ANNUAL REPORT 2017/18

PHOENIX
Pharmahandel GmbH & Co KG

a PHOENIX company

CONTENT

GROUP MANAGEMENT REPORT 2017/18

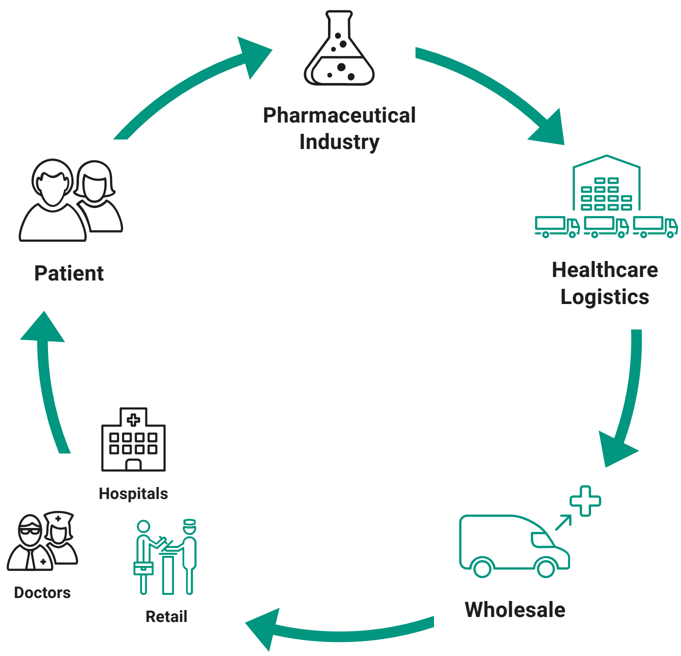
FUNDAMENTAL INFORMATION ABOUT THE GROUP

- Leader in European pharmaceutical trade
- Strategic focus on customer-oriented corporate culture, strict cost management and profit-oriented growth
- Focus on innovation
- Continuous optimisation of processes and implementation of best practices across Europe

PHOENIX

Family business with leading market position in European pharmaceutical trade
PHOENIX Pharmahandel GmbH & Co KG, with headquarters in Mannheim, Germany, is a leading company in European pharmaceutical trade and one of the largest family businesses in both Germany and Europe. Its core business is pharmaceutical wholesale and pharmacy retail. Subsidiaries also operate in related business areas, whose activities round off its offering by adding services for the pharmaceutical industry, IT systems for pharmacies and logistics solutions. PHOENIX aims to be the best integrated health services provider wherever it is active.

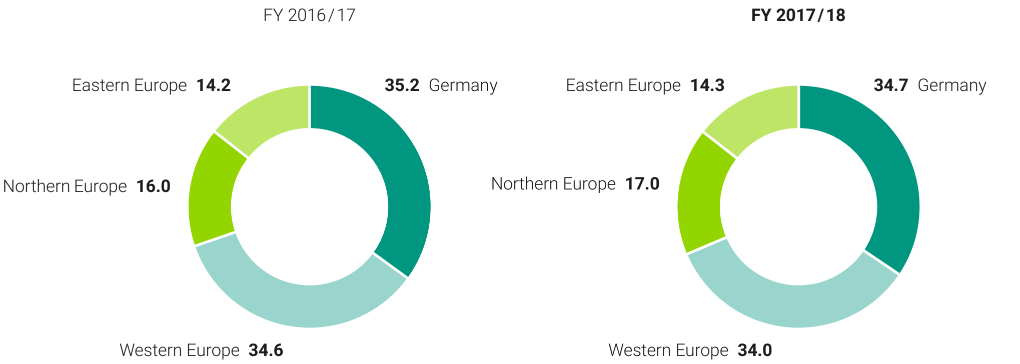
PHOENIX: LINK BETWEEN MANUFACTURER AND PATIENT



PHOENIX is active in 26 countries in Europe. In its core business, the Company was operating 154 distribution centres and a total of 2,099 pharmacies as of the end of the reporting year. This makes its geographic portfolio highly diversified.

NET TURNOVER PER REGION

in %



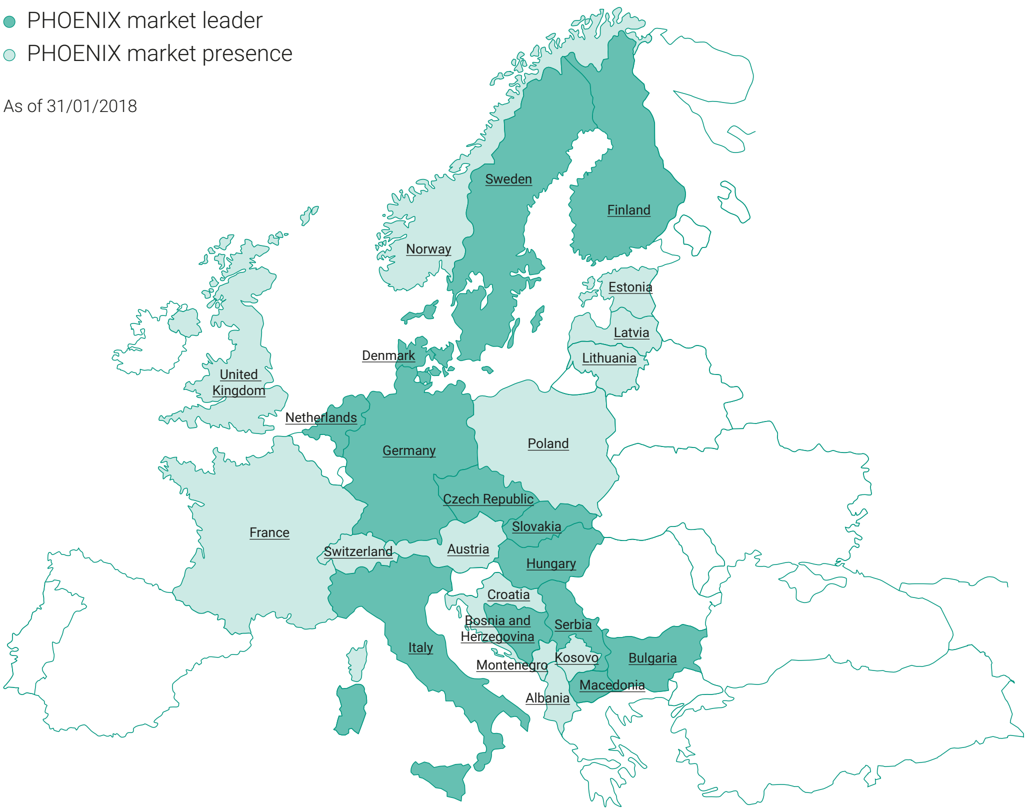
In pharmaceutical wholesale, PHOENIX is number one in 13 countries. It operates the retail pharmacy business mainly in the United Kingdom, Norway, the Netherlands, Switzerland, Hungary, the Czech Republic, Slovakia, Serbia, Montenegro and the Baltic countries and is the market leader in continental Europe. It also offers companies in the pharmaceutical industry its services along the entire pharmaceutical supply chain.

Number one in pharmaceutical wholesale in 13 countries.

PHOENIX AS THE LEADING PHARMACEUTICAL WHOLESALER IN 13 EUROPEAN COUNTRIES

- PHOENIX market leader
- PHOENIX market presence

As of 31/01/2018



Our corporate mission statement defines our values

Our corporate mission statement plays a key role in our day-to-day business. This provides clarity regarding our corporate philosophy, our vision and our values. As a family business, we make our own decisions and pursue a long-term strategy. Our vision of being the best integrated healthcare provider – wherever we are can only be achieved with competent, motivated and loyal employees. Their day-to-day activities contribute to the overall success of PHOENIX. This is how we fulfil our responsibilities today and in the future.

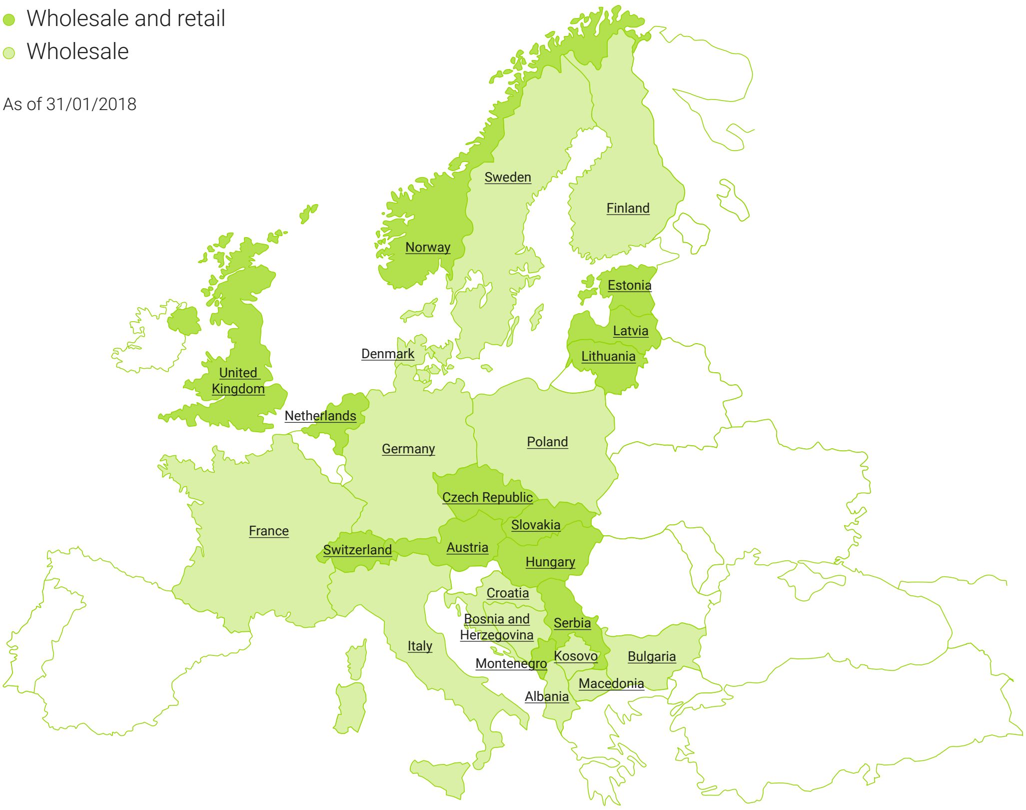
Status as a family business ensures long-term stability and independence.

Setting ourselves apart from the competition through cooperation across Europe

We have many unique selling points thanks to our broad positioning. PHOENIX's competitive advantages include, but are not limited to:

- Unique geographical coverage across Europe thanks to our presence in 26 European countries
- Creating value added for pharmacies, hospitals and doctors with our integrated and comprehensive portfolio of services
- Our well-positioned pharmacy brands across Europe: Apotek 1, BENU and Rowlands Pharmacy
- The network of pharmacies with around 13,000 pharmacies in PHOENIX's cooperation and partnership programmes. The PHOENIX Pharmacy Partnership functions as a Europe-wide umbrella for the twelve cooperation programmes
- Our integrated services in the Pharma Services business, which we offer under the All-in-One service brand

PHOENIX WITH A PRESENCE IN WHOLESALE AND RETAIL IN 13 EUROPEAN COUNTRIES



STRATEGY AND GROUP MANAGEMENT

Our strategy aims for growth and cost efficiency

The activities of PHOENIX are geared to achieving sustainable values through a customer-focused corporate culture, strict cost management and profit-oriented growth. Market leadership and efficiency are top priorities for us. Another focus for us is on innovation, which we are addressing in a targeted manner with the creation of the new “Business Innovation” division. We hope that this will allow us to take advantage of the opportunities presented by digitisation and actively pursue the development of new business ideas as well as trends and innovations in the healthcare sector. Having local expertise at hand within the Group means that the national and regional differences prevailing in the European pharmaceutical markets are always addressed.

PHOENIX aims to make targeted use of the opportunities offered by digitisation.

An important part of our strategy is to grow organically and through targeted acquisitions and continually expand our position in the areas of pharmacies and pharmaceutical wholesale. The prior-year acquisition of Mediq in the Netherlands in particular, with activities along the entire pharmaceutical supply chain, was an important step towards integrating our business activities.

In pharmaceutical wholesale, PHOENIX has long-established partnerships with around 53,000 pharmacy customers. Many of them are part of our pharmacy cooperation programmes. We also offer franchise systems for independent pharmacies in some countries. Regular customer surveys help to maintain a strong customer focus and, in turn, high levels of customer satisfaction.

We want to focus on strengthening, expanding and further professionalising the pharmacy retail market. We have laid the ideal foundation for this purpose in past years with our BENU, Rowlands Pharmacy and Apotek 1 pharmacy brands. Strategic measures include introducing our Europe-wide category brand LIVSANE and further increasing brand awareness in all countries. We are also further expanding the Pharma Services business, and we offer the pharmaceutical industry comprehensive services along the entire pharmaceutical supply chain with our All-in-One service brand.

PHOENIX continuously implements best practices across Europe in all its business units. In addition to group-wide initiatives, we mainly benefit in this regard from locally successful process optimisation measures, which serve as a starting point for improvement measures in other countries. We also make targeted investments in technology and automation wherever it appears logical to us, thereby increasing efficiency and productivity.

Using key financial indicators in management

The Company is largely managed using the financial indicators of the income statement and the statement of financial position. The key figures in the income statement are revenue and EBITDA; in the statement of financial position, it is the equity ratio.

PROCESSES AND ORGANISATION

Ongoing optimisation increases efficiency and flexibility

We continuously review and improve our processes and structures to ensure a high level of efficiency and to provide flexibility. This enables us to respond rapidly to changes in the market and to achieve sustainable growth.

In the past fiscal year, we initiated two ambitious topics for this purpose, among other things. With the “JUMP” initiative we are pursuing the goal of optimising our operating processes and taking a significant step towards making our logistics network fit for the future using innovative approaches. We are also doing this by pushing the benchmarking of our distribution centres and sharing best practices across national boundaries. The “SAFE” focus topic is aimed at reducing negative differences throughout the Group, including losses due to breakage and exceeded expiry dates. Our Warehouse Excellence initiative plays an important role in this regard when it comes to identifying the causes of damage and implementing ideas for improvement that are aimed at avoiding risks. We have also incorporated the topic into our procurement strategy.

In Germany, we have also initiated the “Fit für die Zukunft” (“Fit for the Future”) project in order to safeguard our position as market leader. This involves optimising and harmonising processes and structures in order to achieve further gains in efficiency. The project includes abolishing the existing regional structure in Germany and replacing it with distribution and operations directors, standardising processes, centralising certain activities and reinforcing the importance of procurement. In the UK, we have introduced a similar project called “Fit4Two”, which also involves consolidating and optimising structures and centralising services for pharmacies, hospitals and doctors. The latter is also one of the priorities of the “Centralised Business Model” in Norway. Pharmacy services are provided centrally.

Various projects in different countries contribute to increasing our efficiency.

EU Directive 2011/62/EU (EU Falsified Medicine Directive, “FMD”) aimed at combating the falsification of medicines entered into force on 9 February 2019. In the future, all prescription-only medicines must bear unique identifiers in the form of a two-dimensional bar code. Medicine packaging will also need to include features aimed at preventing tampering in the future. The securPharm falsification prevention system allows each individual package of prescription-only medicine to be verified. PHOENIX is heavily involved in this joint project between the manufacturers of medicines, wholesalers and pharmacies. Our solution hinges on the PHOENIX FMD Cloud, which is a flexible, reliable and cost-effective method for our partners. It acts as an interface between the PHOENIX systems and the various national verification systems, and also as a link to our partners’ cloud-based systems.

IT processes optimised

Following the successful completion of efforts to consolidate its IT infrastructure at the central data processing centre in Nuremberg, PHOENIX has taken extra steps to optimise its IT procedures and processes. In so doing, the Company is meeting the stricter requirements with respect to security while also improving the stability and quality of IT operations. We have achieved this through a number of individual initiatives such as consistently separating the organisation into the fields of planning, implementation and operations, intensively recruiting talented people, and outsourcing services.

PHOENIX's IT function has also implemented other innovation and digitisation projects. One focus was on introducing fully automated product warehousing at the German distribution centres Hanover, Leipzig and Gotha, as well as automated high-rack storage in Gothenburg, Sweden, and Tampere, Finland. In the past fiscal year, we launched new business models based on our improved IT systems, such as the strategic partnership with Sweden's biggest chain of pharmacies and supplying hospitals. We have also expanded our advisory services for the pharmaceutical industry in the field of business intelligence solutions, for example, in connection with product launches.

IT supports innovation and digitisation within PHOENIX.

We have created and introduced the necessary IT solutions with respect to past and future amendments to the law, such as the European General Data Protection Regulation, which comes into force in May 2018, as well as the EU falsification directive scheduled for 2019. We have also improved our standardised "BRIDGE" interface to give manufacturers a central connection to PHOENIX's various national merchandise management systems.

REPORT ON ECONOMIC POSITION

- Main financial indicators improved
- Market conditions still characterised by strong competition
- Solid growth in Europe and Germany
- Qualified employees making a crucial contribution to the success of PHOENIX

ECONOMIC ENVIRONMENT

Positive overall economic development
The European economy experienced tangible growth in 2017, with gross domestic product (GDP) in the eurozone up 2.5% compared to the prior year. The German economy was also in good shape, with GDP (adjusted for price and calendar effects) also up 2.5%.

There were differences in the development of the European pharmaceutical markets. The German pharmaceutical wholesale market experienced moderate growth in 2017, increasing by 2.0% in comparison with the prior year. This was primarily attributable to a noticeable increase in revenue from prescription-only drugs. The German market was also shaped by the continuation of strong competition.

BUSINESS DEVELOPMENT AT A GLANCE

Leading position in the European pharmaceutical wholesale sector
The healthcare sector continues to grow, especially on account of demographic changes. Europe's pharmaceutical wholesale sector is also experiencing increasing consolidation. PHOENIX stands to benefit from this thanks to its integrated position.

Growing pressure on prices with Europe's healthcare systems, on the other hand, is an increasingly important factor for the pharmaceutical wholesale business in particular. PHOENIX is countering this effect in all countries with numerous measures to improve earnings and efficiency such as the Warehouse Excellence initiative. The Company has also initiated the "Fit für die Zukunft" and "Fit4Two" projects in Germany and the UK, respectively.

See "Processes and organisation" (p. 7)

At the same time, it is working to develop new and innovative business models with its new Business Innovation department. In this way, PHOENIX is hoping to remain fit for the future in order to become even less sensitive to fluctuations in individual areas.

PHOENIX continued to focus on expanding its services in fiscal year 2017/18. This includes the ongoing development of its various pharmacy cooperation programmes.

PHOENIX's network of around 13,000 independent pharmacies in its cooperation and partner programmes is the largest of its kind in Europe. The PHOENIX Pharmacy Partnership acts as a Europe-wide umbrella for PHOENIX's twelve pharmacy cooperation programmes in 15 different countries. This partnership is part of the services provided by PHOENIX' All-in-One service brand. The first PHOENIX Pharmacy Partnership summit was held in Berlin in October 2017. Around 300 pharmacists, industry representatives and PHOENIX managers from a total of 18 different countries spent several days discussing the current challenges, including the digitisation of the healthcare sector in particular.

Significant growth in pharmacy retail business

PHOENIX's pharmacy retail business experienced strong growth in the past year. At the end of fiscal year 2017/18, the Company had 2,099 pharmacies and was the market leader in numerous countries. The acquisition of the Goodwill chain of pharmacies increased the number of pharmacies in Serbia in particular. The acquisition of Goodwill's owner, Inter Pharma d.o.o. was subject to the approval of Serbia's antitrust authorities, which was granted at the start of fiscal year 2018/19. PHOENIX's retail activities also grew significantly in Norway, the Czech Republic and Slovakia thanks to acquisitions and the opening of new pharmacies.

See acquisitions section (p. 11)

In July 2017, the Company successfully launched "LIVSANE", PHOENIX's first Europe-wide category brand for all pharmacies, onto the market. The healthcare products have since been introduced gradually in eleven European countries. The product portfolio is aimed at independent pharmacies in the PHOENIX cooperation programmes as well as individual pharmacies that the Company supplies as part of its pharmaceutical wholesale business. PHOENIX also sells LIVSANE products through its own roughly 1,200 BENU pharmacies. This concept is to be expanded even more in the years ahead.

The Company is also working on tapping into additional distribution channels and digital solutions. PHOENIX has expanded its online shop in the Czech Republic, for example, which now ranks among the country's top 3 online shops. In Norway, PHOENIX has established an online pharmacy through which it plans to generate around 10% of its revenue in the future. There are also plans to further expand the existing online shops in the Netherlands and the UK. The Company also plans to introduce an online shop in Slovakia based on the Czech model.

Pharma Services creates added value for the pharmaceutical industry

Pharma Services combines the services for the pharmaceutical industry throughout Europe under the "All-in-One" service brand. The focus for Pharma Services in fiscal year 2017/18 was on the targeted and customer-oriented development of services. In the field of "Business Intelligence", new products provided customers with insight into the market and information on patient behaviour based on a sample of 12,000 pharmacies in Europe. The "Healthcare Logistics" network with the CEE (Central Eastern Europe) BRIDGE solution currently has three hubs in Belgrade, Prague and Warsaw. PHOENIX constructed new, modern logistics centres in Køge, Denmark and Brno, Czech Republic, in order to reinforce its position in the European pharmaceutical logistics sector. In the "Patient Services" division, PHOENIX carried out campaigns in pharmacies in partnership with the pharmaceutical industry.

The aim of the measures was to raise awareness of dangerous illnesses and prompt treatment among patients throughout Europe. In the field of “Clinical Trial Supply Services”, the Company expanded its services, for example, in connection with the procurement of means of comparison and advisory services.

Acquisition strategy contributes to profitable growth

Three acquisitions in focus.

Targeted acquisitions in the core wholesale and pharmacy retail business as well as in the field of services are helping PHOENIX to grow sustainably. Business combinations in fiscal year 2017/18 led to a cash outflow of EUR 38.8m (prior year: EUR 328.6m). Cash received from divestitures amounted to EUR 12.2m (prior year: EUR 33.4m). The focus was on three acquisitions in the reporting year: the takeover of Medaffcon by Tamro in Finland, the proposed acquisition of Goodwill in Serbia and the purchase of DeclaCare in the Netherlands.

Tamro, PHOENIX’s national entity in Finland, acquired Medaffcon Oy in May 2017. The company operates in the fields of research and advisory services for the pharmaceutical industry and healthcare sector. The transaction significantly reinforces Tamro’s portfolio of services as one of Finland’s leading healthcare services providers. In October 2017, PHOENIX signed an agreement to acquire the Goodwill Apoteka chain of pharmacies in Serbia. The purchase of the company, which operates 138 pharmacies throughout the country, reinforces PHOENIX’s leadership in the Serbian pharmacy market. After being renamed, more than 300 Serbian pharmacies will operate under the BENU brand. The acquisition of Goodwill’s owner, Inter Pharma d.o.o. was subject to the approval of Serbia’s antitrust authorities, which was granted at the start of fiscal year 2018/19. In December 2017, BENU Nederland B.V., which belongs to PHOENIX, acquired the service provider DeclaCare B.V. DeclaCare brings medical products for modern wound treatment and compression therapy to the existing portfolio of PHOENIX’s Dutch subsidiary “BENU Direct”, which mainly sells products for incontinence and diabetes. The acquisition makes BENU Direct the market leader in this segment. All of these measures represent another step along PHOENIX’s journey to becoming Europe’s best integrated healthcare services provider.

The corporate acquisitions of the prior fiscal year have now largely been completed. The acquisition of Mediq Apotheken Nederland B.V. by Brocacef Groep N.V. in the Netherlands, in particular, is on track and having a significant positive effect on revenue and profit.

Substantial investment putting the Company in a good position for the future

In addition to acquisitions, investment is an important part of PHOENIX’s corporate strategy. That is why PHOENIX invests a substantial and steadily rising share of its profit in new distribution centres, automation technology, services for the pharmaceutical industry and the modernisation of pharmacies. Last year the Company invested EUR 207.4m as part of a major, Europe-wide investment programme. PHOENIX’s ONE project involves building a ground-breaking logistics centre in the Danish town of Køge. The modern high-rack warehouse will offer space for 60,000 palettes, including for anaesthetics and products requiring a controlled ambient temperature. The project is due to be completed in the summer of 2018. The associated volume of investment amounts to more than EUR 70m. We successfully completed the Skårer investment project in Norway in the reporting year. This involved implementing new automation technology, which we will use to achieve a high degree of volume utilisation and increase productivity significantly. In Gotha, the Company built a new distribution and logistics centre in a record-breaking time of eleven months, with operations commencing in October 2017. Since then, the facility, which covers more than 10,000 square metres, has handled deliveries to pharmacies in the German federal states of Thuringia, Saxony and Saxony-Anhalt. PHOENIX completed the conversion and modernisation of the UK's largest distribution centre in Runcorn in the spring of 2017.

Management Board's overall assessment of the situation

PHOENIX was again able to successfully further strengthen its market position in fiscal year 2017/18 as a leading pharmaceutical trader in Europe and expand its wholesale and retail activities. Despite challenging conditions, PHOENIX has managed to grow at a higher rate than the overall market and increase its total operating performance and revenue once again. Earnings have also improved significantly in comparison to the prior year, thereby achieving our forecast for the past fiscal year.

RESULTS OF OPERATIONS

	FY 2016/17 in EUR m	FY 2017/18 in EUR m	Change in EUR m	Change %
Total operating performance	30,232.8	31,526.2	1,293.4	4.3
Revenue	24,436.7	24,909.8	473.1	1.9
EBITDA	417.8	455.0	37.2	8.9
EBIT after goodwill impairment	291.4	308 ,0	16.6	5.7
EBIT before goodwill impairment	291.4	322 ,0	30.6	10.5
Financial result	– 48.8	– 50.6	– 1.8	3.7
Profit before tax	242.5	257.5	15.0	6.2
Profit or loss for the period after goodwill impairment	142.8	180.2	37.4	26.2
Profit or loss for the period before goodwill impairment	142.8	194.2	51.4	36.0
Equity	2,849.8	2,840.0	– 9.8	– 0.3
Equity ratio (%)	33.1	34.1	1.0	3.0
Net debt	1,377.5	1,569.1	191.6	13.9

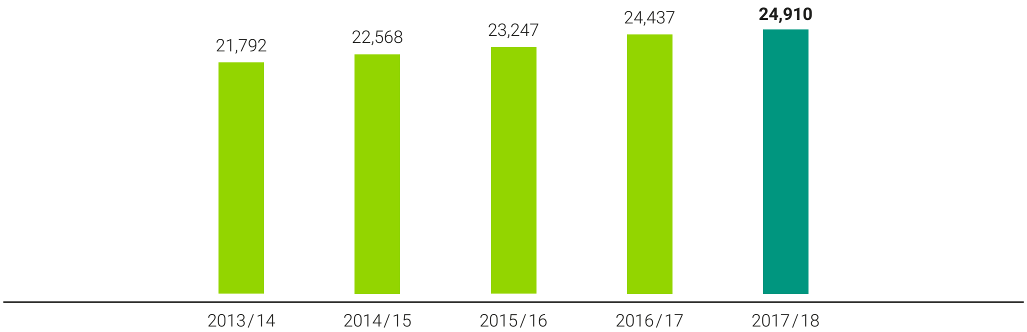
Total operating performance, which comprises revenue and changes in merchandise volumes, increased by 4.3% to EUR 31,526.2m in fiscal year 2017/18. Adjusted for foreign exchange rate effects, the growth amounts to 4.7%.

Revenue increased by 1.9% to EUR 24,909.8m in fiscal year 2017/18 (prior year: EUR 24,436.7m). We achieved growth in all regions. Adjusted for foreign exchange rate effects, revenue increased by 2.4%. A total of 0.1% stemmed from changes in the basis of consolidation, thereby achieving our revenue forecast for the past fiscal year.

Significant increase in total operating performance and revenue, each adjusted for foreign exchange rate effects.

DEVELOPMENT OF SALES

EUR m



Revenue by region (before consolidation) breaks down as follows:

	FY 2016/17 in EUR m	FY 2017/18 in EUR m	Change in EUR m	Change %
Germany	8,623.8	8,666.4	42.6	0.5
Western Europe	8,458.3	8,492.7	34.4	0.4
Eastern Europe	3,474.4	3,576.0	101.6	2.9
Northern Europe	3,927.3	4,236.6	309.3	7.9

Gross profit margin increases further

Gross income increased by EUR 83.0m to EUR 2,508.4m. The gross profit margin, calculated as gross profit in relation to revenue, increased from 9.93% to 10.07%. This can mainly be attributed to an improved cost-of-sales ratio. Pressure on margins in the United Kingdom caused by market conditions had a contrasting effect.

Gross profit margin improved despite sustained pressure on margins.

Personnel costs rose from EUR 1,289.2m to EUR 1,342.4m. Adjusted for currency effects, personnel expenses increased by 5.2% compared to the prior year. This is primarily attributable to acquisitions, collectively bargained wage increases and an increase in headcount due to the expansion of business.

Other expenses increased by EUR 9.0m to EUR 873.4m. This was mainly due to higher transportation costs and rental expenses. In relation to revenue, other expenses came to 3.5% (prior year: 3.5%).

Earnings before interest, taxes, depreciation and amortisation (EBITDA) rose from EUR 417.8m to EUR 455.0m. This is an increase of 8.9%. There was a disproportionately strong increase in total income this year compared to total expenses.

As forecast, adjusted EBITDA of EUR 484.3m was up EUR 53.8m on the prior-year figure. Adjusted EBITDA developed as follows:

	FY 2016/17 EUR k	FY 2017/18 EUR k	Change EUR k	Change %
EBITDA	417,832	454,967	37,135	8.9
Interest from customers	10,614	10,127	– 487	– 4.6
Factoring fees	1,998	2,309	311	15.6
Other non-recurring effects	0	16,879	16,879	
Adjusted EBITDA	**430,444**	**484,282**	**53,838**	**12.5**

Amortisation and depreciation came to EUR 146.9m, which is EUR 20.5m more than in the prior year. This was largely due to goodwill impairment amounting to EUR 14.0m (prior year: EUR 0.0m) as well as acquisition effects and investment.

The effects described resulted in earnings before interest and taxes (EBIT) of EUR 308.0m overall (prior year: EUR 291.4m). The return on sales based on EBIT amounted to 1.24% (prior year: 1.19%). EBIT before goodwill impairment rose by EUR 30.6m in comparison to the prior year.

Financial result slightly lower

Despite a negative effect amounting to EUR 12.2m as a result of buying back bonds with a nominal value of EUR 100.0m, the financial result fell just slightly from EUR – 48.8m to EUR – 50.6m (a fall of EUR 1.7m).

Earnings before taxes amounted to EUR 257.5m (prior year: EUR 242.5m).

Earnings before taxes rise to €257.5 million.

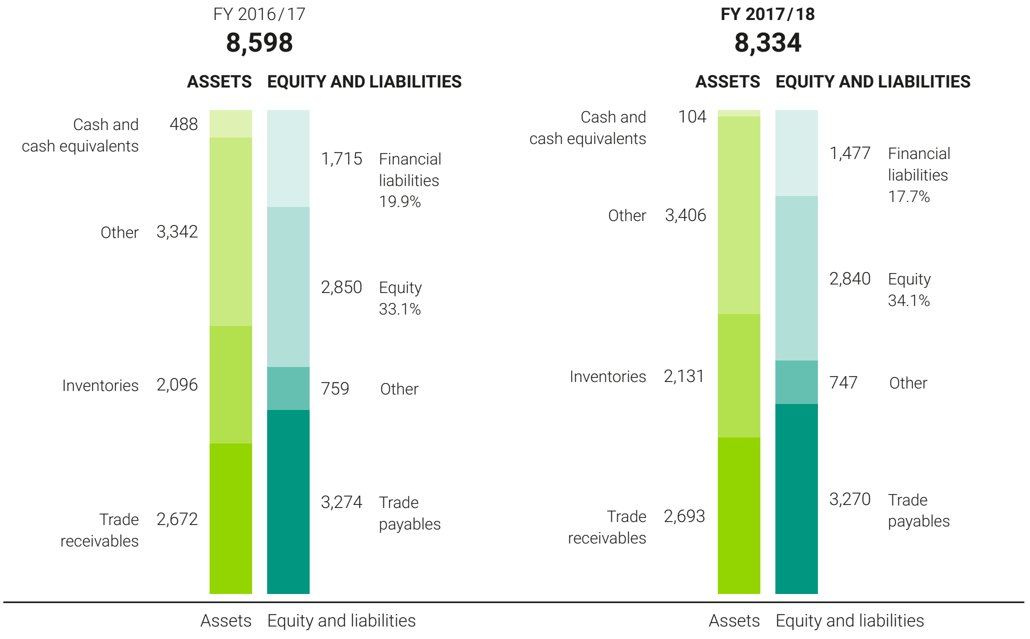
Income tax amounted to EUR 77.3m (prior year: EUR 99.7m) and contain expenses from current taxes of EUR 65.3m (prior year: EUR 90.3m) as well as deferred tax expenses of EUR 11.9m (prior year: EUR 9.4m). The tax ratio came to 30.0% (prior year: 40.4%). The reduction in the tax ratio can above all be attributed to non-recurring effects in the prior year relating to taxable gains on sale, the exhaustion of tax loss carryforwards and tax reimbursements for previous years in the fiscal year in progress.

Profit for the period came to EUR 180.2m (prior year: EUR 142.8m), of which EUR 30.3m (prior year: EUR 20.1m) was attributable to non-controlling interests. The profit for the year before goodwill impairment rose by EUR 51.4m in comparison to the prior year.

The profit attributable to the equity holders of the parent in fiscal year 2017/18 amounted to EUR 149.9m (prior year: EUR 122.7m).

STRUCTURE OF THE STATEMENT OF FINANCIAL POSITION

EUR m



NET ASSETS

The Group's total assets decreased by 3.1% to EUR 8,334.2m. The currency translation difference on total assets amounted to EUR – 96.3m (prior year: EUR – 92.7m).

Intangible assets increased by EUR 19.2m to EUR 1,975.6m. This is mainly due to the rise in goodwill due to acquisitions. As of 31 January 2018, intangible assets essentially comprised goodwill (EUR 1,600.0m; prior year: EUR 1,577.4m) and pharmacy licences (EUR 295.1m; prior year: EUR 302.1m).

Inventories rose slightly in comparison to the prior year by 1.7% to EUR 2,130.7m. The average number of days sales of inventory rose slightly from 31.5 to 32.0 days.

Trade receivables increased slightly from EUR 2,672.2m in the prior year to EUR 2,693.3m. The average number of days of sales outstanding continued to fall from 41.8 to 41.1.

Receivables amounting to EUR 61.2m had been sold as of 31 January 2018 (prior year: EUR 24.0m) under ABS and factoring programmes that are not accounted for in the statement of financial position. Receivables of EUR 177.1m had been sold as of 31 January 2018 (prior year: EUR 175.6m) under ABS and factoring programmes that are accounted for only to the extent of the continuing involvement. The Group's continuing involvement came to EUR 8.2m (prior year: EUR 7.9m).

Other receivables and other current financial assets fell by EUR 13.0m to EUR 167.1m. This is largely attributable to the decrease in receivables from ABS/factoring programmes.

FINANCIAL POSITION

The objective of financial management is to ensure a sound capital structure to finance operating business.

Stable development of equity

Equity of EUR 2,840.0m was on a level with the prior year (EUR 2,849.8m). The profit for the period of EUR 180.2m had a positive effect on equity. This was mainly offset by a EUR 170.0m capital reduction as well as dividend payments of EUR 10.2m to non-controlling interests. The equity ratio rose from 33.1% in the prior year to 34.1% and was stable, as forecast in the group management report for fiscal year 2016/17.

Increase of equity ratio to 34.1 per cent, due to growth of net profit.

	FY 2016/17 in EUR m	FY 2017/18 in EUR m	Change in EUR m	Change %
Profit or loss for the period	142.8	180.2	37.4	26.2
Non-cash expenses/income, non-cash payments	256.4	204.0	– 52.4	– 20.4
Change in working capital	– 32.2	– 173.0	– 140.8	437.3
Cash flow from operating activities	**367.0**	**211.2**	**– 155.8**	**– 42.5**
Cash flow from investing activities	**– 448.5**	**– 220.4**	**228.1**	**– 50.9**
Free cash flow	**– 81.5**	**– 9.2**	**72.3**	**– 88.7**

Cash flow from operating activities came to EUR 211.2m (prior year: EUR 367.0m), which was largely affected by a higher increase of EUR 140.8m in working capital compared to the prior year. The cash flow from investing activities came to EUR – 220.4m (prior year: EUR – 448.5m). The figure for the prior year was influenced, above all, by the acquisition of Mediq Apotheken Nederland B.V.

Free cash flow improved from EUR – 81.5m in the prior year to EUR – 9.2m. For the change in free cash flow and cash and cash equivalents, please refer to the statement of cash flows.

Free cash flow improved to € – 9.2 million.

See consolidated statement of cash flows (p. 30)

Provisions for pensions fell – largely due to currency translation effects – from EUR 251.8m in the prior year to EUR 235.0m in the reporting year.

Non-current financial liabilities came to EUR 655.8m (prior year: EUR 753.5m). This includes loans of EUR 496.3m (prior year: EUR 594.1m) as well as a promissory note issued in October 2016 for a nominal value of EUR 150.0m, term to maturity of up to seven years and a carrying amount of EUR 149.6m (prior year: EUR 149.3m). In fiscal year 2017/18, PHOENIX bought back bonds with a nominal value of EUR 100.0m.

Current financial liabilities fell by a total of EUR 140.9m to EUR 821.0m in particular due to a fall in liabilities from ABS and factoring agreements.

Current financial liabilities include liabilities to banks of EUR 179.3m (prior year: EUR 182.2m), liabilities from ABS and factoring agreements of EUR 415.0m (prior year: EUR 533.9m) as well as other loans of EUR 116.0m (prior year: EUR 134.1m).

According to the calculation below, total net financial liabilities increased from EUR 1,377.5m to EUR 1,569.1m.

	FY 2016/17 EUR k	FY 2017/18 EUR k	Change EUR k	Change %
+ Financial liabilities (non-current)	753,516	655,783	– 97,733	– 13.0
– Derivative financial instruments (non-current)	– 216	– 229	– 13	6.0
+ Financial liabilities (current)	961,878	820,954	– 140,924	– 14.7
– Derivative financial instruments (current)	– 1,172	– 2,292	– 1,120	95.6
– Cash and cash equivalents	– 487,861	– 104,415	383,446	– 78.6
+ Receivables sold in the course of factoring and ABS transactions	191,664	230,111	38,447	20.1
– Factoring receivables	– 24,941	– 25,245	– 304	1.2
– Receivables from ABS programmes	– 15,321	– 5,589	9,732	– 63.5
Net debt	**1,377,547**	**1,569,078**	**191,531**	**13.9**

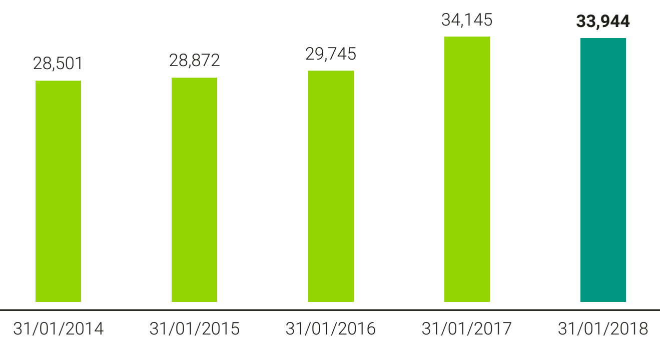
Trade payables decreased by EUR 3.9m compared to the prior year to EUR 3,269.6m.

For further information on PHOENIX's financial liabilities, please refer to the sections on "Financial liabilities" and "Other notes" in the notes to the consolidated financial statements.

EMPLOYEES

DEVELOPMENT OF EMPLOYEES

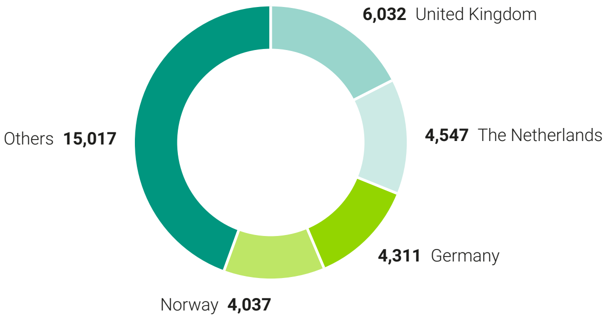
Number



At the end of fiscal year 2017/18, PHOENIX employed 33,944 employees within 26 countries in Europe. This meant that the headcount remained almost unchanged in relation to the comparison period. The number of full-time equivalents rose to 27,638, which is an increase of 3.9% relative to the prior year.

EMPLOYEES BY COUNTRY

as of 31/01/2018



In-depth dialogue with employees

PHOENIX's corporate culture is characterised by values that are enshrined in the Company's mission statement, group-wide management guidelines and a trust-based dialogue between managers and employees.

As part of the follow-up process to the employee survey carried out throughout the Group at the end of 2015, the managers developed action areas for their divisions and worked with their employees to develop measures. A total of more than 140 improvement measures were drawn up, most of which had been implemented by the end of 2017. The majority of these related to the fields of communications, sharing information and creating a healthy, motivating and appreciative work environment.

Numerous follow-up measures derived from the employee survey have been implemented.

PHOENIX's Management Board and the management of the national entities are closely monitoring the implementation of the measures and the achievement of objectives. The Company is planning to conduct another international employee survey in the second half of 2018 in order to monitor the development of employee satisfaction and motivation and to be able to identify additional potential for improvement. PHOENIX also receives important feedback in this regard from annual talks with employees.

Expertise through training

It is especially important to PHOENIX to acknowledge the potential of its employees and to systematically foster their capabilities, which is why the Company has set up an efficient training system that allows employees to build up their expertise and gain valuable input for their personal development. All employees participate in targeted on-boarding programmes and training according to their field of work. The mandatory elements include training on the subjects of Good Distribution Practice (GDP), Code of Conduct, the Anti-Corruption Policy and the Competition Compliance Policy. At the same time at a European level, PHOENIX exchanges best practices when implementing training steps in pharmacy retail. In addition to face-to-face instruction, the Company mainly uses e-learning systems to provide employees efficient training on a variety of different subjects.

Broad roll-out of talent management

PHOENIX endeavours to fill management positions from within its own ranks if possible. To this end, there is cross-border succession planning for top positions that offer international career opportunities for management and strengthen their connection with the Company. To this end, a talent management system has been developed that defines the key positions within the Company, identifies high performers and opens up ideal opportunities for progression. In 2017 there were a total of 270 managers in the talent management system.

PHOENIX uses a number of different development programmes to foster talented managers:

- The Junior Development Programme (JDP) for younger employees with management potential in Germany
- The Management Development Programme (MDP) for experienced employees in Germany
- The "European Management Development Programme" (EMDP) as a group-wide measure to develop personnel to take on managerial positions in all countries of PHOENIX
- The Top Management Education Programme (TMP) for PHOENIX's senior management

The talent management system was used at a national level for the first time to identify senior managers with potential and nominate them for a group-wide development programme. In 2018, the participants for this new Senior Management Education Programme (SMP) for managers at PHOENIX's second-highest level are being selected centrally by means of an online assessment. This ensures a high level of performance and learning. The EMDP is also being completely overhauled as a Middle Management Education Programme (MMP) starting in 2018.

Appealing opportunities for trainees and students

PHOENIX trains and promotes young people.

PHOENIX offers young and motivated people a wide range of opportunities to join, such as internships, apprenticeships and combined courses of study. The Company is involved in various different careers and degree information events as well as training markets in order to make interested applicants aware of the appealing opportunities offered by PHOENIX.

As of 1 October 2017, PHOENIX employed 123 trainees and 17 combined degree students at its German sub-group. The Company provides a career start with a traineeship as a management assistant in wholesale, a warehouse logistics specialist, an IT specialist or as a Bachelor's student of commerce or information systems. PHOENIX promotes group-wide communications that transcend national boundaries by means of time spent abroad during combined degrees. In fiscal year 2017/18, participants in the degree courses were able to gain experience in Finland, Italy, Latvia and Lithuania.

RISK AND OPPORTUNITY REPORT

- Risk management system allows action to be taken swiftly
- Quality and stability of operating processes as a foundation
- Opportunities are identified and exploited

RISK MANAGEMENT

The risk management system within PHOENIX consists of comprehensive planning, approval and reporting structures and an early warning system. The internal audit department examines this system regularly for adequacy, operability and efficiency. Findings made by the internal audit department are reported to the Management Board on a regular basis.

RISKS

PHOENIX is subject to various risks.

PHOENIX is subject to market risks. As a rule, the pharmaceutical market is less affected by cyclical swings than other industries, but the loss of purchasing power and cost-saving measures in government spending on healthcare can have a negative impact on the market and our business activities.

The earnings situation in the pharmaceutical wholesale business is also influenced by the terms and conditions granted to customers and by suppliers. These depend in particular on the level of competition in the individual countries, which is why they are continually monitored on the sales and purchasing side.

In the operating business, the quality and stability of the operating processes are decisive. In many areas, there are contingency plans for maintaining operations even in the event of unforeseen interruptions. The standardisation of the IT systems also helps ensure the stability of the operating processes.

Credit risk and accounts receivable management

The credit risk at PHOENIX, measured as total receivables, is comparatively low. Regardless of this, payment terms in the public healthcare system tend to vary from one country to another, with longer payment terms customary in southern and eastern Europe. In our experience, the risk is also distributed over a large number of customer relationships. In the course of liberalisation of the pharmacy markets in Europe, however, pharmacy chains and new sales channels are increasingly emerging, creating a large number of major customers with a higher level of receivables outstanding.

A group-wide guideline for accounts receivable management aims to systematically monitor receivables risks.

Acquisition projects

PHOENIX's strategy is to acquire pharmacies and wholesale companies to expand its market position. As a result, the Group is exposed to legal, fiscal, financial and operational risks from acquisitions. Acquisition projects are therefore analysed and reviewed by the central mergers & acquisitions department before they are approved by the Management Board. It may, however, happen that developments anticipated at the date of acquisition do not eventuate. This can, in turn, lead to an impairment loss being recognised on goodwill in the course of impairment testing.

Legal risks

PHOENIX is active in 26 countries in Europe. In light of its strong market position, there is a risk that competition authorities will occasionally rule in a way that is unfavourable for us. Trade with pharmaceutical products requires compliance with certain legal requirements in the different countries. Infringements of these requirements may result in corresponding penalties by the authorities.

Financial risks

In a financing context, PHOENIX is exposed to various risks.

In the course of the refinancing measures concluded in June 2012, certain financial covenants were agreed, the breach of which presents a risk to financing. The development of liabilities and covenants is monitored regularly as a result. In fiscal year 2017/18, the agreed covenants were complied with comfortably.

Derivatives are used to hedge against interest rate and currency risks. Their use is monitored intensively on a timely basis. Derivative financial instruments are only used for hedging purposes; counterparty risks are minimised by the careful selection of trading partners.

The agreements underlying our corporate bonds contain restrictions and obligations for PHOENIX, as an issuer, that are customary for the market. Failure to comply with these restrictions and obligations could result in the amount of the bond plus the interest accrued falling due.

As regards the currency translation risk, the exchange rates of the pound sterling and the Norwegian krone are of relevance for PHOENIX. Currency transaction risks are relevant in some eastern European countries where deliveries by the pharmaceutical manufacturers are sometimes invoiced in euro and sometimes in US dollar. For the Group, however, these risks are not material. Fluctuations on the financial markets may also lead to shortfalls in the pension funds and the inherent risk of an unplanned increase in personnel expenses.

Tax risks

The companies of PHOENIX based in Germany are subject to tax field audits. Foreign subsidiaries are subject to the audit requirements of their local tax authorities. Tax backpayments cannot be ruled out as a result of tax audits performed at German and foreign companies.

Please also refer to the comments in the notes to the consolidated financial statements.

See consolidated financial statements (p. 34)

OPPORTUNITIES

Demographic trends and medical progress are key growth drivers for the pharmaceutical markets. The broad geographic diversification of PHOENIX reduces the impact of changes in healthcare policy in individual markets and provides a strong basis for successfully developing our business activities further. Thanks to its broad geographical coverage, for instance, PHOENIX can offer the pharmaceutical industry services across Europe.

Strong market position in wholesale

PHOENIX holds a leading market position in pharmaceutical wholesale in almost all countries in which it operates. It is the market leader in a large number of countries and has a particularly strong position in northern and eastern Europe and in Germany. No competitor has comparable geographic coverage or market position in these regions.

See graphics p. 4 and p. 5 (Fundamental information about the Group)

In addition, PHOENIX can fall back on long-established partnerships with pharmacy customers. Many customers take part in cooperation programmes. In some countries, PHOENIX also offers franchise systems for independent pharmacies.

Well positioned in a stable market

The integration of the wholesale and retail pharmaceutical business offers opportunities to further improve the supply of pharmaceuticals and save on costs.

In the logistics area, PHOENIX continuously implements best practices across Europe. Process optimisation measures that are successful in one country serve as a starting point for improvement measures in other countries and can help to reduce costs there.

The sound financing structure has established the financial prerequisites for the future growth of PHOENIX. This applies as regards both organic growth and appropriate acquisitions.

MANAGEMENT BOARD'S OVERALL ASSESSMENT OF THE RISKS AND OPPORTUNITIES

PHOENIX is well positioned.

Generally speaking, PHOENIX enjoys a strong position in a stable market. This allows it to successfully take advantage of any opportunities that present themselves in order to build on its strong market position in the future. The risks and opportunities in the pharmaceutical retail business are not subject to any major changes over time. There are currently no discernible risks to jeopardise the Company's ability to continue as a going concern.

FORECAST

- Moderate growth predicted in the eurozone and Germany
- Revenue growth expected in nearly all markets
- Prerequisites in place for the positive long-term business development of PHOENIX

FUTURE ECONOMIC ENVIRONMENT

We anticipate a stable economic environment in 2018, with GDP in Germany and the eurozone expected to grow by around 2%.

We expect the pharmaceutical markets in Europe to record market growth of around 2.2% overall in 2018. In Germany, our largest market, we anticipate market growth of approximately 2.9%.

FUTURE DEVELOPMENT OF PHOENIX

For fiscal year 2018/19, PHOENIX expects to further expand its market position in Europe through organic growth and acquisitions and thereby increase revenue slightly above the level of growth on the European pharmaceutical markets. We expect revenue growth in nearly all markets in which we are present.

We expect EBITDA in 2018/19 to be slightly lower than in 2017/18 due to extraordinary expenses relating to optimisation programmes.

We expect a mostly stable development for the equity ratio.

MANAGEMENT BOARD'S ASSESSMENT OF THE GROUP'S FUTURE POSITION

The Management Board is convinced that PHOENIX is well positioned to achieve a positive business development in the medium and long term. In addition to organic and acquisition-related growth, increasing efficiency will also be an important contributing factor.

Ongoing positive development of the company forecasted.

Mannheim, 6 April 2018

Management of the unlimited partner
PHOENIX Verwaltungs GmbH

Oliver Windholz (Chair)   Helmut Fischer   Frank Große-Natrop   Stefan Herfeld

CONSOLIDATED FINANCIAL STATEMENTS 2017/18

CONSOLIDATED INCOME STATEMENT

for fiscal year 2017/18

EUR k	Note	FY 2016/17	FY 2017/18
Revenue	1	**24,436,695**	**24,909,833**
Cost of purchased goods and services		– 22,011,309	– 22,401,432
Gross income		**2,425,386**	**2,508,401**
Other operating income	2	141,839	157,604
Personnel expenses	3	– 1,289,161	– 1,342,391
Other operating expenses	4	– 864,397	– 873,380
Result from associates and joint ventures	5	1,671	2,543
Result from other investments	5	2,494	2,190
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		**417,832**	**454,967**
Amortisation of intangible assets and depreciation of property, plant and equipment	6	– 126,469	– 146,938
Earnings before interest and taxes (EBIT)		**291,363**	**308,029**
Interest income		12,603	14,808
Interest expense		– 58,809	– 50,098
Other financial result		– 2,643	– 15,283
Financial result	7	**– 48,849**	**– 50,573**
Profit before income tax		**242,514**	**257,456**
Income tax	8	– 99,690	– 77,261
Profit for the period		**142,824**	**180,195**
thereof attributable to non-controlling interests		20,148	30,277
thereof attributable to equity holders of the parent		122,676	149,918

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for fiscal year 2017/18

EUR k	FY 2016/17	FY 2017/18
Earnings after taxes	**142,824**	**180,195**
Items not reclassified to profit or loss		
Remeasurement of defined benefit plans	–30,448	295
Items that may be subsequently reclassified to profit or loss as a result		
Gains/losses from changes in the fair value of available-for-sale financial assets	1,657	2,806
Reclassification adjustments	–270	–
Currency translation differences	–45,429	–3,693
Components of other comprehensive income, net of tax	**–74,490**	**–592**
Total comprehensive income	**68,334**	**179,603**
thereof attributable to non-controlling interests	20,119	30,248
thereof attributable to equity holders of the parent	48,215	149,355

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as of 31 January 2018

ASSETS

EUR k	Note	31 Jan. 2017 [1)]	31 Jan. 2018
Non-current assets			
Intangible assets	9	1,958,319	1,975,561
Property, plant and equipment	10	857,145	915,144
Investment property	11	11,794	10,596
Investments in associates and joint ventures	12	14,134	14,726
Trade receivables		153	16
Other financial assets	13	91,648	95,008
Other assets		236	0
Deferred tax assets	8	82,667	78,768
		3,016,096	**3,089,819**
Current assets			
Inventories	14	2,096,010	2,130,706
Trade receivables	15	2,672,065	2,693,262
Income tax receivables		33,216	31,282
Other financial assets	15	180,106	167,061
Other assets	16	104,734	112,102
Cash and cash equivalents	17	487,861	104,415
		5,573,992	**5,238,828**
Non-current assets held for sale	24	8,285	5,507
Total assets		**8,598,373**	**8,334,154**

[1)] Prior-year figures were restated due to the finalisation of a purchase price allocation

EQUITY AND LIABILITIES

EUR k	Note	31 Jan. 2017 [1)]	31 Jan. 2018
Equity			
Unlimited and limited partners' capital	18	1,185,000	1,000,000
Reserves	18	1,566,327	1,721,560
Accumulated other comprehensive income	18	– 223,001	– 223,564
Equity attributable to the shareholders of the parent		**2,528,326**	**2,497,996**
Non-controlling interests	18	321,438	341,973
		2,849,764	**2,839,969**
Non-current liabilities			
Financial liabilities	21	753,516	655,783
Trade payables		220	2
Provisions for pensions and similar obligations	19	251,812	234,962
Other non-current provisions	20	1,311	1,327
Deferred tax liabilities	8	120,060	122,071
Income tax liabilities		0	0
Other non-current liabilities	23	2,534	2,115
		1,129,453	**1,016,260**
Current liabilities			
Financial liabilities	21	962,378	820,954
Trade payables	22	3,273,312	3,269,572
Other provisions	20	50,708	51,729
Income tax liabilities		45,885	36,575
Other liabilities	23	286,402	299,095
		4,618,685	**4,477,925**
Liabilities directly associated with assets held for sale	24	471	0
Total equity and liabilities		**8,598,373**	**8,334,154**

[1)] Prior-year figures were restated due to the finalisation of a purchase price allocation

CONSOLIDATED STATEMENT OF CASH FLOWS

for fiscal year 2017/18

EUR k	31 Jan. 2017	31 Jan. 2018
Earnings after income taxes	**142,824**	**180,195**
Income taxes	99,690	77,261
Earnings before income taxes	**242,514**	**257,456**
Adjustments for:		
Interest expenses and interest income	46,206	35,290
Amortisation, depreciation and write-ups of intangible assets, property, plant and equipment and investment property	126,469	146,938
Result from associates and other investments	−4,165	−4,733
Result from the disposal of assets allocated to investing activities	1,540	−5,620
Other non-cash expenses and income	113,172	90,795
	525,736	**520,126**
Interest paid	−43,797	−44,211
Interest received	12,853	13,293
Income tax paid	−70,054	−75,502
Dividends received	3,096	2,556
Earnings before changes in assets and equity and liabilities	**427,834**	**416,262**
Changes in assets and equity and liabilities, adjusted for effects from changes in the basis of consolidation and other non-cash changes:		
Changes in non-current provisions	−28,609	−32,109
Earnings before changes in operating assets and equity and liabilities	**399,225**	**384,153**
Changes in inventories	−73,076	−44,519
Changes in trade receivables	−88,411	−87,724
Changes in trade payables	136,599	−8,629
	−24,888	**−140,872**
Changes in other assets and equity and liabilities not allocated to investing or financing activities.	−7,309	−32,129
Changes in operating assets and equity and liabilities	**−32,197**	**−173,001**
Cash outflow from operating activities	**367,028**	**211,152**
Acquisition of consolidated entities and business units less any cash and cash equivalents acquired	−328,572	−38,844
Investments in intangible assets, property, plant and equipment and investment property	−163,235	−207,350
Investments in other financial assets and non-current assets	−1,974	−1,221
Investments	**−493,781**	**−247,415**

EUR k	31 Jan. 2017	31 Jan. 2018
Cash received from the sale of consolidated entities and business units less any cash and cash equivalents transferred	33,373	12,192
Cash received from the sale of intangible assets, property, plant and equipment and investment property	5,443	12,685
Proceeds from other financial assets and non-current assets	6,469	2,154
Proceeds from investments and divestitures	**45,285**	**27,031**
Cash outflow from investing activities	**– 448,496**	**– 220,384**
Cash available for financing activities	**– 81,468**	**– 9,232**
Capital increase/repayment	67,108	– 170,015
Capital contribution from/capital repayment to non-controlling interest(s)	0	– 159
Acquisition of additional shares in already consolidated entities	– 12,137	– 5,131
Proceeds from the sale of consolidated entities that do not result in a loss of control	79	54
Dividend payments to non-controlling interests	– 8,329	– 10,371
Issue of bonds and loans from banks	222,391	49,485
Repayment of bonds and loans to banks	– 213,217	– 219,655
Changes in bank loans with a term of up to three months	– 3	47,992
Issue of loans from partners of the parent company	0	98,000
Repayment of loans to partners of the parent company	0	– 98,000
Issue of loans from related parties	150,000	172,000
Repayment of loans to related parties	– 150,000	– 172,000
Changes in ABS/factoring liabilities	145,584	– 63,002
Changes in finance lease liabilities	– 665	– 544
Changes in other financial liabilities	0	– 1,146
Cash inflow from financing activities	**200,811**	**– 372,492**
Change in cash and cash equivalents	**119,343**	**– 381,724**
Effect of exchange rate changes on cash and cash equivalents	637	– 1,722
Cash and cash equivalents at the beginning of the period	367,881	487,861
Cash and cash equivalents at the end of the period	487,861	104,415
Less cash and cash equivalents of assets held for sale	0	0
Cash and cash equivalents disclosed at the end of the period	**487,861**	**104,415**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for fiscal year 2017/18

EUR k	Unlimited and limited partners' capital	Reserves
1 February 2016	**1,185,000**	**1,444,420**
Earnings after taxes		122,676
Accumulated other comprehensive income		
Total comprehensive income after taxes		**122,676**
Capital increase/reduction		
Changes relating to the basis of consolidation		
Changes in interests for subsidiaries		633
Dividends		
Other changes in equity		– 1,402
31 January 2017	**1,185,000**	**1,566,327**
1 February 2017	**1,185,000**	**1,566,327**
Earnings after taxes		149,918
Accumulated other comprehensive income		
Total comprehensive income after taxes		**149,918**
Capital increase/reduction	– 185,000	14,985
Changes in interests for subsidiaries		– 2,132
Dividends		
Other transactions with owners		– 4,000
Other changes in equity		– 3,538
31 January 2018	**1,000,000**	**1,721,560**

Currency translation differences	IAS 39 available-for-sale financial assets	Remeasurement of defined benefit plans	Equity attributable to the shareholders of the parent	Non-controlling interests	Total equity
–48,480	**8,416**	**–108,476**	**2,480,880**	**245,588**	**2,726,468**
			122,676	20,148	142,824
–44,218	1,354	–31,597	–74,461	–29	–74,490
–44,218	**1,354**	**–31,597**	**48,215**	**20,119**	**68,334**
				67,624	67,624
				2,240	2,240
			633	–9,286	–8,653
				–8,231	–8,231
			–1,402	3,384	1,982
–92,698	**9,770**	**–140,073**	**2,528,326**	**321,438**	**2,849,764**
–92,698	**9,770**	**–140,073**	**2,528,326**	**321,438**	**2,849,764**
			149,918	30,277	180,195
–3,571	2,741	267	–563	–29	–592
–3,571	**2,741**	**267**	**149,355**	**30,248**	**179,603**
			–170,015		–170,015
			–2,132	–2,422	–4,554
				–10,225	–10,225
			–4,000		–4,000
			–3,538	2,934	–604
–96,269	**12,511**	**–139,806**	**2,497,996**	**341,973**	**2,839,969**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for fiscal year 2017/18

GENERAL

The Company

The Group of PHOENIX Pharmahandel GmbH & Co KG, Mannheim ("PHOENIX"), is a European pharmaceuticals trading group. PHOENIX has business activities in 26 European countries. In several countries, PHOENIX also operates pharmacy chains of its own. The Company is entered in the commercial register in Mannheim under HRA 3551 and has its registered office at Pfingstweidstrasse 10–12 in 68199 Mannheim, Germany. The consolidated financial statements of PHOENIX Pharmahandel GmbH & Co KG are included in the consolidated financial statements of PHOENIX Pharma SE, Mannheim.

Basis of presentation

The consolidated financial statements of PHOENIX have been prepared in accordance with the version of the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB), London, that is valid on the reporting date and endorsed by the European Union, the interpretations of the IFRS Interpretations Committee (IFRS IC) and the additional requirements of German commercial law pursuant to Sec. 315e HGB ["Handelsgesetzbuch": German Commercial Code].

The consolidated financial statements are presented in euros (EUR) and all values are rounded to the nearest thousand (EUR k), except when otherwise indicated.

The consolidated financial statements have been prepared on a historical cost basis. This does not apply to available-for-sale financial assets, derivative financial instruments and hedged items in fair value hedges, which are measured at fair value. The income statement was prepared using the nature of expense method. The statement of financial position has been classified into current and non-current items in line with IAS 1. For the sake of clarity, certain items in the statement of financial position and the income statement are summarised. Details of these items are presented in the notes to the financial statements.

The consolidated financial statements of PHOENIX for the fiscal year as of 31 January 2018 were authorised for issue by the management of PHOENIX Pharmahandel GmbH & Co KG on 6 April 2018.

Application of new accounting standards and changes in accounting policies

In fiscal year 2017/18, PHOENIX applied the following revised standards and interpretations that are mandatory for fiscal year 2017/18 for the first time:

IAS 12 Deferred Tax

The amendments to IAS 12 relate to clarifications in respect of the recognition of deferred taxes on losses. This did not have any effect on the financial position and performance of PHOENIX.

IAS 7 Statement of Cash Flows

At the core of the amendments to IAS 7 are rules for additional disclosures in the notes that should allow users of financial statements to assess the changes in liabilities from an entity's financing activities. The additional disclosures are contained in Note 28.

Annual Improvements to IFRS 2014 and 2016 Cycles
The amendments define more closely the recognition, measurement and disclosure of business transactions and standardise terminology, and can mainly be considered as editorial changes to existing standards. The amendments did not have any effect on the consolidated financial statements.

Standards, interpretations and amendments issued, but not yet adopted

The IASB and IFRS IC have adopted the standards and interpretations listed below, whose application is not yet mandatory for fiscal year 2017/18 or have not yet been endorsed by the European Commission in some cases as of the reporting date. There are no plans for early adoption.

Standard/interpretation		Effective as of the fiscal year	Endorsed by the EU
IFRS 9	Financial Instruments: Classification and Measurement	2018/19	Yes
Amendments to IFRS 9	Prepayment Features with Negative Compensation	2019/20	Yes
IFRS 15	Revenue from Contracts with Customers	2018/19	Yes
Clarifications to IFRS 15	Revenue from Contracts with Customers	2018/19	Yes
IFRS 16	Leases	2019/20	Yes
IFRS 17	Insurance Contracts	2021/22	No
Amendments to IFRS 4	Application of IFRS 9 Financial Instruments together with IFRS 4 Insurance Contracts	2018/19	Yes
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	2018/19	No
Amendments to IAS 19	Plan Curtailment or Settlement	2019/20	No
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures	2019/20	No
Amendments to IAS 40	Investment Property	2018/19	Yes
Annual IFRS Improvements	2014 – 2016 cycle	2017/18 or 2018/19	Yes
Annual IFRS Improvements	2015 – 2017 cycle	2019/20	No
IFRIC 22	Foreign Currency Transactions and Advance Consideration	2018/19	Yes
IFRIC 23	Uncertainty over Income Tax Treatments	2019/20	No
Amendments to the Conceptual Framework	Conceptual Framework	2020/21	No

IFRS 9, which will in future replace IAS 39, sets out the requirements for the classification, recognition and measurement (including impairment) of financial instruments. IFRS 9 also contains rules on hedge accounting. IFRS 9 results in additional disclosures in the notes. Apart from extended disclosures in the notes, the first-time and continued application of IFRS 9 is not currently expected to have a significant impact on the consolidated financial statements of PHOENIX.

The amendments to IFRS 9 intend to make it possible to also measure financial assets with negative compensation that are repaid ahead of schedule at amortised cost or at fair value through other comprehensive income.

IFRS 15, which will replace IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31 in the future, sets an extensive framework for determining whether, in what amount and at what point in time revenue is recognised. IFRS 15 provides for a uniform, five-level revenue recognition model that is generally applicable to all contracts with customers. Apart from extended disclosures in the notes, we do not expect a significant impact on the financial position and performance of PHOENIX. The clarifications to IFRS 15 are not expected to have any further effects.

The amendments resulting from IFRS 16 mainly concern the lessee. Under IFRS 16, which will replace IAS 17, IFRIC 4, SIC-15 and SIC-27 in the future, all leases as well as the associated contractual rights and obligations must be recognised in the statement of financial position of the lessee. At the time of first application, we expect the balance sheet total to increase significantly on account of the increase in lease liabilities and fixed assets due to the right of use that will be capitalised. The increase in lease liabilities results in a corresponding increase in net debt. In the future, write-downs and interest expenses will be recognised in the income statement instead of lease expenses. This will lead to a significant improvement in the EBITDA and an increase in the cash flow from operating activities in the statement of cash flows. The overall effects on the consolidated financial statements of PHOENIX are being examined in a group-wide project to implement IFRS 16.

The application of IFRS 17 is not expected to have an impact on the financial position and performance of PHOENIX.

The amendments to IFRS 4 do not affect the financial position and performance of PHOENIX.

The amendments to IFRS 2 have no effect on the financial position and performance of PHOENIX.

The amendments to IAS 19 stipulate how to calculate the current service cost and the net interest expenses of a plan curtailment or settlement (“intervention”) for the period between the intervention and the end of the reporting period. From a current perspective, we do not expect a significant impact on the financial position and performance of PHOENIX.

The amendments to IAS 28 clarify that the impairment requirements pursuant to IFRS 9 apply to long-term interests in associates and joint ventures accounted for using the equity method. From a current perspective, we do not expect a significant impact on the financial position and performance of PHOENIX.

The amendments to IAS 40 relate to clarifications in respect of the requirements to reclassify to the category “Investment Property”. From a current perspective, we do not expect a significant impact on the financial position and performance of PHOENIX.

The annual improvements to IFRSs, 2014 – 2016 and 2015 – 2017 cycles, contain clarifications of individual standards. There will be no significant impact on the financial position or performance of PHOENIX.

IFRIC 22 regulates the translation of foreign currency transactions in the event of prepayments made or received. We do not expect a significant impact on the financial position and performance of PHOENIX.

IFRIC 23 specifies the recognition and measurement policies for uncertain tax items. We do not expect a significant impact on the financial position and performance of PHOENIX.

The amendments to the conceptual framework are not expected to affect the consolidated financial statements of PHOENIX.

Basis of consolidation

The consolidated financial statements comprise the financial statements of PHOENIX and its subsidiaries for the fiscal year as of 31 January 2018.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control by the parent ceases.

PHOENIX obtains control over another company when it can exercise power over the investee, is exposed, or has rights to variable returns on its involvement with the investee and has the ability to affect the amount of those returns through its power over the investee.

The financial statements of most of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Only the entities in Norway, Luxembourg, Bulgaria, Serbia, Bosnia, Macedonia, Kosovo, Montenegro and Albania as well as the entities in Hungary, the Netherlands, Germany and Switzerland have 31 December as their reporting date. In general, there is no material impact on the financial statements; this notwithstanding, any material impact is taken into account.

All intragroup balances, income and expenses and unrealised gains and losses resulting from intragroup transactions are eliminated in full.

Non-controlling interests represent the portion of profit or loss and net assets that is not attributable to the Group. The portion of profit or loss attributable to non-controlling interests was consequently disclosed separately in the income statement from the portion attributable to the owners of the parent company. They are reported directly in equity in the statement of financial position, separately from the equity attributable to the owners of the parent company. Acquisitions of non-controlling interests and changes in the interests attributable to the parent company that do not lead to a loss of control are accounted for as equity transactions.

The entire basis of consolidation comprises 430 (31 January 2017: 434) fully consolidated German and foreign companies, of which one (31 January 2017: one) is a structured entity. 25 entities (31 January 2017: 29) were accounted for using the equity method. The complete list of shareholdings is an integral component of the notes to the consolidated financial statements and will be published in the electronic version of the German Federal Gazette.

137 (31 January 2017: 137) entities are fully consolidated although PHOENIX holds less than 50% of the voting rights. Contractual arrangements mean that PHOENIX is able to direct the relevant activities of these entities.

As of the reporting date, there were relationships in place with a total of five (31 January 2017: five) structured entities, of which one (31 January 2017: one) was fully consolidated. The structured entities are asset-backed securities (ABS) entities. The ABS entities are mainly used to refinance the Group. The non-consolidated structured entities are immaterial for the financial position and performance of PHOENIX.

The table below presents changes in interests without loss of control in the current fiscal year.

in %	31 Jan. 2017	31 Jan. 2018
Pharmac Finland Oy	43.00	44.30
Apotheek Straver BV	51.00	100.00
Vadsoe Apotek AS	51.00	100.00
PLUS PHARMACIE SA	77.07	78.28
PHOENIX Zdravotnícke zásobovanie a.s.	96.00	96.04

PHOENIX Pharmahandel GmbH & Co KG, Mannheim, exercised the exemption provision of Sec. 264b HGB.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of the business combination corresponds to the fair value of the assets given, the equity instruments issued and the liabilities incurred and assumed as of the date of exchange. It also includes the fair value of any recognised asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. On initial recognition of an acquisition, all identifiable assets, liabilities and contingent liabilities are measured at acquisition-date fair value. For each business combination, the Group decides on a case-by-case basis whether the non-controlling interests in the acquiree are measured at fair value or the proportionate share in the recognised amounts of the acquiree's net identifiable assets.

Any difference between (i) the aggregate of cost of the business combination, any non-controlling interest in the acquiree and the acquisition-date fair value of any previously held equity interests; and (ii) the fair value of the net identifiable assets acquired is recognised under goodwill. Following initial recognition, goodwill is measured at cost less cumulative impairment charges and not amortised. Goodwill is subjected to an impairment test at least once annually at the reporting date or whenever there is any indication of impairment.

If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired as of the acquisition date, the difference is recognised directly in the income statement.

Currency translation

The consolidated financial statements are presented in euros, which is also the parent company's functional currency. This is the currency of the primary economic environment in which PHOENIX operates.

Transactions in foreign currency are translated to the functional currency at the rate prevailing on the transaction date. Monetary items denominated in foreign currencies are translated at the rate of exchange prevailing at the reporting date. All exchange differences are recognised in the income statement, provided they are not allocable to monetary items denominated in foreign currency that are part of a net investment in a foreign operation, in which case the exchange differences are recorded in other comprehensive income.

The assets and liabilities of group entities whose functional currency is not the euro are translated into euro at the rate of exchange prevailing as of the reporting date, and their income statements are translated at average rates. The exchange differences arising on the translation are recorded in other comprehensive income until the subsidiaries are disposed of.

Changes in exchange rates compared to the prior year are as follows:

Country	Currency	Closing rate		Average rate	
		31 Jan. 2017	31 Jan. 2018	FY 2016/17	FY 2017/18
Albania	ALL	136.3900	133.4400	136.3900	133.4400
Bulgaria	BGN	1.9558	1.9558	1.9558	1.9558
Bosnia and Herzegovina	BAM	1.9558	1.9558	1.9558	1.9558
Czech Republic	CZK	27.0210	25.2720	27.0338	26.1904
Croatia	HRK	7.4790	7.4325	7.5234	7.4556
Denmark	DKK	7.4373	7.4419	7.4431	7.4395
United Kingdom	GBP	0.8611	0.8791	0.8280	0.8786
Hungary	HUF	310.6400	310.6500	310.9794	309.2176
Macedonia	MKD	61.6985	61.5388	61.5997	61.5901
Norway	NOK	8.8880	9.5620	9.2427	9.3829
Poland	PLN	4.3239	4.1503	4.3601	4.2394
Serbia	RSD	123.9595	118.7428	123.2504	120.7874
Sweden	SEK	9.4505	9.7645	9.4869	9.6618
Switzerland	CHF	1.0668	1.1631	1.0883	1.1204

Summary of significant accounting policies

Intangible assets

Purchased intangible assets are measured on initial recognition at acquisition cost plus any incidental costs of acquisition and less any trade discounts or rebates. Internally generated intangible assets are stated at cost.

Following initial recognition, intangible assets are carried at historical cost less any accumulated amortisation and any accumulated impairment losses. For the purposes of amortisation, the useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised on a straight-line basis over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Intangible assets with indefinite useful lives are not amortised but are tested for impairment at least annually either individually or at the cash-generating unit level. These intangible assets are not subject to amortisation. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Pharmacy licences with indefinite useful lives grant open-ended protection for the sale of drugs and other pharmaceuticals products in the related territory under public law.

The useful lives of the main types of intangible assets are as follows:

Pharmacy licences	indefinite
Software	3 to 5 years
Trademarks	indefinite or 18 years

Property, plant and equipment

Property, plant and equipment are carried at historical cost less accumulated depreciation and any accumulated impairment losses. Maintenance and repair costs are expensed as incurred. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

With the exception of land, property, plant and equipment are depreciated over the expected useful life. Items of property, plant and equipment are depreciated pro rata in the year of acquisition. The residual values, useful lives and the depreciation method are reviewed at least at the end of each reporting period.

The useful lives of the main types of tangible assets are as follows:

Buildings	25 to 50 years
Technical equipment and machinery	5 to 14 years
Other equipment, fixtures and fittings	3 to 13 years

Investment property
Investment property is property held to earn rentals and/or for capital appreciation. It is recognised at cost less depreciation and any impairment losses using the cost method as for property, plant and equipment.

Investments in associates
An associate is an entity over which the Group can exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, where there is neither control nor joint control over the entity in decision-making processes. Investments in associates are reported using the equity method and initially measured at cost. Goodwill relating to associates is included in the carrying amount of the investment and is not amortised or tested for impairment separately.

The income statement reflects the Group's share of the associates' profit or loss for the period. Where there has been a change recognised directly in the equity of the associates, the Group recognises its share of any changes and discloses this, when applicable, in the statement of changes in equity. Any unrealised gains and losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in the associates.

Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the investment in the associate and its carrying amount and recognises the difference in the income statement.

Non-current assets held for sale
Non-current assets or disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a very likely sale transaction. They are measured at the lower of their carrying amount or fair value less cost to sell.

Impairment of non-financial assets
Property, plant and equipment and intangible assets with finite useful lives are reviewed at each reporting date to determine whether there is any indication that they may be impaired. If this is the case, the recoverable amount of the asset is determined. The recoverable amount is the higher of fair value less costs to sell and value in use. If the carrying amount exceeds the recoverable amount, an impairment loss is recognised in profit or loss for the difference between the carrying amount and the recoverable amount. For the purpose of impairment testing, assets are allocated to the smallest identifiable group of assets that generates cash inflows. If the cash flows are not separately identifiable for an asset, the impairment test is performed on the basis of the cash-generating unit to which the asset belongs.

If the reasons for an impairment loss no longer apply, it is reversed up to the new recoverable amount. The upper limit for the reversal of impairment losses is the amortised cost that would have been determined if no impairment losses had been charged.

For impairment testing, goodwill is assigned to the cash-generating units. Impairment testing of cash-generating units is performed at least once a year or whenever there is any indication that the carrying amount of a cash-generating unit may exceed the recoverable amount. Where the recoverable amount of the cash-generating unit falls short of the carrying amount of its net assets, an impairment loss is recognised in accordance with the requirements of IAS 36. Impairment losses recognised on goodwill may not be reversed in subsequent periods.

The recoverable amount of the cash-generating units (or groups of cash-generating units) is determined on the basis of value in use. Free cash flows are discounted using the weighted average cost of capital. The free cash flows are based on financial budgets approved by management covering a detailed planning period of five years.

Impairment losses are recognised on intangible assets with indefinite useful lives according to the same principles. If the reasons for an impairment loss no longer apply, it is reversed up to the new recoverable amount.

Financial assets and financial liabilities (financial instruments)

Measurement and recognition of financial assets and financial liabilities

Financial instruments are recognised when PHOENIX becomes a party to the contractual provisions of the instrument. Regular way purchases are recognised on the settlement date.

Financial assets and **financial liabilities** are recognised initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market prices at the close of business on the reporting date. For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

At initial recognition, **financial assets** are classified as loans and receivables, held-to-maturity investments, available-for-sale financial assets or financial assets at fair value through profit or loss. The subsequent measurement and recognition of financial assets depends on their classification.

Other financial assets classified as available-for-sale financial assets in accordance with IAS 39 are measured at fair value with unrealised gains or losses recognised in other comprehensive income. Financial assets for which no quoted market price is available, and whose fair value cannot be reliably measured, are carried at cost. When the asset is derecognised, the cumulative gain or loss recorded in equity is recognised in the income statement. If the asset is determined to be impaired, the cumulative loss recorded in equity is recognised in the income statement. Non-derivative other financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity investments when the Group has the positive intention and ability to hold it to maturity. They are measured at amortised cost.

Trade receivables are classified as loans and receivables and are measured at amortised cost, where appropriate, applying the effective interest method. All discernible specific risks and impairment losses are accounted for through the use of an allowance account. Reversals are carried out if the reasons for the impairment no longer apply. Default leads to the immediate derecognition of the receivables.

Other receivables are categorised as loans and receivables and are measured at amortised cost. Amortised cost is computed using the effective interest method less any allowance for impairment and principal repayment or reduction. Gains and losses are recognised when the loans are derecognised or impaired, as well as through the amortisation process due to the effective interest method. All discernible specific risks and impairment losses related to customer loans are accounted for through the use of an allowance account.

At initial recognition, **financial liabilities** are classified as financial liabilities at amortised cost or as financial liabilities at fair value through profit or loss.

Financial liabilities and **trade payables** are carried at amortised cost using the effective interest method, if appropriate. Gains and losses are recognised when the liabilities are derecognised. The gain or loss on the hedged item in a fair value hedge under IAS 39 attributable to the hedged risk leads to an adjustment of the carrying amount of the hedged item.

The Group has not designated any non-derivative financial assets or financial liabilities at fair value through profit or loss.

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date, and the amount recognised less cumulative amortisation.

The Group has not issued any financial guarantees for a consideration.

Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of assets is impaired. Financial assets that are not measured at fair value through profit or loss are deemed to be impaired if there is objective evidence of impairment (e.g., debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults). PHOENIX assesses individually whether objective evidence of impairment exists for financial assets. Furthermore, assets are included in a group of financial assets with similar credit risk characteristics and are assessed collectively for impairment. Any impairment loss is recognised in profit or loss.

Financial assets measured at amortised cost are impaired when the present value of estimated future cash flows is lower than the carrying amount. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. In case of a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Impairment losses of available-for-sale financial assets are measured as the difference between the acquisition cost and the current fair value, less any impairment loss previously recognised in the income statement. Any impairment loss is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement. In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Impairment losses charged on equity instruments are not reversed through the income statement but are recognised in other comprehensive income.

Derecognition of financial instruments

A financial asset is derecognised if the contractual rights to receive cash flows from this financial asset have expired. Derecognition also applies if the rights to receive cash flows are transferred from the asset to third parties or an obligation to pay the received cash flows is assumed in full without material delay to a third party under a 'pass-through' arrangement; and either substantially all the risks and rewards of ownership of the asset have been transferred, or substantially all the risks and rewards of ownership of the asset have been neither transferred nor retained, but control of the asset has been transferred.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

PHOENIX sells significant volumes of receivables through securitisation programmes and factoring transactions. When the receivables sold do not meet IAS 39 derecognition requirements, the receivables are recognised in the consolidated financial statements even though they have been legally sold. A corresponding financial liability is recorded in the consolidated statement of financial position. Gains and losses related to the sale of such assets are not recognised until the assets are removed from the consolidated statement of financial position. Within certain securitisation programmes, PHOENIX has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset. These transactions are recognised to the extent of the Group's continuing involvement.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to hedge its exposure to interest rate and foreign currency risks. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the period that do not qualify for hedge accounting and the ineffective portion of an effective hedge are taken directly to the income statement.

In the case of derivatives with quoted market prices, fair value is the positive or negative fair value, if necessary after any reduction for counterparty risk. If no quoted market prices are available, fair value is estimated on the basis of the conditions obtained at the end of the reporting period, such as interest rates or exchange rates, and by using recognised valuation techniques, such as discounted cash flow models or option pricing models.

PHOENIX applies the provisions governing hedge accounting for hedging off-balance sheet firm commitments (pending agreements). With these transactions, which are classified as fair value hedges, changes to the fair value of the derivative designated as a hedging instrument and changes to the fair value of the hedged item are recognised through profit or loss. The initial carrying value of the asset, which serves to settle the pending agreement, is adjusted by the accumulated changes in fair value of the financial asset or obligation that had previously been recognised separately.

Inventories

Inventories are initially recognised at cost based on the first in, first out (FIFO) method. Costs incurred in bringing each product to its present location and condition are included in cost at initial recognition.

At each reporting date, inventories are measured at the lower of cost or net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Cash and cash equivalents

The item "Cash and cash equivalents" comprises cash on hand, bank balances and short-term deposits, which have a maximum term of three months from the date of acquisition. Cash and cash equivalents are measured at cost.

Equity
The components of equity are recognised in accordance with IAS 32 (rev. 2008). Financial instruments have to be classified on initial recognition as a financial liability, financial asset or an equity instrument in accordance with the substance of the contractual arrangements and the definitions of IAS 32 (2008). The capital contributions of the unlimited and limited partners of PHOENIX Pharmahandel Gesellschaft mit beschränkter Haftung & Co KG (puttable instruments) are classified as equity as all criteria of IAS 32 (2008) were satisfied. The criteria for puttable instruments that should be classified as an equity instrument are:

a) The instrument entitles the holder to a pro rata share of the entity's net assets in the event of the entity's liquidation.

b) The instrument is in the class of instruments that is subordinate to all other classes of instruments.

c) All financial instruments in the class of instruments that is subordinate to all other classes of instruments have identical features.

d) Apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, the instrument does not include any contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity, and it is not a contract that will or may be settled in the entity's own equity instruments as set out in the definitions for financial liabilities in accordance with IAS 32.

e) The total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity over the life of the instrument (excluding any effects of the instruments).

Treasury shares
Any treasury shares that the Group acquires are recognised at cost and deducted from equity. No gain or loss is recognised in the income statement on the purchase, sale or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognised in retained earnings.

Pensions and other post-employment benefits
Obligations for defined benefit plans are determined using the projected unit credit method in accordance with IAS 19, taking into account not only the pension obligations and vested pension rights known at the reporting date, but also expected future wage and salary increases. The interest rate used to determine the net obligation was set on the basis of high-quality, fixed-interest securities with a term to maturity corresponding to the duration of the pension plans in the relevant country. Plan assets are recognised at fair value. All actuarial gains and losses are recognised in other comprehensive income. Past service cost is expensed immediately.

Provisions
A provision is recognised when there is a present (legal or constructive) obligation towards a third party on the basis of a past event, and the obligation can be reliably estimated. Provisions are stated at the amount needed to settle the obligation and are not netted against positive contributions to earnings. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Current and deferred taxes
The tax expense of the period comprises current and deferred taxes. Taxes are recognised in the income statement unless they relate to items recognised directly in equity or in other comprehensive income, in which case the taxes are also recognised in equity or in other comprehensive income.

Current income tax charge
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred income tax
Deferred taxes are recognised for all temporary differences between the tax base of the assets/liabilities and their carrying amounts pursuant to the IFRS financial statements (liability method). Deferred tax assets are also recognised on unused tax losses and tax credits. Deferred taxes are measured using the tax rates and tax provisions enacted or substantively enacted by the reporting date and that are expected to apply to the period when the asset is realised, or the liability is settled.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and unused tax losses can be utilised.

Deferred tax liabilities for taxable temporary differences associated with investments in subsidiaries and associates are recognised unless 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.

Leases
Leases are classified either as finance leases or as operating leases. Leases where the Group as lessee retains substantially all the risks and rewards of ownership of the asset are classified as finance leases. In this case, the Group recognises the leased asset at the lower of fair value or present value of the minimum lease payments and depreciates the leased asset over the estimated useful life of the asset or the shorter contract term. A corresponding liability is recognised at the same time, which is repaid and reduced in subsequent periods using the effective interest method. All other leases where the Group is the lessee are classified as operating leases. In this case, the lease payments are recognised as an expense on a straight-line basis.

Leases where the Group as lessor transfers substantially all the risks and rewards of ownership of the asset to the lessee are classified as finance leases. In this case, the Group recognised a receivable from finance lease arrangements for the amount of the net investment in the lease. Lease payments are thus split into interest payments and repayments of the lease receivable so as to achieve a constant rate of interest on the receivable. All other leases where the Group is the lessor are classified as operating leases. Initial direct costs incurred in negotiating and concluding an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as the lease income.

Revenue recognition
PHOENIX mainly generates revenue from the sale of pharmaceuticals and related goods and – to a lesser extent – from the rendering of services.

In cases where PHOENIX acts as principal, i.e. has the exposure to the significant risks and rewards associated with the sale of goods, (gross) revenue from the sale of pharmaceuticals and related goods is recorded. Indicators for this case are contract situations in which the Group has the primary responsibility to meet the obligations towards the customer, carries the significant risks and rewards attributable to inventory, has latitude over product pricing and bears the credit risk of the sales transaction.

In cases where the Group acts as an agent, revenue is recorded in the amount of the commission. This is the case where, on aggregate, the above indicators are not satisfied. This situation occurs when PHOENIX does not bear substantially all the risks and rewards of ownership of merchandise.

Revenue from the sale of pharmaceuticals and related goods is recognised when PHOENIX has transferred to the buyer the significant risks and rewards of ownership of the goods when it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and sales taxes or duties.

Revenue from services is recognised upon performance of the related services.

Significant accounting judgements, estimates and assumptions
The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions. Estimates are made primarily for the measurement of assets, liabilities and contingent liabilities acquired through business combinations, impairment tests according to IAS 36, measurement of provisions for pensions, other provisions as well as income tax, particularly related to deferred tax assets on the carryforward of unused tax losses. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

The key assumptions and estimates concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are discussed below.

Impairment of non-financial assets

The Group's impairment test for goodwill is principally based on value in use calculations that use a discounted cash flow model (weighted average cost of capital approach). The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. Optimisation programmes with medium-term effects, large-scale projects and market consolidation measures in various countries require the detailed planning horizon to be longer in order to correctly map the effects.

The recoverable amount is most sensitive to the perpetual capital expenditures and the discount rates used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

The impairment test for intangible assets with indefinite useful lives is based on fair value less costs to sell calculations that use a relief from royalty approach or an EBITDA multiple.

Further details on impairment are disclosed in Note 9.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

Further details on deferred taxes are disclosed in Note 8.

Bad debt allowance for trade receivables and other assets

Recording a bad debt allowance or derecognising receivables and other assets is to a large extent based on judgement, taking into account the ability of the debtor to pay outstanding balances.

Further details on bad debt allowances are disclosed in Note 15.

Pension benefits

The cost of defined benefit plans and the present value of the pension obligation are determined using actuarial valuations. Actuarial valuation involves making various assumptions. The actuarial valuation involves making assumptions about interest rates, future salary increases, mortality rates and future pension increases. All assumptions are reviewed at each reporting date. In determining the appropriate discount rate, management considers the interest rates of high-quality fixed-interest securities with a duration corresponding to the pension plans in the related country. The mortality rate is based on publicly available mortality tables for the specific country.

Future salary increases and pension increases are based on expected future inflation rates for the respective countries.

Further details about the assumptions used are given in Note 19.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. The judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Further details on financial instruments can be found in the Note "Additional information on financial instruments".

Revenue recognition

Under IAS 18, the gross versus net sales presentation of distribution agreements with pharmaceuticals suppliers depends on whether the Group acts as a principal or an agent. This judgement requires among others an estimation of the risks and rewards related to inventories and trade receivables incurred by PHOENIX in the context of these distribution agreements.

Further details on revenue are disclosed in Note 1.

Business combinations

The business combinations carried out in fiscal year 2017/18 and fiscal year 2016/17 are explained below. Business combinations are initially accounted for using the acquisition method pursuant to IFRS 3 "Business Combinations".

In fiscal year 2017/18, the cumulative profit for the period of the Group's acquirees came to EUR – 794k and revenue to EUR 22,770k. Had the acquisition date coincided with the beginning of the reporting period for all business combinations, cumulative revenue for the period would have come to EUR 46,582k. Had the acquisition date coincided with the beginning of the reporting period for all business combinations, the cumulative profit for the period would have come to EUR 1,187k.

The table below shows a summary of their fair values:

Fair value recognised as of the acquisition date

EUR k	Other
Cash and cash equivalents	40,529
Equity instruments	0
Acquisition-date fair value of previously held equity interests	159
Total cost	**40,688**
Intangible assets	1
Other non-current assets	2,368
Inventories	2,889
Trade receivables	1,553
Cash and cash equivalents	1,245
Other current assets	773
Non-current liabilities	1,859
Current liabilities	5,820
Net assets	**1,150**
Non-controlling interests	71
Net assets acquired	**1,079**
Bargain purchase	**0**
Goodwill	**39,609**

Other business combinations
In fiscal year 2017/18, the Group acquired a research and consulting entity as well as additional pharmacies in business combinations that are individually immaterial.

The goodwill arising from those acquisitions, which mainly results from expected synergies or location advantages, was allocated to the cash-generating units Netherlands (EUR 22,304k), Norway (EUR 5,303k), Finland (EUR 5,221k), Slovakia (EUR 2,690k), Baltics (EUR 1,452k), Switzerland (EUR 1,726k) and Czech Republic (EUR 913k) and is carried in the local functional currencies (EUR, NOK, CHF and CZK).

Non-controlling interests were recognised at the proportionate identifiable net assets in the acquirees.

EUR 13,375k of the recognised goodwill from business combinations is expected to be tax deductible.

Based on the information available, the measurement of individual areas of assets and liabilities could not be finalised as of the reporting date.

Business combinations in fiscal year 2016/17

In fiscal year 2016/17, the cumulative profit for the period of the Group's acquirees came to EUR 11,614k and revenue to EUR 703,615k. Had the acquisition date coincided with the beginning of the reporting period for all business combinations, cumulative revenue for the period would have come to EUR 1,051,520k. Had the acquisition date coincided with the beginning of the reporting period for all business combinations, the cumulative profit for the period would have come to EUR 17,920k.

The table below shows a summary of their fair values:

Fair value recognised as of the acquisition date

EUR k	Mediq Apotheken Nederland B.V.	Other	Total
Cash and cash equivalents	363,215	41,648	404,863
Equity instruments	0	0	0
Acquisition-date fair value of previously held equity interests	0	0	0
Total cost	**363,215**	**41,648**	**404,863**
Intangible assets	16,448	6,458	22,906
Other non-current assets	40,066	2,804	42,870
Inventories	45,447	6,447	51,894
Trade receivables	71,457	13,455	84,912
Cash and cash equivalents	66,261	7,973	74,234
Other current assets	15,304	3,080	18,384
Disposal groups classified as held for sale	39,529	0	39,529
Non-current liabilities	10,297	2,344	12,641
Current liabilities	302,291	24,324	326,615
Liabilities directly associated with assets as held for sale	2,840	0	2,840
Net assets	**–20,916**	**13,549**	**–7,367**
Non-controlling interests	2,245	0	2,245
Net assets acquired	**–23,161**	**13,549**	**–9,612**
Bargain purchase	**0**	**0**	**0**
Goodwill	**386,376**	**28,099**	**414,475**

Mediq Apotheken Nederland B.V.

On 16 June 2016, the Brocacef Groep acquired 100% of the voting shares in Mediq Apotheken Nederland B.V., which, in addition to pharmacies and pharmaceutical wholesale, also includes pre-wholesale. It is expected that PHOENIX will decisively strengthen its market position in the region through the acquisition.

The goodwill arising from this business combination was assigned to the Netherlands cash-generating unit and mainly results from expected synergies and location advantages. EUR 6,150k of the recognised goodwill is expected to be tax deductible.

Non-controlling interests were recognised at the proportionate identifiable net assets in the acquirees.

The fair value of current receivables contains trade receivables with a fair value of EUR 71,457k. The gross amount of the trade receivables past due amounts to EUR 72,277k, of which EUR 820k is expected to be uncollectible.

Mediq Apotheken Nederland B.V. was initially accounted for on the basis of a provisional purchase price allocation in fiscal year 2016/17 that was finalised in fiscal year 2017/18. This caused the goodwill of the Netherlands cash-generating unit to increase by EUR 1,925k, the land and buildings to decrease by EUR 1,500k and EUR 400k, respectively, deferred tax liabilities to decrease by EUR 475k as well as financial liabilities to increase by EUR 500k. The prior-year figures have been restated accordingly.

Other business combinations

In fiscal year 2016/17, the Group acquired a number of individual pharmacies, a chain of pharmacies and service companies in business combinations that are individually immaterial.

The goodwill arising from these business combinations mainly results from expected synergies or location advantages and was allocated to the cash-generating units Serbia (EUR 9,889k), United Kingdom (EUR 5,286k), Germany (EUR 4,262k), Norway (EUR 3,663k), Macedonia (EUR 1,470k), Switzerland (EUR 1,081k), Slovakia (EUR 973k), Czech Republic (EUR 897k), Hungary (EUR 414k) and Baltics (EUR 164k) and is recorded in the local functional currencies (RSD, GBP, NOK, MKD, CHF, CZK, HUF and EUR).

The fair value of current receivables contains trade receivables with a fair value of EUR 13,455k. The gross amount of the trade receivables past due amounts to EUR 13,474k, of which EUR 19k is expected to be uncollectible.

Other business combinations include contingent consideration of EUR 2,666k. The contingent consideration is largely based on the EBITDA to be generated over the next few years by the acquired businesses. The potential future payments are between EUR 2,659k and EUR 2,855k.

Business combinations were initially accounted for on the basis of a provisional purchase price allocation that was finalised in fiscal year 2017/18. The previously recognised values did not have to be adjusted.

Divestitures

There was an overall gain from deconsolidation of EUR 3,259k (prior year: EUR 3,081k) resulting from the sale of business operations, which was recognised in other operating income. Pharmacies, mostly those in the Netherlands, with an asset value of EUR 7,619k (prior year: EUR 21,931k) had to be sold off in the reporting year and in the prior year in connection with the acquisition of Mediq Apotheken Nederland B.V. mainly because of antitrust requirements.

NOTES TO THE INCOME STATEMENT

1 Revenue

The Group's revenue mainly consists of the sale of pharmaceuticals and related goods (EUR 24,467,975k in fiscal year 2017/18 and EUR 24,004,326k in fiscal year 2016/17). The smaller portion of revenue is attributable to distribution fees and consignment warehouse fees, the sale of pharmacy IT systems, transport services and other services.

2 Other operating income

EUR k	FY 2016/17	FY 2017/18
Net gain on disposal of fixed assets	981	3,951
Income from services	23,432	20,323
Rental income	11,485	10,986
Marketing and other services	49,066	56,447
Allocation of freight costs	11,863	13,799
Other	45,012	52,098
Other operating income	**141,839**	**157,604**

The item "Other" contains a number of individual items, such as energy cost mark-ups and own work capitalised. It also contains income from the deconsolidation of business operations EUR 3,259k (prior year: EUR 3,081k).

3 Personnel expenses

EUR k	FY 2016/17	FY 2017/18
Wages and salaries	965,992	1,009,221
Social security contributions, retirement benefits and similar expenses	219,507	230,516
Other personnel expenses	103,662	102,654
	1,289,161	**1,342,391**

The average headcount measured in full-time equivalents (FTEs) increased by 1,027 to a total of 27,638. Other personnel expenses mainly include training expenses and costs for temporary personnel.

The average headcount (FTEs) breaks down as follows by region:

	FY 2016/17	FY 2017/18
Western Europe	14,577	14,953
Eastern Europe	6,482	6,981
Northern Europe	5,552	5,704
	26,611	**27,638**

The line item “Wages and salaries” includes an amount of EUR 17,042k (prior year: EUR 12,345k) for severance payments and similar costs.

4 Other operating expenses

EUR k	FY 2016/17	FY 2017/18
Transport costs	295,174	306,138
Lease and rental costs	150,633	160,218
Exchange rate gains/losses	– 76	– 51
Net impairment of receivables	7,782	6,305
Other building and equipment costs	60,623	64,401
Marketing and advertising expenses	59,129	63,281
Communication and IT expenses	73,366	74,998
Legal and consulting fees	58,632	61,215
Repair and maintenance costs	35,862	35,415
Net loss on the disposal of fixed assets	2,521	1,789
Other taxes	27,722	14,394
Office supplies	9,884	10,159
Insurance costs	8,555	8,781
Expenses related to ABS and factoring programmes	1,998	2,309
Other	72,592	64,028
Other operating expenses	**864,397**	**873,380**

The development of bad debt allowances is presented in Note 15.

In fiscal year 2017/18, the auditor of the financial statements, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, received audit fees of EUR 699k (prior year: EUR 644k), of which for the prior year EUR 94k (prior year: EUR 45k), other attestation fees of EUR 0k (prior year: EUR 10k), tax advisory fees of EUR 247k (prior year: EUR 182k) and EUR 21k (prior year: EUR 56k) for other services.

The item “Other” contains various individual items, such as consignment fees, contributions to professional associations and administrative expenses.

5 Result from associates and other investments

The result from associates mainly includes the profit from several associates, chiefly non-controlling interests in pharmacies.

6 Amortisation of intangible assets and depreciation of property, plant and equipment

EUR k	FY 2016/17	FY 2017/18
Amortisation of intangible assets and depreciation of property, plant and equipment	124,918	131,771
Impairment of pharmacy licences	1,540	778
Reversal of impairment loss	– 58	0
Impairment of goodwill	0	14,000
Other impairments	69	389
	126,469	**146,938**

7 Financial result

EUR k	FY 2016/17	FY 2017/18
Interest income	12,603	14,808
Interest expenses	– 58,809	– 50,098
Other financial result	– 2,643	– 15,283
Financial result	**– 48,849**	**– 50,573**

Interest income includes interest income from customers of EUR 10,127k (prior year: EUR 10,614k).

The other financial result contains exchange rate gains of EUR 45,646k (prior year: EUR 27,002k) as well as exchange rate losses of EUR 42,663k (prior year: EUR 56,272k), income of EUR 65,341k (prior year: EUR 92,336k) and expenses of EUR 68,644k (prior year: EUR 64,723k) from changes in the fair values of derivatives, earnings from the disposal of financial assets classified as available-for-sale of EUR 199k (prior year: EUR 27k), impairment of financial assets of EUR 3,206k (prior year: EUR 1,640k), losses from the redemption of bonds of EUR 12,223k (prior year: EUR 0k) as well as other financial income of EUR 1,128k (prior year: EUR 1,258k) and other financial expenses of EUR 861k (prior year: EUR 631k).

The financial result includes interest income and interest expenses of EUR – 32,003k on financial assets and liabilities that are not classified as "at fair value through profit or loss" (prior year: EUR – 36,942k).

8 Income tax

The major components of tax expense are summarised in the following table:

EUR k	FY 2016/17	FY 2017/18
Current taxes	90,287	65,346
Deferred taxes	9,403	11,915
	99,690	**77,261**

The current income tax includes income for prior periods of EUR 16,764k (prior year: EUR 952k) and expenses of EUR 2,928k (prior year: EUR 14k).

In fiscal year 2017/18, net tax income (after non-controlling interests) of EUR 5,789k was recognised outside profit or loss (prior year: tax expense of EUR –20k). This amount results from actuarial gains and losses from pension obligations (EUR –877k; prior year: EUR 7,147k), net investments in foreign operations (EUR 7,579k; prior year: EUR –6,716k) as well as changes in the fair value of financial assets classified as available-for-sale (EUR –913k; prior year: EUR –451k), which are recognised in other comprehensive income.

The deferred taxes at year-end were calculated using the tax rates applicable for the respective entities in their respective countries at the time of realisation.

In the current fiscal year, the tax rate applicable in Italy decreased by 3.5 percentage points, in Luxembourg by 3.2 percentage points, in Croatia by 2.0 percentage points, in Norway by 1.0 percentage points, in Slovakia by 1.0 percentage points and in the United Kingdom by 0.8 percentage points.

A reconciliation of the expected income tax expense to the actual income tax expense using the average tax rate of the Group is presented in the table below:

	FY 2016/17		FY 2017/18	
	TEUR	in %	TEUR	in %
Profit before tax	**242,514**	**100.0**	**257,456**	**100.0**
Expected income tax expense	**61,356**	**25.3**	**61,017**	**23.7**
Impact of changes to tax rates on deferred taxes	–2	0.0	480	0.2
Tax effect of non-deductible expenses and tax-exempt income	7,882	3.3	13,585	5.3
Effect of taxes relating to prior years recognised in the fiscal year	–351	–0.2	–14,949	–5.8
Effect of differing national tax rates	–2,689	–1.1	–749	–0.3
Effect of impairments/adjustments to carrying amounts	26,068	10.7	18,702	7.3
Effects of impairments on goodwill	0	0.0	2,100	0.8
Other effects	7,426	3.1	–2,925	–1.2
Income taxes	**99,690**	**41.1**	**77,261**	**30.0**

Other effects include deferred tax income of EUR 1,548k (prior year: EUR 1,687k) relating to temporary differences associated with investments in subsidiaries.

The deferred tax assets and the deferred tax liabilities are summarised in the following table:

	31 January 2017		31 January 2018	
EUR k	Deferred tax assets	Deferred tax liabilities [1)]	Deferred tax assets	Deferred tax liabilities
Intangible assets	5,392	80,335	6,783	82,907
Property, plant and equipment	3,813	34,795	3,863	33,856
Financial and other assets	6,111	14,496	4,620	14,320
Inventories	4,395	4,281	4,319	2,805
Assets classified as held for sale	0	5	0	0
Provisions	45,259	1,695	41,883	1,974
Liabilities	9,151	8,084	8,364	5,495
Deferred taxes on temporary differences	**74,121**	**143,692**	**69,832**	**141,357**
Deferred taxes on unused tax losses	32,178	0	28,222	0
Netting	– 23,632	– 23,632	– 19,286	– 19,286
Total deferred taxes	**82,667**	**120,060**	**78,768**	**122,071**

[1)] Prior-year figures were restated due to the finalisation of a purchase price allocation.

Deferred tax assets are recognised on unused tax losses at the amount at which the associated tax benefits are likely to be realised through future taxable profit. The Group has not recognised deferred tax assets on unused tax losses and future interest benefits of EUR 222,305k (prior year: EUR 457,299k). Deferred taxes includes expenses from a reversal of used tax losses of EUR 2,509k (prior year: EUR 6,136k) and income from previously unused tax losses of EUR 2,352k (prior year: EUR 71k). The unused tax losses and interest carryforwards expire as follows:

EUR k	31 Jan. 2017	31 Jan. 2018
Within one year	0	2,180
After one year, but within two years	1,522	407
After two years, but within three years	0	1,493
After three years, but within four years	0	649
After four years, but within five years	3,474	0
After five years	63	0
Loss carry forwards and interest carryforwards that do not expire	452,240	217,576
	457,299	**222,305**

No deferred tax liabilities were recognised on distributable reserves of subsidiaries amounting to EUR 3,584,027k (prior year: EUR 3,194,502k) because these reserves are intended to be indefinitely reinvested in the operations of subsidiaries.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

9 Intangible assets

EUR k	Rights and licences	Goodwill	Prepayments
Cost			
1 February 2016	**487,997**	**1,410,801**	**6,406**
Currency translation	–38,967	–9,169	0
Changes in the basis of consolidation	16,158	0	151
Additions [1)]	26,382	417,757	1,992
Disposals	–1,599	0	–64
Reclassifications from non-current assets held for sale	–148	–7,637	0
Reclassifications	14,446	0	–1,973
31 January 2017	**504,269**	**1,811,752**	**6,512**
Currency translation	–8,215	–15,309	–16
Changes in the basis of consolidation	10	0	0
Additions [1)]	17,981	41,058	5,430
Disposals	–3,203	–1,362	–5
Reclassifications from non-current assets held for sale	–135	0	0
Reclassifications	2,621	0	–1,776
31 January 2018	**513,328**	**1,836,139**	**10,145**

[1)] Prior-year figures were restated due to the finalisation of a purchase price allocation.

EUR k	Rights and licences	Goodwill	Prepayments
Accumulated amortisation and impairment			
1 February 2016	**109,693**	**226,598**	**27**
Currency translation	–1,545	5,850	0
Changes in the basis of consolidation	–1,437	0	0
Additions	15,259	0	0
Impairment losses	1,544	0	0
Reversal of impairment losses	0	0	0
Disposals	–300	0	0
Reclassifications from non-current assets held for sale	–112	0	0
Reclassifications	8,637	0	0
31 January 2017	**131,739**	**232,448**	**27**
Currency translation	–1,365	–10,300	1
Changes in the basis of consolidation	–877	0	0
Additions	19,835	0	0
Impairment losses	778	14,000	0
Reversal of impairment losses	0	0	0
Disposals	–2,146	0	0
Reclassifications from non-current assets held for sale	–89	0	0
Reclassifications	0	0	0
31 January 2018	**147,875**	**236,148**	**28**
Net carrying amount 31 January 2017	**372,530**	**1,579,304**	**6,485**
Net carrying amount 31 January 2018	**365,453**	**1,599,991**	**10,117**

The item "Rights and licences" mainly contains pharmacy licences with indefinite useful lives in the United Kingdom totalling EUR 294,471k (31 January 2017: EUR 301,418k). The useful life for such licences has been assessed as indefinite due to the fact that such licences are granted for an unlimited time period.

Goodwill

Goodwill carrying amounts in EUR k Country	Currency	31 Jan. 2017	31 Jan. 2018
Germany	EUR	49,344	50,656
United Kingdom	GBP	302,042	298,684
Netherlands	EUR	529,205	550,137
Switzerland	CHF	145,304	140,511
Hungary	HUF	75,626	75,626
Czech Republic	CZK	41,941	48,947
Baltics	EUR	64,978	66,431
Denmark	DKK	44,797	44,797
Sweden	SEK	40,639	40,639
Norway	NOK	196,063	199,068
Other		89,365	84,495
Total		**1,579,304**	**1,599,991**

Impairment testing of goodwill

The impairment test involves comparing the carrying amount of a cash-generating unit with its recoverable amount.

The calculations of the recoverable amounts for the cash-generating units are most sensitive to the following assumptions:

- Future free cash flows
  The main components of these free cash flows are EBITDA and the growth rate after the planning period, the cash flow from the change in working capital and the cash flow from investing activities.
- Discount rates

The terminal growth rate of 0.5% (prior year: 0.5%) is used to extrapolate the EBITDA and cash flow of the last planning period.

The perpetual cash flow from investing activities is calculated using historical data. This averages 0.6% of revenue (prior year: 0.6%).

Discount rates reflect the current market assessment of the risks specific to each cash-generating unit. The discount rates are derived on the basis of the capital asset pricing model. The discount rates are generally adjusted to reflect the market assessment of country-specific risks for which future estimates of cash flows have not been adjusted.

The discount rate is determined using a two-phase approach. The phase one discount rate is used to discount the future cash flows in the planning period, and the second phase discount rate is used to calculate the terminal value. The difference between the discount rates used in phases one and two corresponds to a growth mark-down and stands at 0.5% (prior year: 0.5%).

The following table shows the phase one pre-tax discount rates (WACC) for material cash-generating units:

in %	31 Jan. 2017	31 Jan. 2018
Discount rate (WACC before tax)		
Germany	8.51	8.72
United Kingdom	8.27	8.34
Netherlands	7.90	8.11
Switzerland	6.39	6.23
Hungary	9.52	8.79
Czech Republic	8.47	8.73
Baltics	8.00	8.86
Denmark	7.65	7.61
Sweden	8.16	8.21
Norway	8.43	8.39
Other	8.15 – 13.77	8.34 – 11.61

As of 31 January 2018, there was an impairment loss for the cash-generating unit BMS (Bosnia/Macedonia/Serbia):

EUR k	31 Jan. 2017	31 Jan. 2018
Impairment of goodwill		
BMS (Bosnia/Macedonia/Serbia)	0	14,000

For the cash-generating unit BMS (Bosnia/Macedonia/Serbia), the recoverable amount is lower than the carrying amount of EUR 141,037k primarily because of the reduced medium-term earnings forecast due to the difficult market environment. The impairment loss is based on the value in use. There is no indication that the fair value less costs to sell would lead to a higher recoverable amount than the value in use.

The impairment loss is allocated to reduce the carrying amount of goodwill allocated to the cash-generating unit. The reduction in the carrying amount is treated as an impairment loss and recognised in the line item "Amortisation of intangible assets and depreciation of property, plant and equipment" in the income statement.

A marginal change in the future cash flows, discount rate or long-term investments of the cash-generating units Germany, Switzerland, Slovakia and Denmark would lead to the carrying amounts exceeding the value in use.

The value in use of the cash-generating unit Germany exceeded its carrying amount by EUR 54,769k. An increase in the discount rate by 0.8 percentage points or an increase in long-term investments of 8.4% would fully utilise this excess amount.

The value in use of the cash-generating unit Switzerland exceeded its carrying amount by EUR 37,348k. A rise in the discount rate of 1.1 percentage points would fully utilise this excess amount.

The value in use of the cash-generating unit Slovakia exceeded its carrying amount by EUR 2,198k. A decrease in the future cash flows of 2.8% or an increase in the discount rate by 0.2 percentage points or an increase in long-term investments of 3.7% would fully utilise this excess amount.

The value in use of the cash-generating unit Denmark exceeded its carrying amount by EUR 22,881k. A decrease in the future cash flows of 8.1% or an increase in the discount rate by 0.6 percentage points would fully utilise this excess amount.

Impairment testing of intangible assets with indefinite useful lives

The trademarks "Numark" and "PharmaVie" were tested for impairment as of 31 January 2017 and 2018. The fair value of the trademarks is determined based on a relief from royalty approach using the recent business plans as of the testing date and an appropriate royalty rate of between 0.1% and 2.0% (prior year: between 0.1% and 2.0%) (level 3). Costs to sell have been deducted in order to derive the fair value less costs to sell. It was not necessary to recognise any impairment losses on the trademarks as of 31 January 2017 and 2018.

The pharmacy licences of L Rowland & Co. (Retail) Ltd., United Kingdom, were tested for impairment as of 31 January 2017 and 2018. The recoverable amount of the licences in fiscal year 2017/18 was based on the fair value (level 3) less costs to sell, which was determined using a market price model. The pre-tax discount rate is 7.9% (prior year: 7.5%). The terminal growth rate used to extrapolate the income of the last planning period is 0.5% (prior year: 0.5%).

The impairment tests resulted in the recognition of an impairment loss on the licences in the United Kingdom:

EUR k	31 Jan. 2017	31 Jan. 2018
Impairment of licences		
Pharmacy licences, United Kingdom	1,540	778

10 Property, plant and equipment

EUR k	Land and buildings	Technical equipment and machinery	Other equipment, furniture and fixtures	Assets under construction	Investment property
Cost					
1 February 2016	**857,733**	**282,167**	**596,702**	**19,374**	**10,076**
Currency translation	2,601	485	–4,101	49	–42
Changes in the basis of consolidation [1)]	17,013	4,210	9,506	2,442	1,215
Additions	27,298	23,437	60,045	36,134	133
Disposals	–6,743	–3,179	–20,272	–105	–364
Reclassifications from non-current assets held for sale	–533	–336	–3,469	–3	0
Reclassifications	2,339	4,676	–7,286	–15,396	3,653
31 January 2017 [1)]	**899,708**	**311,460**	**631,125**	**42,495**	**14,671**
Currency translation	–7,008	867	–15,791	–177	–22
Changes in the basis of consolidation	96	16	216	1,064	0
Additions	45,473	17,478	53,676	73,419	0
Disposals	–10,568	–3,289	–24,322	–2,737	–573
Reclassifications from non-current assets held for sale	–10,623	–2,570	–54	–3	1,856
Reclassifications	11,379	4,550	3,700	–19,828	–661
31 January 2018	**928,457**	**328,512**	**648,550**	**94,233**	**15,271**
Accumulated depreciation and impairment					
1 February 2016	**331,857**	**202,317**	**415,353**	**0**	**2,174**
Currency translation	3,070	80	–650	0	–14
Changes in the basis of consolidation	0	0	0	0	0
Additions	34,619	18,999	55,706	0	335
Impairment losses	65	0	0	0	0
Disposals	–4,216	–2,281	–15,659	0	0
Reclassifications from non-current assets held for sale	–60	–283	–2,617	0	0
Reclassifications	654	–929	–8,324	0	382
Reversal of impairment loss	–55	–3	0	0	0
31 January 2017	**365,934**	**217,900**	**443,809**	**0**	**2,877**
Currency translation	–4,868	1,378	–12,551	0	–7
Changes in the basis of consolidation	0	0	0	0	0
Additions	35,736	20,187	55,564	0	449
Impairment losses	389	0	0	0	0
Disposals	–6,868	–3,091	–20,622	0	–223
Reclassifications from non-current assets held for sale	–6,639	–1,562	–33	0	1,576
Reclassifications	216	–1,080	809	0	3
Reversal of impairment loss	0	0	0	0	0
31 January 2018	**383,900**	**233,732**	**466,976**	**0**	**4,675**
Net carrying amount 31 January 2017	**533,774**	**93,560**	**187,316**	**42,495**	**11,794**
Net carrying amount 31 January 2018	**544,557**	**94,780**	**181,574**	**94,233**	**10,596**

1) Prior-year figures were restated due to the finalisation of a purchase price allocation.

Items of property, plant and equipment with a carrying amount of EUR 5,282k (31 January 2017: EUR 5,403k) have been pledged as collateral for liabilities. The collateral mainly relates to charges on land and buildings in Germany.

There are contractual commitments to acquire property, plant and equipment of EUR 4,697k (31 January 2017: EUR 5,398k).

Finance leases

The assets held under finance lease agreements are as follows:

EUR k	31 Jan. 2017	31 Jan. 2018
Land and land rights and buildings, including buildings on third-party land	6,513	5,985
Technical equipment and machinery	126	84
Other equipment, furniture and fixtures	1,056	717
Carrying amount	**7,695**	**6,786**

Assets held under finance lease agreements primarily represent buildings held in France and Italy.

The reconciliation of the future minimum lease payments and their present value is disclosed in the following table:

EUR k	31 Jan. 2017	31 Jan. 2018
Minimum lease payments		
due within one year	1,445	6,655
due in between two and five years	9,205	2,656
due in more than five years	651	468
Interest	– 1,887	– 941
Present value of minimum lease payments	**9,414**	**8,838**

Operating leases

PHOENIX holds numerous assets under operating leases. Such agreements primarily relate to real estate, technical equipment and company cars. The future minimum lease payments under non-cancellable operating leases are summarised by due date below:

EUR k	31 Jan. 2017	31 Jan. 2018
Minimum lease payments		
due within one year	130,270	126,646
due in between two and five years	319,367	308,865
due in more than five years	173,081	178,740
Total minimum lease payments	**622,718**	**614,251**

The expected income from sublet properties amounts to EUR 2,108k (prior year: EUR 2,078k). The lease expense from operating leases breaks down as follows:

EUR k	31 Jan. 2017	31 Jan. 2018
Lease expense		
Minimum lease payments	146,353	156,237
Contingent rents	3,274	3,147
Sublease payments received	1,006	834
Total lease expense	**150,633**	**160,218**

Leases where the Group acts as lessor

PHOENIX acts as lessor in several countries of operation. The lease agreements represent finance and operating leases.

Finance leases

The finance lease arrangements in which the Group acts as lessor are held by the German subsidiary transmed Transport GmbH. This entity acts as lessor for cash systems.

The reconciliation of the future minimum lease payments and their present value is disclosed in the following table:

EUR k	31 Jan. 2017	31 Jan. 2018
Minimum lease payments		
due within one year	0	1,266
due in between two and five years	0	4,772
due in more than five years	0	0
Interest	0	– 501
Present value of minimum lease payments	**0**	**5,537**

Operating leases

The most significant operating lease arrangements in which the Group acts as lessor are held by the Netherlands and the German subsidiaries transmed Transport GmbH and Apotheken Dienstleistungs GmbH. Buildings are mainly leased in the Netherlands. transmed Transport GmbH leases transport vehicles, and Apotheken Dienstleistungs GmbH leases software and cash systems.

The future minimum lease payments are as follows:

EUR k	31 Jan. 2017	31 Jan. 2018
Minimum lease payments		
due within one year	16,324	18,640
due in between two and five years	22,356	26,106
due in more than five years	4,203	4,255
Total minimum lease payments	**42,883**	**49,001**

11 Investment property

One building in the Netherlands no longer meets the criteria of IFRS 5 and is now classified as “Investment property”.

The fair value of the investment property held as of 31 January 2018 determined by expert appraisers using market data (level 2) for comparable properties came to EUR 10,601k (31 January 2017: EUR 11,993k). Rental income in fiscal year 2017/18 came to EUR 479k (prior year: EUR 448k), while expenses totalled EUR 510k (prior year: EUR 614k).

12 Interests in other entities

Significant non-controlling interests are held in the following entities. The complete list of shareholdings is an integral component of the notes to the consolidated financial statements and will be published in the electronic version of the German Federal Gazette.

	FY 2016/17			FY 2017/18		
EUR k	Brocacef Group	Comifar Group	PHOENIX Int. Beteiligungs GmbH	Brocacef Group	Comifar Group	PHOENIX Int. Beteiligungs GmbH
Current assets	381,651	777,132	1,094,053	356,482	756,290	949,324
Non-current assets	654,236	114,279	3,149,874	657,826	119,517	3,151,143
Current liabilities	326,105	566,667	2,338,992	277,672	540,392	2,129,275
Non-current liabilities	299,564	24,972	3,515	303,760	23,186	2,853
Revenue	1,959,301	2,283,394	0	2,043,025	2,334,085	0
Gain/loss from continuing operations	18,399	6,741	181,934	35,439	12,624	66,921
Gain/loss after taxes from discontinued operations	0	0	0	0	0	0
Total comprehensive income	18,399	6,741	181,934	35,439	12,624	66,921
Cash inflow/outflow from:						
– operating activities	63,585	7,023	105,031	45,378	22,049	59,982
– investing activities	–277,221	–5,376	4,840	–22,987	–15,519	0
– financing activities	213,470	–1,562	–33,420	–22,888	–6,852	–458,221
Gain/loss attributable to non-controlling interests	9,379	461	5,380	17,570	807	5,335
Accumulated non-controlling interests at the end of the reporting period	182,664	34,157	89,935	192,413	34,845	99,170
Dividends paid to non-controlling interests	4,102	409	0	5,928	120	0

As an intermediate holding company, PHOENIX International Beteiligungs GmbH holds the interests in foreign subsidiaries. Of the interests in PHOENIX International Beteiligungs GmbH, 2.33% are non-controlling interests. The non-controlling interests disclosed in the consolidated financial statements are as follows:

EUR k	31 Jan. 2017	31 Jan. 2018
Brocacef Group	182,664	192,413
Comifar Group	34,157	34,845
PHOENIX Int. Beteiligungs GmbH	89,935	99,502
Other	14,682	15,213
	321,438	**341,973**

PHOENIX holds investments in 25 associates (prior year: 29). The aggregate amounts are presented below:

EUR k	FY 2016/17	FY 2017/18
Net carrying amount	14,134	14,726
Group share in gain/loss from continuing operations	1,671	2,543
Group share in total comprehensive income	1,671	2,543

Most associates have diverging fiscal years from PHOENIX, typically the calendar year.

13 Other financial assets

The following table presents the composition of non-current other financial assets:

EUR k	31 Jan. 2017	31 Jan. 2018
Trade receivables, non-current	153	16
Other financial assets		
Available-for-sale financial assets	36,699	40,787
Loans to and receivables from associates	2,827	2,086
Other loans	44,391	47,482
Other non-current financial assets	7,731	4,653
	91,648	**95,008**

14 Inventories

EUR k	31 Jan. 2017	31 Jan. 2018
Raw materials and supplies	13,340	17,030
Finished goods and merchandise	2,063,224	2,099,805
Prepayments	19,446	13,871
	2,096,010	**2,130,706**

During the fiscal year, inventories were written down by EUR 11,206k (prior year: EUR 10,780k). Impairment losses of EUR 6,130k (prior year: EUR 4,570k) were reversed during the period mainly due to the unexpected sale of written-down inventories. Inventories with a carrying amount of EUR 155,575k (31 January 2017: EUR 164,412k) are measured at net realisable value at the reporting date.

15 Trade receivables and other current financial assets

EUR k	31 Jan. 2017	31 Jan. 2018
Trade receivables	2,672,065	2,693,262
Other financial assets		
Loans to and receivables from associates or related parties	8,874	6,926
Other loans	28,990	32,544
Derivative financial instruments	3,323	1,648
Other financial assets (current)	138,919	125,943
	180,106	**167,061**

Trade receivables and other assets with a carrying amount of EUR 91,648k (prior year: EUR 96,948k) have been pledged as a guarantee for a loan agreement.

The trade receivables transferred under factoring and ABS transactions as of 31 January 2018 are presented below:

EUR k	31 Jan. 2017	31 Jan. 2018
Transferred but only partly derecognised receivables		
Receivables not derecognised in accordance with IAS 39		
Volume of receivables	587,485	456,747
Financial liability	525,971	405,924
Continuing involvement		
Volume of receivables	175,577	177,119
Continuing involvement	7,866	8,232
Financial liability	7,911	9,030
Transferred and fully derecognised receivables		
Volume of receivables	23,953	61,224
Retentions of title	40,262	30,834

The carrying amounts of receivables and liabilities correspond to their fair values.

In the case of the transferred but only partly derecognised receivables, PHOENIX has either fully or partly retained the risk of default as well as the risk of late payment attaching to the transferred receivables. The transferred receivables serve as collateral for the purchase price received for them. The amount received for selling these receivables is recognised as a liability. Cash receipts from these receivables have to be transferred to the factor, thus settling the liability.

Other current financial assets mainly include receivables from bonuses, ABS and factoring programmes and other current receivables.

The valuation allowances on trade receivables and customer loans, which are included in other loans, have developed as follows:

EUR k	Trade receivables	Other loans
Allowances as of 1 February 2016	**63,492**	**11,754**
Additions	9,390	1,187
Utilisation	– 15,562	– 2,009
Reversal	– 4,491	– 377
Currency and other changes	702	4,069
Allowances as of 31 January 2017	**53,531**	**14,624**
Additions	12,262	2,452
Utilisation	– 13,397	– 1,505
Reversal	– 6,628	– 600
Currency and other changes	4,205	234
Allowances as of 31 January 2018	**49,973**	**15,205**

As of 31 January 2018 and 31 January 2017, the ageing analysis of trade receivables and customer loans that are past due but not impaired is as follows:

EUR k	Total carrying amount	thereof								
				Past due but not impaired						
		Neither past due nor impaired	Impaired	< 30 days	31 - 60 days	61 - 90 days	91 - 150 days	151 - 240 days	241 - 330 days	> 330 days
31 January 2017										
Trade receivables	**2,672,218**	2,331,431	48,850	200,589	25,318	16,497	15,919	16,271	7,909	9,434
Other loans	**73,381**	68,028	5,349	4	0	0	0	0	0	0
31 January 2018										
Trade receivables	**2,693,278**	2,311,261	36,339	213,625	68,975	15,330	15,071	14,073	5,160	13,444
Other loans	**80,026**	73,131	6,895	0	0	0	0	0	0	0

As of the reporting date, there were no indications that the debtors of the receivables shown as "past due but not impaired" would not meet their payment obligations. The majority of trade receivables past due > 330 days relates to Serbia, Bosnia, Macedonia and Italy. In some cases, PHOENIX holds promissory notes, pledged assets of pharmacies, mortgages, land and buildings, inventories, cash and cash equivalents and other personal guarantees as collateral for trade receivables as well as for other loans.

16 Other non-financial assets

EUR k	31 Jan. 2017	31 Jan. 2018
Prepayments	63,118	62,594
Tax claims – VAT and other taxes	22,154	32,710
Sundry other assets	19,462	16,798
Other non-financial assets	**104,734**	**112,102**

The item "Other assets" contains a number of individual items, such as prepayments and claims in connection with employee benefits.

17 Cash and cash equivalents

EUR k	31 Jan. 2017	31 Jan. 2018
Bank balances	483,320	99,672
Cash on hand	4,528	4,729
Cash equivalents	13	14
	487,861	**104,415**

The movement in cash and cash equivalents is presented in the accompanying statement of cash flows.

18 Equity

Unlimited and limited partners' capital

In fiscal year 2014/15, the limited partners increased their capital in the parent company by contribution in cash of EUR 135,000k to EUR 1,185,000k. A partial sum of EUR 10,935k was contributed by the fully consolidated entities and offset against reserves. In 2010/11, the limited partners increased their capital in the parent company by contribution in cash of EUR 550,000k to EUR 1,050,000k. A partial sum of EUR 44,500k was contributed by the fully consolidated entities and offset against reserves. In fiscal year 2017/18, the limited partners reduced their capital in the parent company by EUR 185,000k to EUR 1,000,000k. A partial amount of EUR 14,985k relates to fully consolidated entities and was offset against reserves. The unlimited partners' capital is still EUR 0k.

In addition, no cash outflows stemming from a redemption or repurchase of these financial instruments are expected for the foreseeable future.

Reserves

Reserves primarily comprise retained earnings.

Treasury shares

In 2006/07, PHOENIX International Beteiligungs GmbH acquired the companies Otto Stumpf GmbH, Berlin, and Otto Stumpf GmbH, Gotha. These companies together hold 8.1% of the limited partners' capital of PHOENIX Pharmahandel GmbH & Co KG. The acquisition cost of the treasury shares (EUR 298,737k; prior year: EUR 298,737k) is offset against reserves.

Accumulated other comprehensive income

Accumulated other comprehensive income includes exchange differences, changes in the fair value of available-for-sale financial assets and actuarial gains and losses from pension obligations.

Non-controlling interests

The profit for the period attributable to non-controlling interests came to EUR 30,277k (prior year: EUR 20,148k).

Capital management

The objective of capital management at PHOENIX is to ensure a solid financial profile and to secure business operations. In this connection, the aim is also to further strengthen the equity ratio by retaining profits.

Owing to PHOENIX's business model, capital expenditures are relatively low. Capital expenditures are determined in the annual budgeting process. The focus is on their impact on the consolidated statement of financial position and the consolidated income statement.

The capital structure is monitored based on the equity ratio and net financial liabilities. Adjusted EBITDA is also an important KPI for corporate management purposes.

		31 Jan. 2017	31 Jan. 2018
Equity	in EUR k	2,849,764	2,839,969
Total equity and liabilities	in EUR k	8,598,373	8,334,154
Equity ratio	**in %**	**33.1**	**34.1**

EUR k	31 Jan. 2017	31 Jan. 2018
+ Financial liabilities (non-current)	753,516	655,783
– Derivative financial instruments (non-current)	– 216	– 229
+ Financial liabilities (current)	961,878	820,954
– Derivative financial instruments (current)	– 1,172	– 2,292
– Cash and cash equivalents	– 487,861	– 104,415
+ Receivables sold in the course of factoring and ABS transactions	191,664	230,111
– Factoring receivables	– 24,941	– 25,245
– Receivables from ABS programmes	– 15,321	– 5,589
Net debt	**1,377,547**	**1,569,078**

Under the loan agreements in Germany and Italy, a commitment was undertaken to comply with various financial covenants, all of which were comfortably complied with in the reporting year. These include, for instance, the ratio of net debt to EBITDA or the interest cover. Failure to comply with the financial covenants poses a financing risk to the extent that the lenders could demand immediate repayment of the loans.

The agreements underlying our corporate bonds contain restrictions and obligations for PHOENIX, as an issuer, that are customary for the market. Failure to comply with these restrictions and obligations could result in the amount of the bond plus the interest accrued falling due.

Compliance with the agreed covenants is strictly monitored as part of corporate planning and reported to the lenders on a quarterly basis.

19 Provisions for pensions and similar obligations

Depending on the economic, legal and tax framework in each country, the employees of PHOENIX have different old-age pension systems in place, which are structured as defined contribution or benefit plans.

Obligations from defined benefit plans are financed by external pension funds and provisions. In accordance with IAS 19, these obligations are calculated using the projected unit credit method. To reduce an investment risk, investments in plan assets are made in various asset classes. Furthermore, the investment strategy is designed such that the age structure of the asset is matched with the expected time the pension will be paid out.

The majority of pension obligations relate to the countries Norway, Switzerland and the United Kingdom. These primarily relate to pension plans on a final salary basis, for which the pension payments to beneficiaries are adjusted annually in line with the inflation rate.

The obligations in Norway mainly relate to a pension plan set out especially for the pharmaceuticals segment, which is based on the regulations of public sector pension plans. The pension plan is managed by the Norwegian Public Service Pension Fund and, in accordance with the provisions of the pension fund, the plan assets must be sufficient to cover at least two-thirds of future pension payments.

The obligation in Switzerland is largely invested in insurance assets. The pension fund is thus outsourced to an external insurer which ensures the agreed minimum coverage is secured in the event of a shortfall in pension assets.

The pension plans in the United Kingdom are also financed by external pension funds. The trustees decide on the minimum coverage of the obligations in consultation with the Company. Measurements are performed regularly to ensure the minimum coverage is secured as well as to determine the amount of the contributions.

The sum of all pension expenses in connection with defined contribution plans amounted to EUR 64,655k (prior year: EUR 63,627k). This amount includes the contributions the Group made to statutory pension insurance funds that fall under the definition of defined contribution plans.

The following table shows the financing status of the pension plans and the calculation of the net defined benefit liability:

EUR k	31 Jan. 2017	31 Jan. 2018
Calculation of net defined benefit liability		
Present value of funded obligations	– 600,879	– 607,283
Plan assets at fair value	441,570	466,692
Defined benefit obligations in excess of plan assets	**– 159,309**	**– 140,591**
Present value of non-funded obligations	– 92,503	– 94,371
Net defined benefit liability	**– 251,812**	**– 234,962**

The defined benefit obligations contain the following amounts included in the consolidated financial statements:

	Defined benefit obligation		Fair value of plan assets		Net carrying amount from defined benefit plans	
EUR k	31 Jan. 2017	31 Jan. 2018	31 Jan. 2017	31 Jan. 2018	31 Jan. 2017	31 Jan. 2018
Norway	449,464	468,102	330,393	355,423	–119,071	–112,679
Switzerland	87,554	77,848	67,224	63,916	–20,330	–13,932
United Kingdom	62,306	60,005	42,891	46,427	–19,415	–13,578
Other	94,058	95,699	1,062	926	–92,996	–94,773
Total	**693,382**	**701,654**	**441,570**	**466,692**	**–251,812**	**–234,962**

The net defined benefit liability developed as follows:

EUR k	Present value of the defined benefit obligation	Fair value of plan assets	Total
1 February 2016	**597,075**	**–385,816**	**211,259**
Service cost	20,483		20,483
Interest expenses/income	14,426	–9,758	4,668
Other	37	0	37
	34,946	**–9,758**	**25,188**
Remeasurements			
Return on plan assets excluding amounts contained in interest expenses/income		–11,361	–11,361
Gain/loss from changes in demographic assumptions	18,024		18,024
Gain/loss from changes in financial assumptions	32,844		32,844
	50,868	**–11,361**	**39,507**
Employer contributions		–27,657	–27,657
Employee contributions	2,357	–2,357	0
Benefits paid	–15,773	12,973	–2,800
Plan settlements	–126	11	–115
Exchange differences	24,035	–17,605	6,430
31 January 2017	**693,382**	**–441,570**	**251,812**

EUR k	Present value of the defined benefit obligation	Fair value of plan assets	Total
1 February 2017	**693,382**	**– 441,570**	**251,812**
Service cost	22,108		22,108
Past service cost	– 544		– 544
Interest expenses/income	14,715	– 10,027	4,688
Other	133		133
	36,412	**– 10,027**	**26,385**
Remeasurements			
Return on plan assets excluding amounts contained in interest expenses/income		– 27,737	– 27,737
Gain/loss from changes in demographic assumptions	10,122		10,122
Gain/loss from changes in financial assumptions	16,343		16,343
	26,465	**– 27,737**	**– 1,272**
Effects from business combinations	4,610	– 3,504	1,106
Employer contributions		– 29,107	– 29,107
Employee contributions	2,236	– 2,236	0
Benefits paid	– 19,434	16,745	– 2,689
Plan settlements	– 209		– 209
Exchange differences	– 41,808	30,744	– 11,064
31 January 2018	**701,654**	**– 466,692**	**234,962**

Net interest expenses are recognised within the financial result.

Plan assets break down as follows:

EUR k	31 Jan. 2017	31 Jan. 2018
Plan assets with underlying active market		
Cash and cash equivalents	5,397	6,337
Equity instruments	41,960	37,466
Debt instruments	222,329	258,655
Property	39,647	41,412
Investment funds	63,405	50,838
Insurance assets	62,486	63,915
Structured debt instruments	5,286	7,140
Other	1,060	929
	441,570	**466,692**

The plan assets do not contain any of PHOENIX's own financial instruments or assets used by the Group.

The Group expects to contribute EUR 33,808k to its defined benefit plans in fiscal year 2018/19.

The principal assumptions used in determining pension obligations for the Group's plans are shown below:

in %	31 Jan. 2017	31 Jan. 2018
Discount rate by currency region		
NOK	2.6	2.4
GBP	3.0	2.7
EUR	0.2 – 2.0	1.2 – 1.95
CHF	0.6	0.7
SEK	2.7	2.6
Future salary increases	0.8 – 4.8	1.2 – 4.6
Future pension increases	1.5 – 3.8	1.5 – 3.6

The mortality tables used for the individual countries are based on publicly available data.

The table below shows the effect of each isolated change in the key actuarial assumptions on the present value:

31 January 2018	Change in actuarial assumptions in %	Increase in assumption TEUR	Decrease in assumption TEUR
Interest rate	0.5	61,914	–71,721
Future salary increases	0.5	–23,637	21,232
Future pension increases	0.5	–44,719	35,166
Life expectancy	10.0	–6,391	6,096

31 January 2017	Change in actuarial assumptions in %	Increase in assumption TEUR	Decrease in assumption TEUR
Interest rate	0.5	60,900	–70,454
Future salary increases	0.5	–24,071	21,611
Future pension increases	0.5	–35,422	27,299
Life expectancy	10.0	–6,742	6,358

The average duration of the defined benefit plans was 16 years (prior year: 15) in the reporting year.

In Norway and the Netherlands, PHOENIX has pension plans that are operated together with non-affiliated companies (multi-employer plans). In principle, these are both defined benefit and defined contribution plans. If the required information is available in connection with jointly operated defined benefit plans, these plans are accounted for like any other defined benefit plan; otherwise, they are accounted for as defined contribution plans. In the Netherlands, there are jointly operated defined benefit plans that are accounted for as defined contribution plans, as it is not possible to allocate the pension obligations and plan assets to the participating entities on account of the lack of information available. For these plans, PHOENIX expects contribution payments of EUR 10,550k for fiscal year 2018/19. The coverage ratio of these plans (ratio of plan assets to obligation) is between 101.0% and 103.0% (prior year: between 90.8% and 94.1%). In Norway, there is a jointly operated government plan that qualifies as a defined benefit plan and is also accounted for as such. Furthermore, as of 31 January 2018, PHOENIX does not expect any major burdens to arise from the multi-employer plans; there is no intention to exit any of these plans.

PHOENIX is not aware of any likely significant risks from the multi-employer defined benefit plans accounted for as defined contribution plans.

20 Other provisions

EUR k	Restructuring	Personnel	Other	Total
1 February 2017	**106**	**18,541**	**33,372**	**52,019**
Currency translation	0	–79	–19	–98
Addition	7,851	2,599	13,593	24,043
Utilisation	–2,750	–6,390	–6,127	–15,267
Reversal	–106	–505	–7,148	–7,759
Interest	0	118	0	118
31 January 2018	**5,101**	**14,284**	**33,671**	**53,056**

The cash outflows for the restructuring provision are expected for the next fiscal year.

Personnel-related provisions mainly contain provisions for long-service awards. The corresponding cash outflow is expected within the next year(s) and depends on the occurrence of the respective events. PHOENIX does not expect reimbursements.

Other provisions include, among other things, litigation provisions of EUR 14,358k (prior year: EUR 8,030k). The outflow of these funds is expected within the coming year(s) depending on the occurrence of the respective events or the end of court proceedings. PHOENIX does not expect reimbursements.

21 Financial liabilities

At the reporting date, financial liabilities were split between non-current and current liabilities as follows:

EUR k	31 Jan. 2017	31 Jan. 2018
Financial liabilities (non-current)		
Liabilities to banks	150,243	149,635
Bonds	594,116	496,319
Loans	100	356
Other financial liabilities	9,057	9,473
	753,516	**655,783**

EUR k	31 Jan. 2017[1)]	31 Jan. 2018
Financial liabilities (current)		
Liabilities to banks	182,155	179,251
Loans	134,131	115,981
Liabilities to associates and related parties	49,412	49,411
Liabilities for customer rebates and bonuses	35,244	33,119
ABS and factoring liabilities	533,882	414,954
Other financial liabilities	27,554	28,238
	962,378	**820,954**

[1)] Prior-year figures were restated due to the finalisation of a purchase price.

In May 2013, PHOENIX issued a corporate bond with a volume of EUR 300m, a term of seven years and an interest coupon of 3.125%.

At the end of July 2014, PHOENIX issued a corporate bond with a volume of EUR 300m, a term of seven years and an interest coupon of 3.625%. In November 2017, PHOENIX redeemed bonds with a nominal value of EUR 100m.

In June 2012, PHOENIX concluded a syndicated loan agreement for EUR 1.35b, of which EUR 1.05b was available after repayments as a revolving credit facility with an original term until June 2017. In April 2014, PHOENIX negotiated improvements to the loan conditions and at the same time extended the term to a new residual term of five years. The revolving credit facility was increased by EUR 200m in December 2015. In November 2016, PHOENIX made use of the option to extend the agreement by one year. In October 2017, PHOENIX made use of the option to extend the agreement by one year.

In October 2016, PHOENIX issued a promissory note with a total volume of EUR 150m. The loan comprises four tranches:

- Tranche 1 has a volume of EUR 22.5m, a fixed term of 5 years and an interest coupon of 0.8%
- Tranche 2 has a volume of EUR 53m, a term of up to 5 years and a variable interest coupon
- Tranche 3 has a volume of EUR 23.5m, a fixed term of 7 years and an interest coupon of 1.2%
- Tranche 4 has a volume of EUR 51m, a term of up to 7 years and a variable interest coupon

22 Trade payables

Trade payables are non-interest bearing and are normally settled on usual business terms.

23 Other liabilities

EUR k	31 Jan. 2017	31 Jan. 2018
VAT and other tax liabilities	87,160	105,924
Personnel liabilities	143,136	140,225
Liabilities relating to social security/similar charges	27,421	27,763
Prepayments	13,571	14,864
Sundry other liabilities	15,114	10,319
Other liabilities	**286,402**	**299,095**

24 Non-current assets held for sale

The non-current assets held for sale of EUR 5,113k relate to an idle distribution centre in the Netherlands. In the prior year, this item included pharmacies in the Netherlands that had to be sold off in connection with the acquisition of Mediq Apotheken Nederland B.V. because of antitrust requirements (EUR 7,619k). The item also contains a property in Bulgaria of EUR 394k (31 January 2017: EUR 605k).

OTHER NOTES

25 Contingent liabilities

Contingent liabilities totalling EUR 76,674k (31 January 2017: EUR 67,679k) relate exclusively to financial guarantee contracts.

Guarantees are potential future obligations to third parties, the existence of which depends on the occurrence of at least one uncertain future event outside the control of PHOENIX. The guarantees mainly relate to pharmacy customers in the wholesale business and were primarily issued by subsidiaries of the subgroups in the United Kingdom and Austria. The guarantees include obligations for which the probability of outflow is remote.

26 Additional information on financial instruments

The items in the statement of financial position for financial instruments are assigned to classes and categories. The carrying amounts for each category and class and the fair values for each class are presented in the following table for fiscal year 2017/18:

31 January 2018	Category pursuant to IAS 39						
EUR k	Loans and receivables	Available-for-sale financial assets	Held-for-trading financial assets	No category according to IAS 39.9	Not within the scope of IFRS 7	Carrying amount	Fair value
Assets							
Available-for-sale financial assets	0	38,070	0	0	0	38,070	38,070
Available-for-sale financial assets at acquisition cost	0	2,717	0	0	0	2,717	n/a
Trade receivables	2,693,278	0	0	0	0	2,693,278	2,693,278
Loans to and receivables from associates or related parties	9,012	0	0	0	0	9,012	8,951
Other loans	80,026	0	0	0	0	80,026	81,705
Derivative financial assets without hedge accounting	0	0	1,648	0	0	1,648	1,648
Other financial assets	125,059	0	0	0	0	125,059	125,059
Lease receivables	0	0	0	5,537	0	5,537	n/a
Cash and cash equivalents	104,415	0	0	0	0	104,415	104,415

The carrying amounts for each category and class and the fair values for each class are presented in the following table for fiscal year 2016/17:

31 January 2017	Category pursuant to IAS 39						
EUR k	Loans and receivables	Available-for-sale financial assets	Held-for-trading financial assets	No category according to IAS 39.9	Not within the scope of IFRS 7	Carrying amount	Fair value
Assets							
Available-for-sale financial assets	0	34,042	0	0	0	34,042	34,042
Available-for-sale financial assets at acquisition cost	0	2,657	0	0	0	2,657	n/a
Trade receivables	2,672,218	0	0	0	0	2,672,218	2,672,218
Loans to and receivables from associates or related parties	11,701	0	0	0	0	11,701	11,621
Other loans	73,381	0	0	0	0	73,381	73,422
Derivative financial assets without hedge accounting	0	0	3,323	0	0	3,323	3,323
Other financial assets	146,594	0	0	0	0	146,594	147,625
Lease receivables	0	0	0	56	0	56	n/a
Cash and cash equivalents	487,861	0	0	0	0	487,861	487,861

Available-for-sale financial assets primarily contain shares in unlisted entities. Where no fair value can be determined, they are recorded at acquisition cost. For other available-for-sale financial assets, the fair value is determined using a multiplier method (revenue multiple, level 3). This uses individually derived multipliers between 0.54 and 1.39 (prior year: between 0.64 and 1.34). A 10% increase in the multipliers would increase the value by EUR 5,010k (prior year: EUR 4,703k); a 10% decrease in the multipliers would decrease the value by EUR 5,008k (prior year: EUR 4,708k).

Derivatives are carried at fair value.

Due to the short-term maturities of cash and cash equivalents (level 1), receivables and other current financial assets (level 2), their carrying amounts generally approximate the fair values at the reporting date.

The fair values of loans to and receivables from associates or related entities, other loans, held-to-maturity financial assets and other non-current financial assets due after more than one year correspond to the net present value of the payments related to the assets based on the current interest rate parameters and yield curves (level 2).

The carrying amounts for each category and class of financial liabilities and the fair values for each class are presented in the following table for fiscal year 2017/18:

31 January 2018	Category pursuant to IAS 39					
EUR k	Other financial liabilities	Financial liabilities held for trading	No category according to IAS 39.9	Not within the scope of IFRS 7	Carrying amount	Fair value
Financial liabilities						
Liabilities to banks	328,886	0	0	0	328,886	329,344
Bonds	496,319	0	0	0	496,319	534,497
Loans	116,337	0	0	0	116,337	116,337
Trade payables	3,269,574	0	0	0	3,269,574	3,269,574
Liabilities to associates and related parties	49,411	0	0	0	49,411	45,717
Liabilities and provisions for customer rebates and bonuses	33,119	0	0	0	33,119	33,119
ABS and factoring liabilities	414,954	0	0	0	414,954	414,954
Other financial liabilities at amortised cost	18,279	0	0	0	18,279	18,279
Other financial liabilities at fair value	8,073	0	0	0	8,073	8,073
Lease liabilities	0	0	8,838	0	8,838	n/a
Derivative financial liabilities without hedge accounting	0	2,521	0	0	2,521	2,521

The carrying amounts for each category and class of financial liabilities and the fair values for each class are presented in the following table for fiscal year 2016/17:

31 January 2017[1]	Category pursuant to IAS 39					
EUR k	Other financial liabilities	Financial liabilities held for trading	No category according to IAS 39.9	Not within the scope of IFRS 7	Carrying amount	Fair value
Financial liabilities						
Liabilities to banks	332,398	0	0	0	332,398	333,106
Bonds	594,116	0	0	0	594,116	658,863
Loans	134,231	0	0	0	134,231	134,231
Trade payables	3,273,532	0	0	0	3,273,532	3,273,532
Liabilities to associates and related parties	49,412	0	0	0	49,412	45,085
Liabilities and provisions for customer rebates and bonuses	35,244	0	0	0	35,244	35,244
ABS and factoring liabilities	533,882	0	0	0	533,882	533,882
Other financial liabilities at amortised cost	16,461	0	0	0	16,461	16,461
Other financial liabilities at fair value	9,348	0	0	0	9,348	9,348
Lease liabilities	0	0	9,414	0	9,414	n/a
Derivative financial liabilities without hedge accounting	0	1,388	0	0	1,388	1,388

1) Prior-year figures were restated due to the finalisation of a purchase price allocation.

The fair value of the bonds is the nominal value multiplied by the quoted price as of the reporting date (level 1).

Derivatives are carried at fair value (level 2).

The fair value of liabilities to banks corresponds to the present value of the payments associated with the liabilities (level 2).

The fair value of liabilities to associates and related parties corresponds the present value of payments to be made calculated using a customary market discount rate (level 2).

Due to the short-term maturities of trade payables, liabilities for customer rebates and bonuses, ABS and factoring liabilities, loans and other current financial liabilities, their carrying amounts generally approximate the fair values at the reporting date (level 2).

The fair value of other financial liabilities measured at fair value (contingent consideration from business combinations) is determined using the purchase price formula agreed in the purchase agreements (level 3).

Fair value hierarchy of financial instruments

PHOENIX applies the following fair value hierarchy to define and present its financial instruments measured at fair value:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Techniques that use inputs that are not based on observable market data.

	Financial instruments measured at fair value			
EUR k	**Level 1**	**Level 2**	**Level 3**	**Total**
31 January 2018				
Available-for-sale financial assets	0	0	38,070	38,070
Derivative financial assets without hedge accounting	0	1,648	0	1,648
Derivative financial liabilities without hedge accounting	0	2,521	0	2,521
Other financial liabilities	0	0	8,073	8,073
31 January 2017 [1]				
Available-for-sale financial assets	0	0	34,042	34,042
Derivative financial assets without hedge accounting	0	3,323	0	3,323
Derivative financial liabilities without hedge accounting	0	1,388	0	1,388
Other financial liabilities	0	0	9,348	9,348

[1] Prior-year figures were restated due to the finalisation of a purchase price allocation.

The fair value of available-for-sale assets measured at cost of EUR 2,717k (prior year: EUR 2,657k) has not been disclosed because the fair value cannot be measured reliably. A sale is not currently planned.

The following table shows the reconciliation of the fair value based on level 3.

EUR k	Available-for-sale assets	Other financial liabilities
1 February 2016	**31,165**	**5,651**
Total gains and losses recognised in accumulated other comprehensive income	2,118	0
Purchase	1,862	0
Sale of shares	– 1,103	0
thereof recognised through profit or loss	27	0
Acquisitions	0	3,166
Payments due to acquisitions	0	– 863
Other	0	1,394
31 January 2017 [1]	**34,042**	**9,348**
Total gains and losses recognised in accumulated other comprehensive income	3,841	0
Purchase	611	0
Sale of shares	– 424	0
thereof recognised through profit or loss	199	0
Acquisitions	0	0
Remeasurement of contingent purchase price obligations (through profit or loss)	0	– 406
Payments due to acquisitions	0	– 1,039
Other	0	170
31 January 2018	**38,070**	**8,073**

[1] Prior-year figures were restated due to the finalisation of a purchase price allocation.

Net gains or losses on each category of financial instruments

EUR k	FY 2016/17	FY 2017/18
Loans and receivables	– 39,344	– 6,911
Available-for-sale financial assets	4,643	5,786
thereof recognised in accumulated other comprehensive income	2,118	3,841
thereof recognised through profit or loss	2,525	1,945
Financial liabilities measured at amortised cost	296	– 106
Financial instruments held for trading	27,379	– 3,373
	– 7,026	**– 4,604**

The presentation of net gains or losses does not include interest income and expenses on the respective financial instruments.

Interest from financial instruments is recognised in interest income and expenses. Foreign exchange effects and fair value changes of derivatives are recognised in the other financial result from derivatives. Impairment losses were recognised as follows in the period:

EUR k	FY 2016/17	FY 2017/18
Trade receivables	11,339	14,952
Loans to and receivables from associates	1,034	300
Other loans	3,631	2,616
Other financial assets	55	7
	16,059	**17,875**

Offsetting within financial assets breaks down as follows:

EUR k	Gross amount of financial assets	Gross amount of financial liabilities	Net amount of financial assets reported in the statement of financial position
31 January 2018			
Trade receivables (current)	2,697,582	– 4,320	2,693,262
Other financial assets (current)	319,289	– 152,228	167,061
31 January 2017			
Other financial assets (current)	332,328	– 152,222	180,106

Offsetting within financial liabilities breaks down as follows:

EUR k	Gross amount of financial liabilities	Gross amount of financial assets	Net amount of financial liabilities reported in the statement of financial position
31 January 2018			
Trade payables (current)	3,308,377	– 38,805	3,269,572
31 January 2017			
Trade payables (current)	3,299,395	– 26,083	3,273,312

The following table presents the nominal and market values of the derivative financial instruments:

	31 January 2017		31 January 2018	
EUR k	Nominal amount	Market value	Nominal amount	Market value
Assets				
Derivatives held for trading				
Foreign currency contracts	394,753	3,323	420,350	1,648
Liabilities				
Derivatives held for trading				
Foreign currency contracts	212,910	1,172	371,381	2,292
Interest rate transactions	2,813	216	2,471	229

27 Financial risk management and derivative financial instruments

Objectives and principles of the financial risk management

Due to its multinational business activities, PHOENIX is exposed to financial risks. In particular, these include market risk (changes in foreign exchange rates, interest rates and prices) and credit risk. In addition, liquidity risks may arise due to the operating business, due to the financial risks named above and because of unexpected fluctuations in the financial markets.

These risks are monitored using comprehensive planning, approval and reporting structures and an early warning system, which together make up the risk management system of PHOENIX. Binding guidelines with regard to financial risks are prepared by the central service areas group finance and accounts receivables management. These guidelines and requirements must be approved by the management board specifying how financial risks are to be controlled. The management is informed on an ongoing basis about the current risk exposure and the development on the global financial markets.

Derivatives are used by PHOENIX in specific cases to hedge against interest rate and currency risks. They are concluded only with banks with a high credit standing. These derivatives are regularly measured and their value in use continually and diligently monitored. Although the derivatives are contracted for hedging purposes, they are classified as held-for-trading under IAS 39.

Only a small number of persons are authorised to trade with derivatives. The trading, control and reporting functions are separate and independent from each other. This control is employed strictly according to binding internal guidelines that utilise a two-person principle. The conclusion or disposal of derivatives is only allowed in accordance with the internal treasury guidelines of PHOENIX.

Under the financing arrangement, PHOENIX has undertaken a commitment to comply with covenants. These were complied with in fiscal year 2017/18.

Market risk

Currency risk

Currency risk arises through fluctuations of the exchange rate of foreign currencies and their impact on the items of the statement of financial position which are not denominated in the functional currency. The currency risks for PHOENIX originate primarily from internal financing activities and investments in foreign entities. As the Group entities largely settle their operating business in their respective functional currency, the operative currency risks are small.

Currency risks arise in the course of intragroup financing whenever loans are extended to group entities in currencies other than the euro. These currency risks are hedged by concluding forward exchange contracts with banks.

In the calculation of the currency exposure for the sensitivity analysis, those items of the statement of financial position are taken into account which are not in the functional currency of the respective reporting company. Those items of the statement of financial position are aggregated for the whole Group. Also the internal loans which are not in the functional currency of the reporting unit are taken into account and the amounts aggregated. The currency effects for a 10% increase (decrease) of the euro against the respective currency are then measured. In the next step, the market value changes of derivative financial instruments (currency swap transactions and forwards), which were entered into to hedge these exposures, were calculated under the assumption of a 10% increase (decrease) of the spot exchange rates as of the closing date.

Finally, the hypothetical effect on profit or accumulated other comprehensive income of the sensitivity analysis was calculated by netting the effects of the assumed 10% increase (decrease) in the value of the euro against all other currencies as per 31 January 2018 for both the underlying and derivative financial instruments. The material results of the sensitivity analysis are as follows:

If the EUR depreciates (appreciates) by 10% against the HRK, profit before tax would be EUR 2,893k (prior year: EUR 2,673k) higher (lower). This is primarily due to trade payables.

If the EUR depreciates (appreciates) by 10% against the MKD, profit before tax would be EUR 1,641k (prior year: EUR 1,716k) higher (lower). This effect results from internal loans.

If the EUR depreciates (appreciates) by 10% against the NOK, accumulated other comprehensive income would be EUR 44,740k (prior year: EUR 44,740k) higher (lower). This effect stems from internal loans classified as a net investment in a foreign operation.

If the EUR depreciates (appreciates) by 10% against the RSD, profit before tax would be EUR 2,153k (prior year: EUR 2,046k) and accumulated other comprehensive income would be EUR 7,722k (prior year: EUR 5,719k) higher (lower). This results from the trade payables and the internal loans that are classified as a net investment in a foreign operation.

If the DKK depreciates (appreciates) by 10% against the NOK, profit before tax would be EUR 1,231k (prior year: EUR 189k) higher (lower). This is primarily due to trade receivables.

If the DKK depreciates (appreciates) by 10% against the SEK, profit before tax would be EUR 1,396k (prior year: EUR 849k) higher (lower). This is primarily due to trade receivables.

If the SEK had depreciated (appreciated) by 10% against the EUR in the prior year, accumulated other comprehensive income would have been EUR 11,093k lower (higher). This effect resulted from an internally issued hybrid loan that was repaid in fiscal year 2017/18.

Interest rate risk

Interest rate risks exist as a result of potential changes in the market interest rate and may lead to a change in fair value in the case of fixed interest bearing financial instruments and to fluctuations in interest payments in the case of variable interest-bearing financial instruments. As of 31 January 2018, there was only one interest option (collar) to hedge against increasing reference interest rates at an agreed minimum interest rate from 2010/11. This was accounted for as a derivative held for trading.

For financial instruments with fixed interest that are measured at amortised cost, changes in market interest rates have no impact on the earnings and equity. With regard to variable interest-bearing financial instruments, changes in market risk rates impact the earnings and are thus considered in the sensitivity analysis.

The interest sensitivity analysis presented below shows the hypothetical effects which a change in the market interest rate at the reporting date would have had on the pre-tax result. It assumes that the exposure at the reporting date is representative of the year as a whole.

PHOENIX's fixed-interest period is primarily of a long-term nature. A positive parallel shift in the EUR market yield curve by 50 basis points as of the reporting date (prior year: 50 basis points) would impact net debt subject to floating interest rates, leading to a negative impact of EUR 2,667k (prior year: EUR 1,442k) on the profit before tax. Because the reference interest rate (Euribor) was negative on the reporting date, a further negative shift in the market interest curve by 50 basis points would have had no material effect on net debt subject to floating interest rates.

A positive (negative) parallel shift of 50 basis points for the EUR interest rate curves, assuming other interest rate curves and exchange rates remain constant, would have a negative (positive) effect of EUR 544k (EUR 546k) on profit before tax on account of the interest derivatives in the portfolio as of the reporting date. In the prior year, the positive (negative) shift for the EUR yield curve by 50 basis points would have resulted in a negative (positive) effect of EUR 255k (EUR 256k).

For the interest rate collar in the portfolio, a positive (negative) parallel shift of 50 basis points (prior year: 50 basis points) for the EUR interest rate curves would have a positive (negative) effect of EUR 43k (EUR 44k) on profit before tax. In the prior year, the positive (negative) shift for the EUR yield curve would have resulted in a positive (negative) effect of EUR 57k (EUR 60k).

Credit risk

From the Group's perspective, credit risk describes the risk that a party to a financial instrument will fail to meet its contractual obligations and thus cause a financial loss for the Group. Credit risk comprises both the direct default risk and the risk that the creditworthiness of the counterparty will deteriorate, as well as the concentration of risks. The Group is exposed to credit risk from its operating activities, from certain financial transactions and from the granting of financial guarantees for bank loans for pharmacy customers, mainly in Austria and the United Kingdom.

The maximum exposure of financial assets to credit risk is equal to the carrying amount of each class of financial assets plus the nominal volume of financial guarantee contracts issued.

The level of credit risk from operating activities is monitored and kept in check by an accounts receivable management system. Due to the structure of our customers, the risk of default is assessed to be rather low in the Group. This is because our customers, in the wholesale segment mostly pharmacies, generally have a high credit standing. Despite some bigger customers, our customer base is widely diversified with small amounts of receivables allocable to each individual customer. In the course of liberalisation of the pharmacy markets in Europe, however, pharmacy chains and new sales channels are increasingly emerging, creating a large number of major customers with a higher level of receivables outstanding. In addition, the Group holds in some cases promissory notes from customers, pledged assets of pharmacies, mortgages and other personal guarantees as collateral for loans to pharmacies in the form of goods supplied. Collateral was utilised to an immaterial extent in the fiscal year.

The cash investments are spread between various banks with a high credit standing in order to avoid any concentration of risk. PHOENIX has a policy of only entering into derivatives with banks with a high credit standing and thus limits the default risk for derivatives with a positive market value. As PHOENIX spreads the derivatives between more than ten of our core banks, there is no concentration of risks of default with a single bank. Additionally, PHOENIX monitors very closely the financial news and markets and has therefore an early warning system to detect possible difficulties on the part of a bank.

Liquidity risk

Liquidity risk describes the risk that a company cannot fulfil its financial obligations when they become due. To monitor the Group's liquidity, PHOENIX has implemented a daily rolling liquidity planning system. Additionally, regular discussions are held for special liquidity issues and developments as part of a rolling 12-month liquidity plan. Subsidiaries are integrated into the Group's central financing system.

The following table shows the contractually agreed undiscounted interest payments and repayments of non-derivative financial liabilities and derivative financial assets and liabilities as of 31 January 2018.

EUR k	Cash flows 2018/19	Cash flows 2019/20	Cash flows 2020/21 – 2022/23	Cash flows 2023/24 – 2027/28	Cash flows > 2028/29
Liabilities to banks	187,183	7,705	97,212	75,403	
Bonds	16,625	16,625	523,890		
Loans	118,916				
Trade payables	3,269,572	2			
Liabilities to associates and related parties	404		49,007		
Liabilities and provisions for customer rebates and bonuses	33,119				
ABS and factoring liabilities	415,366				
Other financial liabilities	19,848	639	5,617		
Finance lease liabilities	6,649	745	1,908	502	
Financial guarantee contracts	76,674				
Derivative financial liabilities without hedge accounting					
Cash outflow	373,842	71	109	17	
Cash inflow	–371,304				
Total derivatives	**2,538**	**71**	**109**	**17**	

The table presented includes financial liabilities under the liabilities item of the statement of financial position in conjunction with assets held for sale.

The contractually agreed undiscounted payments as of 31 January 2017 are presented in the following table:

EUR k	Cash flows 2017/18	Cash flows 2018/19	Cash flows 2019/20 – 2021/22	Cash flows 2022/23 – 2026/27	Cash flows > 2027/28
Liabilities to banks	191,974	7,718	97,898	76,305	
Bonds	20,222	20,250	651,390		
Loans	138,130	12			
Trade payables	3,273,547				
Liabilities to associates and related parties	405			49,007	
Liabilities and provisions for customer rebates and bonuses	35,244				
ABS and factoring liabilities	534,792				
Other financial liabilities	8,432	229	725	4,384	
Finance lease liabilities	1,445	8,113	1,743		
Financial guarantee contracts	67,679				
Derivative financial liabilities without hedge accounting					
Cash outflow	214,099	74	126	25	
Cash inflow	–212,862				
Total	**1,237**	**74**	**126**	**25**	

Liabilities with early termination rights have been classified according to the first call date. For variable interest payments, the current floating interest rate is taken as a basis. Payments in foreign currency are translated using the exchange rate at year-end.

Fair value hedges
PHOENIX uses forward exchange contracts to hedge against changes in fair value that stem from exchange rate movements in firm commitments not recognised in the statement of financial position. If the hedge is considered effective, the cumulative change in the fair value of the unrecognised firm commitments is capitalised as a separate financial asset or a separate financial liability.

The following table shows the changes in hedged items and hedging instruments in fair value hedge relationships that are recognised through profit or loss:

EUR k	FY 2016/17	FY 2017/18
From hedged items	385	0
From hedging instruments	–385	0
Ineffective portion	0	0

There were no hedge relationships as of either reporting date.

28 Notes to the cash flow statement

Cash and cash equivalents amounted to EUR 104,415k at the end of the reporting period (prior year: EUR 487,861k) and comprised cash of EUR 104,401k (prior year: EUR 487,848k) as well as cash equivalents of EUR 14k (prior year: EUR 13k). Restricted cash at the end of the period amounts to EUR 12,368k (prior year: EUR 16,058k) and corresponds to security deposits for revolving credit lines (e.g., ABS and factoring). There are also restrictions on cash and cash equivalents of EUR 15,162k (prior year: EUR 11,751k) of foreign subsidiaries at the end of the period, since local covenants or other agreements do not allow the subgroups to transfer those amounts directly or indirectly via other subsidiaries to the parent company.

Payments of EUR 40,106k (prior year: EUR 403,558k) made for acquisitions of consolidated entities and business units correspond to the payments of the purchase price less any cash and cash equivalents acquired of EUR 1,262k (prior year: EUR 74,986k). Cash received from the sale of consolidated entities and business units correspond to the sale proceeds received of EUR 12,192k (prior year: EUR 33,373k) less cash and cash equivalents disposed of EUR 0k (prior year: EUR 0k).

The reconciliation of finance lease liabilities is as follows:

EUR k	As of 1 February 2017	Thereof recognised in cash flow from financing activities	Changes in cash	Change in the basis of consolidation	Exchange rate changes	Fair value	Other	As of 31 Januar 2018
Bonds/loans from banks	926,514	926,514	– 122,178		1,232		19,637	825,205
ABS/factoring liabilities	533,882							414,954
ABS/factoring receivables	– 40,262							– 30,834
ABS/factoring net liabilities	493,620	493,620	– 63,002		– 5,691	493	– 41,300	384,120
Lease liabilities	9,414	9,414	– 544		– 17		– 15	8,838
Other liabilities	246,084	228,474	– 1,146	215	166		31	227,740

29 Related party disclosures

General

In accordance with IAS 24, entities or persons, which are in control of or controlled by PHOENIX must be disclosed. Members of the Merckle family and entities controlled by them are considered as related parties. The ultimate controlling party of PHOENIX is Mr Merckle. In addition, the disclosure requirements of IAS 24 comprise persons and entities over which PHOENIX has significant influence or joint control.

Transaction volume

The goods and services sold as well as other income from transactions with related parties and goods and services received as well as other expenses from such transactions break down as follows:

	Goods and services sold as well as other income in the fiscal year		Goods and services received as well as other expenses in the fiscal year	
EUR k	2016/17	2017/18	2016/17	2017/18
Partners	**13**	**0**	**13,233**	**13,272**
from financing	0	0	0	106
from leases, other services	13	0	13,233	13,166
Associates	**38,962**	**16,797**	**9,862**	**9,696**
from financing	136	105	0	0
from leases, other services	89	64	8,535	9,696
from goods sold	38,737	16,628	1,327	0
Other related parties	**41**	**2**	**1,680**	**2,599**
from financing	0	0	105	872
from leases, other services	41	2	1,575	1,727
from goods sold	0	0	0	0

The goods and services sold mainly consist of goods supplied and other services.

The goods and services received relate primarily to goods, leases and financing transactions.

Outstanding balances

	Receivables as of 31 Jan.		Liabilities as of 31 Jan.	
EUR k	2017	2018	2017	2018
Partners	**25**	**206**	**63,837**	**64,296**
from financing	0	0	49,007	49,008
from leases, other services	25	206	14,830	15,288
Associates	**5,716**	**4,001**	**107**	**88**
from financing	3,095	2,296	0	0
from leases, other services	2	18	107	88
from goods sold	2,619	1,687	0	0
Other related parties	**52**	**0**	**167**	**0**
from financing	0	0	0	0
from leases, other services	52	0	167	0
from goods sold	0	0	0	0
Impairment losses	**−775**	**−225**	**0**	**0**

For the most part, the outstanding balances are not secured nor have guarantees been issued on them. The receivables were settled by payment or by netting them against accounts payable.

In connection with the bond issued in July 2014, related parties hold bond certificates with a nominal volume of EUR 112,400k. In connection with the bond issued in 2013, related parties hold bond certificates with a nominal volume of EUR 30,200k. To the extent that these bond certificates are still held, interest was paid at the prevailing terms and conditions.

Real estate acquisition tax of EUR 4,000k (prior year: EUR 0k) was incurred in fiscal year 2017/18 following restructuring measures initiated by the partners. This was recognised as a withdrawal by the partners.

Terms and conditions
Unless terms and conditions of related party transactions have been commented on specifically above, they were made on an arm's length basis. Outstanding balances at year-end are unsecured and settled by payment.

30 Remuneration of the members of management board

The total expense for remuneration of the management board in the reporting period was EUR 7,117k (prior year: EUR 5,869k) and is classified as short-term employee benefits, of which EUR 293k relate to the prior year (prior year: EUR 409k).

The current service cost for benefits earned by management in the reporting period was EUR 408k (prior year: EUR 262k).

Former members of management received remuneration (prior year: including severance payments and non-competition payments) of EUR 356k in the reporting year (prior year: EUR 654k). Pension provisions of EUR 28,303k (prior year: EUR 27,676k) were recognised.

32 Remuneration of the advisory board

The advisory board remuneration amounted to EUR 350k in the fiscal year (prior year: EUR 350k).

33 Subsequent events

At the end of February 2018, the competition authorities in Serbia approved the acquisition of all shares in Goodwill Apoteka, which operates 138 pharmacies with 540 employees. The final purchase price is not yet available.

In early April 2018, PHOENIX signed a purchase agreement for the pharmaceutical wholesaler Farmexim S.A. and the pharmacy chain Help Net Farma S.A. in Romania. The acquisition is subject to antitrust approval.

Mannheim, 6 April 2018

Management of the unlimited partner
PHOENIX Verwaltungs GmbH

Oliver Windholz (Chair) Helmut Fischer Frank Große-Natrop Stefan Herfeld

Translation of the German independent auditor's report concerning the audit of the consolidated financial statements and group management report prepared in German.

INDEPENDENT AUDITOR'S REPORT

To PHOENIX Pharmahandel GmbH & Co KG, Mannheim

Report on the audit of the consolidated financial statements and of the group management report

Opinions

We have audited the consolidated financial statements of PHOENIX Pharmahandel GmbH & Co KG, Mannheim, and its subsidiaries (the Group) which comprise the consolidated statement of financial position as of 31 January 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year from 1 February 2017 to 31 January 2018, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of PHOENIX Pharmahandel GmbH & Co KG for the fiscal year from 11 February 2017 to 31 January 2018.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB ["Handelsgesetzbuch": German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of 31 January 2018, and of its financial performance for the financial year from 1 February 2017 to 31 January 2018, and

- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Sec. 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional 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 opinions on the consolidated financial statements and on the group management report.

Responsibilities of the executive directors and the advisory board for the consolidated financial statements and the group management report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined 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 executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The advisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report

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 whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sec. 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. 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 and this group management report.

We exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report 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 these systems.

- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Stuttgart, 6 April 2018

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Prof. Dr. Wollmert	Somes
Wirtschaftsprüfer	Wirtschaftsprüferin
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FINANCIAL CALENDAR 2018

Please consult our calendar for the most important announcement dates:

26 June	Quarterly report February to April 2018
21 September	Half-year report February to July 2018
18 December	Quarterly report February to October 2018

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