medbase, Switzerland's largest service provider in basic outpatient medical care, was launched in 2017. Zur Rose exclusively supplies all Medbase centres with drugs. The retail business grew for the first time again since the Federal Court ruling of 2015 restricting the mail-order dispatch of over-the-counter drugs (OTC). Both the realignment of the specialty care business and the two new inpatient pharmacies in Bern contributed to this. The successful launch of the shop-in-shop concept as part of the cooperation with Migros has prompted the company to open two more in-store pharmacies in 2018 at the Migros branches Claramarkt Basel and Limmatplatz Zurich. Additional locations are under consideration above all in cantons without medical self-dispensation. Zur Rose combines its in-patient presence with the e-commerce business as part of an omnichannel strategy, thereby enabling its customers to access drugs across all channels at the same preferential rates as via the online channel.

Strengthening of market leadership in Germany — The Zur Rose Group in 2017 also further expanded its leading market position in Germany. Due to the increased marketing activities of DocMorris targeting both chronically ill patients with a regular need for medication and OTC customers, sales of the Germany segment increased by 18.1 percent to CHF 483.2 million. With an increase in sales of 38.7 percent in the mail-order business with non-prescription drugs, DocMorris once again grew significantly faster than the market as a whole in local currency terms, making it one of Germany's leading mail-order pharmacies in the OTC sector. The proportionately larger prescription drug business (Rx) increased by 10.2 percent in local currency terms. As a result of the marketing offensive, the number of active DocMorris customers increased by 32 percent to 1.8 million in the year under review.

Synergies through the bundling of mail-order activities — In 2018, the Zur Rose Group will complete the integration of Eurapon and Vitalsana, acquired at the end of 2017. The sales of the two companies with a sustained impact on the Group would have amounted to EUR 85 million in 2017. The mail-order volumes handled in Heerlen from mid-2018, which are the result of the realignment of the Halle site, and the integration of Vitalsana will generate sustainable synergies. In the medium term, the mail-order business of Eurapon will also be handled in Heerlen.

Aftermath of the ECJ ruling — The coalition agreement between the CDU/CSU and SPD includes a passage on the implementation of a ban on mail-order sales of prescription drugs. It states: "To strengthen local pharmacies, we are committed to a prohibition on mail-order trade in prescription drugs." Prohibitions were rejected by politicians in 2008 and 2012 for constitutional reasons. Both European and constitutional arguments against a ban were significantly strengthened by the ruling of the European Court of Justice in 2016. In the past legislative period, a draft bill for a corresponding law failed because of opposition from a wide range of stakeholders. A recent report commissioned by the Federal Ministry for Economic Affairs and Energy came to the conclusion that a ban on the mail-order business was not justified in the light of nationwide coverage. The Zur Rose Group is therefore observing and analysing all developments and if need be will take all necessary legal and operational steps against a possible ban in the interest of patients both in Germany and at the European level.

Outlook and thanks — The Zur Rose Group intends to continue on its path of growth and also in the coming years to consistently utilise the long-term market developments marked by an ageing society, steadily rising cost pressure in the healthcare sector and online penetration lagging behind the consumer goods industry for the benefit of its business model. This also includes an active role in consolidating the OTC mail-order market through appropriate acquisitions. Based on continued double-digit organic growth, management expects sales growth of more than 20 percent in local currency terms in 2018 and aspires to break even at the EBITDA level adjusted for exceptional items. To this end, taking advantage of profitable growth opportunities in the medium term is preferred over short-term profit improvements.

We look forward to tackling these challenges with the energetic support of our motivated employees, to whom we owe much in 2017 thanks to their tireless dedication and high level of expertise. A special thank-you also to our customers for their trust as well as to you, our esteemed shareholders, for your loyalty.

Prof. Stefan Feuerstein
Chairman of the Board

Walter Oberhänsli
Executive Director and CEO

STEFAN FEUERSTEIN *(left)*
AND WALTER OBERHÄNSLI.

Interview

The IPO brought in significant funds for further growth in the Zur Rose Group. At the same time strong signals were sent in Germany with intensified marketing activities and acquisitions. In Switzerland the mail-order pharmacy is attracting particular attention with shops.

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Moderator: Medard Meier

The financial year 2017 was very eventful for the Zur Rose Group. What was the personal highlight for you?

Walter Oberhänsli — That question is easy to answer: the IPO! It has been in our minds for quite some time. After the European Court ruled against the distortion of competition to the detriment of discounting of drug sales by foreign providers in October 2016, we started to make preparations. The time window on the stock exchange was favorable. To the delight of everyone, the IPO was a complete success.

Marcel Ziwica — For the Head of Finance an IPO is about the biggest thing that you can do in your career. So, the stock market flotation was an absolute highlight. The balance sheet situation changed for the better at a stroke. The Zur Rose Group is now fully self-financed.

"We are delighted that we have not only met the high targets but also surpassed them in some cases." *– Walter Oberhänsli –*

How much new funding was available to you?

Ziwica — It amounted to 215 million Swiss francs net, which we are using according to our announced plans in the context of the growth strategy: for organic growth in Germany, for acquisitions, two of which have now been completed, for internationalization and for e-health. 50 million were used for redemption of the bond, by means of which we created new funding potential at the same time. Should any opportunities arise, we can now respond quickly and exploit them immediately.

Mr. Heinrich, what impact is the IPO having on the German business?

Olaf Heinrich — The IPO enables us to implement the growth strategy as we planned. For me the highlight was to see that a year after the ruling by the European Court, we returned to the growth path in prescription drugs that we had been on before the regulation which formed the basis for the ruling. This also shows that we are using the funds received through the stock exchange correctly and well on the market.

Mr. Hess, what was the eventful IPO year like for you, as Head of the operating segment Switzerland?

Walter Hess — The financial year was particularly shaped by the establishment of cooperative ventures with Migros, Medbase and some health insurance companies, but of course also by the IPO. The stock market flotation did of course bring us additional prominence and boosted our business.

How has business been?

Oberhänsli — We have been pursuing an ambitious growth strategy since 2016 and we are delighted that we have not only met the high targets but also surpassed them in some cases. This creates confidence for the new financial year because the growth must continue.

Hess — The Swiss segment has developed very positively. In the doctors' segment, which is our core business area, we recorded growth rates which are considerably above those of the market. We are also very happy with the retail business. The cooperative ventures with the health insurance companies contributed to this, as did the Specialty Care business with expensive medications. The contributions from the new brick-and-mortar business are also a welcome addition.

Heinrich — DocMorris has grown as we had intended. Over the year we achieved 19% organic growth. In the OTC business the increase is significantly above 30 percent; for prescription drugs it is still in the low double-digit range.

"In the doctors' segment we recorded growth rates which are considerably above those of the market." *– Walter Hess –*

The Group's results are in the red, as envisaged. Did you expect the results to be closer to zero?

Ziwica — No, the year-end figures were entirely within the scope of our expectations. We deliberately invested in the markets. This is reflected in the marketing costs and in the results accordingly. The investments in the markets have been carefully controlled in order to acquire new customers. We are, however, already achieving profit contributions that we can be proud of.

When will you make it into the black?

Ziwica — The existing business areas and operational businesses will deliver positive results at EBITDA level. The seizing of new opportunities, the integration of the acquisitions and possible internationalization moves will once again result in liabilities for us, which will keep the results in the red in 2018.

Oberhänsli — We will continue to adhere to our approach of achieving growth through intensified marketing. We are thus quite prepared to accept being in the red. At a certain point in market penetration we will be able to reduce the marketing costs relative to sales, which will then put us into the black.

What are the expected market prospects, based on this assumption?

Hess — The growth in the supply of drugs will be maintained in Switzerland in the coming years. We expect to grow more strongly than the market. Consolidation will continue in the doctors' wholesale business, which will be of benefit to us. The efforts of the regulator to bring down prices in the healthcare sector also favor our business model. The mail-order business would offer even greater potential for cost savings. However, this is still greatly underestimated by the politicians and actually prevented by regulation in some cases, as is shown by the OTC ruling.

What's happening to the brick-and-mortar business, which you are also investing in? Is it already paying off?

Hess — Absolutely! This year we will be opening at least two more shop-in-shop pharmacies. The visibility and brand recognition of Zur Rose will be further enhanced as a result. Ultimately, we are aiming for cross-channel shopping and the associated greater convenience for the customers. Omni-channel is the keyword. And experience has shown us that it meets a need.

Oberhänsli — We're living in a market where there is no price competition, because the chain pharmacies belong to the wholesalers. You work against cannibalization by keeping the price levels as high as possible. Our initiative to widen availability for the consumer through the brick-and-mortar trade is a promising approach, particularly as we operate with relevant discounts – in fact we are the only provider in Switzerland to do so. We see great disruptive potential in our strategy to change the Swiss market.

How rosy is the outlook in Germany?

Heinrich — We still see considerable growth potential in Germany. One major issue is the foreseeable consolidation in the OTC market, caused by intensified competition. We will be playing an

THE GROUP MANAGEMENT IN DISCUSSION:
(clockwise from left to right)

WALTER HESS (HEAD SWITZERLAND),
WALTER OBERHÄNSLI (CHIEF EXECUTIVE OFFICER),
MARCEL ZIWICA (CHIEF FINANCIAL OFFICER),
OLAF HEINRICH (HEAD GERMANY).

active role. There are ongoing discussions about a mail-order ban on prescription drugs. However, a current report by the Federal Ministry for Economic Affairs and Energy confirms without doubt that the European Court was right in its assessment of the German pharmacy market and a ban on the mail-order business cannot be justified against the background of the comprehensive provision.

“With the acquisitions, we demonstrated our active role in the shake-out of the market.“ *– Olaf Heinrich –*

Oberhänsli — Based on legal opinions and statements by several Federal ministries and parties, I am convinced that a ban on mail-order Rx sales is in breach of the constitution and incompatible with European law. Against this background we are astonished that these rulings have not been adequately acknowledged and the intention of a ban has been included in the coalition agreement. We will therefore take all necessary legal and operational steps both in Germany and at the European level in the interest of the patients.

What do the acquisitions of Eurapon and Vitalsana mean for your business?

Heinrich — With those takeovers we demonstrated our active role in the shake-out of the market for the mail-order distribution of non-prescription drugs. This business represents a key pillar in our growth strategy. Eurapon, which has a very entrepreneurial management team, is already gaining market share. We can build on this strategy. With Vitalsana, we secured the last Dutch mail-order pharmacy with a relevant sales volume available on the market, and in doing so we raised the market entry barrier in the Netherlands. The media cooperation with former owner, Ströer, which we entered into at the same time, is enabling us to achieve Germany-wide visibility for the DocMorris brand. Developments make us very confident that we will be able to successfully exploit further market consolidation.

Keyword growth: Which main trends are also driving the business forward?

Oberhänsli — An ageing society which is reliant on drugs, the constantly rising cost pressure in the healthcare sector, as well as increasingly well-informed and aware consumers, will support the growth potential. Furthermore, digitization in the healthcare sector has lagged significantly behind other consumer goods industries. This can be seen in the considerably lower online penetration of the healthcare market.

Where do you see your opportunities with regard to digitization?

Hess — With the further expansion of our digital service portfolio we want to make further contributions to therapy compliance, to improve healthcare provision and to reduce the costs for the healthcare system and the insured persons. The use of smart data is also an important factor.

Heinrich — We expect e-health applications, platform solutions and a digital medications management system to play a key role in the German healthcare system in future. For that reason, DocMorris is developing step-by-step from a drugs retailer into a digital health advisor.

What are the targets for 2018?

Oberhänsli — Growth, growth, growth.

Hess — Expansion of our profitable base, the doctors’ segment, and growth in the retail business, including by expanding the cooperative ventures with the insurance companies, Medbase and Migros.

Heinrich — Organic growth, active participation in the market shake-out and integration of the companies we have acquired.

Ziwica — Digitization, new market entries and internationalization should set the pace. The real challenge will be to stay on the ball and to assert our position as leaders.

The issues of digitization and cost reduction in the healthcare sector remained topics of heated debate in 2017, in both political and societal circles. The consultation procedure on the ordinances of the revised Therapeutic Products Act (TPA) triggered numerous comments by various stakeholders. And when once again an average increase in health insurance premiums of 4 percent was announced in the autumn, emotions were running high everywhere. In this context the cost containment proposals from a group of experts commissioned by the Federal Council were also the subject of intense discussions. The political pressure to do something about the rising costs in the healthcare sector is increasing noticeably.

Market environment Switzerland

Rising drugs market — In 2017 the drugs market in Switzerland amounted to around CHF 5.8 billion at ex-factory prices. That is 4.2 percent more than in the previous year and at the same time it also means weaker growth than in previous years (2016: 4.7 percent, 2015: 5.1 percent) In contrast the number of packs sold fell by 1.3 percent to 184.9 million units. The growth in terms of value is attributable in particular to some new and expensive drugs against cancer and auto-immune diseases. For the first time in three years, another round of price reductions was announced in 2017 for drugs covered by mandatory health insurance. The decreed price reductions affecting around 350 drugs came into force on 1 January 2018 and 1 February 2018 respectively. Other price reductions will follow in the course of 2018. For that reason, they did not yet affect the market volume in 2017 (source: interpharma and vips 'Association of Pharmaceutical Companies in Switzerland').

Mail-order sales channel grows — Pharmacies were the most important sales channel in the drugs market, with a market share of 50.4 percent. This rose by 2.2 percent in 2017 to CHF 2.9 billion. While sales by brick-and-mortar pharmacies increased by only 1.3 percent, mail-order sales gained 11.1 percent. This rise in mail-order sales is attributable to the dispensation of expensive special medications, accompanied by specialized pharmaceutical services (Specialty Care). The supply of drugs and the support of treatment outside of inpatient and outpatient hospital care and medical institutions are becoming more and more important.

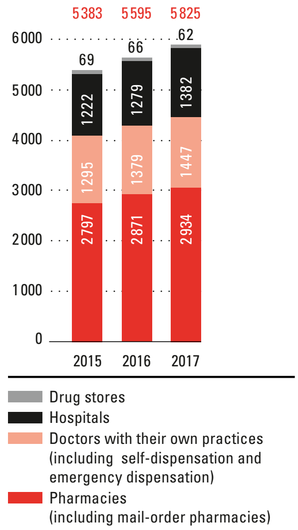
A digital manifesto for Switzerland — In January 2017, Federal Councillor Johann Schneider-Ammann presented a digital manifesto for Switzerland, signed by 50 pioneering thinkers. This manifesto serves as a source of inspiration for society, business and politics. It calls to create the conditions that will enable the optimum digital transformation of Switzerland. With regard to the legal requirements, it stresses that, "Regulations which are hostile to digitization must be avoided – legislation must not stand in the way of innovation and new ideas".

Experts' proposals relating to cost containment in the healthcare sector — In October a group of experts proposed 38 measures to contain costs in the healthcare sector on behalf of the Federal Council. Some of them relate to the supply of drugs. The group of experts recommends that the purchase of drugs and some medical equipment from abroad should be enabled and, contrary to the currently applied principle of territoriality, should be reimbursed by the insurance companies (measures 17 and 32). Generics should also be dispensed wherever possible – both by self-dispensing doctors as well as by pharmacies (measure 24). Innovative insurance models should be encouraged – for example by means of a commitment to gatekeeping (measure 27). The health literacy of patients and the extent to which they are kept informed are to be improved in general (measure 5) and inefficiency resulting from inaccurate data recording is to be avoided (measure 6). Of these recommendations, two are currently under further development. Firstly, an experimentation element in the legislation is intended to ensure that innovative business models can be trialled without any obstructive regulatory hurdles (measure 2). Furthermore the Federal Council intends to present proposals to Parliament for the introduction of global budgets in the healthcare sector.

Revised Therapeutic Products Act — After the Revised Therapeutic Products Act (TPA) was passed by the legislator in 2016, the consultation on the corresponding ordinances was carried out in 2017. With the TPA revision and the proposed adjustments to the ordinances, the legislator is primarily pursuing the following objectives: to simplify market access for drugs by creating new approval options and to simplify self-medication, improve drugs safety and increase transparency in the supply of drugs. In the process of simplifying self-medication, dispensation category C of the Swissmedic list will be abolished. Most of the list C products will now be assigned to category D, so it will in future also be possible for drugstores to sell OTC products. Furthermore, the legislator is also enhancing the competence of the brick-and-mortar pharmacies, which will in future be allowed to dispense certain prescription drugs without a doctor's prescription.

DRUGS MARKET VOLUME IN SWITZERLAND

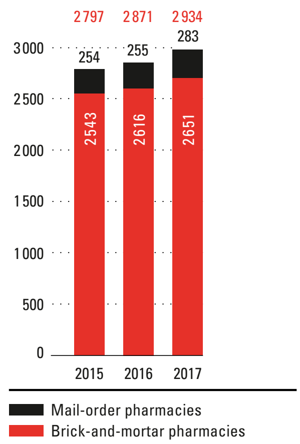
in CHF millions at ex-factory prices
(including Swissmedic lists A, B, C, D)



Source: IMS Health, 2017

PHARMACY MARKET VOLUME IN SWITZERLAND

in CHF millions at ex-factory prices
(including Swissmedic lists A, B, C, D)



Source: IMS Health, 2017

In spite of a clear declaration of their intention to modernize the Therapeutic Products Act, the politicians instead have cemented the arrangement by which a doctor's prescription has first to be obtained for the mail-order sale of OTC products. Consequently, it is still not possible for Zur Rose to sell OTC products by mail-order on favorable terms, between 10 and 35 percent below the regular market price. The stipulation that the purchase of cheaper drugs from abroad is to be simplified is equally incomprehensible. The legislator could already have actively promoted the purchase of drugs through the mail-order channel with immediate savings of around 12 percent, as well as cost-efficient self-dispensation by doctors. In the course of the consultation Zur Rose expressed its views on various aspects of the ordinances.

In 2017 Zur Rose further pursued its business activities successfully. Active in the eCommerce business since 2001, the company is aware of its pioneering role in the field of digitization and – with a disruptive approach – continued to develop various services for the benefit of its customers. In conjunction with the pharmaceutical excellence of Zur Rose, this is the key to enhance customer loyalty.

Zur Rose business performance

Gratifying growth in the doctor's segment — Thanks to the gratifying acquisition of new customers, sales in the doctors' segment (B2B) increased by 6.5 percent in 2017. Zur Rose has therefore further consolidated its position as one of the leading wholesale suppliers to medical doctors in Switzerland. In the meantime, market consolidation continued. For example, Pharmapool and the wholesale business of Spirig were taken over by Galexis.

The increasing digitization is also a driver of new developments in the management of drugs. In the reporting year, Zur Rose initiated various projects. Zur Rose made the "SmartOrder" tool available for online orders from doctors' practices with direct drugs dispensation and it is already in use by over 500 doctors. SmartOrder enables real-time enquiries about original drugs and generic substitution and provides immediate availability information about the individual products. In addition, Zur Rose launched a digital delivery note archive in the reporting year, which will be rolled out in the market in the first quarter of 2018. This is based on the BlueConnect software of Zur Rose subsidiary BlueCare.

In 2017 the company held information events for doctors on relevant issues such as the revision of the TPA or the development of self-dispensation, which were attended by over 150 participants. Over 400 medical practice assistants and coordinators also attended the advanced education and training courses offered by Zur Rose on quality assurance of the doctor's dispensary and patient communication.

Further development and enhancement of self-dispensation — In 2016, together with the Association of Doctors with a dispensary , Zur Rose launched the “SD-Rappen” (the self-dispensation centime). This joint financial contribution by doctors and Zur Rose on every pack of medication which was supplied generated CHF 110,000 in the first year, with the aid of which the first three funding projects were started. As a result of one of the projects, self-dispensing doctors’ practices now have the opportunity to access a database of package inserts in abbreviated, patient-friendly form and in various languages. This means that they can provide important information to patients who do not understand the language on the original package insert. In one of the other projects, a guideline was developed to provide self-dispensing doctors with assistance in dispensing drugs to patients in nursing homes. As of 1 January 2018, self-dispensation is now also approved in the municipalities of Neuhausen and Schaffhausen. So, Zur Rose has helped various Schaffhausen doctors with their preparation for the introduction of the scheme.

Innovative solutions for prescribing doctors — Services enjoying continuing popularity include the electronic patient report to increase therapy adherence and the prescription account for patients with multiple-use prescriptions and automatic renewal. Zur Rose has continued to expand its cooperation in this respect with doctors’ practices in regions where there is no dispensation by doctors.

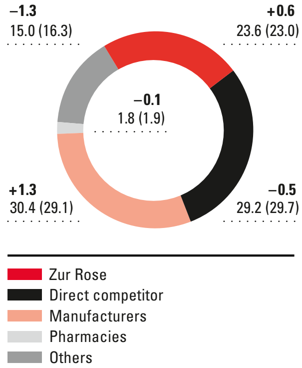
Positive developments in the field of Specialty Care — Thanks to a more close-meshed sales network, new patients have been approached with regard to specialized support in the field of Specialty Care, and recruited for a service of that kind. By focussing closely on existing indication areas, efficient processes and high quality service were guaranteed. The streamlining of sales which were not profitable enough in the field of Specialty Care was completed in the reporting year.

Exclusive supply of drugs to Medbase Centres — In 2017 Zur Rose entered into a strategic cooperation arrangement with Medbase. The company, which is wholly owned by Migros, is Switzerland’s biggest service provider in the field of basic outpatient medical care. The Medbase Group currently looks after 450,000 patients in Switzerland, with a total of 1.8 million consultations per year. From now on, as a wholesale supplier to medical doctors, Zur Rose will be supplying all Medbase centres exclusively with drugs and will therefore be in a position to further expand its already high market share in the doctors’ segment. In the context of this cooperation, the two partners combine their respective medical and pharmaceutical expertise. In addition to developing integrated offerings, they have created a joint online platform, where they publish articles on medical, pharmaceutical and therapeutic themes. Health products will also be offered in coordination with these topics, which can be bought through the Zur Rose online shop, thus also opening up new growth opportunities for the mail-order business.

Updates in logistics — In 2017 Zur Rose continued to invest in its logistics infrastructure and optimized its warehouse management, workplaces and the delivery and refrigeration chain. With the commissioning of another shipping line with automatic document insertion, both capacity and service assurance have been increased by means of additional redundancy.

MARKET SHARES IN THE DOCTORS’ SEGMENT

As per end of 2017 (value of previous year 2016) in %



Note: Comparative figures adjusted for the acquisition of Pharmapool by Galexis

Source: IMS Health, doctors’ practice market, December 2017

Strengthening the omni-channel strategy in the retail business — The retail business (B2C) grew again for the first time since the Federal Court ruling of 2015 to restrict OTC mail-order, with sales up by 2.2 percent year-on-year.

After initiating the implementation of its omni-channel strategy with the opening of the flagship pharmacy at the Welle7 in Bern in August 2016, Zur Rose continued to develop its market position in the retail business in 2017, opening Switzerland's first shop-in-shop pharmacy in the Migros branch on Bern's Marktgasse in July. Bearing the Zur Rose brand, this offers an innovative pharmacy concept on around 50 square metres of floor space. Customers can conveniently combine their shopping at Migros with the purchase of pharmaceutical products and at the same time even collect Cumulus points. The shop-in-shop pharmacy has an automated warehouse, a consultation room and large advice screens with a touchscreen function, which can be used to access detailed information about individual products.

Following the omni-channel strategy, products can be ordered in the shop-in-shop pharmacy, collected from the branch or delivered to the home if required – all at the same attractive terms and conditions as through the mail-order channel. Over 20 percent of sales transactions are already handled in the context of omni-channel processes. The new shop-in-shop-concept is very well received by the customers. For that reason, Migros and Zur Rose decided at the end of 2017 to open more shop-in-shop pharmacies in 2018: The Zur Rose shop-in-shop pharmacy in the Migros Claramarkt store in Basel will open up for business in the middle of the year. In the second half of the year this will be joined by another shop at Migros HQ at Limmatplatz in Zurich. Additional locations are being evaluated.

The development of the flagship pharmacy at the Welle7 right by the main railway station in Bern is also developing favourably, with steady growth in terms of both sales and customer numbers.

Further development of the eCommerce platform in Consumer Healthcare — The healthcare range has been further optimized in the online shop and more brands have been added. New measures have been tested and successfully introduced in the marketing for both new and existing customers. The proportion of those users who access the Zur Rose website and the online shop using mobile devices rose considerably in the reporting year.

With regard to the omni-channel strategy and a holistic view of customers, December saw the start of a complete update of the online presence of Zur Rose. A state-of-the-art modular online platform based on SAP Hybris is being created in responsive design. It takes into account the needs of the different customer groups and links the touchpoints of the customer journey.

Development of cooperation with the health insurance companies — Against the background of growing pressure on the part of the Federal Office of Public Health to do something to counter rising healthcare costs, various insurance companies are recommending to their customers that they should buy their drugs via the cost-effective mail-order channel. For that reason, Zur Rose further expanded its cooperation with the insurance companies (B2B2C) in the reporting year and strengthened the team of employees responsible for it. Mail-order is to be integrated increasingly as a cost-effective and high-quality channel into alternative insurance models, such as general practitioner and HMO models.

Just in time for the announcement of the new premium round in the autumn by Federal Councillor Alain Berset, who announced an average premium increase of 4 percent compared with the previous year, Zur Rose launched a new basic insurance model together with KPT. For a premium discount of up to 20 percent, the insured persons with this mandatory basic health insurance product undertake to contact a telemedicine consulting service before utilising any medical services and to obtain prescription drugs through Zur Rose. Generics will be prescribed unless medical reasons dictate otherwise.

Successful basic inspection by the therapeutic products control agency — The therapeutic products control agency (Heilmittelkontrolle) of Zurich conducted a basic inspection for the wholesale business of Zur Rose in June. The focus was on an examination of the approvals for the wholesale of drugs, as well as their import and export.

New digital social media platform — In order to be able to guarantee immediate access to important information for employees without a computer workstation, wherever and whenever they need it, and to encourage the internal transfer of knowledge, Zur Rose launched its own mobile app in November. This can be downloaded onto a smartphone but it can also be accessed via a desktop workstation. The app enables information to be forwarded inside the company easily and across hierarchies to the required group of recipients.

BlueCare business performance

For 20 years BlueCare has actively contributed to the digitization of the Swiss healthcare sector, working together with doctors' practices, managed care organizations and hospitals to achieve cross-sector networking.

BlueConnect generates added value — BlueCare actively promoted various projects in 2017. The transfer management tool BlueConnect proved to be particularly successful and was already used by 434 doctors in the reporting year. BlueConnect not only improves the processes in doctor's practices but also creates added value for the healthcare system as a whole. The Cantonal Hospital of Winterthur (KSW) also recognized this: Together with BlueCare, the KSW is implementing a project which is intended to network and empower its referring doctors and the healthcare region of Winterthur. One important and successful step in cooperation with partners took the form of the development of an interface between BlueConnect and the leading practice information system Vitodata.

Exchange promotes ideas — Employees of BlueCare, Zur Rose and DocMorris have set up an Innovation Board to promote innovative ideas throughout the group, against the background of increasing digitization. Promising approaches are consolidated and developed further when there are prospects of success. The Innovation Board has demonstrated among other things that drug prescription checking with the aid of smart data can increase drug therapy safety. Based on these findings, projects are being actively promoted in the fields of data intelligence and smart data. Another project is intended to save Zur Rose's doctor customers the trouble of storing mounds of paper, by making delivery notes available in the digital archive by means of BlueConnect. With the further development of managed care and the BlueEvidence information system, BlueCare is also focussing on the future and new options for integrated provision, including chronic care indicators and medication models.

The ruling by the European Court of Justice (ECJ) on the legality of bonuses on prescription drugs by mail-order pharmacies from other EU Member States continued to be the key theme in the German pharmacy market. A reactionary ban on the mail-order sale of prescription drugs by the German Health Minister failed in the legislative period just ended as a result of resistance from a wide variety of stakeholder groups. A current report by the Federal Ministry for Economic Affairs and Energy confirms that deliveries by mail-order pharmacies are an efficient and complementary form of care provision for the population as a whole.

Market environment Germany and EU

Market growth in Germany[1] — Europe's biggest drugs market, Germany, grew by around 5 percent to EUR 41.5 billion in 2017. The market share of the pharmacies amounts to 86 percent. The remaining 14 per cent of revenue is generated through hospitals and clinics. The mail-order share of the pharmacy channel amounts to 1 percent for prescription drugs, whereas it comes to 16.8 percent for non-prescription drugs. Pharmacy sales of prescription drugs rose by 5 percent to EUR 29.2 billion in 2017 and in the field of non-prescription preparations they rose by 2 percent to EUR 5 billion. Mail-order sales increased by 8 percent in 2017. The OTC segment accounts for a 73 percent market share – considerably more than the prescription drugs business. Growth at 10 percent in OTC mail-order sales is also significantly ahead of the growth rate for prescription drugs (+4 percent).

1 IQVIA™ market report on the development of the German pharmaceutical market in 2017

Repercussions of the ECJ ruling — As an immediate response to the decision by the European Court of Justice in October 2016 relating to bonuses on prescriptions for mail-order pharmacies from other EU Member States, the German Health Minister presented a draft bill for a law to ban the mail-order sales of prescription drugs. The aim of the law was to be "to guarantee the continuation of the existing comprehensive and uniform supply of drugs for the population, close to home." However, it was not possible to pass the bill in the last legislative period of the German Bundestag, which ended in September 2017.

Several Federal ministries and political parties made public statements to the effect that an Rx-ban would be in breach of European law and the constitution. This also reflects the legal opinion of DocMorris.

In the 2017/2018 annual report of the German Council of Economic Experts for the German government, dated 21 November 2017, criticism is expressed that the restrictive handling of online pharmacies by means of occasionally innovation-stifling regulations on the demand side is preventing the spread of digitization.

A report published on 21 December 2017 on behalf of the Federal Ministry for Economic Affairs and Energy comes to the conclusion that "a ban on mail-order sales cannot be justified against the background of the comprehensive provision, as the mail-order business delivers drugs directly to the home." According to the authors, the European mail-order trade "cannot be held responsible for the difficult situation of many pharmacies, purely in terms of time."

The coalition agreement between the CDU/CSU and SPD parties includes a passage to implement a ban on the mail-order sales of prescription drugs. It states: "In order to strengthen local pharmacies we support a ban on the mail-order sales of prescription drugs."

Based on reports and statements by former German governments, DocMorris is still convinced that this plan is unconstitutional and incompatible with European law. DocMorris will therefore take all necessary legal and operational steps both in Germany and at the European level in the interest of its patients.

Telemedicine — In October 2017 the state medical council of Baden-Württemberg approved the Federal Republic's first pilot project for the exclusively remote treatment of privately insured patients, to supplement the medical care of the population. This was followed in December by another pilot project for non-private patients. Both projects are based on the arrangement of the Medical Association in Baden-Württemberg, which is unique in Germany. Medical treatments can only be provided via communication networks and the doctor can make an individual diagnosis and initiate the treatment. However, prescriptions which are issued without prior direct contact between doctor and pharmacist may not so far be supplied by pharmacies, as a result of new regulations dating from November 2016. The state government has already indicated that it may be conceivable to dispense these prescriptions in the context of pilot projects.

Public consultation on health in the digital domestic market — In July 2017 the European Commission launched a public consultation about how digital innovations in the field of health and care are to be promoted for the benefit of the citizens and of the healthcare systems in Europe. The aim is the use of digital services for the promotion of citizen participation and integrated, person-centred care provision. The focus is on the shared use of data across borders by means of interoperable electronic health files, as well as the linking and sharing of data and specialist knowledge to improve prevention, personal health and care.

DocMorris further extended its leading market position in Germany in 2017. Once again, the mail-order pharmacy grew considerably faster than the overall market in the area of non-prescription drugs, also making it one of Germany's leading mail-order pharmacies for OTC drugs. Thanks to increased marketing activities aimed at patients with long-term illnesses and a regular need for prescription drugs, sales grew similarly well in the area of prescription medications.

DocMorris business performance

Strong growth — DocMorris continued to grow strongly in 2017. At EUR 370 million, sales in local currency increased by around 19 percent year-on-year. The number of active customers continued to rise considerably year-on-year, climbing by 32 percent to 1.8 million in the reporting year. The number of orders placed by active customers in the last twelve months also showed a marked increase, growing by 26 percent in the reporting year, to more than 5 million orders. The average shopping basket fell slightly by 5 percent to EUR 68 in financial year 2017. One reason for this was stronger growth in the non-prescription drugs segment, in relation to the similarly positive trend in the area of prescription drugs.

Once again DocMorris grew considerably faster than the overall market in the area of non-prescription drugs, also making it one of Germany's leading mail-order pharmacies for OTC drugs. As a result of strong growth among new customers, sales in this price-sensitive segment rose by 39 percent in local currency, to more than EUR 130 million. DocMorris also took first place once again in the Pharmacies category in this year's survey by the German Institute for Service Quality. DocMorris impressed consumers in the areas of value for money, product range, customer service, online presence, shipping and returns, as well as ordering and payment terms.

In the prescription drugs segment, sales in local currency increased by over 10 percent to around EUR 240 million. Intensified marketing activities aimed at patients with long-term illnesses and a regular need for prescription drugs, as well as the lifting of the bonus ban by the ruling of the European Court of Justice on 19 October 2016, all contributed to this positive development.

Telepharmacy — There is an increasing shortage of provision in rural regions. Entirely new and digital approaches are therefore needed, to offer people local solutions. The pilot project by DocMorris in Hüffenhardt shows what pharmaceutical advice and provision might look like in rural regions.

DocMorris installed an automated drugs dispenser for prescription and non-prescription drugs in the context of acute care in the municipality of Hüffenhardt. The pharmaceutical staff advise the customer with the aid of a video terminal from DocMorris HQ in Heerlen in the Netherlands. Only when the consultation has been completed, can the customer order the non-prescription drugs or have his/her prescription dispensed after detailed pharmaceutical checking. The control and issue of drugs to the customers locally by means of the dispensing terminal is then also carried out by the pharmaceutical staff.

The video consultation facility with drugs dispensation was opened on 21 April 2017 but it had to be closed down again, at least for the time being. As a result of a judicial ruling, obtained by the pharmacists in a civil action at the local district court, DocMorris is temporarily unable to continue offering this service. DocMorris has, however, already filed an action with the administrative court in Karlsruhe.

Chronic Match App — In November 2017, DocMorris launched another digital service, the Chronic Match app. There are more than 20 million people who are chronically ill in Germany. Many are helped to cope better with their disease by contact with other affected people. The need for information, but also for the opportunity to share ideas, is great. People with chronic illnesses can use this self-help app to find someone for a personal one-to-one chat anywhere and for any indication. The app is a platform from which local self-help groups can also emerge, offering patients an opportunity to better cope with their everyday lives.

Nationwide German advertising campaign — In November 2017, DocMorris launched a multimedia campaign in Germany, repositioning DocMorris as a brand. The start of the campaign took the form of the societal question, “And how will we be tomorrow?”, which was played out over various outdoor advertising media and formats. The question is intended to prompt the observer to consider the theme of “tomorrow”, against the background of the advances resulting from digitization in all areas of business and life.

The DocMorris pharmacy considers it to be its task to answer this question in the health market as quickly as possible with digital progress for the benefit of the patient. So, the task is to show people how digitization in the healthcare system enriches their lives and – if they so wish – also makes it easier. For that reason, the main campaign is being launched in the first quarter of 2018, with TV commercials, online activities, advertisements and other measures in outdoor advertising.

Cooperation with Eurapon — DocMorris has entered into a cooperation with pharmacist Kubilay Talu, the owner of Bremen-based Eurapon mail-order pharmacy. Kubilay Talu intends to collaborate closely with DocMorris in future, through Eurapon Pharmahandel GmbH. There are subsequent plans to operate the mail-order business from the Netherlands. This choice of location is an advantageous one in the European environment for an internationally active mail-order pharmacy. The Zur Rose Group took over Eurapon Pharmahandel GmbH at the end of 2017 and along with that a significant proportion of the logistics, as well as the drug deliveries for the Eurapon mail-order business. In 2016, Eurapon achieved sales amounting to EUR 52 million from its mail-order business geared towards non-prescription drugs and has grown by 30 percent per year for the last three years, which is considerably above the market average.

Takeover of Vitalsana — At the end of 2017, the Zur Rose Group took over the mail-order pharmacy Vitalsana B.V. in Heerlen, as well as the associated service provider ApDG GmbH in Ulm, from Ströer SE & Co. KGaA. In the context of this acquisition, it is pooling a significant proportion of its mail-order business in the Aachen/Heerlen euro-region and achieving synergy effects along the entire value chain. With its mail-order pharmacy primarily geared towards non-prescription drugs, Vitalsana generated revenue of EUR 30 million in 2016.

Zur Rose Pharma business performance

Zur Rose Pharma, in Halle an der Saale, has increasingly become a competence centre for marketing and services in the healthcare sector in recent years. In 2017 it continued to focus its services on the owner-run Zur Rose pharmacy. Sales remained stable year-on-year.

In order to develop and exploit the potential of Zur Rose Pharma as a competence centre for marketing and services even better, the decision was taken by the Zur Rose Group at the end of 2017 to position Zur Rose Pharma entirely as a healthcare service provider for the companies of the Zur Rose Group. The realignment is linked to the plans of Ulrich Nachtsheim, owner of the Zur Rose pharmacy in Halle, to step down for reasons of age and withdraw from the mail-order business. A succession solution has been proposed with the intention of serving the mail-order customers from mid-2018 from a newly established mail-order pharmacy in the Netherlands, which is a subsidiary of the Zur Rose Group, should they so wish.

40 employees will be affected by the discontinuation of logistics services and administrative tasks for the Zur Rose pharmacy in Halle. A wide range of measures over and beyond a redundancy scheme will be set up for them, to proactively assist them in their search for further employment. Zur Rose Pharma still employs around 90 people in Halle and intends to further expand the location for services in future.

Corporate Governance

The Zur Rose Group applies the principles and rules of Corporate Governance set out in the "Swiss Code of Best Practice for Corporate Governance" of economiesuisse. The content and structure of this section comply with the Directive on Information relating to Corporate Governance issued by the SIX Swiss Exchange. Unless otherwise stated, all information relates to the reporting date of 31 December 2017. The key elements of corporate governance are defined in the Company's Articles of Association, Organizational Regulations and Terms of Reference of the Committees of the Board of Directors. The Zur Rose Group publishes these documents online at zurrosegroup.com > "Investors & Media" > "Corporate Governance".

1 Group Structure and Shareholders

1.1 Group Structure

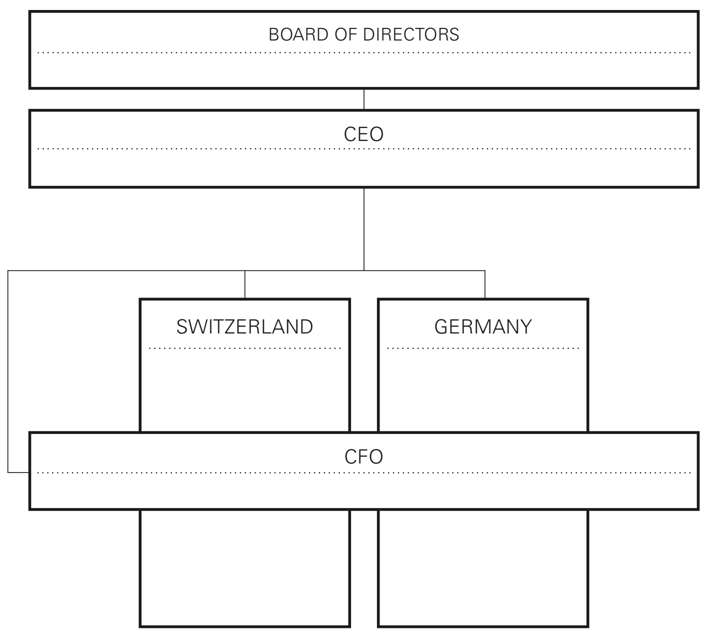
The Board of Directors supervises the Zur Rose Group, while the Group Management is responsible for the operational management. The operational business is divided into two geographic segments:

- The operating segment Switzerland comprises the wholesale business of supplying products to Swiss medical practitioners and the retail business focused on providing end consumers with drugs and health products from Zur Rose;
- The operating segment Germany comprises the mail-order business in drugs and health products, as well as services for mail-order pharmacies.

The Zur Rose Group's business units encompass all essential operational activities. They are headed by a member of the Group Management. The functions of Finance and (as a matrix function) Logistics, which provide services for the whole Group, are under the responsibility of the CFO. The CFO is also responsible for Investor Relations. The Communication and Legal departments report to the CEO. They also provide services for the whole Group.

Details of the Group's legal structure can be found on page 60 of the financial report.

STRUCTURE OF THE ZUR ROSE GROUP



The subsidiaries included in the Group consolidation, with details of their names and registered offices, share capital and the percentage interest held by Group companies, are listed in the Notes to the Consolidated Financial Statements on page 60. The consolidation does not include any companies whose equity securities are listed on a stock exchange, with the exception of Zur Rose Group AG.

1.2 Significant Shareholders *

Beneficial owner(s) / Person(s) entitled to exercise voting rights	Direct shareholder	Percentage
T. Rowe Price Associates, Inc.	T. Rowe Price International Ltd	3.13
Vanessa Frey, Beat Frey, Brigitte Frey, Alexandra Frey	KWE Beteiligungen AG	14.79
Wellington Management Group LLP	– Wellington Alternative Investments, LLC – Wellington Management Funds (Ireland) plc – Wellington Management Funds (Luxembourg) II SICAV – Wellington Luxembourg S.à.r.l. – Wellington Trust Company, N.A. – Wellington Management Funds LLC	5.09
Al Faisaliah Group Holding Company	Matterhorn Pharma Holding	4.57
Members of the Board of Directors, Group Management and Senior Management		7.44

* According to relevant reports to the SIX Swiss Exchange at the time of disclosure

As far as the Company is aware, the shareholders listed above held more than 3 per cent of the shares of Zur Rose Group AG on 31 December 2017. The disclosure notices published by Zur Rose Group AG during the 2017 financial year via the electronic publication platform of the SIX Swiss Exchange can be found at www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html. The shareholdings of the members of the Board of Directors and Group Management are shown in detail in the Notes to the Financial Statements of Zur Rose Group AG.

Zur Rose Group AG had 5,213 shareholders at 31 December 2017 (2,382 at the end of 2016).

SHAREHOLDER STRUCTURE

Number of shares *	Number of shareholders at 31 December 2017	Percentage of total shares	Number of shareholders at 31 December 2016	Percentage of total shares
1 – 499	**3 846**	6.3	695	2.4
500 – 999	**605**	6.0	567	8.0
1 000 – 1 999	**510**	10.5	738	21.5
2 000 – 2 999	**116**	4.4	184	10.1
3 000 – 4 999	**81**	4.9	129	10.9
> 5 000	**55**	30.6	69	41.2
Fiduciary registrations without voting rights (Nominees)	–	11.9	–	–
Shares not registered in the share register	–	25.4	–	5.9
Total	**5 213**	100	2 382	100

* Total share capital of Rose Group AG: see 2.1

1.3 Cross-Shareholdings
There are no cross-shareholdings with other companies.

2 Capital Structure
Information on the capital structure can be found in the financial report on pages 88 to 89.

2.1 Capital
The share capital of Zur Rose Group AG is CHF 35,761,820.25, divided into 6,219,447 registered shares with a par value of CHF 5.75 each.

2.2 Authorized and Conditional Share Capital

Authorized Capital
The Board of Directors is authorized to increase the share capital, at any time until 19 June 2019, by a maximum amount of CHF 2,900,938.25, by issuing a maximum of 504,511 fully paid up registered shares with a par value of CHF 5.75 each. An increase of the share capital in partial amounts is permissible. The acquisition of shares and each subsequent transfer of the shares is subject to the restrictions of Article 5 of the Articles of Association. The Board of Directors will determine the issue price, the type of contribution, the date of issue, the conditions for the exercise of preemptive rights and the start date for dividend entitlement. The Board of Directors may issue new shares by means of an underwriting by a financial institution, a syndicate of financial institutions or another third party and a subsequent offer of these shares to the existing shareholders or third parties (if the preemptive rights of the existing shareholders have been excluded or not been duly exercised). The Board of Directors is authorized to permit, restrict or exclude trading with preemptive rights. It may permit preemptive rights that have not been exercised to expire, or it may place such rights or shares with respect to which preemptive rights have been granted, but not exercised, at market conditions or use them otherwise in the interest of the Company.

The Board of Directors is further authorized to restrict or exclude preemptive rights of existing shareholders and allocate such rights to third parties, the Company or any of its Group companies:

(a) in connection with a listing of shares on domestic or foreign stock exchanges, including for the purpose of granting an over-allotment option (greenshoe); or
(b) to initial purchasers or underwriters in a placement or offer of shares; or
(c) for the purpose of national or international offerings of shares in order to broaden the Company's shareholder base or in order to increase the free float or to meet applicable listing requirements; or
(d) if the issue price of the new shares is determined by reference to the market price; or
(e) for raising capital in a fast and flexible manner which could only be achieved with difficulty without excluding the preemptive rights of shareholders; or
(f) for the acquisition of companies, parts of companies, participations, products, intellectual property or licenses, or for investment projects or for the financing or refinancing of such transactions through a placement of shares; or
(g) for purposes of the participation of a strategic partner.

Conditional Share Capital
The share capital of the Company may be increased by an amount not to exceed CHF 134,302.75 through the issuance of up to 23,357 fully paid up registered shares with a par value of CHF 5.75 each through the issuance of shares to employees and members of the Board of Directors of the Company. The preemptive rights and advance subscription rights of the existing shareholders of the Company for the new shares in proportion to their existing participations will be excluded. The issuance of shares (issue amount, start date of dividend rights, type of contributions) or of options related thereto or a combination of shares and options will be made pursuant to one or more plans to be issued by the Board of Directors. The issuance of shares or options may occur at a price below the market price. The acquisition of registered

shares via the exercise of option rights and any subsequent transfer of such registered shares will be subject to the restrictions of Article 5 of the Articles of Association.

2.3 Changes in Capital

Information about changes in capital is included in the consolidated financial statements, in particular in the statement of changes in equity on page 57. For the preceding years, reference is made to the previous annual reports.

At 31 December 2015, the share capital of Zur Rose Group AG was CHF 18,716,382.25. In 2016, a capital increase from authorized capital was carried out in two tranches with the new anchor shareholder, KWE Beteiligungen AG:

— on 6 September 2016 by CHF 2,875,000 up to CHF 21,591,382.25,
— on 14 November 2016 by CHF 2,300,000 up to CHF 23,891,382.25.

In 2016, there were capital increases from conditional capital amounting to a total of CHF 994,019.75, up to CHF 24,885,402. The relevant amendment to the Articles of Association was registered in the commercial register on 2 February 2017.

At 31 December 2016, the share capital of Zur Rose Group AG was CHF 24,885,402.00.
In the first half of 2017, there were capital increases from conditional capital amounting to a total of CHF 1,303,197.25, up to CHF 26,188,599.25. The relevant amendments to the Articles of Association were registered in the commercial register on 29 May 2017 and 5 July 2017.

Two capital increases from authorized capital were carried out in the course of the IPO:

— on 5 July 2017 by CHF 8,222,500.00 up to CHF 34,411,099.25,
— on 14 July 2017 by CHF 1,350,721.00 up to CHF 35,761,820.25 (over-allotment option).

At 31 December 2017, the share capital of Zur Rose Group AG was CHF 35,761,820.25.

2.4 Shares and Participation Certificates

The share capital is divided into 6,219,447 registered shares with a par value of CHF 5.75 each. The shares are fully paid up. Zur Rose Group AG has not issued any participation certificates.

2.5 Dividend-Right Certificates

The Company has not issued any dividend-right certificates.

2.6 Limitations on Transferability and Nominee Registrations

Persons acquiring registered shares are registered in the share register as shareholders with voting rights upon their request if they expressly declare to have acquired these registered shares in their own name and for their own account. The Board of Directors may register individual persons who do not expressly declare in their registration application to hold the registered shares for their own account (the Nominees) as shareholders with voting rights with regard to up to three per cent of the share capital recorded in the commercial register if the Nominee has entered into an agreement with the Company regarding its status and is subject to recognized bank or financial market supervision. Beyond such registration limit, the Board of Directors may register Nominees as shareholders with voting rights if such Nominees disclose the first and last names (in the case of legal entities, the company names), addresses and nationality (in the case of legal entities, the registered office) and shareholdings of those persons for whose account they hold 0.5 per cent or more of the share capital recorded in the commercial register. In particular cases, the Board of Directors may grant exceptions from the rules concerning Nominees.

At 31 December 2017, no Nominee had entered into an agreement regarding his/her position. No exceptions were granted. The Nominees recorded in the share register are therefore registered without voting rights. There are no other transfer limitations and no statutory privileges. Any lifting or amendment of the limitations on transferability requires a shareholders' resolution by a voting majority of at least two thirds of the shares represented.

2.7 Convertibles Bonds and Options

Zur Rose Group AG had no convertible bonds or options outstanding at 31 December 2017.

2.8 Corporate Bonds

Zur Rose Group AG had no corporate bonds outstanding at 31 December 2017.

3 Board of Directors

3.1 Members of the Board of Directors

The majority of the Zur Rose Group's Board of Directors are independent external directors.

On 31 December 2017, it consisted of the following persons:

MEMBERS OF THE BOARD OF DIRECTORS

	Position	First elected	Term expires
Prof. Stefan Feuerstein	Chairman, Non-Executive Director	2010	2018
Walter Oberhänsli	CEO, Executive Director	1993	2018
Dr. Thomas Schneider	Vice Chairman, Non-Executive Director	1995	2018
Prof. Dr. Volker Amelung	Non-Executive Director	2010	2018
Dr. Heinz O. Baumgartner	Non-Executive Director	2017	2018
Vanessa Frey	Non-Executive Director	2016	2018
Dr. Lukas Wagner	Non-Executive Director	1996	2018

— **Stefan Feuerstein** (1955, German national, Prof.), Chairman of the Board
Chairman of the Board of Partners of the UNIMO-Gerstner Group, Zug/Xanten. Director of various companies. Served as Executive Director and CEO of Markant AG until 2010 and previously as a member of the Management Board of METRO AG, responsible for Strategic Group Purchasing and Food & Retail. He studied business administration and has been an honorary professor at Worms University of Applied Sciences since 2001.

— **Walter Oberhänsli** (1958, Swiss national, lic. iur., lawyer), Executive Director and CEO
Chairman of the Board from 1996 to 2011, serving as Executive Director and Chief Executive Officer (CEO) since 2005. He practised as an independent lawyer in Kreuzlingen (Canton of Thurgau) until the end of 2004 and studied law at the University of Zurich.

— **Thomas Schneider** (1965, dual German-Swiss national, Univ. Prof. Dr. oec. HSG)
Specialist in general medicine (FMH), working as a family and general practitioner in a group practice in Tägerwilen (Canton of Thurgau) since 1989. Served as a member of the Medical Ethics Board of the Thurgau Medical Society in 2009, having previously occupied various roles in professional policy at national and cantonal level. He studied medicine at the University of Basel.

— **Volker Amelung** (1965, dual German-Swiss national, Univ. Prof. Dr. oec. HSG)
Specialist Professor of International Health Systems Research at Hannover Medical School since 2001, following teaching appointments at the University of Economics and Politics, Hamburg, and Columbia University, New York. He studied business administration at the Universities of St. Gallen and Paris-Dauphine.

— **Heinz O. Baumgartner** (1963, Swiss national, Dr. oec. HSG)
CEO of Schweiter Technologies AG, Horgen, since 2009. Served at its CFO from 1996 to 2013. Previously worked as a controller at Asea Brown Boveri Switzerland. He graduated in business administration from the University of St. Gallen.

— **Vanessa Frey** (1980, Swiss national, business economist, MSc in Finance)
CEO and Director of Corisol Holding Ltd. since 2007. Director of various companies. Served in the Corporate Finance Team of Handelsbanken Capital Markets in Stockholm and subsequently as asset manager in Hong Kong from 2004 to 2006. She earned a bachelor's degree in economics and law from the University of St. Gallen and a Master of Science degree in international economics and business from Stockholm School of Economics.

— **Lukas Wagner** (1951, Swiss national, Dr. med.)
Specialist in general medicine (FMH), running his own practice in Birsfelden (Canton of Baselland) since 1986. Served as President of the Baselland Medical Society from 2002 to 2010. He studied medicine at the University of Basel.

With the exception of the Executive Director and CEO, Walter Oberhänsli, none of the Directors has ever been a member of the management of a Zur Rose Group company or the Group Management. There are no cross-directorships among the Directors.

3.2 Other Activities and Vested Interests

— **Stefan Feuerstein**
Chairman of the Board of the Al Faisaliah Group's Electronics & Systems Company, Riyadh (SA)
Chairman of the Board of Kühnl + Schmidt Architekten AG, Karlsruhe (DE)
Chairman of the Board of EVAN Management AG, Zug
Vice Chairman of the Board of UNIMO Real Estate Management AG, Zug
Director of Electronic Partner Handel SE, Düsseldorf (DE)
Member of the Research Advisory Board at Worms University of Applied Sciences (DE)

— **Walter Oberhänsli**
President of the Association of Swiss Mail-Order Pharmacies (VSVA), Solothurn
Member of the Management Board of the Federal Association of German Mail-Order Pharmacies (BVDVA), Berlin (DE)

— **Thomas Schneider**
Board Member of the Dispensing Doctors' Association (APA), St. Gallen
Board Member of the Pharma Code Committee of the Scienceindustries Business Association, Zurich

— **Volker Amelung**
President of the German Managed Care Association, Berlin (DE)
Managing Director of the private Institute for Applied Health Services Research (Institut für angewandte Versorgungsforschung GmbH, inav), Berlin (DE)
Member of the Doctors' Health Fund (Ärzte-Krankenkasse) State Committee in Lower Saxony, Hanover (DE)
Member of the Scientific Advisory Board of the Central Research Institute of Ambulatory Health Care in Germany, Berlin (DE)
Member of the Advisory Board of the Gesundheitswissenschaftliche Institut Nordost (GeWINO) der AOK Nordost – Die Gesundheitskasse (Northeast Healthcare Institute (GeWINO) of the AOK Northeast health insurance company), Berlin (DE)

— **Heinz O. Baumgartner**
No other activities or vested interests.

— **Vanessa Frey**
Director of Schweiter Technologies AG, Horgen
Director of Inficon Holding AG, Bad Ragaz
Vice Chairman of the Board of Garaventa Accessibility AG, Arth
Director of KWE Beteiligungen AG, Wollerau

— **Lukas Wagner**
No other activities or vested interests.

3.3 Additional Mandates Outside the Zur Rose Group

Under the Articles of Association of Zur Rose Group AG, no member of the Board of Directors may hold more than ten additional mandates and, in addition to those, no more than four in listed companies. Each of these mandates is subject to approval by the Chairman of the Board of Directors and, in case of a mandate of the Chairman of the Board of the Directors, by the majority of the other members of the Board of Directors. Any exceptions (e.g. mandates in companies which are held at the request of the Zur Rose Group or companies controlled by it or in charitable organizations) are defined in the Articles of Association.

3.4 Elections and Terms of Office

The General Meeting of Shareholders elects the members of the Board of Directors and the Chairman of the Board of Directors individually and for a term of office until the end of the next Annual General Meeting of Shareholders. They are eligible for re-election. If the office of the Chairman of the Board of Directors is vacant, the Board of Directors appoints a new Chairman from among its members for a term of office extending until the end of the next Annual General Meeting of Shareholders. The year in which the members of the Board of Directors were first elected to office is shown in the table on page 33. No restrictions on their terms of office have been set.

3.5 Internal Organizational Structure

3.5.1 Allocation of tasks within the Board of Directors

Except for the election of the Chairman of the Board of Directors and the members of the Compensation Committee by the General Meeting of Shareholders, the Board of Directors constitutes itself. The Board of Directors may elect one or several Vice Chairmen. The Board of Directors also appoints a secretary, who need not be a member of the Board of Directors. Prof. Stefan Feuerstein serves as the Chairman of the Board. Walter Oberhänsli is the Executive Director and CEO of the Company. Dr. Thomas Schneider holds the office of Vice Chairman. The allocation of tasks between the Board of Directors and the CEO, as well as the duties and powers of the Chairman of the Board of Directors and the Committees, are set out in the Organizational Regulations and related Committee Terms of Reference.

3.5.2 Committees of the Board of Directors

The Audit Committee and the Compensation Committee are standing committees of the Board of Directors. The Board of Directors may resolve to establish (and dissolve) additional committees and entrust them with certain responsibilities and project-related tasks.

AUDIT COMMITTEE
Prof. Dr. Volker Amelung, Chairman
Dr. Heinz O. Baumgartner
Prof. Stefan Feuerstein

The Audit Committee is comprised of three non-executive members of the Board of Directors, who must all have business management skills. The members and its chairman are appointed by a resolution of the full Board of Directors. The Audit Committee assists the Board of Directors in overseeing the management of the business, in particular in its non-delegable duties of ultimate supervision and financial control (Art. 716a CO), as well as in the preparation of the annual report and financial statements, by forming its own judgement of the organization and operation of the internal and external control systems, as well as the financial report. The Audit Committee is established as a standing committee. Its role is exclusively advisory and supervisory, and includes the preparation of resolutions. The decision-making authority of the full Board of Directors remains unaffected. The Audit Committee does not appoint any subcommittees.

BOARD OF DIRECTORS *(from left)*

DR. HEINZ O. BAUMGARTNER, DR. LUKAS WAGNER, PROF. STEFAN FEUERSTEIN, WALTER OBERHÄNSLI, VANESSA FREY, DR. THOMAS SCHNEIDER, PROF. DR. VOLKER AMELUNG.

COMPENSATION COMMITTEE
Dr. Thomas Schneider, Chairman
Prof. Stefan Feuerstein
Vanessa Frey

The Compensation Committee comprises three members of the Board of Directors and constitutes itself. It supports the Board of Directors in establishing and reviewing the compensation strategy and guidelines, and in preparing the proposals to the General Meeting of Shareholders regarding the compensation of the Board of Directors and Group Management. It may submit proposals to the Board of Directors on other compensation issues and assists it in matters relating to the nomination and promotion of members of the first and second management levels. The role of the Compensation Committee is exclusively advisory and includes the preparation of resolutions. The decision-making authority of the full Board of Directors remains unaffected. The Compensation Committee does not appoint any subcommittees.

3.5.3 Working methods of the Board of Directors and its Committees

The Board of Directors meets as often as is deemed necessary or if a member requests this in writing. Meetings of the Board of Directors are convened by the Chairman or, should he be prevented from doing so, by the Vice Chairman or by the oldest member of the Board of Directors. Meetings of the Board of Directors and its Committees may also be held by telephone conference, videoconference or Internet conference. Meetings are convened in writing, with details of the agenda items. The Board of Directors constitutes a quorum if the majority of its members are present. Participation by telephone, video or Internet equates to attendance in person. No quorum is required if solely the completion of a share capital increase is to be ascertained and the subsequent amendment to the Articles of Association is to be resolved. The Board of Directors passes its resolutions by a simple majority of the votes cast. In the event of a tie, the Chairman has the casting vote. Resolutions may be passed by circular letter unless a member requests a verbal consultation. The Board of Directors met eight times during the 2017 financial year. Meetings of the Board of Directors are normally also attended by the CFO and the Group General Counsel (as minute-taker) in an advisory capacity. The other members of the Group Management are invited to meetings of the Board of Directors where the strategy and budget or market-specific agenda items are to be deliberated.

The Committees meet at least twice a year and at such other times as required and may be requested by any member of the Committees. The role of the Committees is restricted to the preparation of decision-making criteria for the attention of the Board of Directors. The composition, organization, powers and roles of the individual Committees are defined by the Board of Directors in appropriate Committee Terms of Reference, to the extent that they are not prescribed by the Articles of Association or a resolution of the General Meeting of Shareholders. The chairmen of the Committees keep the Board of Directors informed of their activities at the next ordinary meeting of the Board of Directors or, in urgent cases, immediately. The Audit Committee met twice and the Compensation Committee four times during the 2017 financial year. Members of the Group Management are also usually represented at the Committee meetings in an advisory capacity, as well as individual specialist departments, when required.

3.6 Definition of Areas of Responsibility

The Board of Directors is responsible for the ultimate management of the Company and overseeing the management of business. In particular, the Board of Directors has the following responsibilities:

a) ultimate management of the Company, including the definition of medium- and long-term strategies and core planning priorities together with the guidelines for corporate policy, and the issuance of the necessary instructions;
b) establishment of the underlying organization, in particular the issuance of Organizational Regulations;
c) decisions on transactions of key strategic significance;
d) appointment and dismissal of the persons entrusted with the management and representation of the Company, in particular the Executive Director and CEO, the members of the Group Management and the Head of Internal Auditing, as well as establishment of rules on signature powers;
e) ultimate supervision of the corporate bodies entrusted with the management of the Company, in particular in terms of compliance with laws, the Articles of Association, regulations and directives;
f) preparation of the annual report and the compensation report, as well as preparation of the General Meeting of Shareholders and implementation of its resolutions;
g) notification of the judge if liabilities exceed assets;
h) adoption of resolutions on the increase of the share capital, to the extent that such power is vested in the Board of Directors (CO 651 IV), as well as the ascertainment of capital increases and the respective amendments to the Articles of Association;
i) approval of the annual budget.

The Board of Directors delegates all other areas of management in full to the Executive Director and CEO and to the Group Management, unless otherwise provided by statutory legal provisions or the Articles of Association. The duties and powers of the Group Management are set out in the function chart.

3.7 Information and Control Instruments Relating to the Group Management

Each member of the Board of Directors receives the monthly, half-yearly and annual financial statements. The financial statements provide information such as details of the balance sheet, income statement, cash flow statement and the key financials of the Group and its segments. Furthermore, the CEO and the CFO report on the course of business and all matters of relevance for the Group at every meeting of the Board of Directors, which receives a forecast of the annual results at least twice a year. At these meetings, the chairmen of the Committees also report on the agenda items dealt with by their Committee, as well as the key findings and assessments, and they present the corresponding proposals. Each year, the Board of Directors discusses and adopts the budget for the following year. It defines the medium-term strategic plan and reviews it annually. The Chairman of the Board of Directors consults regularly with the CEO and other representatives of the Group Management. In addition, the Board of Directors regularly receives a current status report on investor relations.

Based on the Organizational Regulations of the Board of Directors and Audit Committee, Internal Auditing conducts operational and systems reviews and assists the Group's organizational units in regulating, improving and assuring the effectiveness of their risk management and internal control processes. Internal Auditing coordinates its work as far as possible with the external Auditors. The Board of Directors may entrust Internal Auditing with special audits, internal investigations or other tasks extending beyond the regular activities of Internal Auditing.

The Zur Rose Group has implemented a system for monitoring and controlling the risks associated with its business operations. This process includes the identification, analysis, control and reporting of risks. The Board of Directors and CEO are responsible for creating the necessary organizational framework for the operation of the risk management system. The CFO is operationally responsible for risk management control. He may delegate subtasks. The people responsible for these tasks take concrete measures to manage the risks and monitor their implementation.

4 Group Management

4.1 Members of the Group Management

On 31 December 2017, the Group Management consisted of the following members:

— **Walter Oberhänsli** (1958, Swiss national, lic. iur., lawyer), Executive Director and CEO
Chairman of the Board from 1996 to 2011, serving as Executive Director and Chief Executive Officer (CEO) since 2005. He practised as an independent lawyer in Kreuzlingen (Canton of Thurgau) until the end of 2004 and studied law at the University of Zurich.

— **Marcel Ziwica** (1975, Swiss national, lic. oec. HSG), Chief Financial Officer (CFO)
Held a variety of management positions in the Zur Rose Group from 2001 to 2014, ultimately as Head of Group Finance and Controlling and a member of the Executive Committee for Switzerland. Serving as CFO since November 2014. Prior to joining the Zur Rose Group, he worked as a consultant with Spider Innoventure Ltd in Tägerwilen. He studied business administration at the University of St. Gallen.

— **Walter Hess** (1965, Swiss national, business economist), Head for Switzerland
Zur Rose General Manager since March 2015 and also Head for Switzerland within the Zur Rose Group since 2017. Before joining the Group, he worked as an external consultant, also on various projects for Zur Rose, and ultimately heading the Zur Rose Pharma GmbH facility in Halle (Saale). CEO of Praevmedic AG, Zurich, until 2013. Previously held a number of management positions in international industrial companies. After a business education, he studied business administration at FHS St. Gallen University of Applied Sciences.

— **Olaf Heinrich** (1970, German national, industrial engineer), Head for Germany
Serving on the Management Board of DocMorris since 2008 and as CEO since 2009, additionally appointed Head for Germany within the Zur Rose Group in 2017. Before joining DocMorris, he managed joint ventures in the retail (KarstadtQuelle/Redcats) and pharmaceutical (Medco Celesio) sectors and held other international senior management positions with leading companies in the retail and pharmaceutical sectors. He studied industrial engineering in Berlin and London.

4.2 Other Activities and Vested Interests

— **Walter Oberhänsli**
President of the Association of Swiss Mail-Order Pharmacies (VSVA), Solothurn
Member of the Management Board of the Federal Association of German Mail-Order Pharmacies (BVDVA), Berlin (DE)

— **Marcel Ziwica**
No other activities or vested interests.

— **Walter Hess**
Chairman of the Board and co-owner of Praevmedic AG, Zurich
Chairman of the Board of Sportsemotion AG, Rorschach
Director of Hohlflex AG, Abtwil

— **Olaf Heinrich**
No other activities or vested interests.

1.

2.

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4.

GROUP MANAGEMENT

1. WALTER OBERHÄNSLI – CHIEF EXECUTIVE OFFICER
2. MARCEL ZIWICA – CHIEF FINANCIAL OFFICER
3. WALTER HESS – HEAD SWITZERLAND
4. OLAF HEINRICH – HEAD GERMANY

4.3 Number of Permitted Activities Outside the Zur Rose Group
No member of the Group Management may hold more than four mandates and, in addition to those, no more than two in a listed company. Any exceptions (e.g. for mandates held on behalf of the Zur Rose Group or in charitable organizations) are defined in the Articles of Association.

4.4 Management Contracts
There are no management contracts with third parties.

5 Compensation, Shareholdings and Loans
Information about the compensation of the Board of Directors and Group Management is provided in the Compensation Report (on pages 43 to 50).

6 Shareholders' Participation Rights

6.1 Voting Right Restrictions and Representation
Restrictions only exist for Nominees (see 2.6 Limitations on Transferability and Nominee Registrations on page 32). No exceptions were granted during the reporting year, and no measures to lift restrictions are planned. A shareholder may only be represented at a General Meeting of Shareholders by the independent proxy, his or her legal representative or by any other proxy authorized in writing, who need not be a shareholder. All shares held by a shareholder may only be represented by one person.

6.2 Quorums Required by the Articles of Association
The Company's Articles of Association do not provide for resolutions of the General Meeting of Shareholders that can only be passed by a majority greater than that required by the statutory legal provisions. The one exception is a resolution to convert registered shares into bearer shares, which requires at least two thirds of the votes represented and an absolute majority of the par value of shares represented.

6.3 Convocation of the General Meeting of Shareholders
There are no rules for the convocation of a General Meeting of Shareholders that differ from the statutory legal provisions.

6.4 Inclusion of Items on the Agenda
Shareholders who, alone or together, either hold shares with a par value of at least CHF 1,000,000 or who represent at least 10 per cent of the share capital may request that an item be included on the agenda. Such request must be made in writing at least 45 calendar days prior to the General Meeting of Shareholders, specifying the agenda item and the shareholders' proposals. No resolutions may be passed at a General Meeting of Shareholders on proposals concerning agenda items for which proper notice was not given. This provision does not apply to proposals made during a General Meeting of Shareholders to convene an Extraordinary General Meeting of Shareholders or to initiate a special audit. No prior notice is required to bring motions related to items already on the agenda or for the discussion of matters on which no resolution is to be taken.

6.5 Entries in the Share Register
No entries can be made in the share register within one week prior to the General Meeting of Shareholders. The date is published in the notice of the General Meeting of Shareholders. Shareholders who sell their shares before the General Meeting of Shareholders are no longer entitled to vote or receive dividends.

7 Changes of Control and Defence Measures

7.1 Duty to Make an Offer
The Articles of Association make no provision for opting out or opting up.

7.2 Clauses on Changes of Control
The contracts of the Board of Directors and Group Management contain no change of control clause.

8 Auditors

8.1 Duration of the Mandate
The Auditors are elected annually by the General Meeting of Shareholders. Ernst & Young AG has served as Auditors since 2002. Martin Gröli has performed the function of Lead Auditor since 5 May 2017. The term of office of the Lead Auditor is limited to a maximum of seven years.

8.2 Auditing Fees
The total cost of the auditing services provided by Ernst & Young during the 2017 reporting year was CHF 399,951. In addition, the audit firm charged fees of CHF 370,090 for audit-related services in connection with the IPO.

8.3 Additional Fees
Fees amounting to CHF 484,955 were incurred during the reporting year for additional services and tax advice provided by the audit firm.

8.4 Information Instruments Pertaining to the External Audit
Before each scheduled meeting, the external Auditors report to the Audit Committee in writing on relevant auditing activities and other important issues associated with the Company. Representatives of the external Auditors attend the meetings of the Audit Committee for specific agenda items, and to comment on their activities and answer questions. During the 2017 reporting year, the external Auditors attended two meetings of the Audit Committee. The Audit Committee assesses the performance, remuneration and independence of the auditors annually and submits a proposal to the Board of Directors for the nomination of the Auditors, for the attention of the General Meeting of Shareholders. The Audit Committee also reviews the scope of the external audit, audit plans and relevant procedures annually. The results of the audit are discussed with the external Auditors.

9 Information Policy
Zur Rose Group provides information about its annual and half-year results in the form of press releases and by holding analyst and media conferences. Quarterly revenue is announced in press releases. The Group also reports on any important events (ad hoc publicity). Shareholders are sent the printed summary report on the financial year upon request. A full online version of the annual report can be accessed at gb.zurrosegroup.com. Furthermore, the half-year report is available online as a PDF. The Annual General Meeting for the shareholders of record is held in the first half of the year. Up-to-date information can be found online at zurrosegroup.com > “Investors & Media”. The regular reporting dates are shown under “Investors & Media” > “Financial Calendar”. Press releases (sent by e-mail) can be subscribed to under “Investors & Media” > “Subscribe to Press Releases”. Contact addresses are listed at the end of this annual report.

Compensation Report

The Compensation Report describes the compensation principles, governance framework and compensation system of Zur Rose Group AG. It also contains detailed information on the compensation of the members of the Board of Directors and Group Management for the 2017 financial year (the "reporting year"). This report complies with the requirements of the Ordinance against Excessive Remuneration in Listed Companies Limited by Shares (Ordinance) of 1 January 2014 and with Section 5 of the Annex to the Directive on Information relating to Corporate Governance (DCG) issued by the SIX Swiss Exchange on 13 December 2016.

1 Principles

The value and success of the Zur Rose Group largely depends on the quality and commitment of its employees. Its compensation policy supports the goal of recruiting, motivating and retaining qualified individuals for the Group. The performance-related and share-based components are also designed to align the way of thinking and acting with shareholders' interests.

The compensation system is based on the following principles:
(a) the compensation system anchors the strategic growth targets;
(b) the compensation is fair, in line with the market and transparent; and
(c) it supports the recruitment, motivation and retention of talented and motivated employees.

2 Governance

2.1 Role of Shareholders and Compensation Provisions in the Articles of Association

Under the Swiss "say on pay" provisions, shareholders of companies listed in Switzerland have a significant influence on the compensation of the Board of Directors and Group Management. For one, the shareholders annually approve the maximum total amounts of compensation for the members of the Board of Directors and Group Management. In addition, the principles governing compensation are defined in the Articles of Association, which are also subject of the approval of the shareholders. The Articles of Association can be viewed online at ***https://zurrosegroup.com/websites/zurrosegroup/English/2080/*** *corporate-governance.html*. These include the rules for voting on compensation by the General Meeting of Shareholders (Art. 25), the principles of compensation and rules concerning the principles of performance-related compensation (Art. 27), the supplementary amount (Art. 26) and the granting of loans and credits (Art. 30). The key provisions of the Articles of Association are summarized below:

Approval of compensation: The General Meeting of Shareholders approves the proposals of the Board of Directors in relation to the aggregate amounts of the maximum fixed compensation of the Board of Directors for the following financial year, the variable compensation of the Board of Directors for the preceding financial year, the maximum fixed compensation of the Group Management for the following financial year, and the variable compensation of the Group Management for the preceding financial year.

Supplementary amount for changes to Group Management: If the maximum aggregate amount of compensation already approved by the General Meeting of Shareholders is not sufficient also to cover new members of the Group Management, the Company may pay a supplementary amount, which may not exceed 50 percent of the last aggregate compensation amount approved.

Principles of compensation of the members of the Board of Directors and Group Management: The compensation of the non-executive members of the Board consists of fixed compensation, variable compensation elements as well as further compensation elements and benefits. The compensation of the executive members of the Board of Directors and the members of the Group Management consists of fixed and variable compensation elements as well as further compensation elements and benefits. Total compensation takes into account the position and level of responsibility of the recipient. Fixed compensation comprises the base salary or director's fees, as applicable, and may comprise other compensation elements and benefits. Variable compensation takes into account the achievement of specific performance targets and may be awarded in cash or in equity-based instruments. The Board of Directors determines grant, vesting, exercise, restriction and forfeiture conditions and periods.

2.2 Compensation Committee

Under the Articles of Association, the Compensation Committee (CC) comprises three members of the Board of Directors. The CC supports the Board of Directors in establishing and reviewing the compensation strategy and guidelines, and in preparing the proposals to the General Meeting of Shareholders on the compensation of the Board of Directors and Group Management. It also makes recommendations regarding the appointment of members of the Group Management for the attention of the Board of Directors.

LEVELS OF RESPONSIBILITY

Decision on:	Compensation Committee	Board of Directors	General Meeting of Shareholders
Compensation policy, including the structuring of variable compensation and definition of performance targets	Recommendation	Approval	
Maximum total compensation of the Board of Directors and Group Management	Recommendation	Proposal	Binding vote
Individual compensation of the members of the Board of Directors and Group Management	Proposal	Approval	
Compensation Report	Recommendation	Approval	Consultative vote

The CC consists of Dr. Thomas Schneider, Prof. Stefan Feuerstein and Vanessa Frey. The members are first elected by shareholders at the Annual General Meeting of Shareholders for the reporting year. The members of the CC serve for a term of one year ending at the end of the next Annual General Meeting of Shareholders (term of office). They are eligible for re-election.

As a rule, the meetings of the CC are held before the meetings of the Board of Directors, so that the proposals can be formulated and approved by the full Board. In addition, the chairman of the CC reports to the Board of Directors on the Committee's activities after each meeting. The minutes of the Committee meetings are provided to the members of the Board of Directors. Members of the Group Management may attend the meetings in an advisory capacity upon invitation, but are not present during the discussion and determination of their own compensation. The CC met four times during 2017. All members attended all meetings.

The CC may engage the services of an external consultant in compensation matters from time to time. In 2017, HCM International Ltd., Zurich, was consulted. This company does not hold any other mandates for the Zur Rose Group. In addition, the CC may also seek advice from internal specialists in compensation matters, such as the Head of Human Resources.

2.3 Determination Procedure and Disclosure of Compensation

The CC periodically benchmarks the compensation of the members of the Board of Directors and Group Management against the compensation paid by comparable listed companies and European e-commerce companies. Companies with comparable market capitalization and revenue are taken into account. The peer group includes AO World, APG SGA, Arbonia, Ascom, Bobst Group, Bossard, Burckhardt, Burkhalter, Comet, Conzzeta, Datwyler, Delticom, Hawesko, Huber+Suhner, Inficon, Interroll, Kardex, Komax, Kudelski, Metall Zug, Rieter, Schweiter, Siegfried, SRP, u-blox and Zooplus.

The actual compensation of the individual members of the Group Management is based on their personal performance and the Company's success. Personal performance is assessed as part of the annual performance management process. In determining personal performance, the achievement of individual goals and the fulfilment of tasks within the framework of the corporate values and the expected management skills are taken into account. The individual performance assessment and the Company's success form the basis for determining the compensation actually paid out.

3 Compensation of the Members of the Board of Directors

3.1 Compensation Structure

The members of the Board of Directors are expected to act independently in exercising their supervisory activities. They therefore receive a fixed base fee for their services for each term of office (retainer), 70 per cent of which is paid in cash and 30 per cent comprising registered shares of the Company with a three-year vesting period. The amount of compensation is not linked to a performance component, and no variable compensation is paid. Depending on the role, the following compensation is paid (gross):

In CHF 1,000	Total compensation	of which in cash	of which in shares
Chairman	300	210	90
Vice Chairman	130	91	39
Director	100	70	30

The following (gross) compensation is paid exclusively in cash for serving on Committees:

In CHF 1,000	Cash compensation
Committee chairman	20
Committee member	10

The Chairman of the Board of Directors does not receive a fee for serving on the Committees. The Executive Director and CEO is remunerated for his services as part of his ordinary compensation as a member of the Group Management and does not receive any additional compensation for serving on the Board of Directors. The cash payment is made after the Annual General Meeting of Shareholders and the shares are transferred shortly afterwards. The Company may reimburse members of the Board of Directors for expenses in the form of reimbursement of actual expenses incurred and/or an expense allowance within the amounts allowed for tax purposes. This reimbursement of expenses does not count as compensation. The members of the Board of Directors do not participate in the pension plan of Zur Rose Group AG.

3.2 Compensation in the Reporting Year

This section was audited by the auditors in accordance with Article 17 of the Ordinance against Excessive Remuneration in Listed Companies Limited by Shares (Ordinance).

For the 2017 financial year, the members of the Board of Directors received fixed compensation of CHF 802,000, compensation of CHF 60,000 for serving on Committees and social security contributions of CHF 61,000. Of the total compensation of CHF 923,000, CHF 245,000 was awarded in the form of shares with a vesting period of three years. The table below shows the compensation paid to members of the Board of Directors in 2017. The Board of Directors consisted of seven members in the 2017 reporting year.

In CHF 1,000	Fixed gross compensation in cash	Fixed gross compensation in shares [1]	Committee fee in cash	Social security contributions	Total [2]
Prof. Stefan Feuerstein (Chairman)	210	92	–	21	323
Dr. Thomas Schneider (Vice Chairman)	91	40	20	11	162
Dr. Volker Amelung (Director)	70	31	20	9	130
Dr. Heinz Baumgartner (Director) 3)	46	20	7	5	78
Vanessa Frey (Director)	70	31	13	9	123
Dr. Lukas Wagner (Director)	70	31	–	6	107
Non-Executive Directors	**557**	**245**	**60**	**61**	**923**
Walter Oberhänsli (Executive Director and CEO)	–	–	–	–	–
Board of Directors	**557**	**245**	**60**	**61**	**923**

1) The fair value of CHF 137.80 per share is calculated on the basis of the volume-weighted average daily closing price on the Swiss stock exchange over 20 days prior to award of the shares.

2) For disclosure in the Compensation Report, the accrual principle was applied to all compensation elements. Grants are reported in the Compensation Report for the year for which they are awarded.

3) Dr. Heinz Baumgartner was elected to the Board of Directors at the Annual General Meeting of Shareholders held on 4 May 2017.

Detailed information on each of the members of the Board of Directors can be found in the Corporate Governance section of the Annual Report.

No compensation was paid to former members of the Board of Directors during the reporting year. No compensation was paid to parties closely associated with members of the Board of Directors. No loans were granted to members of the Board of Directors during the financial year. At the end of the reporting year, there were no loans to members of the Board of Directors, former members of the Board of Directors or related parties.

4 Compensation of the Members of the Group Management

4.1 Compensation Structure

The compensation system for the Group Management is aligned with the corporate strategy and linked to the relevant key performance indicators for the variable compensation elements. This allows the compensation of the members of the Group Management to be determined transparently and based on performance. The Board of Directors decides on targets.

Criteria such as position, responsibility, experience and market data are used to determine the compensation of the Group Management. The individual compensation of the members of the Group Management consists of a fixed and a performance-related salary component limited in amount, as well as pension and fringe benefits (company car). In total, the variable components range from 0 to a maximum of 150 per cent of fixed compensation.

The Company may reimburse members of the Group Management for expenses in the form of reimbursement of actual expenses incurred and/or an expense allowance within the amounts allowed for tax purposes. This reimbursement of expenses does not count as compensation.

COMPENSATION STRUCTURE

Element	Purpose	Instrument	Performance criterion	Performance period	Determinants
Fixed annual base salary	Recruitment, retention, motivation	Cash compensation	–	–	Position, qualification, market rates
Short-term variable compensation	Rewarding performance	Bonus in cash	Revenue, EBIT, individual targets	1 year	Financial result and qualitative performance
Long-term variable compensation	Rewarding sustainable value creation, Alignment with shareholders' interests	Incentive in shares	Revenue, EBIT	3 years	Success of the Group
Pension and fringe benefits	Protection against risks, employee recruitment and retention	Pension plan, insurance plans, fringe benefits	–	–	Market rates and legal requirements

Fixed annual base salary

Base salaries are determined based on the scope and responsibilities of a given position and the qualifications required to perform the job, the market rate of compensation and the personal qualifications, experience and performance of each member of the Group Management. Payment is made monthly in cash.

Short-term variable compensation

Short-term variable compensation is a performance bonus that recognizes both the Group's financial performance and the employees' personal performance in a given financial year. Through this variable compensation, employees participate in the Group's success and are rewarded for their personal performance. The target value of short-term variable compensation is expressed as a percentage of annual base salary and is 40 per cent for the CEO and between 35 and 40 per cent for the other members of the Group Management.

The targets are set by the Board of Directors at the beginning of each year at the request of the CC and are assessed at the end of the financial year based on the actual results achieved. In the reporting year, revenue and earnings targets for the Group or the segments were primarily the basis for measuring the short-term variable component. For each target, an expected level of performance (target) is defined based on the budget.

A minimum threshold of target achievement, below which no variable compensation is paid, and a maximum threshold of target achievement, above which the variable compensation is capped, are determined as well. The payout amount between the minimum threshold, target and maximum threshold is interpolated linearly.

	CEO	CFO	Other Group Management members
Revenue	60%	0%	50%
EBIT	40%	30%	40%
Individual targets (incl. working capital, costs, cash flow)	0%	70%	10%

The short-term variable compensation is paid in cash after the Annual General Meeting of Shareholders for the reporting year.

Long-term variable compensation (performance-based share plan)
The performance-based share plan is designed to enable selected executives of Zur Rose Group AG to participate in the Company's sustainable, long-term growth.

The performance-based share plan
a) supplements the short-term variable compensation component, which is based on the annual achievement of targets, with a long-term compensation component;
b) helps align the interests of executives with those of shareholders;
c) anchors the strategic growth targets in compensation; and
d) is intended to be an attractive incentive instrument compared with competitors and to have a strong retention impact.

At the request of the CC, the Board of Directors determines the amount of individual grants for the past financial year in Swiss francs depending on the role and the influence on long-term success and taking into account individual performance and strategic considerations. These grants are awarded to the participants in the form of contingent rights (performance share units). The total amount granted to members of the Group Management for the grant year is approved by the shareholders at the General Meeting of Shareholders retrospectively for the past year in accordance with the Articles of Association. A grant of entitlements as compensation for a financial year is only awarded after the end of a full financial year. The Board of Directors may, in individual cases, apply different rules for members joining the plan during the year.

At the end of a performance period of three years (starting on 1 January of the reporting year and ending on 31 December three years later), after the General Meeting of Shareholders at which the annual financial statements for the last year of the performance period are approved, the performance share are converted into shares. At that point, the number of shares to be transferred is calculated by multiplying the number of performance share units granted by the target achievement factor. The target achievement factor is based on the EBIT margin and revenues achieved, equally weighted. The target achievement factor is restricted to a lower limit of 0.00 and an upper limit of 2.00. Internal financial targets as a measure of variable compensation are not published. Disclosure of the targets would provide an insight into the Zur Rose Group's forward-looking strategy and thus lead to a competitive disadvantage for the Group. After transfer, the shares are not subject to a vesting period and the members of the Group Management may freely dispose of them.

In the event of a delisting, change of control or termination of employment due to disability or death of the participant(s), the performance share units are converted and transferred as shares within one month of notification. The performance share units are adjusted on a pro rata temporis basis and multiplied by a target achievement factor of 1.0. If employment is terminated by the participant or the Zur Rose Group for economic reasons or due to the participant reaching retirement age, the standard provisions regarding the conversion date and target achievement factor remain unchanged. However, the performance share units are adjusted on a pro rata temporis basis. In the event of termination of employment by the Zur Rose Group without notice and for good cause, or in the event of termination of employment for reasons other than those mentioned above, the performance share units are forfeited without any compensation.

Pension benefits
The purpose of pension benefits is to provide security for employees and their dependants in the event of retirement, sickness, inability to work and death. The members of the Group Management participate in the social insurance and pension plans in the countries where their employment contracts were entered into. The plans vary according to local competition and legal conditions; they at least meet the legal requirements of the countries concerned.

Fringe benefits
Members of the Group Management also receive a company car as a fringe benefit. Its value is estimated at fair market value and included in the compensation tables.

Employment contracts
The members of the Group Management are employed under permanent employment contracts; they all have individual notice periods up to a maximum of 12 months. The members of the Group Management are not entitled to any contractual severance payments or special change of control provisions, except for the early vesting of the long-term compensation plan as explained above. The Articles of Association of Zur Rose Group AG provide for the possibility of imposing a non-compete agreement of a maximum of one year on outgoing executive members of the Board of Directors or members of the Group Management. Such a non-compete agreement was applicable at the end of the reporting year with the Executive Director and CEO.

4.2 Compensation in the Reporting Year

This section was audited by the auditors in accordance with Article 17 of the Ordinance against Excessive Remuneration in Listed Companies Limited by Shares (Ordinance).

In 2017, the members of the Group Management received total compensation of CHF 3,600,000. This amount includes fixed base salaries of CHF 1,731,000, short-term variable compensation of CHF 701,000, long-term compensation of CHF 620,000, other expenses of CHF 46,000 and pension benefits of CHF 502,000.

The table below shows the fixed and variable compensation and the total compensation paid to the members of the Group Management for 2017. The Group Management consisted of four members in the 2017 reporting year.

In CHF 1,000	Fixed compensation in cash	Variable compensation		Fringe benefits [1]	Pension benefits	Total [2]
		Short-term in cash	Long-term in shares			
Group Management	1,731	701	620	46	502	3,600
Of which: Walter Oberhänsli (CEO)	600	280	240	13	244	1,377

1) Including all other compensation and benefits, such as company cars.

2) For disclosure in the Compensation Report, the accrual principle was applied to all compensation elements. Grants are reported in the Compensation Report for the year for which they are awarded.

In 2017, the Zur Rose Group laid the foundation for dynamic growth with its broad-based marketing campaign in Germany to acquire new customers. Consolidated revenue increased by 11.8 per cent compared with the previous year. Net income was weighed down by expenses to drive growth and non-recurring costs of around CHF 20 million in connection with the IPO. Adjusted for the above-mentioned exceptional expenses, operating earnings (EBIT) would amount to minus CHF 18.5 million.

The measurement of short-term variable bonus payments is largely based on the increase in revenue and the development of EBIT and working capital at Group and regional level compared with the budget. As a result, the percentage share of the total bonus payments ranges from 75 to 115 per cent for the Group Management and is 117 per cent for the CEO.

No compensation was paid to former members of the Group Management in the reporting year. No compensation was paid to parties closely associated with the members of the Group Management. No loans were granted to members of the Group Management during the financial year. At the end of the reporting year, there were no loans to members of the Group Management, former members of the Group Management or related parties.

Information on the shares held by members of the Board of Directors and Group Management can be found in the Financial Report on page 108.

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To the General Meeting of
Zur Rose Group AG, Steckborn

Zurich, 19. March 2018

Report of the statutory auditor on the remuneration report

We have audited the accompanying remuneration report of Zur Rose Group AG for the year ended 31. December 2017. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables labeled “audited” on pages 46 and 49 of the remuneration report.

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

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

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

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

Opinion
In our opinion, the remuneration report for the year ended 31. December 2017 of Zur Rose Group AG complies with Swiss law and articles 14–16 of the Ordinance.

Ernst & Young AG

Martin Gröli
Licensed audit expert
(Auditor in charge)

Claudio Schneider
Licensed audit expert

Financial Statements

Consolidated Income Statement

		2017		2016	
	Notes	CHF 1,000	%	CHF 1,000	%
Net revenue		**982,921**	**100.0**	879,535	100.0
Other operating income	7	**9,740**		5,400	
Cost of goods	8	**−836,343**		−747,608	
Personnel expenses	9	**−78,339**		−60,166	
Other operating expenses	10	**−99,173**		−75,037	
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		**−21,194**	**−2.2**	2,124	0.2
Depreciation, amortisation and impairment	20|21	**−17,120**		−9,214	
Earnings before interest and taxes (EBIT)		**−38,314**	**−3.9**	−7,090	−0.8
Share of results of joint ventures	11	**134**		−630	
Finance income	12	**4,431**		38	
Finance expenses	12	**−2,757**		−5,034	
Earnings before taxes (EBT)		**−36,506**	**−3.7**	−12,716	−1.4
Income tax income / (expense)	13	**241**		−53	
Net income / (loss)		**−36,265**	**−3.7**	−12,769	−1.5
Attributable to Zur Rose Group AG shareholders		**−36,238**		−12,769	
Attributable to non-controlling interests		**−27**		0	

		CHF 1		CHF 1	
Net income / (loss) per share	30	**−6.94**		−3.60	
Diluted net income / (loss) per share	30	**−6.94**		−3.60	

Consolidated Statement of Comprehensive Income

	Notes	2017 CHF 1,000	2016 CHF 1,000
Net income / (loss)		**–36,265**	–12,769
Exchange differences on translation of foreign operations		**241**	–487
Other comprehensive income to be reclassified in subsequent periods to the income statement		**241**	–487
Remeasurement pensions	29	**–500**	–141
Income tax	23	**57**	22
Share of other comprehensive income of joint ventures		**106**	319
Other comprehensive income not to be reclassified in subsequent periods to the income statement		**–337**	200
Other comprehensive income / (loss)		**–96**	–287
Total comprehensive income / (loss)		**–36,361**	–13,056
Attributable to Zur Rose Group AG shareholders		**–36,438**	–13,056
Attributable to non-controlling interests		**77**	0

Consolidated Balance Sheet

ASSETS		**31.12.2017**		**31.12.2016**	
	Notes	CHF 1,000	%	CHF 1,000	%
Cash and cash equivalents	14	**107,764**		25,225	
Current financial assets		**174**		160	
Trade receivables	15	**84,079**		71,379	
Prepaid expenses	16	**10,226**		5,971	
Other receivables	17	**11,514**		8,637	
Inventories	18	**58,572**		48,277	
Current assets		**272,329**	**59.6**	159,649	61.0
Investments in joint ventures	19	**1,012**		3,914	
Property, plant and equipment	20	**29,685**		26,216	
Intangible assets	21	**143,731**		63,120	
Non-current financial assets	22	**981**		1,834	
Deferred tax assets	23	**9,024**		6,795	
Non-current assets		**184,433**	**40.4**	101,879	39.0
Total assets		**456,762**	**100.0**	261,528	100.0

Consolidated Balance Sheet

LIABILITIES AND EQUITY	Notes	31.12.2017 CHF 1,000	%	31.12.2016 CHF 1,000	%
Current financial liabilities	24	**5,604**		100	
Bonds	24	**0**		49,861	
Trade payables	25	**75,268**		70,708	
Other payables	26	**9,221**		3,615	
Tax liabilities		**1,252**		212	
Accrued expenses	27	**19,046**		13,590	
Short-term provisions	28	**3,889**		131	
Short-term liabilities		**114,280**	**25.0**	138,217	52.8
Non-current financial liabilities	24	**32,024**		9,123	
Pension obligations	29	**12,987**		8,875	
Deferred tax liabilities	23	**3,248**		1,507	
Long-term liabilities		**48,259**	**10.6**	19,505	7.5
Total liabilities		**162,539**	**35.6**	157,722	60.3
Share capital	30	**35,762**		24,885	
Capital reserves		**272,162**		59,219	
Treasury shares	30	**–1,216**		–903	
Retained earnings		**47**		33,597	
Exchange differences		**–12,751**		–12,992	
Equity attributable to Zur Rose Group AG shareholders		**294,004**	**64.4**	103,806	39.7
Non-controlling interests		**219**		0	
Total equity		**294,223**	**64.4**	103,806	39.7
Total liabilities and equity		**456,762**	**100.0**	261,528	100.0

Consolidated Cash Flow Statement

	Notes	2017 CHF 1,000	2016 CHF 1,000
Net income / (loss)		**–36,265**	–12,769
Depreciation, amortisation and impairment	20|21	**17,120**	9,214
Finance expenses (net)		**–2,096**	4,578
Income tax		**–241**	53
Non-cash income and expenses		**3,563**	2,800
Income taxes paid		**–55**	–203
Interest paid		**–2,296**	–2,481
Interest received		**12**	36
Change in trade receivables, other receivables and prepaid expenses		**–13,081**	–4,900
Change in inventories		**983**	–13,790
Change in trade payables, other liabilities and accrued expenses		**6,371**	3,746
(Increase) / decrease in provisions		**3,758**	–114
Cash flows from operating activities		**–22,227**	–13,830
Acquisition of subsidiaries, net of cash acquired	6	**–40,885**	–2,151
Purchase of property, plant and equipment	20	**–5,083**	–3,017
Acquisition of intangible assets	21	**–16,558**	–16,910
Investment in current financial assets		**0**	261
Investments in non-current financial assets	22	**–121**	–1,281
Disposal of non-current financial assets	22	**432**	0
Cash flow from investing activities		**–62,215**	–23,098
Proceeds from capital increases	30	**222,403**	42,774
Repayment of financial liabilities	24	**–56,107**	–3,866
Purchase of treasury shares		**–383**	–243
Dividends paid		**0**	–1,638
Cash flow from financing activities		**165,913**	37,027
Increase / (decrease) in cash and cash equivalents		**81,471**	99
Cash and cash equivalents at the beginning of the year		**25,225**	25,089
Foreign currency differences		**1,068**	37
Cash and cash equivalents at the end of the year		**107,764**	25,225

Consolidated Statement of Changes in Equity

	Share capital	Capital reserves	Treasury shares	Retained earnings	Exchange difference	Attributable to Group shareholders	Non-controlling interests	Total equity
	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000
1 January 2016	**18,716**	**22,652**	**–1,030**	**44,943**	**–12,505**	**72,776**	**0**	**72,776**
Net income / (loss)				–12,769		–12,769		–12,769
Other comprehensive income				200	–487	–287		–287
Total comprehensive income				–12,569	–487	–13,056		–13,056
Share-based payments				1,593		1,593		1,593
Issue of new shares (employees)	994	2,176				3,170		3,170
Purchase of treasury shares			–243			–243		–243
Allocation of treasury shares (employees)			370	–370		0		0
Capital increase	5,175	36,029				41,204		41,204
Dividends paid		–1,638				–1,638		–1,638
31 December 2016	**24,885**	**59,219**	**–903**	**33,597**	**–12,992**	**103,806**	**0**	**103,806**
Net income / (loss)				–36,238		–36,238	–27	–36,265
Other comprehensive income				–441	241	–200	104	–96
Total comprehensive income				–36,679	241	–36,438	77	–36,361
Share-based payments				3,199		3,199		3,199
Issue of new shares (employees)	1,303	621				1,924		1,924
Purchase of treasury shares			–383			–383		–383
Allocation of treasury shares (employees)			70	–70		0		0
Additions from obtaining control of BlueCare Ltd.						0	142	142
Capital increases IPO & Greenshoe	9,574	223,514				233,088		233,088
Transaction costs of capital increases		–11,192				–11,192		–11,192
31 December 2017	**35,762**	**272,162**	**–1,216**	**47**	**–12,751**	**294,004**	**219**	**294,223**

Notes to the Consolidated Financial Statements

1 General information

Zur Rose Group operates as an online mail-order pharmacy company and wholesale supplier to medical practitioners for medicine and pharmaceutical products. It also provides medicines management services. Sales are made directly to physicians who prescribe medicine themselves in addition to online mail-order pharmacies and private individuals. Further, Zur Rose operates stationary pharmacy shops.

Zur Rose Group AG (the “Company”), a stock corporation under Swiss law based at Seestrasse 119, 8266 Steckborn (Switzerland), is the parent of Zur Rose Group (the “Group”). The Company was established on 6 April 1993. The registered office of Group Management and the headquarters of business activities are based at Walzmühlestrasse 60, 8500 Frauenfeld (Switzerland).

The consolidated financial statements were authorised for issue by the Board of Directors on 19 March 2018 and are subject to approval of the Annual General Meeting on 24 May 2018.

Since 5 July 2017, the Company is listed on SIX Swiss Exchange – ISIN CH0042615283.

The values listed in the financial statements are rounded. If the calculations are performed with a higher numerical accuracy, small rounding differences can occur.

2 Accounting policies

2.1 Basis of preparation

The consolidated financial statements of Zur Rose Group have been prepared in accordance with International Financial Reporting standards (IFRS), as published by the International Accounting Standard Board (IASB).

The consolidated financial statements are prepared on a historical cost basis, with the exception of certain financial instruments measured at fair value.

The financial statements are presented in Swiss francs, and all values were rounded to the nearest thousand (CHF 1,000), unless specified otherwise.

2.2 Basis of consolidation

The consolidated financial statements include the financial statements of Zur Rose Group AG and its subsidiaries as at 31 December 2017.

An entity is included in consolidation when Zur Rose Group obtains control and deconsolidated upon loss of control.

The following companies were included in the group of consolidated companies of Zur Rose Group AG:

	Share capital		Share of capital	
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
	CHF 1,000	CHF 1,000	%	%
0800 DocMorris Ltd., London (GB)	**1**	1	**100.0**	100.0
ApDG Handels- und Dienstleistungsgesellschaft mbH	**28**	0	1) **100.0**	0.0
Bluecare AG, Winterthur (CH)	**1,288**	0	2) **78.9**	n.a.
Centropharm GmbH, Aachen (DE)	**30**	30	**100.0**	100.0
D&W Mailorder Service B.V., Heerlen (NL)	**22**	22	**100.0**	100.0
DocMorris Holding GmbH, Berlin (DE)	**6,085**	6,085	**100.0**	100.0
DocMorris Kommanditist B.V., Heerlen (NL)	**22**	22	**100.0**	100.0
DocMorris N.V., Heerlen (NL)	**60**	60	**100.0**	100.0
DVD Beteiligungs AG, Frauenfeld (CH)	**3,550**	3,550	**100.0**	100.0
Eurapon B.V., Heerlen (NL)	3) **0**	0	1) **100.0**	0.0
Eurapon Pharmahandel GmbH, Bremen (DE)	**28**	0	1) **100.0**	0.0
OPX Services AG, Frauenfeld (CH)	**100**	100	**100.0**	100.0
Tanimis B.V., Heerlen (NL)	**22**	22	**100.0**	100.0
Tanimis Pharma B.V., Heerlen (NL)	**22**	22	**100.0**	100.0
Tanimis Pharma C.V., Heerlen (NL)	**12**	12	**100.0**	100.0
VfG Cosmian s.r.o., Prague (CZ)	**12**	12	**100.0**	100.0
Vitalsana B.V., Heerlen (NL)	**20**	0	1) **100.0**	0.0
Zur Rose Pharma GmbH, Halle (DE)	**8,479**	8,479	**100.0**	100.0
Zur Rose Shop-In-Shop Apotheken AG, Frauenfeld (CH)	**100**	0	**100.0**	0.0
Zur Rose Suisse AG, Frauenfeld (CH)	**7,650**	7,650	**100.0**	100.0

1) Acquired on 29 December 2017, refer to Note 6
2) Consolidated since 5 May 2017 (previously a joint venture, refer to Note 6)
3) Share capital of EUR 1.00

All intragroup balances, transactions, unrealised gains and losses from intragroup transactions and dividends are eliminated in full. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

2.3 Summary of significant accounting policies

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at fair value at the acquisition date in addition to any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Transaction costs incurred are recognised in profit or loss and reported within other operating expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and prevailing conditions as at the acquisition date.

Goodwill is initially measured at cost, as the excess of the aggregate of the consideration transferred and the amount of non-controlling interests over the identifiable assets acquired and liabilities assumed by the Group. If the fair value of the net assets acquired exceeds the aggregate consideration transferred, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the cash-generating units of the Group that are expected to benefit from the business combination. This applies regardless of whether other assets or liabilities of the acquiree are assigned to these cash-generating units.

Investments in associates and joint ventures
The Group's investments in associates and joint ventures are accounted for using the equity method. An associate is an entity over which the Group has significant influence (generally a share of voting rights of 20 percent to 49.9 percent). A joint venture is a jointly controlled entity.

Using the equity method, investments in an associate or joint venture are recognised at cost in the balance sheet plus the Group's share of changes in the net assets of the associates and joint ventures since the acquisition date.

The consolidated income statement includes the Group's share in the result of the associate / joint venture. Changes recognised outside profit or loss of the associate / joint venture are proportionately recognised and presented in the Group's other comprehensive income, if applicable. Unrealised gains and losses resulting from transactions between the Group and the associate / joint venture are eliminated to the extent of the interest in the associate / joint venture.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on its investment in the associate / joint venture. At the end of each reporting period, the Group determines whether there is any objective evidence that the investment in the associate / joint venture is impaired. If this is the case, the difference between the recoverable amount of the investment in the associate / joint venture and its carrying amount is recognised as an impairment loss in profit or loss.

Currency translation
The Zur Rose Group operates mainly in Switzerland, Germany, the Netherlands and Austria . The Group's presentation currency is the Swiss franc. Each Group company determines its own functional currency, Foreign currency balances exist in the form of bank accounts, accounts receivable and payable and loans. Foreign currency transactions are converted into the functional currency at the monthly rate at the transaction date. Gains and losses from foreign currency transactions and the adjustment of monetary foreign currency assets and liabilities at the end of the reporting period are recognised in profit or loss.

The financial statements of Group companies in foreign currencies are translated into Swiss francs as follows:

— balance sheet at year-end exchange rates
— income statement and statement of comprehensive income at average rates for the year
— cash flow statement at average rates for the year

Exchange differences arising on translation are recognised in other comprehensive income.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of that foreign operation are treated as assets and liabilities of the foreign operation and translated at the year-end rate.

Exchange differences resulting from a monetary item that is part of the net investment in a foreign operation (e.g. long-term loans which are not expected or likely to be settled in the foreseeable future) are also recognised in other comprehensive income and, in the event of a sale or loss of control over the foreign operation, are reclassified from equity to profit or loss.

The following exchange rates were used for currencies:

	2017		2016	
Currency	Year-end rate	Average rate for the year	Year-end rate	Average rate for the year
EUR 1	**1.1693**	**1.1116**	1.0715	1.0898
CZK 1	**0.0458**	**0.0421**	0.0397	0.0403

Current and non-current classification
The Group presents its assets and liabilities in the balance sheet based on current and non-current classification. An asset is current when:

- It is expected to be realised or intended to be sold or consumed in the normal operating cycle,
- it is held primarily for the purpose of trading,
- it is expected to be realised within twelve months after the reporting period, or
- the asset is a cash or cash equivalent.

All other assets are classified as non-current. A liability is current when:

- It is expected to be settled in the normal operating cycle,
- it is held primarily for the purpose of trading,
- it is due to be settled within twelve months after the reporting period, or
- Zur Rose Group has no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Revenue recognition
Revenue is recognised to the extent that it is probable that the economic benefits will flow to Zur Rose Group and the amount of revenue can be determined reliably, regardless of when payment is made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually agreed payment terms.

The recognition criteria below must be met in order to recognise revenue:

Sale of goods
Revenue is recognised when the significant risks and rewards associated with the ownership of goods sold are transferred to the buyer. This is generally the case once goods have been dispatched.

Rendering of services
Revenue from the software provider services is recognised by reference to the stage of completion. Stage of completion is measured by reference to development hours for each contract.

Interest income
In the case of all interest-bearing financial assets, interest income is accounted for using the effective interest rate. Interest income is reported in finance income in the consolidated income statement.

Dividends
Revenue is recognised when the right to receive payment is established.

Rental income
Income arising from operating leases for real estate is accounted for on a straight-line basis over the lease team and reported in other income.

Taxes

Current income tax

Current tax assets and liabilities for current and prior periods are measured at the amount expected to be paid to or recovered from the tax authorities. The tax rates and tax laws used to calculate this amount are the ones that apply at the end of the reporting period in the countries where the Zur Rose Group operates and generates taxable income.

Current taxes relating to items recognised in other comprehensive income or directly in equity are also recognised in other comprehensive income or directly in equity.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is recognised using the liability method based on temporary differences between the carrying amount of an asset or liability on the balance sheet and the tax base at the end of the reporting period.

Deferred tax liabilities are recognised for all taxable temporary differences, with the exception of:

— Deferred tax liabilities arising from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the transaction date, affects neither accounting profit nor taxable profit or loss, and
— deferred tax liabilities arising from taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, unused tax loss carryforwards and unused tax credits to the extent that it is likely that taxable profit will be available against which the deductible temporary differences and unused tax loss carryforwards and tax credits can be used, with the exception of:

— Deferred tax assets arising from deductible temporary differences from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the transaction date, affects neither accounting profit nor taxable profit or loss, and
— deferred tax assets from deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures if it is probable that the temporary differences will not reverse in the foreseeable future or insufficient taxable profit will be available against which these temporary differences can be utilised.

The carrying amount of deferred tax assets is assessed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available against which all or part of the deferred tax asset can be utilised. Unrecognised deferred tax assets are assessed at the end of each reporting period and recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which an asset is realised or a liability is settled. Tax rates (and tax laws) that have been enacted or substantively enacted at the end of the reporting period are applied.

Deferred tax relating to items recognised in other comprehensive income or directly in equity are also recognised in other comprehensive income or directly in equity.

VAT

Revenue, expenses and assets are recognised net of VAT. The amount of VAT recoverable from or payable to taxation authorities is recognised in other receivables or other payables.

Property, plant and equipment
Property, plant and equipment are measured at cost less accumulated depreciation.

Cost includes the purchase price, customs, non-refundable taxes and levies in addition to directly attributable costs. Expenses for maintenance and repair are recognised in profit or loss when incurred.

Depreciation is charged to profit or loss using the straight-line or diminishing balance methods over the estimated useful lives as follows:

Asset category	Useful life	Method
Interior finishes	5 years	Straight-line
Equipment	3–7 years	Straight-line
Office furnishings	3–5 years	Straight-line
Shop furnishings	5–10 years	Straight-line
IT systems	3–5 years	Straight-line
Vehicles	5 years	Diminishing balance method
Real estate	33 years	Straight-line

Gains or losses from the disposal of property, plant and equipment are included in other operating income or expenses.

Leases
Property, plant and equipment acquired under leases which substantially transfer the risks and rewards of ownership to the Group are classified as finance leases. The fair value of the leased asset or the lower present value of minimum lease payments is recognised as fixed assets and a corresponding lease liability. Finance lease assets are depreciated over their estimated useful lives.

All other leases are treated as operating leases and the expense is recognised on a straight-line basis over the lease term.

Intangible assets
Intangible assets that are not acquired as part of a business combination are initially measured at cost. The cost of intangible assets acquired in a business combination corresponds to their fair value at the acquisition date. In subsequent periods, intangible assets are reported at cost less accumulated amortisation and accumulated impairment. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite useful lives are amortised on a straight-line basis over their estimated useful lives and tested for impairment if there is any indication that the intangible asset may be impaired. The amortisation period and the amortisation method for intangible assets with finite useful lives are reviewed at the end of each reporting period. Changes to the amortisation method or amortisation period due to changes in the expected useful life or expected consumption of the future economic benefits of the asset are treated as changes in estimates.

Intangible assets with indefinite useful lives are not amortised but tested for impairment at least once a year, either individually or at the level of the cash-generating unit. The assessment of indefinite life is reviewed annually.

Gains or losses arising from the derecognition of intangible assets are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period in which the asset is derecognised.

The useful lives for the intangible assets of the Zur Rose Group can be summarised as follows:

Asset category	Useful life
Software	3–5 years
ERP system	5–10 years
Customer relationship	10 years
Trademarks	Indefinite or 3-5 years

Impairment of non-financial assets
At the end of each reporting period, Zur Rose Group determines whether there is any indication that a nonfinancial asset is impaired. If there is any indication of this, or when annual impairment testing for an asset is required, the Group estimates the recoverable amount of the respective asset or cash generating unit (CGU). The recoverable amount of an asset is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for each individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is impaired and written down to its recoverable amount. To determine the value in use, the expected future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In order to determine fair value less costs of disposal, an appropriate measurement model is used.

Goodwill is tested for impairment at the level of the CGU to which it has been allocated annually at 31 December and whenever circumstances indicate that the value might be impaired. If the recoverable amount of the CGU is lower than its carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill cannot be reversed in subsequent periods.

Financial assets
Financial assets are classified at initial recognition as either financial assets at fair value through profit or loss, loans and receivables, or as derivatives designated as effective hedging instruments. All financial assets are recognised initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

The Group's financial assets include cash and short-term deposits, trade receivables and receivables from loans and other receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, such financial assets are measured at amortised cost using the effective interest rate method less any impairments. Amortised cost is calculated taking into account any premium or discount upon acquisition in addition to fees or costs that are an integral part of the effective interest rate. Income from financial assets using the effective interest rate method is included in finance income.

Impairment of financial assets
At the end of each reporting period, the Zur Rose Group determines whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is considered impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event'), and that this loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or group of debtors is experiencing significant financial difficulty, default, or delays in interest or principal payments.

Financial assets carried at amortised cost
As regards outstanding amounts arising from receivables from customers measured at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually

assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The asset's carrying amount is reduced using an allowance account and the impairment loss is recognised in profit or loss. Receivables and associated allowances are derecognised when the receivables are considered uncollectible and all collateral has been used. If the amount of an estimated impairment loss increases or decreases in a subsequent reporting period due to an event occurring after the impairment was first recognised, the previously recognised impairment loss is increased or decreased in profit or loss by adjusting the allowance account.

Financial liabilities
Initial recognition and measurement
Financial liabilities are either classified as financial liabilities at fair value through profit or loss or as loans and borrowings at amortised cost. The Zur Rose Group initially classifies its financial liabilities at initial recognition, and in the case of loans and borrowings recognises directly attributable transaction costs in the carrying amount.

The Group's financial liabilities include trade payables and other liabilities, bank overdrafts, loans, bonds and derivative financial instruments.

Subsequent measurement
The subsequent measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings
After initial recognition, loans and borrowings are measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when liabilities are derecognised and as part of amortisation using the effective interest rate method. Amortised costs are calculated while taking into account a premium or discount upon acquisition in addition to fees or costs that are an integral part of the effective interest rate. Amortisation using the effective interest rate method is included in finance expenses.

Derecognition
A financial liability is derecognised when the underlying obligation is discharged, cancelled, or expired.

Fair value of financial instruments
The fair value of financial instruments traded on active markets is determined using the quoted market price or publicly quoted price (bid price quoted by the buyer in a long position and ask price in a short position) at the end of the reporting period without deducting transaction costs.

The fair value of financial instruments that are not traded on active markets is determined using suitable measurement methods. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing and independent parties, with reference to the current fair value of another instrument that is substantially the same, using discounted cash flow methods and other measurement models.

Inventories
Inventories include goods purchased and held for resale only and are measured at cost or the lower net realizable value.

The lower net realizable value corresponds to the expected selling price within normal business activities less expected costs of disposal.

Goods that cannot be sold anymore are written down in full.

Cash and cash equivalents
Cash and cash equivalents include cash on hand and cash at banks in addition to fixed-term deposits with a maturity of no more than three months. These are reported at nominal value.

Treasury shares
When the Zur Rose Group acquires treasury shares, these are recognised at cost and deducted from equity. The purchase, sale, issue, or cancellation of treasury shares are recognised outside profit or loss. Any differences between the carrying amount and the consideration received is recognised directly in equity.

Provisions
Provisions are recognised only if Zur Rose Group has a legal or constructive obligation towards third parties as a result of a past event, if the obligation can be reliably estimated and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. If the period until payment is significant, the present value of the payment is determined.

Restructuring provisions are recognised only if there is a detailed formal plan, the associated costs can be determined reliably and a valid expectation has been raised in those affected either as a result of communication or implementation of the plan.

Pension assets and liabilities
Contributions to defined contribution plans are recognised in personnel expense on an accrual basis.

For defined benefit plans, the obligation is determined every year by external experts using the projected unit credit method taking into account the plan benefits, employees' years of service, assumptions regarding discount rates and salary development and the probability of retirement or death, etc.

The present value of the defined benefit obligation (DBO) is compared with the fair value of the plan assets for funded plans and recognised as a net pension liability or net pension asset. A surplus is recognised only to the extent that Zur Rose Group is entitled to future benefits in the form of future contribution reductions or refunds.

The pension costs of defined benefit plans are recognised as follows:

- Service cost (current and past from plan amendments): recognised in personnel expenses in profit or loss,
- Net interest on net pension liability/asset: recognised in finance expenses in profit or loss,
- Actuarial gains and losses from the remeasurement of the pension obligation and return on plan assets (less interest income recognised in profit or loss) and the effects from a potential asset ceiling are immediately recognised in other comprehensive income.

2.4 Changes in accounting policies

Introduction of amended or new IFRS and new interpretations
The accounting principles are consistent with those applied in the previous financial year, with the exception of new and amended International Financial Reporting Standards (IFRS) and interpretations of the International Financial Reporting Interpretations Committee (IFRIC), which have become effective on 1 January 2017.

With the exception of the amendment to IAS 7 – Statement of Cash Flows: Disclosure Initiative that has resulted in additional disclosures, refers to Note 24, none of the changes has had an impact on these consolidated financial statements.

3 Significant judgements, estimates and assumptions

In preparing these financial statement management has made judgements in applying accounting policies as well as estimates and assumptions regarding the future that affect the carrying amounts of reported assets and liabilities and may result in adjustments in future reporting periods. Such estimates and assumptions are based on experience and other factors, considered to be reasonable in the circumstances. By their very nature, estimates will differ from to actual outcomes. Areas with key assumptions concerning the future and other sources of estimation uncertainty are:

Impairment testing for goodwill and indefinite life intangibles
Every year, the Group tests goodwill (carrying amount TCHF 79,295) and its other indefinite life intangibles (carrying amount TCHF 20,866 for impairment. See Note 21 for a description of the significant assumptions and uncertainties.

Contingent consideration (earn-out) arrangements
A significant portion of the consideration for Eurapon Pharmahandel GmbH acquired on 29 December 2017 is comprised of an earn-out arrangement that will result in payments to be made in 2018 to 2020. Zur Rose has determined the fair value of the contingent consideration liability of CHF 19.4 million (or EUR 16.6 million) using estimates of future revenues, costs and results as well as discount rates and quality of customer portfolio. Changes in the fair value of the liability recognised on acquisition and differences to the actual payments will be recognised in profit or loss. Refer to Note 6 for further details.

Pension obligations
Pension assets and liabilities are calculated in accordance with IAS 19 on the basis of assumptions, such as the discount rate, salary increases and mortality assumptions. These assumptions are assessed and adjusted on an annual basis. Changes in assumptions can have a significant impact on the amount of pension assets and liabilities and amounts recognised in other comprehensive income, which are to be reported in future periods. See Note 29.

Deferred tax assets
Deferred tax assets are recognised for all tax loss carryforwards that can be utilised to the extent that it is probable that taxable profit will be available against which the tax loss carryforwards can be utilised. Significant management judgement is required to determine the amount of deferred tax assets, based on the expected timing and amount of future taxable profits and future tax planning strategies. Further information can be found in Note 23.

4 Standards issued but not yet effective

The IASB has published new standards and interpretations as well amendments to standards and interpretations before the publication date of these consolidated financial statements. The Group intends to adopt the following amendments when they become effective. Changes potentially relevant for the Group are:

- IFRS 2 – Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2 (effective date: 1 January 2018)
- IFRS 15 – Revenue from Contracts with Customers (effective date: 1 January 2018)
- IFRS 16 – Leases (effective date: 1 January 2019)
- IFRIC 22 – Foreign Currency Transactions and Advance Consideration (effective date: 1 January 2018)
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (effective date 1 January 2019)
- Annual Improvements 2016–2018 Cycle (effective date 1 January 2018)

The impact of these changes on Zur Rose Group's accounting policies are being assessed. Apart from the changes presented below, Zur Rose Group does not currently anticipate any material effects on the consolidated financial statements.

IFRS 15 – Revenue from Contracts with Customers
In April 2016, the International Accounting Standards Board issued amendments to IFRS 15 Revenue from Contracts with Customers. The Zur Rose Group will introduce the standard on 1 January 2018. The core principle of IFRS 15 is that an entity shall recognize revenue in an amount that reflects the consideration the entity can expect to receive in exchange for transferring goods or services to a customer. Revenue is recognized when the customer obtains control of the goods or services. IFRS 15 also contains guidance on the presentation of contract balances. The standard requires additional disclosures, including on the breakdown of total revenue, performance obligations, reconciliations of the opening and closing balances of the net contract assets and liabilities as well as on judgments and estimates. The adoption of IFRS 15 is not expected to have a significant impact on the Zur Rose Group's consolidated financial statements.

IFRS 16 – Leases
IFRS 16 includes a single lessee accounting model. As a result, lessees are no longer required to distinguish between finance and operating leases. Lessees recognise liabilities for future lease payments in their balance sheet in addition to a right-of-use asset. Analysis of the Group's lease arrangements and the impact of the new standard is ongoing. Zur Rose Group expects IFRS 16 to have a material impact on the consolidated financial statements. Refer to Note 31 for a summary of the unrecognized operating lease commitments. Initial impact analyses and a summary of current leases have already been prepared and documented at single-entity level. The analysis of the estimated impact on the Group is ongoing. The adoption of IFRS 16 is planned for 1 January 2019.

5 Operating segments

Zur Rose Group changed its organisational und management structure in the first quarter 2017 to geographic markets as Zur Rose Group's priority is to increase sales and further develop the market position in each country in which the Group is active, regardless of the brands used, to operate more efficiently and to better align the organisational and management structure to the regulatory environment in each country. Switzerland and Germany have been identified as the new operating segments (previously brands Zur Rose and DocMorris). The prior year segment information has been restated accordingly. The operating results of these segments are individually monitored by Group Management in order to reach decisions on the allocation of resources and assess their performance. Financing is managed centrally by the Group and not allocated to the operating segments.

Performance is measured based on EBITDA as included in the internal financial reports reviewed by the Group Management. EBITDA is defined as Earnings before interest, taxes, depreciation and amortisation. The EBITDA earned by each segment is considerated an adequate measure of operating performance of segments reported to the Group Management for the purposes of resource allocation and performance assessment. Assets and liabilities are not allocated to operating segments in the management reports.

The results of the newly consolidated subsidiary BlueCare Ltd. were reported as part of "Corporate" in the half year report 2017. In the second half 2017, the internal reporting was changed and BlueCare Ltd. is now reported as part of the operating segment Switzerland for the entire period since the Group obtained control in May 2017.

Reporting as per 31 December 2017		Switzerland	Germany	Corporate	Eliminations	Group
	Notes	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000
Income statement						
Net revenue with external customers		499,750	483,171	0	0	982,921
Revenue with other segments		284	0	0	–284	0
Total net revenue		**500,034**	**483,171**	**0**	**–284**	**982,921**
EBITDA		**12,048**	**–21,643**	**–11,599**	**0**	**–21,194**
Depreciation and amortisation	20|21	–4,432	–6,662	–1,015	0	–12,109
Impairment losses	20|21	–4,261	–750			–5,011
EBIT		**3,355**	**–29,055**	**–12,614**	**0**	**–38,314**
Investments	20|21	19,723	73,847	658		94,228

Reporting as per 31 December 2016		Switzerland	Germany	Corporate	Eliminations	Group
restated	Notes	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000
Income statement						
Net revenue with external customers		470,333	409,202	0	0	879,535
Total net revenue		**470,333**	**409,202**	**0**	**0**	**879,535**
EBITDA		**10,168**	**–3,221**	**–4,823**	**0**	**2,124**
Depreciation and amortisation	20|21	–1,930	–6,274	–1,010		–9,214
EBIT		**8,238**	**–9,495**	**–5,833**	**0**	**–7,090**
Investments	20|21	13,222	5,464	307	0	18,993

Net revenue by customer location	Switzerland	Germany	Other	Group
	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000
2017	**499,750**	**483,171**	**0**	**982,921**
2016	470,333	409,201	1	879,535

Property, plant and equipment and intangible assets by registered location of statutory company	Switzerland	Netherlands	Germany	Group
	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000
2017	**65,092**	**28,960**	**79,364**	**173,416**
2016	54,482	24,747	10,107	89,336

6 Change in Consolidation Scope

Provisional fair values	BlueCare CHF 1,000	Eurapon CHF 1,000	Vitalsana CHF 1,000
Cash and cash equivalents	489	90	1,102
Other current assets	1,491	142	1,640
Non-current financial assets	541	–	–
Inventory	0	6,042	3,119
Property, plant and equipment	328	634	58
Intangible assets	2,493	3,737	1,547
Deferred tax assets	515	257	–
Total assets	**5,857**	**10,903**	**7,467**
Short-term liabilities	1,170	885	4,118
Non-current financial liabilities	550	–	–
Pension obligations	3,004	–	–
Deferred tax liabilities	234	1,158	339
Provisions	123	–	–
Total liabilities	**5,081**	**2,043**	**4,456**
Net assets acquired	**776**	**8,860**	**3,011**
Goodwill	**3,776**	**45,654**	**18,530**
Fair value of purchase consideration	–	54,513	21,541
Fair value of previously held interest	2,910	–	–
Effective settlement of pre-existing relationships	1,500	–	–
Non-controlling interests	142	–	–
Total consideration	**4,552**	**54,513**	**21,541**
less contingent consideration liabilities	0	19,435	–
less deferred consideration liabilities	0	14,054	–
less cash acquired	489	90	1,102
less pre-existing interest and relationships	4,552	–	–
Cash inflow / (outflow) from acquisition of subsidiaries	489	–20,935	–20,439

Up to twelve months from the effective date of these acquisitions, adjustments may be made to the fair values assigned to the identifiable assets acquired and liabilities assumed as well as to the consideration transferred to reflect new information about facts and circumstances that existed as of the acquisition date.

The scope of consolidation has changed in 2017 as a result of the following transactions:

BlueCare Ltd.
On 5 May 2017, Zur Rose Group obtained control over BlueCare Ltd., based in Winterthur (CH), following a change in the contractual agreements with another shareholder of BlueCare Ltd. Zur Rose Group has owned 78.9 percent of BlueCare Ltd. since 2015 and has accounted for the investment as a joint venture since then. The transaction represents a business combination achieved in stages and has resulted in the remeasurement of the previously held equity interests to fair value and the effective settlement of pre-existing loan receivables from BlueCare Ltd. of CHF 1.5 million. The carrying amount of BlueCare Ltd. amounted to CHF 2.7 million at 5 May 2017 and the remeasurement gain of CHF 0.2 million to its

acquisition date fair value of CHF 2.9 million has been included in the line “share of results of joint ventures”.

Taking into account treasury shares held by BlueCare Ltd., Zur Rose Group effectively owns an economic interest of 81.68 percent in BlueCare’s net assets. The non-controlling interests of 18.32 percent have been determined as the proportionate share of net assets acquired.

Goodwill reflects the skills of the workforce in software development as well as expected synergies. The goodwill remains provisional and has been allocated in the segment Switzerland.

Eurapon
On 29 December 2017, Zur Rose Group acquired 100 percent of the issued share capital and control of Eurapon Pharmahandel GmbH (Eurapon) through its fully-owned subsidiary DocMorris Holding GmbH. Eurapon, based in Bremen (DE), is a service provider in the distribution of pharmaceuticals and beauty products. The company operates the mail-order business from the Netherlands and supplies mainly the German market. The provisional consideration amounting to CHF 54.5 million includes a cash payment of CHF 21.0 million paid in 2017, deferred consideration of CHF 14.1 million (of which CHF 0.6 million payable at 30 June 2018 and CHF 13.5 million payable in 2020) and the fair value of a contingent earn-out component of CHF 19.4 million. The agreed consideration is subject to working capital adjustments and may change during the measurement period.

The earn-out component depends on two components: on the one hand, the turnover increases compared to the previous year and, on the other hand, how the number of new and existing customers has developed. The contract does not specify a maximum amount.

The fair values have been determined provisionally given the recent acquisition date. The goodwill of CHF 45.7 million has been allocated to the segment Germany and corresponds to the added value based on the acquirer-specific synergies expected to arise from the acquisition, the growth in market share and the employees gained through this acquisition. DocMorris will enlarge its market share in the web-based pharmaceutical market. Transaction costs of CHF 1.8 million were recognised in other operating costs.

Vitalsana
On 29 December 2017, Zur Rose Group acquired 100 percent of the issued share capital and control of Vitalsana B.V. as well as the provider ApDG Handels- und Dienstleistungsgesellschaft mbH (Vitalsana) through its subsidiary DocMorris Holding GmbH. Vitalsana is based in Heerlen (NL). Vitalsana primarily generates the revenues with over-the-counter medications through its mail-order pharmacy.

The purchase consideration amounted to CHF 21.5 million in cash. The fair values have been determined provisionally given the recent acquisition date. The agreed consideration is subject to working capital adjustments and may change during the measurement period. The provisional goodwill of CHF 18.5 million has been allocated to the segment Germany. The goodwill corresponds to the added value based on the acquirer-specific synergies expected to arise from the acquisition, the growth in market share and the employees gained. Due to the purchase of Vitalsana DocMorris can expand its market share in the mail-order pharmacy market. Transaction costs of CHF 1.2 million were recognised in other operating costs.

7 Other operating income	2017	2016
	CHF 1,000	CHF 1,000
Rental income	**441**	435
Market development funds	**7,527**	4,296
Other income	**1,772**	669
	9,740	5,400

8 Cost of goods	2017	2016
	CHF 1,000	CHF 1,000
Goods purchased and held for resale	**–833,320**	–745,887
Packaging materials	**–1,898**	–1,576
Inventory impairment	**–1,125**	–145
	–836,343	–747,608

9 Personnel expenses	2017	2016
	CHF 1,000	CHF 1,000
Wages and salaries	**–57,996**	–44,868
Pension expenses	**–2,478**	–2,101
Other social security benefits	**–9,609**	–7,149
Other personnel expenses	**–8,256**	–6,048
	–78,339	–60,166

Increase of personnel expenses in 2017 is mainly due to the revenue growth. Other personnel expenses mainly comprise temporary employment in the logistic centre in Heerlen (NL).

10 Other operating expenses	2017	2016
	CHF 1,000	CHF 1,000
Distribution expenses	**–26,552**	–22,659
Office and administrative expenses	**–27,436**	–21,501
Advertising and acquisition expenses	**–33,666**	–22,212
Office rentals	**–4,208**	–3,576
Other operating expenses	**–7,311**	–5,089
	–99,173	–75,037

IPO related costs totalled CHF 17,911 thousand, of which CHF 6,715 thousand have been recognised within other operating expenses in 2017 and CHF 11,192 thousand have been deducted from equity.

The increase in advertising and acquisition expenses is mainly attributable to DocMorris' TV campaign in Germany and the transaction costs incurred in connection with the acquisition of subsidiaries as stated in Note 6.

11 Share of results of joint ventures	2017	2016
	CHF 1,000	CHF 1,000
Joint Ventures	**134**	–630
	134	–630

Additional information can be found in Note 19.

12 Financial result

	2017	2016
	CHF 1,000	CHF 1,000
Finance income		
Interest income	**0**	13
Interest income from joint ventures	**12**	23
Income from securities	**144**	2
Foreign exchange gains, net	**4,275**	0
	4,431	38
Finance expenses		
Interest expenses	**–2,296**	–2,481
Bank charges and fees	**–422**	–418
Loss on derivative financial instruments	**0**	–1,600
Losses from securities	**–39**	0
Foreign exchange losses, net	**0**	–404
Impairment of loans made to third parties	**0**	–131
	–2,757	–5,034
Financial result (net)	**1,674**	–4,996

In 2016 the Group had written a call option in connection with the capital increase by Corisol which was accounted for as derivative financial instrument between June 2016 and November 2016, resulting in a non-cash financial expense of CHF 1,600 thousand.

13 Income tax income / (expense)

	2017	2016
	CHF 1,000	CHF 1,000
Current income tax of the current period	**–1,095**	–203
Deferred income tax	**1,336**	150
	241	–53

Analysis of tax expenses

	2017	2016
	CHF 1,000	CHF 1,000
Earnings before taxes (EBT)	**–36,506**	–12,716
Tax rate of the operating Swiss company	**16.4%**	16.8%
Expected income / expenses from income tax	**5,987**	2,132
Effect of unrecognised tax losses	**–9,035**	–2,796
Effect of tax losses not recognised in prior periods	**3,992**	1,262
Effect of non-deductible expenses and income	**–916**	–455
Effect of higher tax rates at foreign subsidiaries	**–49**	–66
Other effects	**262**	–130
	241	–53

Additional information on deferred taxes can be found in Note 23.

14 Cash and cash equivalents

	31.12.2017	31.12.2016
	CHF 1,000	CHF 1,000
CHF	**77,997**	17,448
EUR	**29,730**	7,663
CZK	**37**	114
	107,764	25,225

Cash at banks bears variable interest rates based on daily bank deposit rates. Short-term deposits are made for various periods of between one day and three months, depending on cash requirements. Short-term deposits earn interest at the respective short-term deposit rates.

15 Trade receivables

	31.12.2017	31.12.2016
	CHF 1,000	CHF 1,000
From third parties	**85,509**	73,055
From joint ventures	**62**	7
Bad debt allowance	**–1,492**	–1,683
	84,079	71,379

Due to its diversified customer base, there are no significant concentrations of credit risk. Most payments are made by direct debit and are thus generally recoverable before their due date.

The age structure of trade receivables consists of the following:

	31.12.2017	31.12.2016
	CHF 1,000	CHF 1,000
Total receivables	**85,509**	73,055
Neither past due nor impaired at the end of the reporting period	**70,384**	62,746
That are past due - but not impaired		
Less than 30 days	**13,217**	6,642
Between 31 and 60 days	**1,400**	1,309
Between 61 and 90 days	**132**	442
Between 91 and 180 days	**146**	334
Between 181 and 360 days	**54**	1,427
More than 360 days	**176**	155

In the case of trade receivables that are neither past due nor impaired at the end of the reporting period, there are no indications that debtors will not meet their payment obligations.

Impairments of trade receivables (bad debt allowance) developed as follows:

Bad debt allowance	**2017**	**2016**
	CHF 1,000	CHF 1,000
Bad debt allowance as at 1 January	**–1,683**	–2,028
Additions	**–734**	–129
Utilisation	**1,060**	505
Reversals	**117**	40
Exchange differences	**–252**	–71
Bad debt allowance as at 31 December	**–1,492**	–1,683

16 Prepaid expenses

	31.12.2017	**31.12.2016**
	CHF 1,000	CHF 1,000
Unbilled receivables	**4,722**	1,108
Prepaid expenses	**2,773**	2,633
Marketing expenses	**2,730**	2,218
Other	**0**	12
	10,226	5,971

Due to the sales increase, the reimbursement of suppliers increased in position Unbilled receivables. The increase in marketing expenses is mainly attributable to DocMorris' TV campaign in Germany.

17 Other receivables

	31.12.2017	**31.12.2016**
	CHF 1,000	CHF 1,000
Payments on account and creditors with debit balances	**2,038**	1,493
VAT	**9,291**	6,845
Security deposits	**73**	7
Other	**112**	292
	11,514	8,637

18 Inventories

	31.12.2017	**31.12.2016**
	CHF 1,000	CHF 1,000
Goods purchased and held for resale	**58,907**	48,610
Inventory allowance	**–335**	–333
	58,572	48,277

19 Investments in joint ventures

The following companies were accounted for using the equity method in the consolidated financial statements of Zur Rose Group AG:

		Carrying amount		Share of capital
	31.12.2017	**31.12.2016**	**31.12.2017**	**31.12.2016**
Joint Ventures	CHF 1,000	CHF 1,000	%	%
BlueCare AG, Winterthur (CH) [1)]	–	2,954	–	78.9
ehealth-tec GmbH, Berlin (DE)	**0**	0	**50.0**	50.0
König Gesellschaft für Image- und Dokumentenverarbeitung mbH, Gottmadingen (DE)	**460**	392	**50.0**	50.0
König IT-Systeme GmbH, Gottmadingen (DE)	**459**	391	**50.0**	50.0
PolyRose AG, Frauenfeld (CH)	**93**	177	**50.0**	50.0
Investments in joint ventures	**1,012**	3,914	**–**	–

1) Consolidated since 5 May 2017

BlueCare Ltd. is a service provider supporting physician networks and associations developing professional organisational structures.

ehealth-tec GmbH is an IT company that was established in the previous year. The company develops solutions to generate, transfer and store electronic services for the healthcare sector in a secure way.

In the year 2016, 50 percent of the König entities were acquired by Zur Rose Group Ltd. These companies offer a comprehensive service to mail-order pharmacies for all matters related to prescription accounting.

PolyRose Ltd. is a logistics company specialised in the transportation of pharmaceutical products.

20 Property, plant and equipment

	Real estate	Interior finishes and equipment	Office and shop furnishings and IT systems	Vehicles	Total
	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000
Cost					
1 January 2016	**21,734**	**22,330**	**20,689**	**782**	**65,535**
Additions	154	2,287	949	2	3,392
Exchange differences	–51	–141	–51	0	–243
31 December 2016	**21,837**	**24,476**	**21,587**	**784**	**68,684**
Additions	1) 154	2) 3,691	3) 1,671	128	5,644
Disposals	0	–32	0	–126	–158
Additions from acquisition of subsidiaries	0	992	28	0	1,020
Exchange differences	457	1,273	472	9	2,211
31 December 2017	**22,448**	**30,400**	**23,758**	**795**	**77,401**
Accumulated depreciation and impairment					
1 January 2016	**8,034**	**17,391**	**13,222**	**699**	**39,346**
Additions	567	1,686	967	28	3,248
Exchange differences	–16	–59	–50	–1	–126
31 December 2016	**8,585**	**19,018**	**14,139**	**726**	**42,468**
Additions	603	2,109	1,099	36	3,847
Impairment losses		395	23	9	427
Disposals	0	0	0	–97	–97
Exchange differences	154	478	430	9	1,071
31 December 2017	**9,342**	**22,000**	**15,691**	**683**	**47,716**
Net carrying amount as at					
31 December 2016	13,252	5,458	7,448	58	26,216
31 December 2017	**13,106**	**8,400**	**8,067**	**112**	**29,685**

1) Of which CHF 63 thousand of additions yet to be paid
2) Of which CHF 282 thousand of additions yet to be paid
3) Of which CHF 591 thousand of additions yet to be paid

With the exception of the properties in Frauenfeld and Steckborn with a carrying amount of CHF 17,193 thousand (previous year: CHF 17,509 thousand), no property, plant and equipment was pledged as at 31 December 2017. Information on the financial lease can be found in Note 24.

21 Intangible assets

	Goodwill	Software and development costs	Trademarks, customers	Total
	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000
Cost				
1 January 2016	**27,286**	**57,428**	**26,656**	**111,370**
Additions	0	15,438	163	15,601
Exchange differences	–208	–531	–60	–799
31 December 2016	**27,078**	**72,335**	**26,759**	**126,172**
Additions	58	[1] 15,255	0	15,313
Additions from acquisition of subsidiaries	67,960	1,991	5,786	75,737
Exchange differences	3,308	4,692	771	8,771
31 December 2017	**98,404**	**94,273**	**33,316**	**225,993**
Accumulated amortisation and impairment				
1 January 2016	**16,825**	**36,414**	**4,415**	**57,654**
Additions	0	5,551	415	5,966
Exchange differences	–152	–369	–47	–568
31 December 2016	**16,673**	**41,596**	**4,783**	**63,052**
Additions	0	7,964	298	8,262
Impairment losses	0	[2] 4,584	0	4,584
Exchange differences	2,436	3,288	640	6,364
31 December 2017	**19,109**	**57,432**	**5,721**	**82,262**
Net carrying amount as at				
31 December 2016	10,405	30,739	21,976	63,120
31 December 2017	**79,295**	**36,841**	[3] **27,595**	**143,731**

1) Of which CHF 1,821 thousand of additions yet to be paid
2) Costs for new set up of ERP-System implementation in Segment Switzerland due to change of service provider
3) Of which CHF 20,323 thousand for the DocMorris trademark with an indefinite useful life (previous year CHF 20,323 thousand) and CHF 543 thousand for the BlueCare trademark with an indefinite useful life (previous year: CHF 0).

Impairment testing of intangible assets with indefinite useful lives
Zur Rose Group performed its annual impairment test in December 2017 and 2016. For impairment testing the intangible assets and goodwill acquired through business combinations and trademarks with indefinite useful lives are allocated to the following cash-generating units (CGUs) Switzerland and Germany which are also the operating and reportable segments from Zur Rose Group.

Cash-generating units and intangibles	Switzerland		Germany	
	2017	2016	2017	2016
	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000
Goodwill	**8,111**	4,335	**71,184**	6,070
Trademarks	**543**	0	**20,323**	20,323
	8,654	**4,335**	**91,507**	**26,393**

The recoverable amounts have been determined based on a value in use calculation using cash flow projections from financial business plan.

The tables below illustrate the discount rates before taxes, the growth rate used for cash flows after the five-year period and the EBITDA margin for residual value.

Discount rates	2017	2016
	%	%
Switzerland	**7.6**	8.5
Germany	**9.4**	10.4
DocMorris trademark	**9.5**	9.8

Growth rate	2017	2016
	%	%
Switzerland	**1.0**	1.0
Germany	**1.0**	1.0
DocMorris trademark	**1.0**	1.0

EBITDA margins for residual value	2017	2016
	%	%
Switzerland	**4.1**	4.3
Germany	**6.7**	4.4
DocMorris trademark	**7.1**	6.4

Assumptions to determine the value in use
The following assumptions underlying the determination of the value in use are subject to estimation uncertainty:

— development of revenue
— EBITDA margins
— discount rates
— Growth rate used to extrapolate cash flow forecasts outside the budget period.

Revenue development – The revenue development of the CGUs is based on detailed marketing plans from the individual market segments for the budgeted year 2018. On this basis, projections were used by management while taking into account market forecasts and the competitive situation. The underlying revenue development is based on multi-year planning approved by the Board of Directors.

EBITDA margins – EBITDA margins are determined using average figures achieved in three previous financial years before the beginning of the budget period. During the budget period, EBITDA margins are adjusted for expected price and margin changes that are mainly due to political decisions or market developments.

Discount rates – Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rates are specific to the operating segments and are derived from the Group's weighted average cost of capital (WACC).

Estimates of growth rates – Growth rates are based on published industry-related market research and management's estimates.

Sensitivity of assumptions – Management has performed a sensitivity analysis and considers that no reasonably possible changes in one of the underlying assumptions for the CGU Switzerland, the CGU Germany and the DocMorris trademark would result in the carrying amount significantly exceeding the recoverable amount.

22 Non-current financial assets

	31.12.2017	**31.12.2016**
	CHF 1,000	CHF 1,000
Equity securities	**439**	50
Loans granted	**542**	1,784
	981	1,834

Zur Rose Group has equity securities, which includes six different investments.

The loans includes a loan made to Polyrose AG of CHF 100 thousand (previous year: CHF 100 thousand), a loan made to ehealth-tec GmbH of CHF 354 thousand (previous year: CHF 292 thousand) and to employees of CHF 88 thousand (previous year: CHF 231 thousand).

23 Deferred tax

		Balance sheet		Income statement
Net carrying amounts	**31.12.2017**	**31.12.2016**	**2017**	**2016**
	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000
Deferred tax due to temporary differences				
Deferred tax assets				
Non-current assets	**1,798**	1,507	**–7**	1,281
Pension obligations	**2,117**	1,427	**97**	108
Tax loss carryforwards	**5,109**	3,861	**1,248**	–1,320
	9,024	6,795	**1,338**	69
Deferred tax liabilities				
Intangible assets	**–3,248**	–1,507	**–1**	79
Net deferred tax asset	**5,776**	5,288		
Exchange differences			**–1**	2
Deferred tax expense (income)			**1,336**	150

Deferred tax reported on the balance sheet	**31.12.2017**	**31.12.2016**
	CHF 1,000	CHF 1,000
Deferred tax assets	**9,024**	6,795
Deferred tax liabilities	**–3,248**	–1,507
	5,776	5,288

Movement of deferred tax	**2017**	**2016**
	CHF 1,000	CHF 1,000
1 January	**5,288**	5,118
Recognition / reversal of deferred tax in income statement	**1,336**	150
Recognition / reversal of deferred tax in other comprehensive income	**57**	22
Additions from acquisition of subsidiaries	**–959**	0
Exchange differences	**54**	–2
31 December	**5,776**	5,288

Unrecognised deferred tax assets
Deferred tax assets, including on loss carryforwards that can be used for tax purposes and expected tax credits, are recognised only if it is probable that future taxable profits will be available, against which the tax losses or credits can be used for tax purposes. Zur Rose Suisse AG has sustained profits in recent years, which is why it is considered probable that capitalised loss carryforwards, which are based on non-recurring impairments, can be used with future results.

Tax loss carryforwards	**31.12.2017**	**31.12.2016**
	CHF 1,000	CHF 1,000
Total tax loss carryforwards	**191,576**	136,733
Of which loss carryforwards recognised in deferred income tax	**31,150**	23,400
Unrecognised tax loss carryforwards (total)	**160,426**	113,333

Deferred tax assets from loss carryforwards changed as follows:

Movement in tax assets from loss carryforwards	**2017**	**2016**
	CHF 1,000	CHF 1,000
1 January	**3,861**	5,181
Recognition of deferred tax assets from loss carryforwards	**1,248**	0
Use of deferred tax assets from loss carryforwards	**0**	–1,320
31 December	**5,109**	3,861

	31.12.2017	31.12.2016
	CHF 1,000	CHF 1,000
Unrecognised loss carryforwards expire as follows:		
Within a year	**6,848**	0
In two to five years	**28,977**	43,629
In more than five years	**57,990**	17,702
Unlimited	**66,611**	52,002
	160,426	113,333
Tax effect on unrecognised tax loss carryforwards	**42,644**	31,145

Explanations on income tax and the analysis of tax expenses can be found in Note 13.

24 Financial liabilities

	31.12.2017	31.12.2016
	CHF 1,000	CHF 1,000
Current financial liabilities and bonds	**5,604**	49,961
Non-current financial liabilities and bonds	**32,024**	9,123
	37,628	59,084
Current financial liabilities and bonds		
Mortgages	**0**	100
Bond 4.125% 2012–2017, nominal CHF 50 million	**0**	49,861
Current portion of finance lease	**837**	0
Deferred consideration liabilities	**607**	0
Contingent consideration liabilities	**4,160**	0
	5,604	49,961

Non-current financial liabilities and bonds	31.12.2017	31.12.2016
	CHF 1,000	CHF 1,000
Mortgages and loans from banks	**450**	5,000
Finance lease	**2,854**	4,123
Deferred consideration liabilities	**13,447**	0
Contingent consideration liabilities	**15,273**	0
	32,024	9,123

The carrying value of logistic and administration building in Heerlen (NL) held under financial lease at 31 December 2017 was CHF 3,691 thousand (2016: CHF 4,434 thousand). The non-current portion is CHF 2,854 and the current portion CHF 837. Leased assets are pledged as security for the related finance lease.

Changes in liabilities arising from financing activities	Mortgages and loans from banks	Bond 4.125% 2012 - 2017	Financial lease	Deferred and contingent consideration liabilities	Total
	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000
1 January 2017	**5,100**	**49,861**	**4,123**	**0**	**59,084**
Proceeds from financial liabilities	0	0	0	0	0
Repayment of financial liabilities	–5,200	–50,000	–907	0	–56,107
Change in financial liabilities (non-financing cash flow or non-cash movements)	0	139	111	33,487	33,737
Additions from acquisition of subsidiaries	550	0	0	0	550
Currency translation effects	0	0	364	0	364
31 December 2017	**450**	**0**	**3,691**	**33,487**	**37,628**

Average interest	**2017**	**2016**
	%	%
Bank mortgages	**1.1**	0.9
Bonds	**4.3**	4.4
	4.0	4.1

Mortgages are secured with pledged real estate; see Note 31.

25 Trade payables	**31.12.2017**	**31.12.2016**
To third parties	**75,268**	70,635
To joint ventures	**0**	73
	75,268	70,708

26 Other payables	**31.12.2017**	**31.12.2016**
	CHF 1,000	CHF 1,000
Social security	**4,548**	1,369
Debtors with credit balances	**2,666**	1,219
VAT	**85**	0
Other	**1,922**	1,027
	9,221	3,615

27 Accrued expenses	**31.12.2017**	**31.12.2016**
	CHF 1,000	CHF 1,000
Revenue deductions	**289**	1,092
Goods purchased	**205**	274
Personnel expenses	**6,939**	6,220
Marketing expenses	**3,803**	1,160
Other operating expenses	**7,811**	4,844
	19,046	13,590

28 Provisions

	Other	Restructuring	Total
	CHF 1,000	CHF 1,000	CHF 1,000
As at 1 January 2017	**0**	**131**	**131**
Recognition	0	3,714	3,714
Use	–12	–67	–79
Additions from acquisition of subsidiaries	123	0	123
As at 31 December 2017	**111**	**3,778**	**3,889**

Due to the restructuring of Zur Rose Pharma GmbH in Halle (DE), total costs of CHF 3,714 thousand were expensed as per 31 December 2017, of which CHF 2,553 thousand within personnel expenses and CHF 1,161 thousand within other operating expenses. These costs are expected to be incurred within the next 12 months.

29 Pension obligations

There are pension plans in Switzerland and Germany which qualify as defined benefit plans in accordance with IAS 19. The German pension plan is unfunded. All other pension plans are defined contribution plans.

All Swiss Group companies are part of a comprehensive insurance scheme provided by a pension fund. This pension fund is a legally independent institution subject to the Swiss Federal Law on Occupational Old Age, Survivors' and Invalidity Pension Plans (Bundesgesetz über die berufliche Alters-, Hinterlassenen- und Invalidenvorsorge – BVG). The board of trustees of the fund is responsible for its management, the preparation of plan rules, the determination of the investment strategy and the financing of benefits. This board is made up of employee and employer representatives.

The pension fund's significant risks include investment risk, interest rate risk, disability risk and longevity risk. These risks are borne by the pension fund and are re-insured for the term of the comprehensive insurance plan.

Beneficiaries are insured against the financial consequences of old age, death and disability. Benefits for beneficiaries are determined in the provisions of the pension plan and go beyond the minimum benefits of the BVG. Retirement benefits are based on the retirement savings of each insured individual, which increase as a result of annual employer and employee contributions and interest credited. Annual contributions are determined in the pension plan rules. Their amount is based on the insured salary, age and seniority of the plan participant.

Upon retirement, plan participants can choose between a lump-sum payment and a lifelong pension. In the event of a withdrawal from the pension fund, the assets of the insured individual are transferred to a new pension solution.

The net pension obligations of all defined benefit plans are derived as follows:

Net pension obligations of all defined benefit plans	**2017**	**2016**
	CHF 1,000	CHF 1,000
Present value of obligations (DBO)	**46,909**	30,554
Plan assets at fair value	**33,922**	21,679
Net pension liabilities	**12,987**	8,875
of which Switzerland	**12,530**	8,449
of which Germany (unfunded plan)	**457**	426

Net pension obligations developed as follows:	**2017**	**2016**
	CHF 1,000	CHF 1,000
Net pension obligations as at 1 January	**8,875**	8,080
Pension expense recognised in profit or loss	**2,454**	2,180
Pension expense recognised in other comprehensive income	**500**	141
Employer contributions	**–1,885**	–1,523
Additions from acquisitions of subsidiaries	**3,004**	0
Foreign exchange differences	**38**	–3
Net pension obligations as at 31 December	**12,987**	8,875

Present value of obligations (DBO)	**2017**	**2016**
	CHF 1,000	CHF 1,000
Present value of obligations as at 1 January	**30,555**	27,850
Additions from acquisitions of subsidiaries	**10,168**	0
Interest cost	**244**	270
Current service cost	**2,363**	2,085
Employee contributions	**1,176**	922
Benefits paid / transferred	**1,774**	–255
Past service cost	**1**	0
Administrative costs	**18**	14
Actuarial losses	**572**	–329
Foreign exchange differences	**38**	–3
Present value of obligations as at 31 December	**46,909**	30,555
of which Switzerland	**46,452**	30,128
of which Germany	**457**	427
of which active	**43,708**	28,690
of which pensioners	**3,201**	1,865
Average duration	**18.2 years**	18.0 years

Development of fair value of plan assets	**2017**	**2016**
	CHF 1,000	CHF 1,000
Fair value of plan assets as at 1 January	**21,679**	19,770
Additions from acquisitions of subsidiaries	**7,164**	0
Interest income from plan assets	**172**	189
Employer contributions	**1,884**	1,523
Employee contributions	**1,176**	922
Benefits paid / transferred	**1,774**	–255
Actuarial gain (loss)	**74**	–470
Fair value of plan assets as at 31 December	**33,923**	21,679

In the period under review, Zur Rose recognised the following costs for defined benefit plans in profit or loss:	**2017**	**2016**
	CHF 1,000	CHF 1,000
Current service cost (employer)	**2,363**	2,085
Past service cost	**1**	0
Administrative costs	**18**	14
Net interest expense	**72**	81
Total pension expense	**2,454**	2,180
of which personnel expenses	**2,382**	2,099
of which finance expenses	**72**	81

The remeasurement of pensions recognised in other comprehensive income is made up of the following:	**2017**	**2016**
	CHF 1,000	CHF 1,000
Changes in financial assumptions	**803**	−1,201
Changes in demographic assumptions	**0**	1,095
Experience adjustments	**−1,376**	435
Subtotal remeasurement pension obligations	**−573**	329
Actuarial gain (loss) on the asset	**73**	−470
Total remeasurement pensions	**−500**	−141

The following key assumptions are used when determining pension obligations:

Assumptions	**2017**	**2016**
	%	%
Discount rate in Switzerland	**0.7**	0.6
Salary increases	**1.5**	1.5

Changes to these key actuarial assumptions would have the following estimated impact on the present value of the defined pension obligation:

An increase / decrease in the discount rate by 0.25 percent would lead to a decrease / increase in DBO of 4.7 percent. An increase / decrease in the salary rate by 0.25 percent would lead to an increase / decrease in DBO of 0.8 percent.

The individual sensitivities were calculated separately and reflect changes deemed reasonably possible as at the end of the relevant reporting period. Interdependencies are not taken into account, and the actual outcome may differ from these estimates.

The fair value of the plan assets of all plans is entirely made up of the asset allocation of the pension fund.

The pension funds do not hold any Zur Rose shares, and no Group companies make use of the assets of the pension funds.

Zur Rose Group anticipates employer contributions to defined benefit plans of CHF 1,743 thousand (Switzerland) for the year 2018.

The weighted average duration of defined benefit obligation in 2017 amounts to 18.2 (previous year: 18.0).

30 Equity

		31.12.2017	31.12.2016
Issued and paid share capital	Value in CHF 1,000	**35,762**	24,885
	Number of shares	**6,219,447**	4,327,896
Authorised capital	Value in CHF 1,000	**2,901**	0
	Number of shares	**504,511**	0
Contingent capital	Value in CHF 1,000	**134**	156
	Number of shares	**23,357**	27,127

In 2017 Zur Rose Group increased its share capital by issuing a total of 1,891,551 new shares to 6,219,447 shares at year-end. The corresponding nominal share capital amounted to CHF 35.8 million at 31 December 2017. 226,643 new shares of the total increase were signed on 29 May and 5 July. The 1,430,000 new shares issued on 5 July generated total gross proceeds of CHF 200.2 million (IPO).

On 14 July the bank syndicate exercised the full over-allotment option of 234,908 shares (Greenshoe) at a price of CHF 140 per share generating gross proceeds of CHF 32.9 million.

Zur Rose Group had IPO related costs of total CHF 17.9 million, of which CHF 11.2 million were deducted from equity. The remaining portion of costs incurred during the IPO amount amounting to CHF 6.7 million have been booked as other operating expenses.

Treasury shares / amount	2017	2016
	CHF 1,000	CHF 1,000
1 January	**903**	1,030
Purchases	**383**	243
Disposals	**0**	0
Allocations (to employees, non-cash transaction)	**–70**	–370
31 December	**1,216**	903

Allocations relate to shares delivered to participants under the Group's share-based payment arrangements.

Treasury shares / number	2017	2016
	Number	Number
1 January	**33,192**	40,685
Purchases	**5,009**	7,123
Disposals	**0**	0
Allocations	**–2,077**	–14,616
31 December	**36,124**	33,192

Net income / (loss) per share		**31.12.2017**	**31.12.2016**
Net income / (loss) per share attributable to Zur Rose Group AG shareholders	CHF 1,000	**–36,238**	–12,769
Net income / (loss) per share	CHF 1	**–6.94**	–3.60
Diluted net income / (loss) per share	CHF 1	**–6.94**	–3.60
Average number of outstanding shares -basic	Number	**5,217,882**	3,546,512
Average number of outstanding shares - diluted	Number	**5,217,882**	3,546,512
Proposed dividend per share	CHF 1	**0.00**	0.00

Dividends of CHF 0.50 per share paid in 2016 totalled CHF 1,638 thousands. Share-based plans may have a potentially dilutive effect on earnings per share in the future.

31 Commitments and contingent liabilities

The total of future minimum lease payments under non-cancellable operating leases are as follows:

Due date for rental payments	**31.12.2017**	**31.12.2016**
	CHF 1,000	CHF 1,000
Within a year	**2,563**	2,008
In two to five years	**8,283**	6,780
In more than five years	**12,145**	12,587
	22,991	21,375

In 2014, the Zur Rose Group entered into a lease for a new logistics and administrative building in Heerlen (NL) with a term of 15 years (refer to Note 24).

32 Financial instruments

Carrying amount of financial instruments	**31.12.2017**	**31.12.2016**
	CHF 1,000	CHF 1,000
Financial assets		
Cash and cash equivalents	**107,764**	25,225
Trade receivables	**84,079**	71,379
Prepaid expenses (financial instruments)	**7,496**	3,753
Other receivables (financial instruments) [1]	**185**	299
Current financial assets	**174**	160
Non-current financial assets	**981**	1,834
	200,679	102,650

1) Total amount of other receivables as per balance sheet: CHF 11,514 thousand (previous year: CHF 8,637 thousand)

Carrying amount of financial instruments	**31.12.2017**	**31.12.2016**
	CHF 1,000	CHF 1,000
Financial liabilities		
Current financial liabilities and bonds	**5,604**	49,961
Trade payables	**75,268**	70,708
Other payables (financial instruments) [1)]	**4,588**	2,396
Accrued expenses	**12,107**	7,370
Non-current financial liabilities	**32,024**	9,123
	129,591	139,558

1) Total amount of other liabilities as per balance sheet: CHF 7,252 thousand (previous year: CHF 3,615 thousand)

For cash and cash equivalents, other financial assets and liabilities expiring within 12 months, it is assumed that the carrying amount is a reasonable approximation of fair value due to their short-term nature.

Fair value measurement
The fair values of financial instruments that are actively traded on markets are based on market prices (offer prices) at the end of the reporting period. Such instruments are reported as Level 1. The fair values of financial instruments that are not actively traded on markets are determined using measurement models. If all parameters required for measurement are based on observable market data, the instrument is reported as Level 2. If one or more parameters are based on non-observable market data, the instrument is classified as Level 3. No transfers within these levels took place both in the year under review and in the previous year.

Financial assets and liabilities		**31.12.2017** Fair value	**31.12.2017** Carrying amount	**31.12.2016** Fair value	**31.12.2016** Carrying amount
		CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000
Equity securities	Level 3	**439**	**439**	50	50
Loans granted	Level 2	**542**	**542**	1,784	1,784
Mortgages	Level 2	**0**	**0**	5,100	5,100
Bonds	Level 1	**0**	**0**	51,300	49,861
Financial lease	Level 2	**3,691**	**3,691**	4,123	4,123
Loans from banks	Level 2	**450**	**450**	0	0
Deferred consideration liabilities	Level 2	**14,054**	**14,054**	0	0
Contingent consideration liabilities	Level 3	**19,433**	**19,433**	0	0
		38,609	**38,609**	62,357	60,918

The fair value of the contingent consideration liabilities has been determined using estimates of signifant unobservable (level 3) inputs (revenues, costs and results 2017 to 2020 of the acquired business and assumptions regarding the customer quality as contractually agreed) and an appropriate discount rate. Changes in any of these input parameters may result in significant adjustments to the recognised liabilities and amounts of payments to be made to the seller of Eurapon in 2018, 2019 and 2020 and affect future operating results. A 20 percent change in the recognised liabilities would result in a profit change of TCHF 3.7 million.

Additional information to the contingent consideration liabilities can be found in Note 6.

33 Financial risk management

Foreign currency effects

The Zur Rose Group operates in Switzerland, Germany, the Netherlands, Austria and the Czech Republic. In Switzerland Zur Rose Group is not exposed to any significant exchange risks as only minor foreign currency trans-actions take place. As most foreign income and expenses in EUR functional currency entities are incurred in EUR, these foreign companies are also not exposed to any significant foreign currency risks. For these reasons, Zur Rose Group does not hedge against foreign currency risks.

The impact of changes in exchange rates is limited to the measurement at the end of the reporting period of loans and receivables / liabilities balances between the parent in Switzerland and subsidiaries in Germany, the Netherlands and the Czech Republic.

The following table shows the sensitivity of future earnings before taxes (EBT) assuming a change in exchange rate on the basis of historical experience. For the purpose of this sensitivity analysis all other parameters remain unchanged.

	Increase/decrease foreign currency	Impact on earnings before taxes (EBT)
	%	CHF 1,000
2017		
EUR	**+10**	**10,169**
EUR	**–10**	**–10,169**
2016		
EUR	+10	1,406
EUR	–10	-1,406

The methods and assumptions underlying the calculation of the sensitivities listed above do not differ from those in the previous year.

Credit risk

Credit risks result from the possibility that the counterparty to a transaction is unable or unwilling to meet its obligations, leading to a financial loss for Zur Rose Group.

Credit risk from balances with banks and financial institutions are reviewed on an annual basis. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. The limits are set to minimise the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments. The Group's cash and cash equivalents are held with several banks, with no more than one third held at one bank at 31 December 2017.

Credit risks are considered minor because the amounts receivable from the physician business are attributable to a large number of physicians, who, for the most part, are also shareholders. These receivables are mainly collected by direct debit and thus collected before the due date.

Receivables from the mail order business in Switzerland include, in particular, receivables from Swiss health insurance companies for which no substantial bad debt is expected.

Receivables from activities in Germany, the Netherlands and the Czech Republic include receivables from health insurance companies, pharmacies and private individuals.

Before engaging in business relationships, counterparties with whom significant volumes are to be transacted are subject to credit verification procedures. Loans are only granted to related parties and known third parties.

Interest rate risk
Interest rate risks result from changes in interest rates that could have a negative impact on the net assets and financial position of Zur Rose Group. Interest rate changes lead to changes in interest income and expenses of interest-bearing assets and liabilities at variable rate.

Financial instruments bear prevailing market interest rates. Contractually agreed terms are short-term in nature and can thus be adapted as necessary. The bond that expired in 2017 carried a fixed interest rate of 4.125 percent and a term of five years.

The following table shows the sensitivity of consolidated profit before taxes. For the purpose of this sensitivity analysis all other parameters remain unchanged.

	Increase/decrease market interest rate	Impact on earnings before taxes (EBT)
	%	CHF 1,000
2017		
Increase in market interest rate	**+1**	**1,078**
Decrease in market interest rate	**–1**	**–1,078**
2016		
Increase in market interest rate	+1	201
Decrease in market interest rate	–1	–201

As with the calculation of the sensitivities of the foreign exchange risk, the interest rate risk was also calculated using the same methods and assumptions as in the previous year.

The interest rates of financial instruments, classified as variable rate financial instruments, are adjusted within a one-year period. The interest rate of the bond is fixed until the end of the term. Other financial instruments of the Zur Rose Group which are not included in this presentation do not bear any interest and are thus not exposed to an interest rate risk.

Liquidity risk
Liquidity is monitored and managed at Group level on an ongoing basis.

The contractually agreed due dates and cash flows (incl. interest) of financial liabilities are as follows:

Cash flows 2017	1 year	2 years	3 years	4–5 years	> 5 years
	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000
Finance Lease	**954**	**954**	**954**	**1,113**	**0**
Trade payables	**75,268**	**0**	**0**	**0**	**0**
Other current payables	**4,588**	**0**	**0**	**0**	**0**
Accrued expenses	**12,107**	**0**	**0**	**0**	**0**
Bank loans	**9**	**8**	**6**	**6**	**450**
Deferred consideration liabilities	**607**	**0**	**13,447**	**0**	**0**
Contingent considerations liabilities	**4,160**	**6,073**	**9,200**	**0**	**0**
	97,693	**7,035**	**23,607**	**1,119**	**450**

Cash flows 2016	1 year	2 years	3 years	4–5 years	> 5 years
	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000
Finance Lease	874	874	874	1,748	146
Current financial liabilities	102	0	0	0	0
Trade payables	70,708	0	0	0	0
Other current payables	2,396	0	0	0	0
Bank loans and bond	51,891	0	0	0	0
Accrued expenses	7,370	0	0	0	0
Non-current financial liabilities	100	200	198	388	4,876
	133,441	1,074	1,072	2,136	5,022

Capital management
Capital risk management is aimed at ensuring a sustainable and strategic focus for the Group, adjusted for the financial, tax and financing structure. To ensure a balanced financing structure, the Group may sell assets, determine the amount of the dividend in line with requirements, obtain external funding, or increase equity.

The most important key figures are the total debt service coverage ratio (cash flows before financing / debt servicing), the leverage ratio (net financial liabilities / EBITDA) and the self-financing level (equity / total assets).

	2017	**2016**
	CHF 1,000	CHF 1,000
Cash flows before financing	**−84,442**	−36,928
Interest paid (debt servicing)	**2,296**	2,481
Total debt service coverage ratio	**n.m.**	n.m.
Financial liabilities	**37,628**	59,084
- Cash and cash equivalents	**−107,764**	−25,225
Net financial liabilities	**−70,136**	33,859
EBITDA	**−21,194**	2,124
Leverage ratio (net financial liabilities / EBITDA)	**3.3**	15.9
Equity	**294,223**	103,806
Assets	**456,762**	261,528
Self-financing ratio	**64.4%**	39.7%

34 Share-based payment

Total expense recognised in 2017 for share based payments amounted to CHF 3,238 thousand (previous year: CHF 1,593 thousand) and is composed of expenditure for the following plans:

Stock ownership plan
The members of the Board of Directors, Group Management and other selected employees of the Zur Rose Group had the right to participate in a stock ownership plan. The purchase price of shares was determined based on the average of the closing prices over the last 30 days (market price) of registered shares in Zur Rose Group AG traded on the trading platform (prior to the Company's listing on SIX Swiss Exchange) minus a discount of 33 percent. The difference between the market price and the purchase price was recognised in personnel expenses. Until 2016, the members of the Board of Directors and Group Management received 50 percent of their long term incentive in shares under this plan which was treated as a share based payment. The shares are subject to a five-year vesting period. If plan participants leave Zur Rose Group within four years, Zur Rose Group AG has a right, but no obligation, to buy back a

decreasing portion of the allocated shares. The right to buy back the allocated shares decreases on an annual basis, resulting in the cancellation of this right to buy back shares after the four-year period. No cash was paid for the allocated shares in the year under review. Total number of shares sold: 10,942 (previous year: 163,373).

In 2017, an expense of CHF 550 thousand was recognised under this plan (previous year: CHF 1,424 thousand).

An employee of the Group' subsidiary Bluecare AG acquired shares in that company at a purchase price below fair value in 2015. At the time Bluecare was a joint venture of Zur Rose Group. The shares are subject to a seven-year vesting period and on termination of employment the shares will revert to Zur Rose Group for cash consideration. The difference between the purchase price and the estimated redemption value is recognised in personnel expense and a liability is recognised for this cash settled share-based payment arrangement. No cash was paid in the year under review.

Since control over Bluecare was obtained in May 2017, an expense of CHF 39 thousand was recognised under this plan and the liability amounts to CHF 111 thousand at 31 December 2017.

Long-term performance-based remuneration
Since 2017, the members of the Group Management of Zur Rose Group participate in the performance share plan. Each participant has been communicated a monetary amount to be converted into a number of Zur Rose Group AG shares based on the share price after the annual general meeting 2018. Vesting is subject to meeting service conditions and performance targets. The awards vest on a pro rata basis until 31 December 2019. The final number of shares to be delivered depends on EBIT and revenue targets and can range between 0 and 200 percent. The fair value of the awards is based on the monetary amount communicated to plan participants. Although these awards will not legally be granted until approval of the remuneration is obtained at the annual general meeting of shareholders in 2018, the expense has been recognised over a service period starting from 1 January 2017 as plan participants have begun rendering services from that date.

Zur Rose has recognised an expense of CHF 378 thousand in connection with this plan in 2017.

Option plan
Zur Rose Group AG granted 345,674 options to members of the Board of Directors and Group Management and selected employees on 1 September 2016. These options were subject to vesting and performance conditions. The options became fully exercisable in 2017 because the underlying conditions were met and this led to an accelerated recognition of the full expense. All options were exercised. The exercise price was settled by surrendering options to the corresponding value (cashless exercise) and 215,701 of Zur Rose Group AG shares were issued. The weighted average share price at the date of exercise was CHF 140. The fair value at grant amounted to CHF 2,195 thousand (CHF 6.35 per option). The expense recognised in 2017 amounts to CHF 2,026 thousand (previous year: CHF 169 thousand).

The fair value per option of CHF 6.35 was determined using the following parameters as at 1 September 2016:

Share price	CHF	39.50
Exercise price	CHF	48.88
Volatility	%	30.99
Expected life	years	4.33
Risk-free interest rate	%	–0.45
Expected dividend	%	1.70

Board compensation
In 2017, board members received 30 percent of their compensation in restricted shares. The restriction period is three years. In 2017, an expense of CHF 244 thousand was recognised under this plan (previous year: zero).

After the IPO every employee in Switzerland received one share of Zur Rose Group AG. Total expense recognised in 2017 for this one time event amounted to CHF 46 thousand.

35 Related party transactions

The outstanding shares in Zur Rose Group AG are owned by 5,213 shareholders (previous year: 2,382 shareholders). None of them has a controlling interest in the Company.

Receivables and liabilities from joint ventures are shown separately in the Notes.

Transaction and balances with joint ventures	Revenue	Purchase	Accounts receivable	Liabilities	Loans
	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000	CHF 1,000
2017	**80**	**4,631**	**62**	**0**	**454**
2016	110	4,304	30	89	1,379

Compensation paid to the Board of Directors and Group Management members
Part of compensation was paid in the form of Zur Rose Group AG shares in the year under review. These share-based payments are aimed at aligning the interests of management and Board of Directors to the interests of shareholders.

Board of Directors	**2017**	**2016**
	CHF 1,000	CHF 1,000
Short-term benefits	1) **1,163**	634
Share-based payments	**870**	295
	2,033	929

1) In 2017 the options out of the option plan were exercised and led to an recognition of social security expenses in the amount of CHF 405 thousand.

Group management	**2017**	**2016**
	CHF 1,000	CHF 1,000
Short-term benefits	1) **3,720**	2,144
Retirement benefits	**337**	214
Share-based payments	**1,846**	1,102
	5,903	3,460

1) In 2017 the options out of the option plan were exercised and led to an recognition of social security expenses in the amount of CHF 1'063 thousand.

In connection with the listing at SIX Swiss Exchange on 6 July 2017, Zur Rose Group AG acquired 124,400 shares from members of key management personnel for total proceeds of CHF 17.4 million. These shares were also placed in the IPO.

Members of key management personnel and other employees exercised stock options resulting in a capital increase of 215,701. shares out of conditional capital on 5 July 2o17.

In the previous year, the company bought back 4,623 shares from former members of the Board of Directors at a market price of CHF 32.90 per share.

36 Events after the end of the reporting period

No events after the end of the reporting period.

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To the General Meeting of
Zur Rose Group AG, Steckborn

Zurich, 19. March 2018

Statutory auditor's report on the audit of the consolidated financial statements

Opinion
We have audited the consolidated financial statements of Zur Rose Group AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31. December 2017 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 52 to 96) give a true and fair view of the consolidated financial position of the Group as at 31. December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion
We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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Intangible assets with indefinite useful lives

Area of focus
As at 31 December 2017, the Zur Rose Group has goodwill of CHF 79.4 million and trademarks with indefinite useful lives of CHF 20.9 million in relation to business combinations. Under IFRS, the Company is required to test the amount of goodwill and trademarks with indefinite useful lives for impairment, both annually and if there is a trigger for testing.

The impairment tests were significant to our audit due to the complexity of the assessment process, management's estimates and assumptions involved which are affected by expected future market or economic conditions.

Assumptions, sensitivities and results of the impairment tests are disclosed in Note 21.

Our audit response
Our audit procedures included, among others, the involvement of a valuation expert to assist us in evaluating the assumptions and methodologies used by the Company, in particular those relating to the pre-tax discount rate and the valuation model. Furthermore, we tested the cash flow projections for each cash-generating unit, taking into account the relevant internal processes and controls of the Zur Rose Group and an assessment of the historical accuracy of management's estimates and evaluation of business plans. In addition, we assessed the adequacy of the disclosures relating to those assumptions to which the outcome of the impairment test is most sensitive.

Purchase price allocation (PPA)

Area of focus
At the acquisition date of Eurapon Pharmahandel GmbH ("Eurapon") and Vitalsana B.V. and ApDG Handels- und Dienstleistungsgesellschaft mbH ("Vitalsana") on 29 December 2017, goodwill of CHF 64.2 million and other intangible assets of CHF 5.3 million were recognised.

Both acquisitions were significant to our audit due to the complexity of judgments and assumptions involved in the purchase price allocations.

The acquisitions are described in note 6.

Our audit response
With respect to the accounting for the Eurapon and Vitalsana acquisitions, we, among other procedures, read the purchase agreements, tested the identification and fair valuation of the assets and liabilities acquired by the Zur Rose Group and assessed the valuation assumptions such as discount, tax and growth rates. In doing so, we involved our valuation and tax experts. Furthermore, we evaluated the appropriateness of the disclosure made in Note 6.

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Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements, the remuneration report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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Report on other legal and regulatory requirements

In accordance with article 728a para. 1 item 3 CO and the Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Ernst & Young AG

Martin Gröli	Claudio Schneider
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

Income Statement

	Notes	2017	2016
		CHF 1,000	CHF 1,000
Net revenue		**3,876**	5,164
Other operating income		**1,337**	160
Total net income		**5,213**	5,324
Personnel expenses		**–6,495**	–4,962
Other operating expenses		**–8,449**	–3,973
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		**–9,731**	–3,611
Depreciation and amortisation		**–1,742**	–1,315
Reversal of impairment	2.1	**38,756**	0
Earnings before interest and taxes (EBIT)		**27,283**	–4,926
Finance income		**9,810**	4,361
Finance expenses		**–2,625**	–3,880
Earnings before taxes (EBT)		**34,468**	–4,445
Tax expenses		**–958**	–60
Net income / (loss)		**33,510**	–4,505

Balance Sheet

ASSETS	Notes	**31.12.2017** CHF 1,000	**31.12.2016** CHF 1,000
Cash and cash equivalents and short-term assets at market prices	2.2	**57,513**	6,390
Receivables from investments		**9,783**	7,746
Other short-term receivables from third parties		**436**	234
Prepaid expenses from third parties		**182**	887
Prepaid expenses from investments		**260**	138
Current assets		**68,174**	15,257
Loans to investments		**209,980**	98,394
Impairment of loans		**–55,563**	–38,756
Long-term loans granted to related parties		**88**	231
Other non-current financial assets		**50**	50
Investments	2.3	**136,207**	75,713
Impairment of investments		**–12,621**	–12,224
Property, plant and equipment		**360**	192
Real estate	2.4	**17,193**	17,509
Intangible assets		**2,160**	2,728
Non-current assets		**297,854**	143,837
Assets		**366,028**	159,094

Balance Sheet

LIABILITIES	Notes	31.12.2017 CHF 1,000	31.12.2016 CHF 1,000
Current liabilities to third parties		**547**	224
Current liabilities to investments		**185**	55
Current liabilities to boards or bodies		**43**	93
Current interest-bearing liabilities		**0**	50,100
Other current liabilities to third parties		**2,379**	427
Accrued expenses to third parties		**2,452**	1,252
Accrued expenses to investments		**142**	
Short-term provisions		**1,252**	212
Short-term liabilities		**7,000**	52,363
Non-current interest-bearing liabilities		**0**	5,000
Long-term liabilities		**0**	5,000
Liabilities		**7,000**	57,363
Share capital		**35,762**	24,885
Legal capital reserve			
General reserve from equity contribution	2.5	**270,164**	56,921
Legal retained earnings		**1,340**	1,340
Voluntary retained earnings		**52,956**	19,448
Retained earnings brought forward		**6,827**	11,334
Net income / (loss)		**33,510**	–4,505
Retained earnings		**40,337**	6,829
Other voluntary reserves		**12,619**	12,619
Treasury shares	2.6	**–1,194**	–863
Equity		**359,028**	101,731
Liabilities and equity		**366,028**	159,094

Notes to the Financial Statements

1 Basic principles

1.1 Accounting policies
These financial statements were prepared in accordance with the commercial accounting requirements set forth in Art. 957-963b of the Swiss Code of Obligations (Schweizerische Obligationenrecht – OR) effective from 1 January 2013.

1.2 Securities at market prices
Short-term securities are measured at market prices at the end of the reporting period.

1.3 Investments
Investments are recognised at acquisition cost and subsequently tested for impairment if there is any indication that an impairment is required. If an impairment is required, the investment is impaired and the impairment loss recognised.

1.4 Treasury shares
Treasury shares are recognised at acquisition cost and deducted from equity. The gain or loss on resale is recognised as finance income or finance costs. Treasury shares are measured using the FIFO method (first-in-first-out).

1.5 Share-based payments
If treasury shares are used for share-based payments to members of the Board of Directors, Group management or employees, the difference between the acquisition cost and any payment received is recognised as personnel expenses when the shares are allocated.

1.6 Current and non-current interest-bearing liabilities
Interest-bearing liabilities are recognised at nominal value. The bond issue costs are recognised in prepaid expenses and accounted for on a straight-line basis over the bond's term.

2 Information on income statement and balance sheet items

2.1 Reversal of impairment

The amount of TCHF 38'756 results from a reversal of impairment of a long term loan to Zur Rose Suisse AG.

2.2 Cash and cash equivalents and short-term assets at wmarket prices	31.12.2017	31.12.2016
	CHF 1,000	CHF 1,000
Cash and cash equivalents	**57,339**	6,230
Securities (at market prices)	**174**	160
Total cash and cash equivalents and short-term assets at market prices	**57,513**	6,390

2.3 Investments

	2017	2016	2017	2016
	Capital	Capital	Equity interest and ordinary shares	Equity interest and ordinary shares
	CHF 1,000	CHF 1,000	%	%
Direct Investments				
DocMorris Holding GmbH, Berlin (DE), intermediate holding company	**6,085**	6,085	**100.0**	100.0
DVD Beteiligungs AG, Frauenfeld, intermediate holding company	**3,550**	3,550	**100.0**	100.0
OPX Services AG, Frauenfeld, pharmaceutical services	**100**	100	**100.0**	100.0
Zur Rose Suisse AG, Frauenfeld, pharmaceutical business	**7,650**	7,650	**100.0**	100.0
BlueCare AG, Winterthur, service provider	**1,288**	1,288	**78.9**	78.9
König Gesellschaft für Image- und Dokumentenverarbeitung GmbH, Gottmadingen (DE)	**30**	28	**50.0**	50.0
König IT Systeme GmbH, Gottmadingen (DE)	**29**	27	**50.0**	50.0
Material Indirect Investments				
Zur Rose Pharma GmbH, Halle (DE)	**8,479**	8,479	**100.0**	100.0
ApDG Handels und Dienstleistungsgesellschaft mbH, Bremen (DE)	**28**	0	**100.0**	0.0
Centropharm GmbH, Aachen (DE)	**30**	30	**100.0**	100.0
Eurapon Pharmahandel GmbH, Bremen (DE)	**28**	0	**100.0**	0.0
D&W Mailorder Service B.V., Heerlen (NL)	**22**	22	**100.0**	100.0
DocMorris N.V., Heerlen (NL)	**60**	60	**100.0**	100.0
Vitalsana B.V., Heerlen (NL)	**20**	0	**100.0**	0.0

2.4 Assets pledged

	2017	2016
	CHF 1,000	CHF 1,000
Real estate pledged as collateral	**17,193**	17,509
Total assets pledged	**17,193**	17,509

2.5 Legal capital reserve

Out of the balance of CHF 270'163'681 an amount of CHF 56'864'234 has been confirmed by the federal tax administration. The transactions that occurred during 2017 still need to be confirmed.

2.6 Treasury shares

	Number of transactions	Average price CHF	Number
Number of registered shares			
As at 1 January 2016			**40,685**
Acquisitions	2	34	7,123
Allocation	2	25	–14,616
As at 31 December 2016			**33,192**
Acquisitions	10	76	5,009
Allocation	2	25	–2,077
As at 31 December 2017			**36,124**

3 Other disclosures

3.1 Share-based payments

	2017	2016
	CHF 1,000	CHF 1,000
Board of Directors (2017: 62,487 shares, 2016: 24,093 shares)	**613**	244
Group Management (2017: 115,997 shares, 2016: 88,696 shares)	**717**	763
Employees (2017: 5,493 shares, 2016: 9,700 shares)	**57**	75
Total share-based payments	**1,387**	1,082

Share-based payments correspond to a 33 percent discount on the market price of shares. These shares are subject to a three to five-year vesting period. As part of the IPO, every employee in Switzerland received one share of Zur Rose Group AG for free.

3.2 Options

	2017	2016
	Number	Number
Board of Directors (excl. Walter Oberhänsli)	–	95,958
Group Management	–	182,516
Employees	–	7,200
Total options allocated	**0**	285,674

3.3 Significant shareholders

	2017
	%
KWE Beteiligungen AG	**14.79**
Wellington Management Group LLP	**5.09**

3.4 Shareholdings Board of Directors and Group Managment

	2017
	Number of shares
Board of Directors	
Prof. Stefan Feuerstein, Chairman	**81,612**
Walter Oberhänsli, Executive Director and CEO	**128,914**
Dr. Thomas Schneider, Vice Chairman	**29,206**
Prof. Dr. Volker Amelung, Director	**4,793**
Dr. Heinz O. Baumgartner, Director	**149**
Vanessa Frey, Director	**19,942**
Dr. Lukas Wagner, Director	**13,265**
Executive Board	
Olaf Heinrich, Head Germany	**38,541**
Walter Hess, Head Switzerland	**40,804**
Marcel Ziwica, CFO	**46,682**

As of 31 December 2017, the members of the Board of Directors and the Group Managment held the shares listed above. The members of the Board of Directors acquired three quarters of their shares under incentive plans of the company. These shares have a remaining blocking period between one and five years. All of the shares held by the members of the Group Management have a remaining blocking period between two and five years. If plan participants leave Zur Rose Group within four years, Zur Rose Group AG has a right, but no obligation, to buy back a decreasing portion of the allocated shares. The right to buy back the allocated shares decreases on an annual basis, resulting in the cancellation of this right to buy back shares after the four-year period. No cash was paid for the allocated shares in the year under review. Total number of shares sold: 10,942 (previous year: 163,373)

3.5 Employees

	2017	2016
Full-time equivalents between 10 and 50	**x**	x

3.6 Lease obligations

	2017	2016
	CHF 1,000	CHF 1,000
Remaining amount lease obligations	**29**	138

3.7 Unrecognised commitments

Company	Name	Nature	2017 CHF 1,000	2016 CHF 1,000
Montea Comm VA	DocMorris N.V. – Lease – property	Guarantee	**21,066**	20,938
CommerzReal Mobilienleasing GmbH	DocMorris N.V. – Logistics – investment	Co-obligation	**3,691**	4,123
UBS AG	Zur Rose Suisse AG – Undrawn borrowing facilities	Guarantee	**0**	10,000

3.8 Contingent and authorised capital

	2017	**2016**
	CHF	CHF
Contingent capital	**134,303**	156,000
Authorised capital	**2,900,938**	0

3.7 Significant events after the end of the reporting period

None.

Appropriation of Available Earnings

(Proposal of the Board of Directors)

	31.12.2017	31.12.2016
	CHF	CHF
Retained earnings brought forward	**6,826,942**	11,332,195
Net income / (loss)	**33,510,308**	−4,505,253
Retained earnings at the disposal of the Annual General Meeting	**40,337,250**	6,826,942
Distribution to shareholders	–	–
Carried forward to new account	**40,337,250**	6,826,942

Building a better working world

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To the General Meeting of
Zur Rose Group AG, Steckborn

Zurich, 19. March 2018

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Zur Rose Group AG, which comprise the income statement, balance sheet and notes (pages 101 to 110), for the year ended 31. December 2017.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements for the year ended 31. December 2017 comply with Swiss law and the company's articles of incorporation.

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Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Valuation of investments

Area of focus

As at 31 December 2017, the Zur Rose Group AG holds investments of CHF 123.6 million, which corresponds to 34 % of total assets.

We consider the valuation of investments to be a key audit matter due to the fact that the investments' value represent a significant share of total assets and because the impairment test performed by management is complex and involves significant assumptions.

The accounting principles used for the investments are disclosed in Note 1.3 of the notes to the stand-alone financial statements of Zur Rose Group AG.

Our audit response

We assessed the impairment testing process used by the Company, which includes the impairment of investments, as well as the determination of the key assumptions made using internal and externally available evidence. In doing so, we involved our valuation experts.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a para. 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young AG

Martin Gröli	Claudio Schneider
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

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