PHOENIX group

ANNUAL REPORT 2016/17

PHOENIX GROUP IN FIGURES

Key figures of the PHOENIX group		2012/13	2013/14[5]	2014/15	2015/16[6]	2016/17
Revenue	in €k	21,218,687	21,791,268	22,567,998	23,247,428	24,436,695
Total operating performance[1]	in €k	25,251,336	25,916,290	27,278,243	28,484,595	30,232,784
Total income[2]	in €k	2,319,147	2,217,379	2,277,295	2,416,548	2,567,225
Profit before tax	in €k	230,723[3]	143,092	361,278	318,985	242,514
Profit before tax, before non-recurring items[4]	in €k	329,156	253,094	296,558	335,321	289,792
Equity	in €k	2,103,800	2,161,841	2,481,491	2,726,468	2,849,764
Equity ratio	in %	28.7	29.4	32.1	35.1	33.1
Net debt	in €k	1,611,518	1,330,855	1,068,749	1,121,561	1,377,547
Company rating (Standard & Poor's)		BB	BB	BB	BB+	BB+
Employees (total)		28,698	28,555	28,922	29,745	34,145
Employees (full-time)		23,932	23,850	24,153	24,842	26,611

[1] Total operating performance = revenue + handled volume (handling for service charge).
[2] Total income = gross income + other operating income (previous years 2010/11 up to 2012/13 adjusted due to changes in reporting).
[3] Adjusted due to the application of IAS 19R.
[4] Adjusted for impairment losses on goodwill, effects resulting from the sale of financial assets, one-off effects related to refinancing measures in 2012, expenditures associated with the PHOENIX *FORWARD* optimisation programme, changes in pension schemes 2014/15 and 2015/16, Mediq acquisition costs, and tax audits for previous years.
[5] Adjusted due to the first-time application of IFRS 11.
[6] Profit before tax, before non-recurring items adapted for comparison purposes.

> **Total operating performance**

€30,233 million

> **Revenue**

€24,437 million

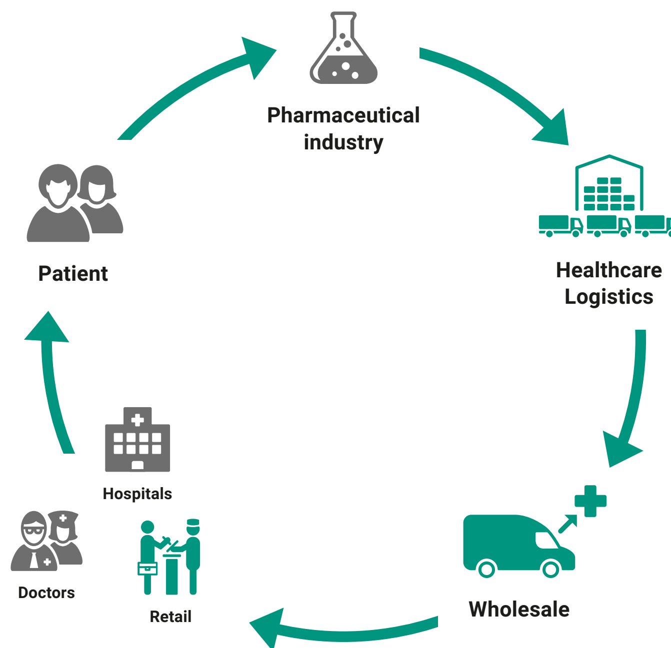
> **Increase in total operating performance compared with 2015/16 of**

6.1%

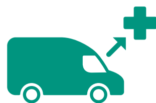
> **Increase in revenue compared with 2015/16 of**

5.1%

LINK BETWEEN MANUFACTURER AND PATIENT



WHOLESALE



> As a wholesaler, the PHOENIX group ensures that the drugs and health products of pharmaceutical manufacturers are delivered to pharmacies and medical institutions both quickly and reliably. The PHOENIX group also supports independent pharmacies in Europe, offering various services to increase customer retention.

PHARMA SERVICES

> PHOENIX Pharma Services offers a wide range of services along the entire pharmaceutical supply chain. Our business intelligence products also enable pharmaceutical manufacturers to make the right decisions and to focus their attention on the development and production of superior drugs. The PHOENIX group takes care of everything else.

RETAIL

> In pharmacy retail, the PHOENIX group is responsible for directly supplying the general public with pharmaceuticals and health products. The comprehensive and professional advice provided by our pharmacy staff is of the highest quality and is accompanied by the best possible customer service.

We deliver health.
Each and every day. Across Europe.

> **The PHOENIX group** is a leading pharmaceutical trader in Europe, reliably supplying people with drugs and medical products every day. The PHOENIX group originated from the merger of five regionally active pharmaceutical wholesale businesses in Germany in 1994. Today, the company offers unique geographical coverage throughout Europe, making a vital contribution to comprehensive healthcare with around 34,000 employees. The PHOENIX group's vision is to be the best integrated healthcare provider – wherever it is active. This means that each customer group is provided with the best possible services and products along the entire pharmaceutical supply chain.

> **In pharmaceutical wholesale,** the PHOENIX group is active with 152 distribution centres in 26 European countries and supplies pharmacies and medical institutions with drugs and other health products. Numerous other products and services for pharmacy customers complete the portfolio – from support with patient advice to modern goods management systems to pharmacy cooperation programmes. With over 12,000 member pharmacies, PHOENIX Pharmacy Partnership is the umbrella for our European network of 12 cooperation and partner programmes in 15 countries.

> **In pharmacy retail,** the PHOENIX group operates more than 2,000 of its own pharmacies in 13 countries – of which around 1,200 operate under the corporate brand BENU. In addition to Norway, the United Kingdom, the Netherlands, and Switzerland, the company is also represented in the Eastern European and Baltic markets. More than 17,000 pharmacy employees have around 136 million customer contacts each year. They dispense more than 300 million drug packages to patients and advise them on issues concerning pharmaceuticals and general health.

> **Pharma Services** provides services along the entire supply chain. The "All-in-One" concept stands for a comprehensive range of services that benefits drug manufacturers, pharmacies, and patients. The PHOENIX group takes on the entire distribution process for the pharmaceutical industry as desired and provides a first-class basis for decision-making with its business intelligence solutions.

CARING FOR PEOPLE

THE PHOENIX GROUP PUTS PEOPLE FIRST. THEIR NEEDS ARE THE GUIDING PRINCIPLE BEHIND OUR CORPORATE ACTIVITIES WITHIN THE EUROPEAN HEALTHCARE SYSTEM – FOR OUR DAY-TO-DAY OPERATIONS AND FOR ALL INVESTMENTS IN THE FUTURE.

We take care of people’s health. This is how we create added value. In 26 countries, we are committed to support pharmacies and patients. We are a strategic partner of pharmaceutical manufacturers.

CARING FOR PEOPLE

How global trends change the needs of people in the health system.
Page 4

IN EUROPE

What opportunities are currently offered by the European healthcare market for the PHOENIX group.
Page 8

We are active and reliable, understand the industry, and know that many things are feasible but even more is possible. Our standards are high and our scope of activities is broad. Because everything we do serves people and their health.

ON THE SPOT

Why the PHOENIX group is a strong partner for pharmacists throughout Europe.
Page 10

CREATING ADDED VALUE

Why it is worthwhile for pharmaceutical manufacturers to collaborate with the PHOENIX group.
Page 18

CARING FOR PEOPLE

PEOPLE IN EUROPE ARE TAKING GREATER RESPONSIBILITY FOR THEIR OWN HEALTH – AND ARE TRUSTING IN **MEDICAL PROGRESS.**

Safe healthcare is particularly important for young families.

Pharmacies are becoming places of well-being. Many health-conscious customers shop there – in order to stay fit.

The healthcare industry is responding to changing life plans.

THESE ARE THE TOPICS ON PEOPLE'S MINDS:

DEMOGRAPHY

Old at 70 years of age? A question that amuses seniors in Europe. Thanks to modern medicine, it is likely that they will have many more years ahead of them. At the same time, however, fewer children are being born. In the long term, the income of the healthcare system will consequently decline. Yet, people rely on medical progress and the ongoing provision of good care. Also in rural areas, which are inhabited by fewer people and where the number of clinics and doctors' offices are declining.

HEALTH AWARENESS

Health comes first – this viewpoint is gaining acceptance in European countries. People are more aware of what they eat and choose healthy food – more vegetables and less meat. The feel-good factor matters. Wellness weekends are in demand, fitness apps are a popular topic of conversation. Health is shaping people's way of life, and they are prepared to spend more money on it.

PREVENTATIVE THERAPY

More people are taking measures against illnesses they might develop some day. They keep themselves fit and take preventative medicines – to protect themselves from strokes or thrombosis, for instance. They make regular use of health checks and screenings. They are informed earlier about potential risks, which reduces spending in the health system in the long-run.

CHRONIC ILLNESS

The proportion of chronic illnesses is growing. In Europe, eight out of ten people over 65 are affected. One reason is that new treatment methods enable even sick people to have a long life. However, chronic illness is also increasing among young people. Allergies are widespread, as is mental illness. The chronically sick rely on effective medicines and require professional support.

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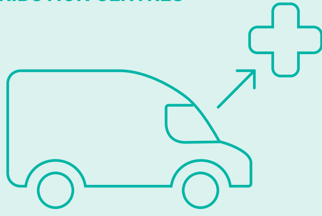
DISTRIBUTION CENTRES



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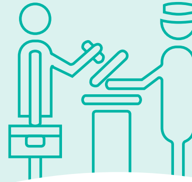


OWN
PHARMACIES IN
13
COUNTRIES

IN EUROPE

THE PHOENIX GROUP NETWORK INCLUDES PHARMACIES, MANUFACTURERS, AND PATIENTS. THE PARTNERSHIP EXTENDS **ACROSS THE ENTIRE CONTINENT.**

33.1%

EQUITY RATIO

SERVICES FOR MORE THAN

200

PHARMACEUTICAL MANUFACTURERS

AROUND

34,000

EMPLOYEES

As of 31/01/2017

More than
300,000,000
DRUG PACKAGES SUPPLIED TO PATIENTS EACH YEAR

12,501
INDEPENDENT PHARMACIES WITHIN THE COOPERATION AND PARTNER PROGRAMMES

WE ARE ALREADY OPERATING IN
26
COUNTRIES

Around
136,000,000
PATIENT CONTACTS PER YEAR IN THE PHARMACIES

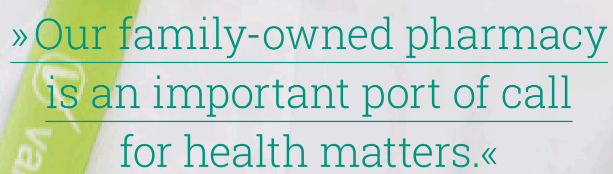
Top 1
PHARMACEUTICAL WHOLESALER
IN 12 COUNTRIES

TOTAL OPERATING PERFORMANCE
30,233
€ MILLION

MORE THAN
50,000
PHARMACY CUSTOMERS IN PHARMACEUTICAL WHOLESALE

ON THE SPOT

THE ITALIAN TOWN OF SEGRATE HAS A HIGHLY MODERN PHARMACY – THANKS TO ITS COOPERATION WITH PHOENIX GROUP'S **PHOENIX PHARMACY PARTNERSHIP.**



»Our family-owned pharmacy is an important port of call for health matters.«

DR SARA ZUCCA
PHARMACIST
SEGRATE, ITALY

A popular meeting point for health matters – the Zucca pharmacy on the outskirts of Milan.

Always friendly: cordial relationships are a trademark of the pharmacy.

»Thanks to Valore Salute, we have much more time for our patients.«

PHARMACIST DR ZUCCA
ON PHOENIX GROUP'S
COOPERATION PROGRAMME

Sara Zucca can talk at length about her pharmacy's history, including how a bomb fell on the store during world war II, which meant that her grandfather had to take drugs to the customers by bicycle. Fortunately, those days are long gone. "But our attitude has remained the same", says the 42-year-old. Serving patients is her top priority. There are also other tasks that have to be carried out quickly and efficiently. For this reason, the pharmacy has been a member of Valore Salute for a number of years. The pharmacy cooperation programme operated by the Italian subsidiary of the PHOENIX group supports Sara Zucca in running her business – in terms of marketing, technology, and training. For the pharmacist, one thing is clear: "Thanks to Valore Salute, we have much more time for our patients."

The pharmacy, with its yellow facade, is situated next to the church in Segrate. Marketplace, trattoria, apartment buildings – it's a typical small town on the outskirts of Milan. The people earn enough to get by and are health-conscious, which is not always easy: "You often have to wait months to get an appointment with the doctor", explains Zucca. Particularly when you need an ECG, blood test, or allergy test.

That's why she offers such tests at her pharmacy. Valore Salute supplied the necessary technology for her. "We purchased some pieces of equipment and rented others", says Zucca. Valore Salute handles the maintenance and trains the 13 employees in the correct use of the devices and instruments.

The Zucca family's pharmacy has become an important port of call in Segrate for health matters. It is therefore important that elderly people and parents with children are able to quickly find what they are looking for. The products are displayed clearly in the store, which covers an area of 150 square metres. Skincare here, cold remedies there, and pain relief in another section. Organising the store to be both inviting and practical was not an easy task. "The consultants from Valore Salute gave us lots of good tips." Where do you put the price labels? What should be positioned right at the entrance? What colour should the shelves be? A pharmacy has to move with the times, too.

Sara Zucca's ancestors had to adapt frequently. More than 100 years ago, her great-grandfather established a pharmacy in the centre of Milan. The store subsequently moved to the suburbs. Her father chose the spacious building in Segrate, with treatment rooms and doctors' offices on the first floor. Today, Dr Zucca's range includes homeopathic drugs – a rarity in Italy.

As a result, customers come from far and wide. But they are price-conscious and like a bargain. Many of them have a loyalty card, which Valore Salute supplies to the pharmacy along with the necessary software. Customers can opt to receive a regular newsletter containing health tips and special offers – from skin creams to vitamin tablets or cough syrups. The monthly magazine is also popular, as are the brochures and leaflets, all provided to pharmacies by Valore Salute.

Support in terms of marketing, technology, or training

Pharmacy advertising can be designed on an individual basis as well, using software obtained from Valore Salute. "The programmes are easy to use", Dr Zucca confirms. Digital templates for web pages or leaflets already feature the pharmacy's logo and only need to be filled with content. She would simply not have the time to prepare all of this herself. "For me, the wealth of digital resources is the most important service the cooperation programme provides", says Zucca.

Four times a year, she sends out beautifully designed invitations to a special event. A chef comes to the pharmacy with a mobile kitchen and prepares a healthy menu for 40 people. The meal is free of charge, as are tips on health products, which can be purchased right there in the pharmacy.

PHOENIX group's cooperation programmes assist pharmacists in their daily work, leaving more time for patients.

EUROPE

NETWORK WITH-OUT BORDERS

Under the motto "Access to success", over 12,000 independent pharmacies from 15 countries work hand in hand as part of the PHOENIX Pharmacy Partnership. The largest European network of its type is the umbrella organisation for PHOENIX group's 12 existing pharmacy cooperation and partner programmes. The pharmacists included in this network gain purchasing advantages. And they can also rely on the services of the PHOENIX group. They receive personal advice when they open a pharmacy, look after customers, or want to find out more about a product.

GERMANY

STORE, LOAD, SUPPLY

The new distribution centre of the PHOENIX group in Gotha, Germany, will increase the speed at which drugs are supplied to the region. This benefits thousands of pharmacists in Thuringia, Saxony, and Saxony-Anhalt. It is made possible by a warehouse management system that prepares around 100,000 medicines for dispatch almost automatically. More than 40 delivery vehicles can set off at the same time. The new building costs €20 million and forms part of PHOENIX group's programme to further expand its service for pharmacies throughout Europe. Operations at Gotha will commence at the end of 2017.

HUNGARY

GROWTH DRIVEN BY DATA

Pharmacists have to manage a steadily growing volume of data, which costs time and money. With its modern technologies, the PHOENIX group helps them to handle this task. This is why PHOENIX acquired the Hungarian IT company Novodata. Based in Budapest, this company is the market leader in its country for goods management and till systems. Together with experts from the PHOENIX service subsidiary ADG, Novodata will develop new software to further optimise operational processes – from goods ordering to inventory management through to the distribution to customers.

Pharmacies in the cooperation and partner programmes of the PHOENIX group

PHOENIX PHARMACY PARTNERSHIP

12,000

More information about the activities of the PHOENIX group: www.phoenixgroup.eu

3 COUNTRIES
3 PHARMACISTS

Marc Schuol
Independent pharmacist from Heidelberg
Germany

»PHOENIX offers the whole package.«

As far back as Marc Schuol can remember, PHOENIX Pharmahandel has played a key role in his family business. More than three decades ago, his father was already supplied by PHOENIX's predecessor, Ferdinand Schulze. Today, his two pharmacies in Heidelberg, Germany, receive several deliveries a day, containing drugs and other health products. "Always on time and very reliable", says Schuol. He also appreciates the seminars offered by PHOENIX on medical and operational topics, partly because of the good speakers. But he also enjoys the supportive, friendly atmosphere among the participants. His conclusion: "PHOENIX offers the whole package."

Leon Doorduijn
Pharmacist at BENU in Amsterdam
Netherlands

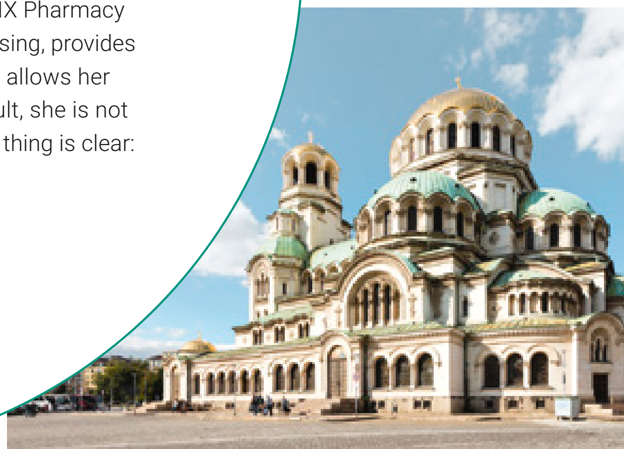
»With BENU, things are even better than before.«

The pharmacy in the centre of Amsterdam has a new name. Since Brocacef, which belongs to the PHOENIX group, took over the Mediq pharmacies, the name BENU has been displayed above the entrance. For branch manager Leon Doorduijn, the change of brand means a new chapter in his career – one he is very satisfied with. "At the start, we were sceptical", he admits. But there were no fundamental changes. "In terms of day-to-day work, you would hardly notice anything had changed." And the changes that have taken place are ones he is excited about. The 29-year-old likes the new, modern store design, which is very well organised and clear. Sales and logistics processes also run even better than before, thanks to BENU's large network.

»Cooperation makes us stronger.«

Lubomira Zafirova
Independent pharmacist from Sofia
Bulgaria

Lubomira Zafirova's pharmacies are performing well. "But the competition is fierce", says the pharmacist from the Bulgarian capital, Sofia. It is not always easy for her four pharmacies to stand their ground against the country's growing pharmacy chains. That is why PHOENIX group's cooperation programme is so important to her. The BETTY cooperation programme, a PHOENIX Pharmacy Partnership member, offers her advantages in purchasing, provides her with information material for her customers, and allows her to send her employees on training courses. As a result, she is not too worried about her future. For the pharmacist, one thing is clear: "Cooperation makes us stronger."



CREATING ADDED VALUE

AS PARTNERS OF THE PHOENIX GROUP, PHARMACEUTICAL MANUFACTURERS CAN RELAX – AND FOCUS ON THEIR CORE BUSINESS. ALL OTHER TASKS ARE CARRIED OUT ON THEIR BEHALF BY **EXPERIENCED EXPERTS.**

»The adherence programme shows how industry, pharmacist, and patients can and need to work together for the benefit of all parties involved.«

ERIN L. YAKLICH
EXECUTIVE DIRECTOR AT MSD

Increasing costs, stricter regulations, intertwined transport routes – it takes a lot of effort for pharmaceutical manufacturers to reach their customers. And even more to satisfy them. In the future, this is possible only by joining forces. For this reason, the healthcare company TEVA has outsourced important tasks to the PHOENIX group for many years and believes that even closer cooperation may be possible. "During this time, we have evaluated how we can further strengthen our collaboration for the benefit of all", says Emma Bush, Senior Director at TEVA Europe.

The PHOENIX group takes over all services along the pharmaceutical supply chain for its partners. From market launch to warehousing and transport to sales support. Meanwhile, manufacturers concentrate on what they do best: research, develop, and produce first-rate products.

With its partners, the PHOENIX group regularly develops new cooperation models. This is illustrated by an adherence programme that encourages patients to take their medicines correctly. "It shows how industry, pharmacist, and patients can and need to work together for the benefit of all parties involved", says Erin L. Yaklich, Executive Director, from the pharmaceutical company MSD.

The success of the adherence programme is helped by the fact that the PHOENIX group can rely on a Europe-wide network consisting of thousands of pharmacies. The personnel at these pharmacies ensure that patients use the drugs they purchase in accordance with the manufacturers' recommendations. On the customer's next visit, for example, the pharmacist asks how well he tolerated the medicine. This is a great help, particularly for those that are chronically ill.

The cooperation with the PHOENIX group provides drug manufacturers with a more precise picture of their end customers. What types of patients are they? What products do they prefer? Which doctors do they take notice of? These are questions that can best be answered by pharmacists. The PHOENIX group asks its pharmacy customers for this information and processes it for the manufacturers. His company benefits greatly from these type of insights, says John Munson, Head of Global Accounts at Mylan. "Working in partnership with PHOENIX has enabled Mylan to identify more opportunities to collaborate on patient-focused initiatives and provide better health for a better world while successfully growing our businesses together."

EUROPE

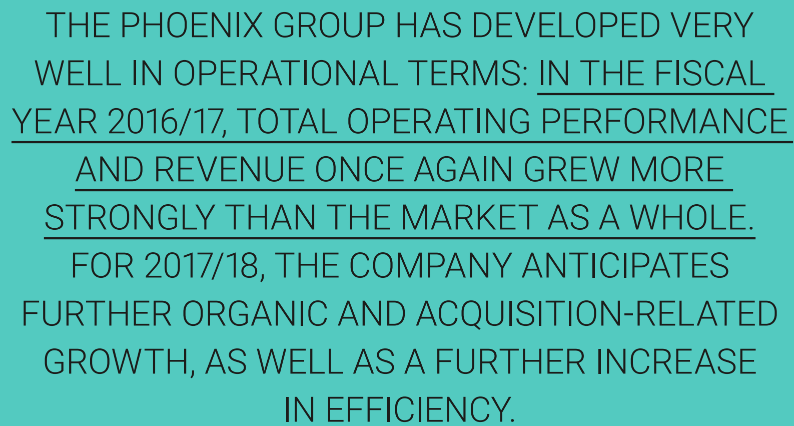
ALL-IN-ONE CAREFREE PACKAGE

As All-in-One partners, pharmaceutical manufacturers benefit from PHOENIX group's profound industry knowledge. Using business intelligence, we can answer the pharmaceutical manufacturers' questions: How will their products fare during the first few weeks following the market launch in pharmacies, for example? How well will they be received by patients? Thanks to its Europe-wide pharmacy network, the PHOENIX group is able to achieve this more quickly and accurately than other service providers.

SCANDINAVIA

NEW CONSTRUCTION IN THE NORTH

In the future, the PHOENIX group will offer an even more comprehensive logistics service for pharmaceutical manufacturers from Denmark. At Køge, near Copenhagen, we are building one of the largest pharmaceutical logistics centres in Northern Europe with around 50,000 pallet spaces, where large quantities of medicines will be delivered, handled, and transported to Scandinavian distribution centres.



THE PHOENIX GROUP HAS DEVELOPED VERY WELL IN OPERATIONAL TERMS: IN THE FISCAL YEAR 2016/17, TOTAL OPERATING PERFORMANCE AND REVENUE ONCE AGAIN GREW MORE STRONGLY THAN THE MARKET AS A WHOLE. FOR 2017/18, THE COMPANY ANTICIPATES FURTHER ORGANIC AND ACQUISITION-RELATED GROWTH, AS WELL AS A FURTHER INCREASE IN EFFICIENCY.

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LETTER FROM THE CHIEF EXECUTIVE OFFICER

Oliver Windholz
Chief Executive Officer

»With our sustainable growth strategy, we are continuously striving to be the best integrated healthcare provider – wherever we are.«

Dear Ladies and Gentlemen,

We have once again concluded a successful fiscal year amidst a challenging market environment. We were able to further expand the position of the PHOENIX group as a leading healthcare provider in 26 European countries. With our sustainable growth strategy, we are continuously striving to be the best integrated healthcare provider – wherever we are. Our stable shareholder structure as a family business serves as a basis, which enables us to think and act with a long-term perspective – "Caring for people" – a sentiment that is also expressed by the title of this year's annual report.

Solid economic business development

Despite moderate economic growth and ongoing competitive pressure at a high level, we increased important key figures in the fiscal year 2016/17: revenue increased by 5.1 per cent to €24.4 billion, and total operating performance, the key figure for pharmaceutical wholesalers, rose by 6.1 per cent to a record high of €30.2 billion. We were therefore able to grow more strongly than the market once more.

Total income increased by €150.7 million to €2,567.2 million. In contrast, earnings before interest, taxes, depreciation, and amortisation (EBITDA) decreased from €495.4 million to €417.8 million, primarily due to the increased pressure on margins in Germany and the United Kingdom. We are actively responding to this development with targeted measures to optimise the result. The foreign exchange rate of the British pound also had an impact. In the past fiscal year, the contribution to the result of the acquired company Mediq Apotheken Nederland B.V. was still characterised by one-off special items such as takeover and integration costs. We are convinced that this contribution will continue to increase on account of the strong synergies. In fact, we believe we have achieved an excellent market position through this transaction.

Important operational achievements in the fiscal year 2016/17

In the past year, the PHOENIX group achieved important operational milestones in the group's expansion. In retail, we were able to increase our European pharmacy portfolio to over 2,000 own pharmacies. This makes us the market leader in continental Europe, which is underlined by our BENU retail brand that has been successful for more than five years. Now, we are going one step further: we will introduce to the market LIVSANE, a new European category brand with a broadened product portfolio.

»With PHOENIX Pharmacy Partnership, we have created the largest network for pharmacy cooperation programmes in Europe.«

Moreover, with PHOENIX Pharmacy Partnership, we have created the largest network for pharmacy cooperation programmes in Europe. Thanks to this network, over 12,000 pharmacies and a large number of pharmaceutical manufacturers receive tailor-made solutions from us to improve their market position and increase their income.

With our All-in-One service brand, we are further expanding Pharma Services. By opening our third logistics hub in Belgrade, we are creating an efficient logistics network in Central and Eastern Europe as part of the CEE Bridge project.

A major strength of the PHOENIX group is its very consistent work on the Europe-wide implementation of best practices in all divisions of the company. This has been a true success in the past year and also represents a key competitive advantage in the future.

Based on a sustainable corporate strategy

As a family business, we make decisions independently and pursue a long-term strategy. Our activities not only focus on the optimisation of the quarterly results, but are characterised by flat hierarchies, short decision-making processes, a high level of excellence in implementation, and a sustainable increase in the company value. In this connection, we were very pleased to be named one of the ten most important family businesses in Germany.

»Our activities are characterised by flat hierarchies, short decision-making processes, a high level of excellence in implementation, and a sustainable increase in the company value.«

The operational highlights listed above are based on our corporate strategy, which we have consistently pursued for many years. It includes organic growth and target-oriented acquisitions with a focus on market leadership and cost efficiency. Our aim is not only to sustainably strengthen the cost side but also the income side, and thus create added value in the long term.

In the past year, we successfully implemented our acquisition strategy: The acquisition of Mediq is now complete. As a result, we have become one of the leading players in the Dutch healthcare market. We are thus covering the integrated supply chain in the Netherlands in an exemplary way, by combining the best of both worlds – Brocacef and Mediq. This will serve as a model for other countries. Moreover, we have also substantially strengthened our market position in Montenegro by acquiring the pharmaceutical wholesaler Farmegra d.o.o. and the national pharmacy chain Apoteka Lijek PZU. In Hungary, we acquired the market leader Novodata Zrt., a complementary business in the goods management and till systems sector.

Furthermore, we have put together an extensive European-wide investment programme. In line with our major investment projects ONE in Denmark and Skårer in Norway, we are promoting the use of cutting-edge warehouse logistics in a targeted manner and therefore achieving substantial increases in productivity. In late summer 2016, we also started the construction of a modern distribution centre in Gotha, Germany.

»We intend to make use of the opportunities offered by digitisation and actively advance the development of new business ideas as well as trends and innovations in the healthcare industry.«

Positive outlook despite challenging market environment
We want to continue our profitable growth – even if the conditions remain challenging. To this end, we will consistently drive forward the integration of our acquired companies, particularly Mediq in the Netherlands. We want to expand our wholesale and retail business segments with an integrated focus. At the same time, we continuously work on innovative solutions related to our business and have created the requisite structures at group level. We thus intend to make use of the opportunities offered by digitisation and actively advance the development of new business ideas as well as trends and innovations in the healthcare industry.

It is only on account of our highly committed and qualified employees that these achievements are possible. I would like to thank them wholeheartedly, also on behalf of my colleagues on the Executive Board, for their excellent work and high level of commitment to the PHOENIX group. Additionally, I would like to express my special thanks and great appreciation to our management in the subsidiaries and central administrative functions. Without their outstanding loyalty and commitment, this successful development would not have been possible. I also thank our business partners, the Advisory Board, and shareholders for the successful cooperation and confidence.

PHOENIX is well on track, and with your support we intend to continue the targeted development of the company!

Mannheim, May 2017
Sincerely,

Oliver Windholz
Chief Executive Officer

EXECUTIVE BOARD OF THE PHOENIX GROUP

Frank Große-Natrop
Operations/Logistics

Stefan Herfeld
Retail

Oliver Windholz
Chief Executive Officer

Helmut Fischer
Finance

We have further expanded our leading position in Europe by means of organic growth and targeted acquisitions.

REPORT OF THE ADVISORY BOARD

Dr Bernd Scheifele
Chairman of the Advisory Board

Dear Ladies and Gentlemen,

In the fiscal year 2016/17, the PHOENIX group once again achieved record revenue figures and strengthened its market position across Europe. Earnings before interest, taxes, depreciation, and amortisation fell short of the previous year, among other things because of the adverse impact of the takeover and integration costs of the Dutch company Mediq.

At the same time, however, the stable shareholder structure, with the Merckle family as the sole owner, affords the company a high degree of planning security for the future.

Advisory and supervisory function of the Advisory Board

In the fiscal year 2016/17, the Advisory Board of PHOENIX Pharmahandel GmbH & Co KG fulfilled the duties incumbent upon it in accordance with the Articles of Association and Rules of Procedure. It continually advised and supervised the Executive Board in its management of the company. The Executive Board informed the Advisory Board promptly, regularly, and in detail – in writing and orally – about all relevant key figures relating to the company's economic position. In addition, it continuously briefed the Advisory Board within the reporting period on all fundamental issues relating to corporate planning, including revenue, finance, investment, and personnel planning. The Executive Board also reported on profitability, risk management, and the future strategic orientation of the company.

The Advisory Board was involved, directly and at an early stage, in all decisions that were of strategic importance to the company. After close examination of the submitted documentation and the oral report, the Advisory Board adopted its resolutions. Furthermore, the Chairman of the Advisory Board and the Chief Executive Officer visited subsidiaries of the PHOENIX group, including those in Switzerland, the United Kingdom, Norway, Finland, and Latvia, over the course of the past year. During these visits, discussions focused on growth opportunities, investment projects, and local conditions in the wholesale and retail sectors as well as Pharma Services.

Significant business developments

In the fiscal year 2016/17, the PHOENIX group continued the consistent development of its services along the entire pharmaceutical supply chain and strengthened its leading position in retail with the expansion of its portfolio of pharmacies. The strategy of organic growth as well as through targeted acquisitions has proved to be sustainable in the long term. Overall, the company has an excellent positioning and is therefore able to play an active role in shaping the future adjustments anticipated in its markets.

This is also supported by the high level of targeted investments for the future:

- With the projects ONE in Denmark and Skårer in Norway, as well as the construction of the distribution centre in Gotha, Germany, the company has initiated extensive investment projects.

- Furthermore, the successful takeovers of Mediq Apotheken Nederland B.V. by the Brocacef Groep NV, of Farmegra d.o.o. and Apoteka Lijek PZU in Montenegro, as well as of Novodata Zrt. in Hungary will strengthen the PHOENIX group in the long term.

- The company also increased its portfolio of pharmacies during the reporting year to over 2,000 own pharmacies.

- In addition, the European-wide launch of PHOENIX Pharmacy Partnership as the largest European network for phamacy cooperations was another major step towards becoming the best integrated healthcare provider.

Key areas of advisory and monitoring activity in 2016/17

In the fiscal year 2016/17, the Advisory Board held three meetings and two telephone conferences. The reports from the Executive Board about the economic situation of the PHOENIX group were the topic of all these meetings. Aside from the current development of revenue and result as well as the financial and asset situation, especially the latest challenges in the respective individual markets as well as personnel decisions at top management level were discussed.

In the past fiscal year, the following items, in particular, were monitored by and discussed with the Advisory Board:

- In May 2016, in particular the company's annual financial statements were examined and subsequently approved at a meeting held in Mannheim. The Advisory Board again discussed the current business development during a telephone conference in July 2016.

- In October 2016, the Advisory Board met for two days in Heidelberg, Germany, where it discussed the company's strategic orientation in detail. Key topics among others included Talent Management, the European pharmacy cooperation concept PHOENIX Pharmacy Partnership, the development of Pharma Services and Group Sourcing, the outcome of the group-wide employee survey, as well as areas for strategic growth and the evaluation of acquisition options.

- In another telephone conference in December 2016, the Board again discussed the current business development. In January 2017, the meeting in Mannheim focused on the corporate plan as well as the budgets for the countries and the Central Service Departments for the fiscal year 2017/18, which were adopted by the Advisory Board during the course of the meeting.

The Advisory Board has monitored the risk management on an ongoing basis and has ensured that the management has done everything possible to identify any critical events at an early stage and to introduce possible countermeasures to ensure that neither the operating results nor the company itself are jeopardised.

Audit and approval of the annual financial statements 2016/17

The Advisory Board appointed the auditing firm Ernst & Young GmbH, Stuttgart, Germany, as auditor for the fiscal year 2016/17 and, together with the auditor, defined the key areas to be reviewed. The Executive Board presented the provisional, unaudited key figures for the fiscal year and the status of preparations for the final report to the Advisory Board in advance. The auditing firm audited the annual financial statements as well as the company and consolidated management report. They were certified without qualification. All documentation relating to the financial statements was issued to the Advisory Board on time and was reviewed in detail in the presence of the auditor. There were no objections. The Advisory Board approved the annual financial statements and the consolidated financial statements. The Advisory Board consented to the Executive Board's proposal regarding the appropriation of the retained earnings.

Cooperation between Advisory Board and Executive Board

In the past fiscal year, the Advisory Board and the Executive Board have again cooperated in a trusting, effective, and efficient manner. Communication was always open and thorough.

Together with the company management, the Advisory Board is endeavouring to strengthen the PHOENIX group's leading position in the market and expand it in the long term.

The Advisory Board thanks the Executive Board and all employees for their active commitment and contribution to the successful fiscal year 2016/17.

On behalf of the Advisory Board,
Mannheim, May 2017

Dr Bernd Scheifele
Chairman of the Advisory Board

MEMBERS OF THE ADVISORY BOARD

Dr Bernd Scheifele
Chairman of the Advisory Board,
Chairman of the Managing Board of HeidelbergCement AG,
Heidelberg, Germany

Dr Wolfram Freudenberg
Former Chairman of the Board of Partners
of Freudenberg & Co. KG,
Weinheim, Germany

Dr Peter Maag
President & CEO, CareDx, Inc.,
California, USA

Ludwig Merckle
Company Shareholder,
Director of Merckle Service GmbH,
Ulm, Germany

Dr Lorenz Näger
Member of the Managing Board of HeidelbergCement AG,
Heidelberg, Germany

HIGHLIGHTS OF THE FISCAL YEAR 2016/17

Travel pharmacy In January 2017, the first pharmacy at a Norway airport was opened in Oslo. Travellers as well as local customers can shop there, since the pharmacy is located outside the secure area of the airport. It is open 365 days a year and is one of the most modern stores of our Apotek 1 brand.

STRONG IDEAS

Trust The first group-wide employee survey of PHOENIX is paying off. Thousands of participants across Europe used the opportunity to have an active share. The employees submitted numerous suggestions for improvement, many of which are now being implemented in close collaboration with the employee representatives and management.

Focus on the Balkans The PHOENIX group is becoming a key partner of the healthcare industry in Montenegro. In October, it acquired the pharmaceutical wholesaler Farmegra and the country's largest private pharmacy chain – Apoteka Lijek.

500

The network of our Dutch subsidiary Brocacef now consists of around 500 BENU pharmacies. The merger with our former competitor Mediq is advancing successfully. As a result, the PHOENIX group is strengthening its position as an integrated healthcare provider in the Netherlands. The market leader Brocacef not only operates pharmacies in this country, but is also active in virtually all areas of the pharmaceutical sector – from wholesale to logistics to patient advice.

Rejuvenation Our pharmacies in Hungary have a brilliant new look. The shops are friendlier, lighter, and more inviting for shoppers. November 2016 marked the opening of the 100th fully renovated BENU pharmacy – and an occasion to celebrate with management, employees, and guests. Hungary is one of the most important retail markets of the PHOENIX group in Eastern Europe.

NEW TO THE NETWORK

A breath of fresh air The PHOENIX group's new website went live in February this year. Designers and copywriters have completely redesigned the Internet presence – it is friendlier, clearer, and contains more images. The website serves as an entry point to the individual countries' Internet sites and to PHOENIX group's online offers. The new website can be found at: www.phoenixgroup.eu

NEW FORMS

The first concept pharmacy of the BETTY brand was opened in Serbia in 2016. The store has a modern design with ample space for shopping. BETTY is one of the pharmacy cooperation programmes conceived by the PHOENIX group. Over 850 private pharmacies in four countries in Southeast Europe participate in this programme. More BETTY concept pharmacies will open in Serbia this year.

Film prize

for PHOENIX

Success PHOENIX group's first corporate video was immediately awarded a prize. The film took third place in the "Corporate Image" category of the competition held by the prestigious Integrated TV & Video Association (ITVA). The award-winning film can be found at www.phoenixgroup.eu

Family affair The PHOENIX group was recognised by the Foundation for Family Businesses. We are ranked sixth out of the ten most important family businesses in Germany – based on an assessment by the Centre for European Economic Research (ZEW). The Foundation for Family Businesses awarded the prize for the first time.

Congratulations! For the 20th time, the PHOENIX Pharmaceutics Science Award has been awarded for outstanding work. The €40,000 award is one of the most prestigious prizes for pharmaceutical researchers in the German-speaking world. For more information, please visit: www.phoenixgroup.eu/en/company/science-award

CENTRAL AND EASTERN EUROPEAN HUBS

Starting signal The two new nodes of the CEE Bridge pharmaceutical supply chain are located in Warsaw and Belgrade. The PHOENIX group transports the medicines of manufacturers to over 20 local supplier networks in Central and Eastern Europe via these nodes. Both new constructions were commissioned in 2016. The centres have enough space for many thousands of pallets from the pharmaceutical industry. CEE Bridge's third hub is located in Prague. Find out more at www.phoenix-all-in-one.eu

LOOKING AHEAD

Meeting place The Finnish PHOENIX subsidiary Tamro took a look into the future of the healthcare industry with the participants of a newly developed event. Researchers, managers, politicians, and other experts – including one biohacker who cracks genetic codes with ease – met at the first Health Award & Foresight Forum. Innovative companies were recognised, alongside debates, discussions, and presentations. In the future, the event is expected to take place annually.

SUSTAINABILITY

For the PHOENIX group, sustainable conduct is a core element of its corporate philosophy. The company has therefore defined four key areas of responsibility:

- Value creation for customers and the company
- Environmental protection
- Developing employees
- Commitment to society

Sustainability goals within reach

In the past fiscal year, the PHOENIX group worked intensively on implementing its group-wide sustainability goals. We successfully conducted the first employee survey and used the results to derive specific measures. Thanks to active corporate healthcare, we are gradually nearing our objective of lowering the illness rate by 1 per cent by 2018/19 compared with the base year 2014/15. We are also making good progress towards the targeted reduction in costs caused by pharmaceutical waste.

In parallel, we have set the course for the integration of sustainable principles in all business processes. On the basis of its own supplier codex, the PHOENIX group can now ensure that sustainability criteria are taken into account along the entire supply chain. We have also created internal guidelines for donations and sponsorship. These guarantee the required level of transparency for the funding of welfare-oriented projects.

Addressing new challenges

We remain up to date in terms of sustainability and added three further objectives to the existing programme in the past year. The importance of these objectives was largely established through our stakeholder surveys:

- Training all concerned employees in Europe on the issue of compliance by the end of the fiscal year 2016/17
- Training all employees on the data protection regulation in Germany by the end of fiscal year 2017/18
- Introduction of an Europe-wide data protection regulation by May 2018

Annual CSR report provides detailed information

Each year, we report on targets and measures in an independent sustainability report. In 2016, the Global Reporting Initiative (GRI) audited the report for the first time and confirmed that it meets the GRI guidelines. Since last year, we have been able to show sustainability data in a year-on-year comparison for the entire PHOENIX group, thereby enabling us to communicate our progress more clearly. The CSR report for the reporting period 2016/17 will be published at the end of the second quarter of 2017.

www.phoenixgroup.eu/en/responsibility/csr-report

Value creation

- Profitable growth
- High customer satisfaction
- Fight against counterfeit pharmaceuticals
- Data protection
- Sustainability in the supply chain

Environment

- Environmentally sound waste management
- Improvements in energy efficiency
- Transparency of CO_2 emissions
- Use of renewable energies
- Climate-friendly transport logistics

Employees

- Education and further training
- Talent Management
- Healthy work environment
- Corporate culture based on dialogue
- Employee survey follow-up process

Society

- Supporting charitable projects
- Promoting pharmaceutical research
- Transparent donation guidelines

PHOENIX GROUP IN THE CAPITAL MARKET

- Outstanding PHOENIX group bonds with good performance
- Company and bond ratings confirmed, outlook raised from stable to positive
- New promissory note successfully issued

PHOENIX group represented with two bonds on the capital market

Although unlisted, the PHOENIX group considers itself to be closely linked to the capital market. In the fiscal year 2016/17, the PHOENIX group was successfully represented on the capital market with two bonds outstanding. One important objective of the issue of bonds in 2013 and 2014 was to diversify the sources of financing in order to guarantee the liquidity supply at any time and in the long term. Financing via bonds is – in addition to the availability of a long-term credit facility provided by an international bank syndicate and a diversified portfolio of ABS and factoring programmes – an integral part of our refinancing and contributes to our good, balanced maturity profile. Since our inaugural bond launched in 2010, we have been guided by the requirements of the capital market in relation to transparency and publicity. This includes corporate management based on value enhancement as well as accounting that promotes transparency and is in line with the International Financial Reporting Standards (IFRS).

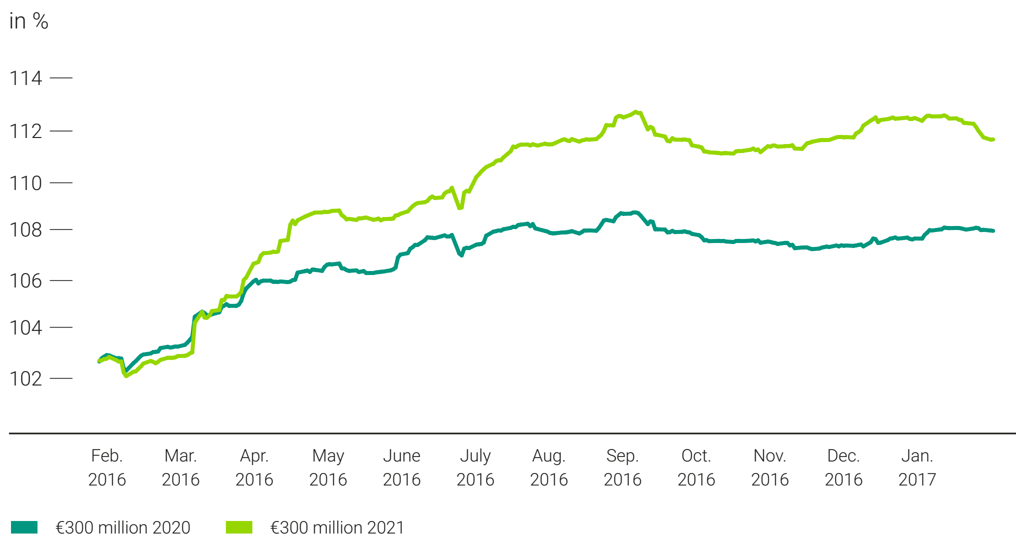
Transparent creditor relations

With our creditor relations activities, we aim to strengthen confidence in the PHOENIX group and, at the same time, foster a better understanding of our business. We plan to achieve this through the provision of transparent, consistent, and timely information about developments in our market environment and in our company, as well as through the clear definition and communication of our goals. Our capital market communication is oriented towards the long term and considered part of the group's sustainable strategy for value enhancement. We regularly make relevant information available to capital market participants on the PHOENIX group's investor relations website. Ever since the debut bond was issued in 2010, the PHOENIX group has been publishing quarterly reports on its business performance in addition to its annual reports. Personal conversations and quarterly teleconferences with representatives of the Executive Board serve as important measures for ensuring the continuous and active communication with investors.

Brief overview of the currently outstanding bonds of the PHOENIX group

Issuer	PHOENIX PIB Dutch Finance B.V.	PHOENIX PIB Dutch Finance B.V.
Guarantors	PHOENIX Pharmahandel GmbH & Co KG PHOENIX PIB Finance B.V. PHOENIX International Beteiligungs GmbH	PHOENIX Pharmahandel GmbH & Co KG PHOENIX PIB Finance B.V. PHOENIX International Beteiligungs GmbH
Bond type	Unsecured eurobond	Unsecured eurobond
Issue volume	€300,000,000	€300,000,000
Coupon	3.1250%	3.6250%
Interest payment dates	Annually on 27 May	Annually on 30 July
Denomination	€100,000	€100,000
Due date	27 May 2020	30 July 2021
Stock exchange listing	Luxembourg Stock Exchange	Luxembourg Stock Exchange
ISIN	XS0935786789	XS1091770161
Bond rating at reporting date	Standard & Poor's: BB+/Fitch Ratings: BB	Standard & Poor's: BB+/Fitch Ratings: BB
Company rating at reporting date	Standard & Poor's: BB+, Outlook positive Fitch Ratings: BB, Outlook positive	Standard & Poor's: BB+, Outlook positive Fitch Ratings: BB, Outlook positive

PRICE DEVELOPMENT OF PHOENIX BONDS



Promissory note successfully issued

With the successful placing of a promissory note in October 2016, PHOENIX Pharmahandel GmbH & Co KG is once again active on the promissory note market for the first time since 2010. Due to the strong demand, we decided to increase the originally targeted volume from €100 million to €150 million. This amount is divided equally into two maturities of five and seven years respectively, each with fixed and floating rate coupons. The high demand and associated oversubscription made it possible to set the margins for both maturities at the lower end of the marketing range. It was possible to make best use of and lock in the very favourable long-term interest rate levels at the end of September 2016 when pricing the fixed rate tranches. The documentation of the promissory note guaranteed by PHOENIX International Beteiligungs GmbH is based on the documentation of our outstanding bonds.

Bonds develop positively

The two bonds issued by PHOENIX PIB Dutch Finance B.V. that are currently outstanding are unsecured and guaranteed by PHOENIX Pharmahandel GmbH & Co KG, PHOENIX International Beteiligungs GmbH, and PHOENIX PIB Finance B.V. Also due to the sustained high liquidity supply to the markets by the European Central Bank (ECB), the prices of both bonds have developed very positively in the reporting period. As at the reporting date of 31 January 2017, the bonds were listed at 108.009 per cent (€300 million, due in May 2020) and 111.612 per cent (€300 million, due in July 2021), respectively.

Transparent interaction with rating agencies

The PHOENIX group is the only leading independent pan-European pharmaceutical trader to have its creditworthiness assessed and published by rating agencies. In this context, the agencies issue both a company rating, which gives an independent opinion on the company's general financial power, and a bond rating, which primarily values the respective bond. In the fiscal year 2016/17, the rating agency Standard & Poor's confirmed the creditworthiness of the PHOENIX group and the two outstanding corporate bonds at "BB+". The rating agency Fitch also confirmed its "BB" rating for the PHOENIX group and the two outstanding bonds. Furthermore, both rating agencies increased their outlook for the ratings from stable to positive. The main reason for this upgrade is the leading position of the PHOENIX group in the pharmaceutical wholesale sector of numerous European markets and the growing presence of the company in the higher-margin pharmaceutical retail sector.

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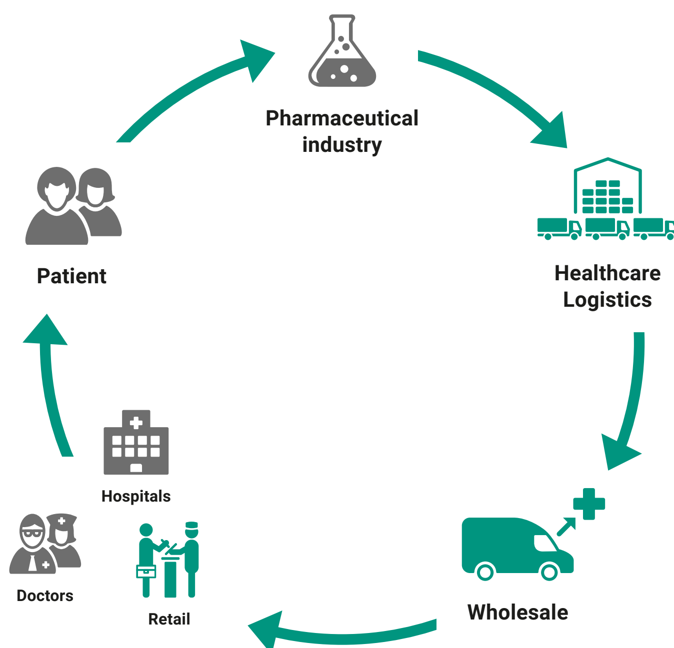
FUNDAMENTAL INFORMATION ABOUT THE GROUP

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

THE PHOENIX GROUP

Family business with leading market position in European pharmaceutical distribution
The PHOENIX group, with headquarters in Mannheim, Germany, is a leading company in European pharmaceutical distribution 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.

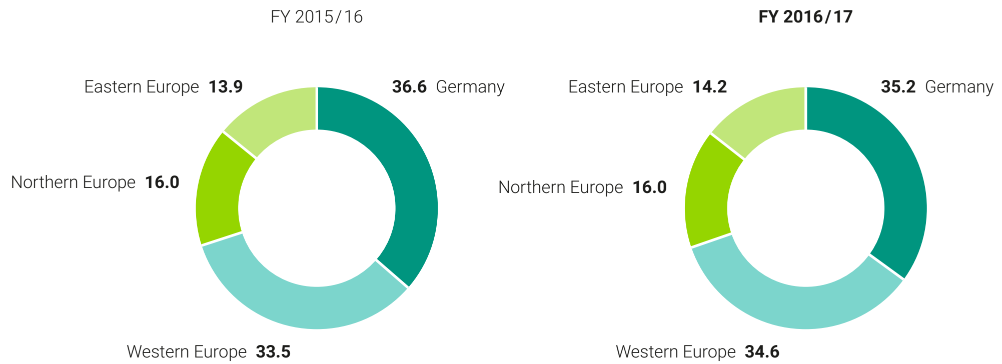
PHOENIX GROUP: LINK BETWEEN MANUFACTURER AND PATIENT



The PHOENIX group is active in 26 countries in Europe. In its core business, the Company was operating 152 distribution centres and a total of 2,059 pharmacies as of the end of the reporting year. This makes its geographic portfolio highly diversified.

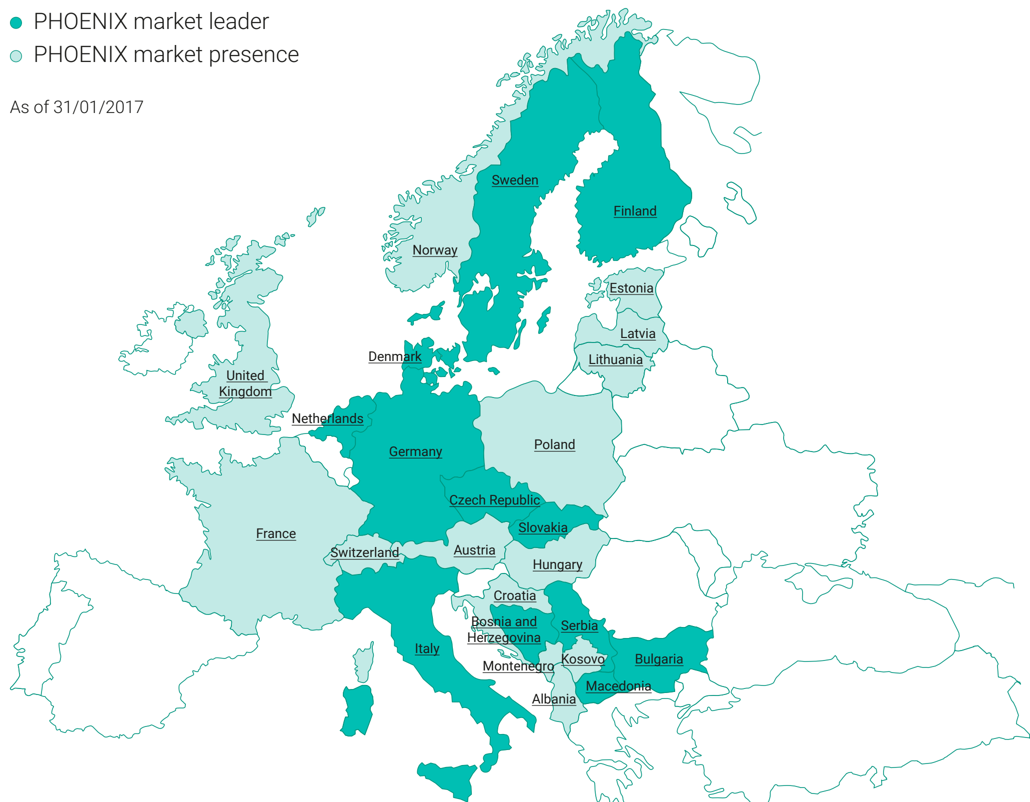
NET TURNOVER PER REGION

in %



In pharmaceutical wholesale, the PHOENIX group is number 1 in 12 countries. It operates the retail pharmacy business mainly in the United Kingdom, Norway, the Netherlands, Switzerland, Hungary, the Czech Republic, Slovakia, Serbia and the Baltic countries. It also offers companies in the pharmaceutical industry its competencies as a logistics service provider.

PHOENIX AS THE LEADING PHARMACEUTICAL WHOLESALER IN TWELVE EUROPEAN COUNTRIES



Our corporate mission statement defines our values

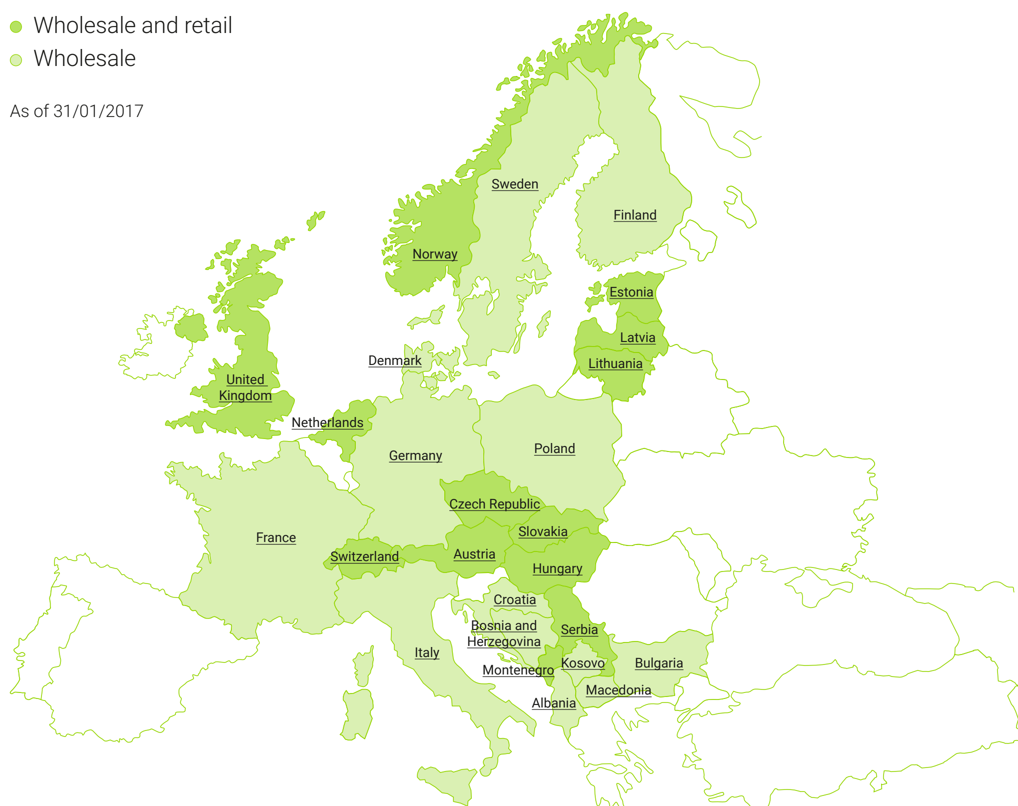
The PHOENIX group's corporate mission statement plays a key role in our day-to-day business. It makes the PHOENIX corporate philosophy as well as its vision, mission, strategy and values transparent. As a family business, we make our own decisions and pursue a long-term strategy. Our vision, to be the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

Setting ourselves apart from the competition through cooperation across Europe

We have many unique selling points thanks to our broad positioning. The PHOENIX group'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 services portfolio
- Our well-positioned pharmacy brands across Europe: Apotek 1, BENU and Rowlands Pharmacy
- The pharmacy network PHOENIX Pharmacy Partnership with more than 12,000 partners
- 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 the PHOENIX group are geared towards achieving sustainable value through customer-focused corporate culture, strict cost management and profit-oriented growth. Market leadership and efficiency are given top priority. Having local expertise at hand within the Group means that the national and regional differences prevailing in the European pharmaceutical markets are always addressed.

An important part of our strategy is to grow organically and through acquisitions and to continually expand our position in the areas of pharmacies, pharmaceutical wholesale and related services. The acquisition of Mediq in the Netherlands contains pre-wholesale activities in addition to pharmacies and wholesale. This is an important step towards fulfilling our vision of being the best integrated healthcare provider – wherever we are.

In pharmaceutical wholesale, the PHOENIX group has long-established partnerships with pharmacy customers. Many are part of our pharmacy cooperation programmes, with which we are market leaders in Europe. 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, for which we have created the optimal platform over the past few years. Strategic measures include introducing our own brand LIVSANE and further increasing brand awareness in all countries. We are also further expanding the Pharma Services business and we offer solutions for the pharmaceutical industry with our All-in-One service brand.

In the second quarter of 2017, PHOENIX will start its new own brand activities all over Europe. The LIVSANE pharmacy brand is to cater to the whole family in the area of OTC pharmacy products and return revenue potential to pharmacies. With an extensive product range, LIVSANE supports pharmacies as a place to get medical advice and offers customers a modern, informative design.

The PHOENIX group continuously implements best practices across Europe (leading method) 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 the adjusted 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 ensure sustainable growth.

The Warehouse Excellence and indirect procurement initiatives will be rolled forward indefinitely. We expect annual savings effects based on the newly formed Group Sourcing. The Warehouse Excellence initiative has since been established in all countries and is part of our ongoing improvement process.

The Company has consolidated each individual country's IT infrastructure into one central computer centre in Germany to increase the quality and efficiency of IT processes and improve transparency in IT in the PHOENIX group. Spanning over several years, this project was successfully concluded in 2016. In addition to the synergy effects for IT operations, PHOENIX also generated significant quality improvements in IT infrastructure. In this context, we have introduced a cross-border service management system in order to efficiently process user requests. We have also standardised the wide area network and bundled the telecommunications agreements so that the entire PHOENIX group is now in cooperation with just one supplier.

The PHOENIX group is also constantly working on further improving its business processes. A standardised accounting system has now been implemented in 18 of the Group's countries, for which we have successfully concluded an SAP upgrade as well as more roll-outs in the fiscal year 2016/17. In addition, we have also successfully implemented important optimisation measures in Germany, Austria and Switzerland using SAP Financial Supply Chain Management. Together with the shared service organisation in Sweden and Finland, the national companies successfully implemented an upgrade of the goods management system to JDE EnterpriseOne in the fiscal year 2016/17. This replaced the previous 15-year-old system, JDE OneWorld Xe, thus bringing a comprehensive and challenging project to a successful conclusion.

REPORT ON ECONOMIC POSITION

- Challenging overall economic environment with persistent fierce competition
- Sound growth in Germany
- Another increase in total operating performance
- Qualified employees as the foundation for success

ECONOMIC ENVIRONMENT

Moderate economic development continues
The European economy recorded slight growth in 2016, with gross domestic product (GDP) in the eurozone up 1.7% on the prior year. The German economy was also in good shape, with GDP (adjusted for price and calendar effects) up 1.8%.

There were differences in the development of the European pharmaceutical markets. The German pharmaceutical wholesale market experienced moderate growth in 2016, 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 shaped by a high level of competition.

On 23 June 2016, in a referendum on the United Kingdom's EU membership, the majority voted to exit the EU. As a consequence, there was a noticeable devaluation of the pound sterling. On 29 March 2017, the United Kingdom began formal proceedings for their exit from the EU.

BUSINESS DEVELOPMENT AT A GLANCE

Leading market position in pharmaceutical wholesale strengthened
The increasing pressure on healthcare budgets in European countries is leading to high pressure on margins in pharmaceutical wholesale. The PHOENIX group is countering this effect based on measurements of productivity in all countries with numerous measures to improve earnings and efficiency such as the Warehouse Excellence initiative.

Last year, the PHOENIX group again focused on expanding its range of services. This includes in particular the further development of the various pharmacy cooperation programmes as well as increasing their visibility.

Last year, we created the largest network for pharmacy cooperations in Europe with the PHOENIX Pharmacy Partnership. With this programme, we offer pharmacies and pharmaceutical manufacturers across Europe customised solutions for their individual needs. Over 12,000 independent pharmacies in the 12 cooperation and partner programmes in 15 European countries today are already benefiting from the opportunities the PHOENIX Pharmacy Partnership has to offer. This programme is part of the services provided by PHOENIX's All-in-One service brand.

Pharmacy retail business expanded

The PHOENIX group was also able to cement its leading position in the European retail market. At the end of the fiscal year, the Company had 2,059 pharmacies and was market leader in numerous countries. In Norway, we achieved the strongest chain growth in years with 15 new openings and the acquisition of a pharmacy. In Slovakia, we successfully completed a vertical integration of wholesale and retail after acquiring Sunpharma pharmacies.

At the end of the fiscal year, over 300 own pharmacies and around 200 partner pharmacies were owned by the Company following the acquisition by the Brocacef Groep (owned by PHOENIX) of Mediq in the Netherlands. We have already renamed these pharmacies BENU. In 2017, we will combine Mediq's own brands and those of BENU in 2017 into the PHOENIX group's new own European brand LIVSANE and will further expand the product portfolio in the future. Furthermore, the Company will transfer the best practices of Mediq and Brocacef to the entire supply chain. This takeover makes us market leader in the Netherlands and we wish to grow further from this position.

We are facing the increasing digitisation trend by opening our own online shops, among other things: In Norway, we have added RX products to our online shop. Our online shop for OTC articles in the Czech Republic is directly linked to the PHOENIX distribution centre. It has been one of the top online shops in the country since its launch about a year ago.

Pharma Services expands European network

With the CEE (Central Eastern Europe) Bridge project, we are establishing a highly efficient connection in central and eastern Europe and offering a professional solution to the rising demand of pharmaceutical companies with international operations. After opening the logistics centres in Prague and Warsaw, the new hub in Belgrade, which began operations in November 2016, provides an important service to pharmaceutical manufacturers in the Baltic region and to neighbouring countries. This fortifies our market position and that of our customers, thereby creating sustainable value.

Targeted acquisitions contribute to growth

The PHOENIX group pursues a targeted acquisition strategy. In total, business combinations in the reporting year 2016/17 led to a cash outflow of EUR 328.6m (prior year: EUR 52.3m). Cash received from divestitures amounted to EUR 33.4m (prior year: EUR 11.0m). The business combinations in the fiscal year 2016/17 include in particular the takeover of Mediq Apotheken Nederland B.V. by Brocacef Groep NV in the Netherlands, which led to the creation of one of the leading players on the Dutch healthcare market. The acquisition includes pre-wholesale activities in addition to pharmacies and pharmaceutical wholesale. We also acquired the pharmaceutical wholesaler Farmegra d.o.o. in Montenegro in October 2016 and the national pharmacy chain Apoteka Lijek PZU, and in doing so expanded our market position significantly. In May 2016, we acquired Novodata Zrt. in Hungary, a merchandise management and till system provider for pharmacies and strengthened our market position.

PHOENIX group invests in the future

Investments are an important building block for the PHOENIX group's corporate strategy. For this reason, the Company launched a large investment programme across Europe and invested EUR 165.2m last year. Construction on the Skårer investment project in Norway began in January 2016. This project sees us implementing new automation technology, which we will use to achieve a high degree of volume utilisation and increase productivity significantly. The innovative system is one of the most technologically advanced systems in the area of warehouse logistics and has already successfully commenced operation at various locations of the PHOENIX group. In Køge in Denmark, we have begun construction on one the largest distribution centres in Northern Europe with over 50,000 pallet spaces. With this centre, we will further improve the supply of pharmaceuticals in the entire region. PHOENIX has also renovated the Runcorn site in the United Kingdom and turned it into a distribution centre. The project was successfully concluded at the beginning of 2017. Construction of a new 10,000-square-metre distribution centre in Gotha, Germany, has been underway since late summer 2016.

Management's overall assessment of the situation

Overall, the PHOENIX group was able to successfully further strengthen its market position in fiscal year 2016/17 as a leading pharmaceutical trader in Europe and expand its wholesale and retail activities. Despite challenging conditions, the Company has managed to grow at a significantly higher rate than the overall market and increase its total operating performance and revenue once again, thereby achieving our revenue forecast for the past fiscal year.

RESULTS OF OPERATIONS

		FY 2015/16	FY 2016/17
Total operating performance	in EUR m	28,484.6	30,232.8
Revenue	in EUR m	23,247.4	24,436.7
EBITDA	in EUR m	495.4	417.8
EBIT	in EUR m	376.4	291.4
Financial result	in EUR m	– 57.5	– 48.8
Profit before tax	in EUR m	319.0	242.5
Adjusted profit before tax	in EUR m	334.2	289.8
Profit for the period	in EUR m	225.0	142.8
Equity	in EUR m	2,726.5	2,849.8
Equity ratio	in %	35.1	33.1
Net debt	in EUR m	1,121.6	1,377.5

Total operating performance, which comprises revenue and changes in merchandise volumes, increased by 6.1% to EUR 30,232.8m in fiscal year 2016/17. Adjusted for foreign exchange rate effects, the growth amounts to 7.3%.

Revenue increased by 5.1% to EUR 24,436.7m in fiscal year 2016/17 (prior year: EUR 23,247.4m). The main reason for this was higher revenue in the Netherlands due to the acquisition of Mediq Apotheken Nederland B.V.. Revenue in all of the other regions also increased. This development corresponds to the statements made in the forecast of the group management report for fiscal year 2015/16. Adjusted for foreign exchange rate effects, the increase in revenue came to 6.3%. Changes in the basis of consolidation amounted to 3%.

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

EUR m	FY 2015/16	FY 2016/17
Germany	8,527.9	8,623.8
Western Europe	7,812.3	8,458.3
Eastern Europe	3,235.3	3,474.4
Northern Europe	3,717.1	3,927.3

Gross profit margin increases further

Gross income increased by EUR 158.2m to EUR 2,425.4m. The gross profit margin – calculated as gross income in relation to revenue – increased from 9.75% to 9.93%. This is primarily attributable to the improvement in the cost-of-sales ratio and the acquisition of Mediq. Pressure on margins in Germany and the United Kingdom caused by market conditions had a contrasting effect.

Non-recurring items affecting EBITDA came to EUR – 40.3m in the fiscal year 2016/17 (prior year: EUR – 1.7m). These effects break down as follows: tax assessments for prior years (EUR 16.2m; prior year: EUR 0.0m), acquisition costs for Mediq Apotheken Nederland B.V. (EUR 17.9m; prior year: EUR 7.9m) and other one-off items (EUR 6.2m; prior year: EUR 0.0m). This was counterbalanced by non-recurring income of EUR 3.1m (prior year: EUR 0.0m). There was also non-recurring income of EUR 6.2m in the prior year in connection with the accounting method for pension obligations.

Personnel costs rose from EUR 1,158.7m to EUR 1,289.2m. Adjusted for currency effects, personnel expenses increased by 14.0% on the prior year. This is primarily attributable to acquisitions, collectively bargained wage increases and an increase in headcount due to the expansion of business. Personnel costs were influenced by non-recurring items totalling EUR 12.9m (prior year: EUR – 6.2m).

Other expenses increased by EUR 97.1m to EUR 864.4m. This was largely attributable to the EUR 25.2m increase in transport costs, the EUR 12.5m increase in communication and IT expenses, the EUR 17.4m increase in rental expenses as well as the EUR 10.6m increase in other taxes. In relation to revenue, other expenses came to 3.5% (prior year: 3.3%). Other operating expenses were influenced by non-recurring items totalling EUR 30.5m (prior year: EUR 7.9m).

Earnings before interest, taxes, depreciation and amortisation (EBITDA) fell from EUR 495.4m to EUR 417.8m. EBITDA adjusted for non-recurring items decreased by EUR 39.0m, mainly caused by margin pressure on wholesale in Germany and in the United Kingdom. Foreign exchange rate effects of EUR 14.1m also had a negative effect.

In contrast to the forecast made in the management report for the fiscal year 2015/16, adjusted EBITDA of EUR 430.4m was EUR 72.6m below the prior-year figure due to the effects described. Adjusted EBITDA developed as follows:

EUR k	FY 2015/16	FY 2016/17
EBITDA	495,404	417,832
Interest from customers	11,444	10,614
Factoring fees	2,356	1,998
Adjusted EBITDA	**509,204**	**430,444**

At EUR 126.5m, amortisation and depreciation was EUR 7.5m higher than the prior-year figure of EUR 119.0m. In the prior year, this included amortisation of goodwill of EUR 4.7m. The increase is mainly due to acquisition effects.

The effects described resulted in earnings before interest and taxes (EBIT) of EUR 291.4m overall (prior year: EUR 376.4m). The return on sales based on EBIT amounted to 1.19% (prior year: 1.62%).

Financial result improves

The financial result improved by EUR 8.7m from EUR – 57.5m to EUR – 48.8m. The financial result includes interest on taxes for prior years of EUR 1.3m (prior year: EUR 7.5m). A further decrease in the interest rate also had a positive effect.

Earnings before taxes amounted to EUR 242.5m (prior year: EUR 319.0m). Adjusted for the non-recurring items, earnings before taxes were EUR 45.5m below the prior-year figure.

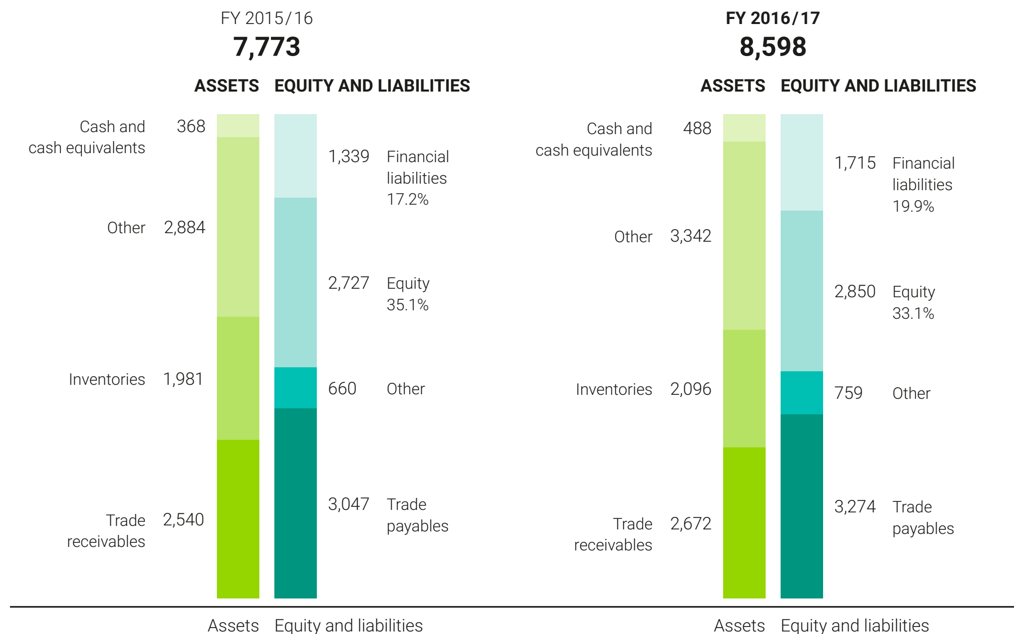
Income tax amounted to EUR 99.7m (prior year: EUR 94.0m) and contain expenses from current taxes of EUR 90.3m (prior year: EUR 77.5m) as well as deferred tax expenses of EUR 9.4m (prior year: EUR 16.5m). The tax ratio came to 41.1% (prior year: 29.5%). The increase in the tax ratio is due in particular to one-off effects in connection with taxable capital gains and the forfeiture of tax loss carryforwards.

Profit for the period came to EUR 142.8m (prior year: EUR 225.0m), of which EUR 20.1m (prior year: EUR 22.2m) was attributable to non-controlling interests.

The profit attributable to the equity holders of the parent company in fiscal year 2016/17 amounted to EUR 122.7m (prior year: EUR 202.8m).

STRUCTURE OF THE STATEMENT OF FINANCIAL POSITION

EUR m



NET ASSETS

The Group's total assets increased by 10.7% to EUR 8,598.3m due to acquisitions. The currency translation difference on total assets amounted to EUR – 92.7m (prior year: EUR – 48.5m).

Intangible assets increased by EUR 387.5m to EUR 1,956.4m. This is mainly due to the rise in goodwill due to acquisitions. As of 31 January 2017, intangible assets essentially comprised goodwill (EUR 1,577.4m; prior year: EUR 1,184.2m) and pharmacy licenses (EUR 302.1m; prior year: EUR 334.7m).

The EUR 52.6m increase in property, plant and equipment is largely attributable to business combinations and ongoing investing activities.

Inventories increased by 5.8% on the prior year to EUR 2,096.0m driven by the rise in business volume. The average number of days sales of inventory decreased slightly from 31.7 to 31.5 days.

Trade receivables increased from EUR 2,539.9m in the prior year to EUR 2,672.2m due to the higher level of revenue. As part of accounts receivable management, measures aimed at shortening payment terms and reducing past due receivables helped to further reduce days sales outstanding from 42.7 to 41.8.

Receivables amounting to EUR 24.0m had been sold as of 31 January 2017 (prior year: EUR 24.8m) under ABS and factoring programmes that are not accounted for in the statement of financial position. Under ABS and factoring programmes that are accounted for only to the extent of the continuing involvement, receivables of EUR 175.6m had been sold as of 31 January 2017 (prior year: EUR 164.2m). The Group's continuing involvement came to EUR 7.9m (prior year: EUR 7.3m).

Other receivables and other current financial assets increased by EUR 11.9m to EUR 180.1m. The increase is largely attributable to receivables from ABS and factoring programmes as well as increased bonus receivables from suppliers.

FINANCIAL POSITION

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

Further increase in equity

Equity increased from EUR 2,726.5m as of 31 January 2016 to EUR 2,849.8m as of 31 January 2017. The equity ratio decreased slightly from 35.1% in the prior year to 33.1% and as such did not develop as forecast in the 2015/16 group management report. The decrease is primarily attributable to the increase in total assets due to acquisitions. Equity increased mainly due to profit for the period generated of EUR 142.8m (prior year: EUR 225.0m) and a capital contribution made by non-controlling interests of EUR 67.5m (prior year: EUR 0.0m). The change in equity was also due to currency translation with an effect of EUR – 44.2m (prior year: EUR – 7.1m), the change in the reserve for available-for-sale financial assets with an effect of EUR 1.4m (prior year: EUR – 0.2m) and the change in the reserve for the remeasurement of defined benefit plans with an effect of EUR – 31.6m (prior year: EUR 63.7m).

EUR m	FY 2015/16	FY 2016/17
Profit for the period	225.0	142.8
Non-cash expenses/income, non-p&l effective payments	199.0	256.4
Change in working capital	– 336.9	– 32.2
Cash flow from operating activities	**87.1**	**367.0**
Cash flow from investing activities	**– 177.4**	**– 448.5**
Free cash flow	**– 90.3**	**– 81.5**

Cash flow from operating activities came to EUR 367.0m (prior year: EUR 87.1m), which was largely affected by a lower increase of EUR 304.7m in working capital compared to the prior year. Cash flow from investing activities came to EUR – 448.5m (prior year: EUR – 177.4m) and in particular reflects the acquisition of Mediq Apotheken Nederland B.V.

Free cash flow improved slightly from EUR – 90.3m in the prior year to EUR – 81.5m. For the change in free cash flow and cash and cash equivalents, please refer to the statement of cash flows.

See Consolidated statement of cash flows (p. 64).

Provisions for pensions increased – largely due to actuarial losses on account of lower interest rates – from EUR 211.3m in the prior year to EUR 251.8m in the reporting year.

Non-current financial liabilities came to EUR 753.5m (prior year: EUR 604.3m). This includes bonds of EUR 594.1m (31 January 2016: EUR 592.7m) 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 149.3m (31 January 2016: EUR 0.0m).

Current financial liabilities increased by a total of EUR 227.1m to EUR 961.9m in particular due to an increase in current bank liabilities as well as the increase in liabilities from ABS and factoring agreements.

Current financial liabilities include liabilities to banks of EUR 182.2m (31 January 2016: EUR 115.1m), liabilities from ABS and factoring agreements of EUR 533.9m (31 January 2016: EUR 387.8m) as well as other loans of EUR 134.1m (31 January 2016: EUR 126.2m).

According to the calculation below, total net debt increased only moderately from EUR 1,121.6m to EUR 1,377.5m despite the acquisition of Mediq.

EUR k	FY 2015/16	FY 2016/17
+ Financial liabilities (non-current)	604,262	753,516
– Derivative financial instruments (non-current)	– 370	– 216
+ Financial liabilities (current)	734,796	961,878
– Derivative financial instruments (current)	– 398	– 1,172
– Cash and cash equivalents	– 367,881	– 487,861
+ Receivables sold in the course of factoring and ABS transactions	181,772	191,664
– Factoring receivables	– 26,461	– 24,941
– Receivables from ABS programmes	– 4,159	– 15,321
Net debt	**1,121,561**	**1,377,547**

For further information on the PHOENIX group's financial liabilities, please refer to the sections on "Financial liabilities" (p. 116) and "Other notes" (p. 118) in the notes to the consolidated financial statements.

The ratio of net debt to adjusted EBITDA came to 3.2 in fiscal year 2016/17 following 2.2 in the prior year.

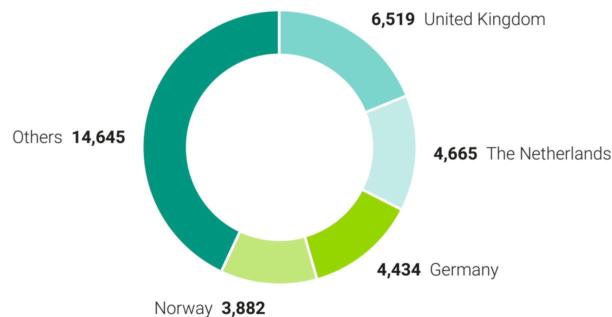
Trade payables increased by EUR 226.1m on the prior year to EUR 3,273.5m.

EMPLOYEES

At the end of fiscal year 2016/17, there were 34,145 employees (26,611 full-time equivalents) at PHOENIX across a total of 26 countries in Europe. This corresponds to an increase in FTEs of around 7.1%, which is especially due to the acquisition of Mediq in the Netherlands.

EMPLOYEES BY COUNTRY

as of 31/01/2017



Value-based actions in dialogue with employees

The PHOENIX group's corporate culture is shaped by our values, which are in turn based on our corporate mission statement and the leadership guidelines for the entire group. The guidelines form the basis for leading our employees and strengthening the common bond throughout the Group. The most important elements of our corporate culture is trusting dialogue and regular feedback between management and employees.

It was for this reason that the follow-up to the first group-wide employee survey, which we carried out at the end of 2015 with a high response rate, was at the centre of our activities last year. The results showed strong affiliation with the Company, a positive assessment of management's efforts as well as important potential to make the PHOENIX group an even more attractive employer. We have communicated the results from 2016 openly and uniformly to all employees at the same time. Following on from

this, the managers have identified areas to improve on for each of their areas of responsibility and developed measures together with their staff and employee representatives. The Executive Board of the PHOENIX group and management of the subsidiaries constantly monitor their rigorous implementation, a uniform process and achievement of the objectives.

The PHOENIX group also gains important insights into employee satisfaction and further potential for improvement in annual employee reviews. We use this feedback tool successfully in our subsidiaries and it is now used across the board in the distribution centres.

Successful integration in the Netherlands

After completing the largest single acquisition in the Company's history, the PHOENIX group places great emphasis on integrating employees from Mediq smoothly into Brocacef in the Netherlands, which also belong to PHOENIX. To this end, we began a comprehensive integration campaign called "samen meer" (English: "More together") mid-2016. The goal was to inform employees about the new company and to involve them in the merger process. In this context, 18 interactive information events took place in the Netherlands. In addition to directly communicating with management, all employees had the opportunity to inform themselves of the status of integration via the intranet.

Further training ensures knowledge

It is especially important to the PHOENIX group to acknowledge the potential of its employees and to systematically foster their capabilities, and to this end we offer targeted and individual training opportunities. At the centre of the offer in many European countries is GDP training and seminars on compliance, occupational health and safety, sales, data protection, IT and languages. E-learning systems are playing an increasingly important role and help our employees educate themselves efficiently on a number of topics. At the same time at a European level, the PHOENIX group is further intensifying its exchange of best practices when implementing training steps in pharmacy retail.

Focus on Talent Management

Our goal is to fill management positions primarily with people from the Company. 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. An important success factor for this process is Talent Management, which was established in 2016. It determines the key positions in the Company and identifies high performers and optimal opportunities to develop. Talent Management started at the beginning of the last fiscal year with the management of the subsidiaries and management in Germany. The programme will filter down to the other management levels and be combined with its own development programme as of 2017. Over 250 management personnel have been involved in the Talent Management measures so far.

The PHOENIX group is already building on a number development programmes as part of fostering expertise in Talent Management. These include:

- the Junior Development Programme (JDP) for younger employees with management potential
- the Management Development Programme (MDP) for experienced employees
- the European Management Development Programme (EMDP) as a group-wide measure to develop personnel to take on managerial positions in all countries of the PHOENIX group
- the top and senior management training programme for managers of the PHOENIX group

Across Europe, around 300 employees took part in the ongoing development programmes in the fiscal year 2016/17.

Attractive starting packages for young people

In order to cover our need for skilled labour in the future, we turn to committed apprentices and university graduates, to whom we offer diverse career opportunities at the Company. The PHOENIX group takes part in various career and student information days as well as in trainee portals to start a dialogue with interested applicants.

In its home market, Germany, the PHOENIX group employed 130 apprentices and 17 students in a dual study course as of 1 October 2016. We provide a career start with a traineeship as a management assistant in wholesale, a warehouse logistics specialist or as a Bachelor's student of business administration or information science for business.

The Company fosters group-wide communication beyond borders with international assignment as part of the practical apprenticeship and the dual study course. In fiscal year 2016/17, participants were able to gain experience in Croatia, Italy, Hungary and the Netherlands.

RISK AND OPPORTUNITY REPORT

- Risk management system allows for swift action
- A foundation of quality and stability of operating processes
- Assigning all customers a risk classification for uniform and optimised accounts receivable management

RISK MANAGEMENT

The risk management system within the PHOENIX group 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 Executive Board on a regular basis.

RISKS

The PHOENIX group 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 amended Hungarian pharmacies act that entered into effect on 1 January 2012 has since 1 January 2014 required pharmacists to hold an investment of at least 25% in their pharmacies' capital; as of 1 January 2017, pharmacists must hold a majority interest in their pharmacies. The PHOENIX group fulfilled this requirement within the deadline.

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 is 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 to ensure the stability of the operating processes.

Credit risk and accounts receivable management

The credit risk at the PHOENIX group, 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

The PHOENIX group'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 Executive 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

The PHOENIX group 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 2016/17, 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 the PHOENIX group as issuer as are customary in 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 the PHOENIX group. 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 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 the PHOENIX group 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.

The PHOENIX group is currently involved in appeal proceedings with the tax authorities regarding VAT for the years 2001 to 2004. Amended VAT and interest assessment notices were issued for these periods, but PHOENIX filed an appeal/complaint and applied for a stay on execution. The current tax field audit for VAT from 2005 to 2008 is also ongoing, which the Company is also discussing with the tax authorities.

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

Please also refer to the comments in the notes to the consolidated financial statements (p. 125).

OPPORTUNITIES

Demographic trends and medical progress are key growth drivers for the pharmaceutical markets. The broad geographic diversification of the PHOENIX group 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, the PHOENIX group can offer the pharmaceutical industry services across Europe.

Strong market position in wholesale

The PHOENIX group holds a leading market position in pharmaceutical wholesale in almost all countries in which it operates. It is 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.

Please also refer to the notes on market leadership (p. 40).

In addition, the PHOENIX group can fall back on long-established partnerships with pharmacy customers. Many customers take part in cooperation programmes. In some countries, the PHOENIX group 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 business unit, the PHOENIX group 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 the PHOENIX group. This applies as regards both organic growth and appropriate acquisitions.

MANAGEMENT'S OVERALL ASSESSMENT OF THE RISKS AND OPPORTUNITIES

Overall, the PHOENIX group operates in a stable market and is well positioned to successfully make use of opportunities that present themselves in order to expand 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 Germany and in the eurozone
- Revenue growth expected in nearly all markets
- The foundation for a long-term business development of the PHOENIX group has been laid

FUTURE ECONOMIC ENVIRONMENT

We anticipate a stable economic environment in 2017, with GDP in Germany and the eurozone expected to grow by around 1% to 2%.

We expect the pharmaceutical markets in Europe to record market growth of around 2.5% overall in 2017. In Germany, our largest market, we also anticipate market growth of approximately 2.5%.

FUTURE DEVELOPMENT OF THE PHOENIX GROUP

For the fiscal year 2017/18, the PHOENIX group 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 a considerable increase in adjusted EBITDA in 2017/18, positively affected by the inclusion of the acquisition of Mediq in the Netherlands for a full 12 months.

We expect a mostly stable development for the equity ratio.

MANAGEMENT'S ASSESSMENT OF THE GROUP'S FUTURE POSITION

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

Mannheim, 31 March 2017

Management of the unlimited partner
PHOENIX Verwaltungs GmbH

Oliver Windholz Helmut Fischer Frank Große-Natrop Stefan Herfeld

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CONSOLIDATED INCOME STATEMENT

for fiscal year 2016/17

EUR k	Note	FY 2015/16	FY 2016/17
Revenue	1	**23,247,428**	**24,436,695**
Cost of purchased goods and services		–20,980,268	–22,011,309
Gross income		**2,267,160**	**2,425,386**
Other operating income	2	149,388	141,839
Personnel expenses	3	–1,158,714	–1,289,161
Other operating expenses	4	–767,255	–864,397
Result from associates and joint ventures	5	3,082	1,671
Result from other investments	5	1,743	2,494
Earnings before interest, taxes, depreciation and amortisation (EBITDA)		**495,404**	**417,832**
Amortisation of intangible assets and depreciation of property, plant and equipment	6	–118,960	–126,469
Earnings before interest and taxes (EBIT)		**376,444**	**291,363**
Interest income		15,235	12,603
Interest expense		–69,615	–58,809
Other financial result		–3,079	–2,643
Financial result	7	**–57,459**	**–48,849**
Profit before income tax		**318,985**	**242,514**
Income tax	8	–93,974	–99,690
Profit for the period		**225,011**	**142,824**
thereof attributable to non-controlling interests		22,173	20,148
thereof attributable to equity holders of the parent		202,838	122,676

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for fiscal year 2016/17

EUR k	FY 2015/16	FY 2016/17
Profit for the period	**225,011**	**142,824**
Items not reclassified to profit or loss		
Remeasurement of defined benefit plans	42,717	– 30,448
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	– 77	1,657
Reclassification adjustments	– 99	– 270
Currency translation differences	– 7,333	– 45,429
Other comprehensive income, net of tax	**35,208**	**– 74,490**
Total comprehensive income	**260,219**	**68,334**
thereof attributable to non-controlling interests	23,004	20,119
thereof attributable to equity holders of the parent	237,215	48,215

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as of 31 January 2017

ASSETS

EUR k	Note	31 Jan. 2016	31 Jan. 2017
Non-current assets			
Intangible assets	9	1,568,886	1,956,394
Property, plant and equipment	10	806,449	859,045
Investment property	11	7,902	11,794
Investments in associates and joint ventures	12	15,757	14,134
Trade receivables		35	153
Other financial assets	13	73,121	91,648
Other assets		0	236
Deferred tax assets	8	89,109	82,667
Income tax receivables		4,046	0
		2,565,305	**3,016,071**
Current assets			
Inventories	14	1,981,327	2,096,010
Trade receivables	15	2,539,905	2,672,065
Income tax receivables		40,549	33,216
Other financial assets	15	168,171	180,106
Other assets	16	108,765	104,734
Cash and cash equivalents	17	367,881	487,861
		5,206,598	**5,573,992**
Non-current assets held for sale	24	655	8,285
Total assets		**7,772,558**	**8,598,348**

EQUITY AND LIABILITIES

EUR k	Note	31 Jan. 2016	31 Jan. 2017
Equity			
Unlimited and limited partners' capital	18	1,185,000	1,185,000
Reserves	18	1,444,420	1,566,327
Accumulated other comprehensive income	18	– 148,540	– 223,001
Equity attributable to partners		**2,480,880**	**2,528,326**
Non-controlling interests	18	245,588	321,438
		2,726,468	**2,849,764**
Non-current liabilities			
Financial liabilities	21	604,262	753,516
Trade payables		1,243	220
Provisions for pensions and similar obligations	19	211,259	251,812
Other non-current provisions		2,681	1,311
Deferred tax liabilities	8	120,877	120,535
Other non-current liabilities		2,552	2,534
		942,874	**1,129,928**
Current liabilities			
Financial liabilities	21	734,796	961,878
Trade payables	22	3,046,137	3,273,312
Other provisions	20	28,923	50,708
Income tax liabilities		34,845	45,885
Other liabilities	23	258,515	286,402
		4,103,216	**4,618,185**
Liabilities directly associated with assets held for sale	24	0	471
Total equity and liabilities		**7,772,558**	**8,598,348**

CONSOLIDATED STATEMENT OF CASH FLOWS

for fiscal year 2016/17

EUR k	31 Jan. 2016	31 Jan. 2017
Profit for period	**225,011**	**142,824**
Write-downs/write-ups of fixed assets	118,960	126,469
Gain/loss from the disposal of fixed assets	– 883	1,540
Increase/decrease in non-current provisions	– 3,754	– 28,609
Result from associates and other investments	– 4,825	– 4,165
Other non-cash expenses/income	49,381	113,172
Interest result	54,380	46,206
Taxes	93,974	99,690
Interest paid	– 58,274	– 43,797
Interest received	15,746	12,853
Income tax paid	– 70,904	– 70,054
Dividends received	5,172	3,096
Result before changes in working capital	**423,984**	**399,225**
Changes in working capital	**– 336,929**	**– 32,197**
Cash inflow (+) / outflow (–) from operating activities	**87,055**	**367,028**
Cash paid for the purchase of consolidated companies and business units	– 52,302	– 328,572
Cash received from the sale of consolidated companies and business units	10,950	33,373
Cash received from disposals of fixed assets	11,114	11,912
Cash paid for investments in fixed assets	– 147,199	– 165,209
Cash inflow (+) / outflow (–) from investing activities	**– 177,437**	**– 448,496**

EUR k	31 Jan. 2016	31 Jan. 2017
Cash available for financing activities	**–90,382**	**–81,468**
Capital contribution from non-controlling interests	0	67,108
Payments to non-controlling interests (dividends)	–8,080	–8,329
Cash received from the issue of loans from related parties	155,000	150,000
Repayment of borrowings from related parties	–155,000	–150,000
Acquisition of additional shares in already consolidated companies	–1,372	–12,137
Cash received from the sale of shares in subsidiaries without loss of control	1	79
Increase/decrease in ABS and factoring liabilities	–14,415	145,584
Cash received from the issue of bonds and loans	190,987	439,795
Cash repayments of bonds and loans	–274,258	–430,624
Increase/decrease in finance lease liabilities	–989	–665
Cash inflow (+) / outflow (–) from financing activities	**–108,126**	**200,811**
Change in cash and cash equivalents	**–198,508**	**119,343**
Cash and cash equivalents at the beginning of the period	**567,449**	**367,881**
Foreign exchange rate effects on cash and cash equivalents	–1,060	637
Cash and cash equivalents at the end of the period	**367,881**	**487,861**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for fiscal year 2016/17

EUR k	Unlimited and limited partners' capital	Reserves
1 February 2015	**1,185,000**	**1,247,377**
Profit for the period		202,838
Accumulated other comprehensive income		0
Total comprehensive income, after tax	**0**	**202,838**
Capital increase/reduction		0
Conversion of a pension plan		–2,279
Changes in basis of consolidation		–2,608
Dividends		0
Other changes in equity		–908
31 January 2016	**1,185,000**	**1,444,420**
1 February 2016	**1,185,000**	**1,444,420**
Earnings after taxes		122,676
Accumulated other comprehensive income		0
Total comprehensive income, after tax	**0**	**122,676**
Capital increase/reduction		0
Changes in the basis of consolidation		0
Changes in the interest of consolidated companies		633
Dividends		0
Other changes in equity		–1,402
31 January 2017	**1,185,000**	**1,566,327**

Currency translation differences	IAS 39 available-for-sale financial assets	Remeasurement of defined benefit plans	Equity attributable to partners	Non-controlling interests	Total equity
–41,409	**8,590**	**–152,377**	**2,247,181**	**234,310**	**2,481,491**
			202,838	22,173	225,011
–7,071	–174	41,622	34,377	831	35,208
–7,071	**–174**	**41,622**	**237,215**	**23,004**	**260,219**
			0		0
		2,279	0		0
			–2,608	–3,937	–6,545
			0	–7,870	–7,870
			–908	81	–827
–48,480	**8,416**	**–108,476**	**2,480,880**	**245,588**	**2,726,468**
–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**
			0	67,624	67,624
			0	2,240	2,240
			633	–9,286	–8,653
			0	–8,231	–8,231
			–1,402	3,384	1,982
–92,698	**9,770**	**–140,073**	**2,528,326**	**321,438**	**2,849,764**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for fiscal year 2016/17

GENERAL

The Company

PHOENIX Pharmahandel GmbH & Co KG, Mannheim ("PHOENIX" or the "PHOENIX group"), is a European pharmaceuticals distribution group. PHOENIX has business activities in 26 European countries. In several countries, PHOENIX also operates pharmacy chains of its own. The registered office is located in Mannheim, Germany.

Basis of presentation

The consolidated financial statements of the PHOENIX group 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. 315a 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 as of 31 January 2017 and the year then ended were authorised for issue by the management of PHOENIX Pharmahandel GmbH & Co KG on 31 March 2017.

Application of new accounting standards and changes in accounting policies

In the fiscal year 2016/17, PHOENIX applied the following revised standards and interpretations that are mandatory for the fiscal year 2016/17 for the first time:

IAS 1 Initiative to improve disclosure requirements

The changes allow disclosures in financial statements to be simplified and kept to a minimum. The amendments did not have any effect on the consolidated financial statements.

IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The changes clarify that revenue is not an appropriate basis for calculating depreciation and amortisation. The amendments did not have any effect on the consolidated financial statements.

IFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The addition to IFRS 11 governs the accounting treatment of acquisitions of interests in joint operations that are business operations. According to this, the provisions of IFRS 3 for business combinations are to be applied in acquisition accounting. The amendments did not have any effect on the consolidated financial statements.

Annual Improvements to IFRS 2012 and 2014 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 the fiscal year 2016/17 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
IFRS 15	Revenue from Contracts with Customers	2018/19	Yes
Clarifications to IFRS 15	Revenue from Contracts with Customers	2018/19	No
IFRS 16	Leases	2019/20	No
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	not yet determined	No
Amendments to IAS 12	Recognition of deferred tax assets for unrealised losses	2017/18	No
Amendments to IAS 7	Initiative to improve disclosure requirements	2017/18	No
Amendments to IAS 40	Investment property	2018/19	No
Annual IFRS Improvements	2014 – 2016 cycle	2017/18 or 2018/19	No
IFRIC 22	Foreign currency transactions and prepayments	2018/19	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. The first-time application of IFRS 9 is not expected to have a significant impact on the financial position and performance of the PHOENIX group.

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. The analysis of the effect the application of IFRS 15 will have on the consolidated financial statements of the PHOENIX group has not been completed yet. Apart from an extension of the disclosures in the notes, from a current perspective we do not expect a significant impact on the financial position and performance of the PHOENIX group.

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 the PHOENIX group will be examined in a group-wide project to implement IFRS 16. It is not possible to reliably quantify the effects before this project is finished.

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 amendments to IAS 12 relate to clarifications in respect of the recognition of deferred taxes on losses. From a current perspective, we do not expect a significant impact on the financial position and performance of the PHOENIX group.

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 the PHOENIX group.

The annual improvements to IFRS, 2014 – 2016 cycle contain clarifications of individual standards. There will be no significant impact on the financial position or performance of the PHOENIX group.

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 the PHOENIX group.

Basis of consolidation

The consolidated financial statements comprise the financial statements of PHOENIX and its subsidiaries as of 31 January 2017 and the year then ended.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control. Entities continue to be consolidated until the date that such control by the parent company 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, Germany and Switzerland have 31 December as their reporting date; one entity in Finland has 30 June as its reporting date. In general, there is no material impact on the financial statements; this notwithstanding, any material impact is taken into account.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group 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 434 (31 January 2016: 363) fully consolidated German and foreign companies, of which four (31 January 2016: three) are structured entities. 29 entities (31 January 2016: 23) 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.

A total of 135 (31 January 2016: ten) entities are fully consolidated although the PHOENIX group 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 seven (31 January 2016: six) structured entities, of which four (31 January 2016: three) were fully consolidated. The structured entities are franchise pharmacies and 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 the PHOENIX group.

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

in %	31 Jan. 2016	31 Jan. 2017
BENU DOO BEOGRAD	70.00	100.00
Comifar SpA	91.62	95.46
Farcopa Distribuzione Srl	60.00	100.00
Árpád úti Bt.	68.00	49.90
Kabay János Gyógyszerész Bt.	74.36	49.90
Nozsobe Bt.	74.33	49.90
Terra-Pharma Bt.	70.00	49.90
Thymi-Pharma Bt.	74.00	49.90
Argon-Pharma Bt.	74.80	49.90
Besztercei Bt.	74.00	49.90
Gratus Bt.	74.00	49.90
Nógrádi Elixír Bt.	60.00	49.90
Patika Kínokra Bt.	74.50	49.90
Rétsági Kőhárs Bt.	51.00	49.90
Thor Patika Bt.	51.00	49.90
PANACEA-PLUS Bt.	74.26	49.90
Vasi Calendula Bt.	65.00	49.80
Csontváry Bt.	60.00	40.00
Aesculap 98 Bt.	51.00	49.90
Főtéri Helikon Bt.	73.90	49.90
Horváth Gyógyszertár Bt.	51.00	49.90
Katonaréti Ágnes Bt.	51.00	49.90
Megváltó 98 Gyógyszertár Bt.	74.00	49.90
Mixtura 36 Gyógyszertár Bt.	51.00	49.90
Pacsai Fekete Sas Gyógyszertár Bt.	65.00	49.90
Pelikán 51 Gyógyszertár Bt.	65.00	49.90
Platán 35 Bt.	70.00	49.90
Solidus Pharma Bt.	50.00	49.90
Zalai Angyal Gyógyszertár Bt.	74.00	49.90
Zalai Borostyánkő Gyógyszertár Bt.	51.00	49.90
Zalai Gyöngyvirág Gyógyszertár Bt.	50.00	49.90
Zalai Hársfa Gyógyszertár Bt.	51.00	49.90
Zalai Nyirfa Gyógyszertár Bt.	74.00	49.90
Zalai Szent Mihály Gyógyszertár Bt.	74.00	49.90
Zalakarosi Termál Gyógyszertár Bt.	74.00	49.90
Kígyó Patika Bt.	74.80	49.90
Fórizs Patika Bt.	74.00	49.90

in %	31 Jan. 2016	31 Jan. 2017
Erzsébeti Menta Bt.	74.00	49.90
Apolló Gyógyszertár Bt.	74.80	49.90
Széna tér Patika Bt.	74.00	49.90
Mohácsi Szent Ferenc Bt.	74.00	49.90
Szent Ágnes Patika Bt.	74.00	49.90
Pálffy Patika Bt.	74.40	49.90
Aranyfű Gyógyszertár Bt.	74.00	49.90
Arany Angyal Patika Bt.	74.00	49.90
Tétényi Patika Bt.	74.90	49.90
Dorottya Patika Bt.	74.00	49.90
Avasi Patika Bt.	74.27	49.90
Kőbányai Bellis Bt.	70.00	49.90
Honvéd Bt.	74.00	49.90
Szent Lukács BENU Bt.	74.00	49.90
Rózsa Medicina Bt.	73.68	49.90
Szent Imre Bt.	70.00	49.90
Budai Szent Klára Bt.	74.00	49.90
Örs Vezér Bt.	70.90	49.90
Orszagalma BENU Bt.	74.90	49.90
Budafoki Szentlélek Bt.	74.00	49.90
Panacea Patika Bt.	74.80	49.90
Palatinus Bt.	69.00	49.90
Szentimrei Diana Bt.	74.00	49.90
Peterfy Bt.	67.00	49.90
Skorpio Pharma Bt.	70.00	49.90
Kata Patika Bt.	74.98	49.90
Calendula Pharma Bt.	74.90	49.90
Habrantus Pharma Bt.	74.90	49.90
Mixtura Patika Bt.	74.90	49.90
Jób Bt.	74.90	49.90
Centaurium Patika Bt.	74.00	49.90
Nadály Bt.	74.90	49.90
Rubinpharma Bt.	70.00	49.90
Sikari Patika Bt.	74.90	49.90
Hajnal Bt.	73.90	49.90
Aveszt Bt.	74.00	49.90
Kamilla Főtér Bt.	74.90	49.90
Belvárosi Kígyó Bt.	74.07	49.90
Kisberi Ezüstkehely Bt.	74.00	49.90

in %	31 Jan. 2016	31 Jan. 2017
Gömör Patika Bt.	74.80	49.90
BENU Stromfeld Úti Gyógyszertár Kft	74.67	49.67
Lehel Piac Patika Kft.	74.67	49.67
Várdapharma Kft.	74.67	49.67
Nyíregy-Nova Kft.	74.67	49.67
Veszter Kft.	74.00	49.67
Aesculap 64 Kft.	74.33	49.67
Királyfi és Társa Bt.	69.00	49.90
Rézkígyó Patika Bt.	74.89	49.90
Dosis Alfa Bt.	74.90	49.90
Gyógyító Patikus Bt.	74.95	49.95
Immánuel Gyógyszertár Kft.	74.33	49.67
Fehérvár-Pharma Kft.	74.00	49.67
Zalár Patika Kft.	74.67	49.67
BENU Arany Kehely Gyógyszertár Kft.	74.33	49.67
BENU Aranyszarvas Gyógyszertár Kft.	74.33	49.67
BENU Balassa Gyógyszertár Kft.	74.33	49.67
BENU Bástya Gyógyszertár Kft.	74.33	49.67
BENU Béke Téri Gyógyszertár Kft.	74.33	49.67
BENU Belvárosi Gyógyszertár Kft.	74.33	49.67
BENU Csaba Center Gyógyszertár Kft.	74.33	49.67
BENU Csillag Gyógyszertár Kft.	74.33	49.67
BENU Eupark Gyógyszertár Kft.	74.33	49.67
BENU Fő Téri Gyógyszertár Kft.	74.33	49.67
BENU Gólyavár Gyógyszertár Kft.	74.33	49.67
BENU Kabay Gyógyszertár Kft.	74.33	49.67
BENU Két Oroszlán Gyógyszertár Kft.	74.33	49.67
BENU Kígyó Gyógyszertár Kft.	74.33	49.67
BENU Király Gyógyszertár Kft.	71.34	49.67
BENU Küttel Gyógyszertár Kft.	74.67	49.67
BENU Madách Téri Gyógyszertár Kft.	74.33	49.67
BENU Nyírpalota Gyógyszertár Kft.	74.33	49.67
BENU Piac Gyógyszertár Kft.	74.33	49.67
BENU Sportaréna Gyógyszertár Kft.	74.33	49.67
BENU Sugár Gyógyszertár Kft.	74.33	49.67
BENU Szent György Gyógyszertár Kft.	74.33	49.67
BENU Szent Miklós Gyógyszertár Kft.	74.33	49.67
BENU Szent Rókus Gyógyszertár Kft.	74.33	49.67
BENU Thököly Gyógyszertár Kft.	74.33	49.67

in %	31 Jan. 2016	31 Jan. 2017
BENU Határ Úti Gyógyszertár Kft.	74.33	49.67
BENU Péterfia Úti Gyógyszertár Kft.	74.33	49.67
BENU Szabadhegyi Gyógyszertár Kft.	74.33	49.67
BENU Kapos Gyógyszertár Kft.	74.33	49.67
BENU Földvári Úti Gyógyszertár Kft.	74.33	49.67
BENU Városmajor Úti Gyógyszertár Kft.	74.33	49.67
BENU Magau Gyógyszertár Kft.	74.33	49.67
BENU Misau Gyógyszertár Kft.	74.33	49.67
BENU Hősök Tere Gyógyszertár Kft.	74.33	49.67
BENU Tolnai Úti Gyógyszertár Kft.	74.33	49.67
BENU Sóstói Gyógyszertár Kft.	74.33	49.67
BENU Jász-Kürt Gyógyszertár Kft.	74.33	49.67
BENU Őrangyal Gyógyszertár Kft.	74.33	49.67
BENU Bevásárló Gyógyszertár Kft.	71.00	49.67
PLUS PHARMACIE SA	74.72	77.07
IVRYLAB SAS	96.28	96.63
Phoenix Pharma Serbia doo Beograd	86.75	100.00
PHOENIX Zdravotnícke zásobovanie a.s.	95.94	96.00

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 taken to the income statement, provided they are not allocable to monetary items denominated in foreign currency which 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 to 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 on the prior year are as follows:

Country	Currency	Closing rate 31 Jan. 2016	Closing rate 31 Jan. 2017	Average rate FY 2015/16	Average rate FY 2016/17
Albania	ALL	138.6800	136.3900	138.6800	136.3900
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	27.0260	27.0210	27.2087	27.0338
Croatia	HRK	7.6600	7.4790	7.6110	7.5234
Denmark	DKK	7.4628	7.4373	7.4604	7.4431
United Kingdom	GBP	0.7641	0.8611	0.7247	0.8280
Hungary	HUF	312.0300	310.6400	309.8273	310.9794
Macedonia	MKD	61.6950	61.6985	61.6213	61.5997
Norway	NOK	9.4845	8.8880	9.0013	9.2427
Poland	PLN	4.4398	4.3239	4.1939	4.3601
Serbia	RSD	123.2485	123.9595	120.7056	123.2504
Sweden	SEK	9.3483	9.4505	9.3427	9.4869
Switzerland	CHF	1.1144	1.0668	1.0678	1.0883

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

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

- Pharmacy licenses 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 four 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 when the rights to receive cash flows from the asset have expired. In addition, a financial asset is derecognised when the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either the Group has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

PHOENIX sells significant volumes of receivables through securitisation programmes or 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 using recognised valuation techniques, such as discounted cash flow models or option pricing models.

The PHOENIX group 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

Own equity instruments that are reacquired (treasury shares) 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. 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 and 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 is the lessor and does not transfer substantially all the risks and rewards of ownership of the asset to the lessee 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 duty.

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

Government grants

Government grants paid as compensation for expenses or losses already incurred are recognised in the period in the income statement in which the corresponding claim arises.

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 four years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset base of the cash-generating unit being tested.

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.

Intangible assets with indefinite useful lives are 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 the fiscal year 2016/17 and the fiscal year 2015/16 are explained below. Business combinations are initially accounted for using the acquisition method pursuant to IFRS 3 “Business Combinations”.

In the 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.

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

Other business combinations
In the 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.

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 the fiscal year 2015/16

In the fiscal year 2015/16, the cumulative profit for the period of the Group's acquirees came to EUR – 1,062k and revenue to EUR 83,382k. 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 130,044k. 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 1,038k.

The table below shows a summary of their fair values:

Fair value recognised as of the acquisition date

EUR k	Other FY 2015/16
Cash and cash equivalents	51,762
Equity instruments	0
Acquisition-date fair value of previously held equity interests	0
Total cost	**51,762**
Intangible assets	11,368
Other non-current assets	9,982
Inventories	5,066
Trade receivables	2,919
Cash and cash equivalents	1,299
Other current assets	492
Non-current liabilities	3,974
Current liabilities	21,377
Net assets	**5,775**
Non-controlling interests	0
Net assets acquired	**5,775**
Bargain purchase	**0**
Goodwill	**45,987**

Other business combinations

In the fiscal year 2015/16, the Group acquired a number of individual pharmacies and a chain of pharmacies 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 Slovakia (EUR 20,912k), United Kingdom (EUR 9,935k), Netherlands (EUR 3,900k), Czech Republic (EUR 3,295k), Baltics (EUR 2,489k), Switzerland (EUR 1,745k), Norway (EUR 1,443k), Italy (EUR 1,300k) and Serbia (EUR 968k) and is managed in the local functional currencies (CZK, CHF, GBP, NOK, RSD and EUR).

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

EUR 4,954k of the recognised goodwill from business combinations is expected to be tax deductible.

The fair value of current receivables contains trade receivables with a fair value of EUR 2,919k. The gross amount of the trade receivables past due amounts to EUR 2,926k, of which EUR 7k is expected to be uncollectible.

Business combinations were initially accounted for on the basis of a provisional purchase price allocation that was finalised in the fiscal year 2016/17. The previously recognised values did not have to be adjusted.

Divestitures

There was an overall gain from deconsolidation of EUR 3,081k (prior year: EUR 5,079k) 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 21,931k had to be sold off in the reporting year in connection with the acquisition of Mediq Apotheken Nederland B.V. because of anti-trust requirements. A company sold in the prior year had non-current assets of EUR 11,791k, current assets of EUR 21,048k, non-current liabilities of EUR 2,440k and current liabilities of EUR 5,372k.

NOTES TO THE INCOME STATEMENT

1 Revenue

The Group's revenue mainly consists of the sale of pharmaceuticals and related goods (EUR 24,004,326k in fiscal 2016/17 and EUR 22,888,948k in fiscal 2015/16). 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 2015/16	FY 2016/17
Net gain on disposal of fixed assets	3,357	981
Income from services	38,927	23,432
Rental income	9,335	11,485
Marketing and other services	47,702	49,066
Allocation of freight costs	4,937	11,863
Other	45,130	45,012
Other operating income	**149,388**	**141,839**

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 3,081k (prior year: EUR 5,079k).

3 Personnel expenses

EUR k	FY 2015/16	FY 2016/17
Wages and salaries	897,555	965,992
Social security contributions, retirement benefits and similar expenses	194,053	219,507
Other personnel expenses	67,106	103,662
	1,158,714	**1,289,161**

The average headcount measured in full-time equivalents (FTEs) increased by 1,769 to a total of 26,611. Other personnel expenses mainly include training expenses and costs for temporary personnel.

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

	FY 2015/16	FY 2016/17
Western Europe	13,499	14,577
Eastern Europe	5,791	6,423
Northern Europe	5,552	5,611
	24,842	**26,611**

The line item “Wages and salaries” includes an amount of EUR 12,345k (prior year: EUR 6,553k) for severance payments and similar costs.

4 Other operating expenses

EUR k	FY 2015/16	FY 2016/17
Transport costs	269,946	295,174
Lease and rental costs	133,188	150,633
Exchange rate gains/losses	583	– 76
Net impairment of receivables	5,260	7,782
Other building and equipment costs	56,324	60,623
Marketing and advertising expenses	53,575	59,129
Communication and IT expenses	60,895	73,366
Legal and consulting fees	55,501	58,632
Repair and maintenance costs	34,743	35,862
Net loss on the disposal of fixed assets	2,474	2,521
Other taxes	17,143	27,722
Office supplies	10,701	9,884
Insurance costs	8,492	8,555
Expenses related to ABS and factoring programmes	2,356	1,998
Other	56,074	72,592
Other operating expenses	**767,255**	**864,397**

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

In the fiscal year 2016/17, the auditor of the financial statements, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, received audit fees of EUR 644k (prior year: EUR 587k), of which for the prior year EUR 45k (prior year: EUR 43k), other attestation fees of EUR 10k (prior year: EUR 21k), tax advisory fees of EUR 182k (prior year: EUR 98k) and EUR 56k (prior year: EUR 96k) 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 2015/16	FY 2016/17
Amortisation of intangible assets and depreciation of property, plant and equipment	114,832	124,918
Impairment of pharmacy licenses	0	1,540
Reversal of impairment loss	– 916	– 58
Impairment of goodwill	4,705	0
Other impairments	339	69
	118,960	**126,469**

7 Financial result

EUR k	FY 2015/16	FY 2016/17
Interest income	15,235	12,603
Interest expenses	– 69,615	– 58,809
Other financial result	– 3,079	– 2,643
Financial result	**– 57,459**	**– 48,849**

Interest income includes interest income from customers of EUR 10,614k (prior year: EUR 11,444k).

The other financial result contains exchange rate gains of EUR 27,002k (prior year: EUR 38,049k) as well as exchange rate losses of EUR 56,272k (prior year: EUR 41,655k), income of EUR 92,336k (prior year: EUR 110,505k) and expenses of EUR 64,723k (prior year: EUR 108,898k) from changes in the fair values of derivatives, earnings from the disposal of financial assets classified as available for sale of EUR 27k (prior year: EUR 123k), impairment of financial assets of EUR 1,640k (prior year: EUR 1,650k) as well as other financial income of EUR 1,258k (prior year: EUR 981k) and other financial expenses of EUR 631k (prior year: EUR 534k).

The financial result includes interest income and interest expenses of EUR – 36,942k on financial assets and liabilities that are not classified as "at fair value through profit or loss" (prior year: EUR – 40,414k).

8 Income tax

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

EUR k	FY 2015/16	FY 2016/17
Current taxes	77,521	90,287
Deferred taxes	16,453	9,403
	93,974	**99,690**

The current income tax includes income for prior periods of EUR 952k (prior year: EUR 5,065k) and expenses of EUR 14k (prior year: EUR 2,694k).

In the fiscal year 2016/17, a net tax expense (after non-controlling interests) of EUR 20k was recognised in other comprehensive income (prior year: tax expense of EUR 9,800k). This amount results from actuarial gains and losses from pension obligations (EUR 7,147k; prior year: EUR – 17,663k), net investments in foreign operations (EUR – 6,716k; prior year: EUR 7,809k) as well as changes in the fair value of financial assets classified as available for sale (EUR – 451k; prior year: EUR 54k), 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 Norway decreased by 2.0 percentage points, in Hungary by 1.8 percentage points, in Denmark by 1.5 percentage points and in the United Kingdom by 0.2 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 2015/16		FY 2016/17	
	EUR k	in %	EUR k	in %
Profit before tax	**318,985**	**100.0**	**242,514**	**100.0**
Expected income tax expense	**79,108**	**24.8**	**61,356**	**25.3**
Impact of changes to tax rates on deferred taxes	– 6,097	– 1.9	– 2	0.0
Tax effect of non-deductible expenses and tax-exempt income	10,650	3.3	7,882	3.3
Effect of taxes relating to prior years recognised in the fiscal year	– 924	– 0.3	– 351	– 0.2
Effect of differing national tax rates	– 4,521	– 1.4	– 2,689	– 1.1
Effect of impairments/adjustments to carrying amounts	13,995	4.4	26,068	10.7
Effects of impairments on goodwill	1,460	0.5	0	0.0
Other effects	303	0.1	7,426	3.1
Income taxes	**93,974**	**29.5**	**99,690**	**41.1**

Other effects include a deferred tax expense of EUR 1,687k (prior year: EUR 1,848k) 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 Jan. 2016		31 Jan. 2017	
EUR k	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	5,307	81,694	5,392	80,335
Property, plant and equipment	4,014	36,370	3,813	35,270
Financial and other assets	6,782	14,391	6,111	14,496
Inventories	4,690	4,349	4,395	4,281
Assets classified as held for sale	0	5	0	5
Provisions	38,605	1,577	45,259	1,695
Liabilities	10,768	8,278	9,151	8,084
Deferred taxes on temporary differences	**70,166**	**146,664**	**74,121**	**144,167**
Deferred taxes on unused tax losses	44,730	0	32,178	0
Netting	–25,787	–25,787	–23,632	–23,632
Total deferred taxes	**89,109**	**120,877**	**82,667**	**120,535**

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 457,299k (prior year: EUR 315,384k). Deferred taxes includes expenses from a reversal of used tax losses of EUR 6,136k (prior year: EUR 0k) and income from previously unused tax losses of EUR 71k (prior year: EUR 1,086k). The unused tax losses and interest carryforwards expire as follows:

EUR k	31 Jan. 2016	31 Jan. 2017
Within one year	45	0
After one year, but within two years	0	1,522
After two years, but within three years	825	0
After three years, but within four years	0	0
After four years, but within five years	0	3,474
After five years	0	63
Loss carryforwards and interest carryforwards that do not expire	314,514	452,240
	315,384	**457,299**

No deferred tax liabilities were recognised on distributable reserves of subsidiaries amounting to EUR 3,194,502k (prior year: EUR 3,178,715k) 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 licenses	Goodwill	Prepayments
Cost			
1 February 2015	**482,815**	**1,390,132**	**4,541**
Currency translation	– 7,882	– 15,659	– 17
Changes in the basis of consolidation	– 8,120	0	0
Additions	21,874	47,740	4,551
Disposals	– 3,831	– 12,020	– 10
Reclassifications	3,141	608	– 2,659
31 January 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	26,382	415,832	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**	**1,809,827**	**6,512**
Accumulated amortisation and impairment losses			
1 February 2015	**103,422**	**240,233**	**26**
Currency translation	– 1,087	– 7,899	1
Changes in the basis of consolidation	– 1,807	0	0
Additions	12,483	0	0
Impairment losses	0	4,705	0
Reversal of impairment losses	– 759	0	0
Disposals	– 1,843	– 11,049	0
Reclassifications	– 716	608	0
31 January 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**
Net carrying amount 31 January 2016	**378,304**	**1,184,203**	**6,379**
Net carrying amount 31 January 2017	**372,530**	**1,577,379**	**6,485**

The item “Rights and licenses” mainly contains pharmacy licenses and trademarks with indefinite useful lives in the United Kingdom totalling EUR 305,421k (31 January 2016: EUR 336,014k). The useful life for such licenses has been assessed as indefinite due to the fact that such licenses are granted for an unlimited time period.

Goodwill

Goodwill carrying amounts in EUR k Country	Currency	31 Jan. 2016	31 Jan. 2017
Germany	EUR	43,687	49,344
United Kingdom	GBP	316,873	302,042
Netherlands	EUR	148,531	527,280
Switzerland	CHF	140,906	145,304
Hungary	HUF	75,041	75,626
Czech Republic	CZK	41,176	41,941
Baltics	EUR	64,817	64,978
Denmark	DKK	44,797	44,797
Sweden	SEK	40,639	40,639
Norway	NOK	190,570	196,063
Other		77,166	89,365
Total		**1,184,203**	**1,577,379**

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

As a rule, a terminal growth rate of 0.5% is used to extrapolate the EBITDA and cash flow from the change in working capital of the last planning period (prior year: 0.5%). The EBITDA trend after the planning period is adjusted to what management estimates is a sustainable EBITDA in specific cases for individual cash-generating units, if the general growth rate does not tally with management’s medium-term expectations.

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. 2016	31 Jan. 2017
Discount rate (WACC before tax)		
Germany	8.97	8.51
United Kingdom	8.04	8.27
Netherlands	8.36	7.90
Switzerland	6.60	6.39
Hungary	11.18	9.52
Czech Republic	8.79	8.47
Baltics	8.73	8.00
Denmark	8.30	7.65
Sweden	8.69	8.16
Norway	9.43	8.43
Other	7.97 – 13.43	8.15 – 13.77

A marginal change in the future cash flows, discount rate or long-term investments of the material cash-generating units Switzerland, Slovakia, the United Kingdom and Bosnia/Macedonia/Serbia (BMS) would lead to the carrying amounts exceeding the value in use.

The value in use of the cash-generating unit Switzerland exceeded its carrying amount by EUR 33,955k. An 0.9 percentage point rise in the discount rate would use up this excess amount.

The value in use of the cash-generating unit Slovakia exceeded its carrying amount by EUR 4,685k. A decrease in the future cash flows of 4.5% or an increase in the discount rate by 0.4 percentage points or an increase in long-term investments of 7.6% would use up this excess amount.

The value in use of the cash-generating unit United Kingdom exceeded its carrying amount by EUR 14,582k. A decrease in the future cash flows of 1.9% or an increase in the discount rate by 0.1 percentage points or an increase in long-term investments of 4.7% would use up this excess amount.

The value in use of the cash-generating unit BMS exceeded its carrying amount by EUR 6,896k. A decrease in the future cash flows of 4.1% or an increase in the discount rate by 0.6 percentage points would use up 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 2016 and 2017. 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%). 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 2016 and 2017.

The pharmacy licenses of L Rowland & Co. (Retail) Ltd., United Kingdom, were tested for impairment as of 31 January 2016 and 2017. The recoverable amount of the licenses in the fiscal year 2016/17 was based on the fair value less costs to sell, which was determined using a market price model. The pre-tax discount rate is 7.5% (prior year: 8.7%). 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 licenses in the United Kingdom:

EUR k	31 Jan. 2016	31 Jan. 2017
Impairment of licenses		
Pharmacy licenses, United Kingdom	0	1,540

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 2015	**824,252**	**269,006**	**588,182**	**15,695**	**8,249**
Currency translation	– 6,304	481	– 12,576	– 34	0
Changes in the basis of consolidation	– 1,378	208	903	8	0
Additions	38,942	11,299	59,318	28,259	516
Disposals	– 13,518	– 3,296	– 41,858	– 315	0
Reclassifications from non-current assets held for sale	– 215	0	0	0	1,311
Reclassifications	15,954	4,469	2,733	– 24,239	0
31 January 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	18,913	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	**901,608**	**311,460**	**631,125**	**42,495**	**14,671**
Accumulated amortisation and impairment losses					
1 February 2015	**312,234**	**184,634**	**412,126**	**0**	**1,226**
Currency translation	– 3,833	382	– 9,232	0	0
Additions	30,956	17,872	53,301	0	220
Impairment losses	186	0	0	0	153
Disposals	– 7,801	– 3,012	– 38,106	0	0
Reclassifications from non-current assets held for sale	– 64	0	0	0	515
Reclassifications	179	2,441	– 2,579	0	60
Reversal of impairment loss	0	0	– 157	0	0
31 January 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**
Net carrying amount 31 January 2016	**525,876**	**79,850**	**181,349**	**19,374**	**7,902**
Net carrying amount 31 January 2017	**535,674**	**93,560**	**187,316**	**42,495**	**11,794**

Items of property, plant and equipment with a carrying amount of EUR 5,403k (31 January 2016: EUR 5,728k) 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 5,398k (31 January 2016: EUR 3,879k).

Finance leases

The assets held under finance lease agreements are as follows:

EUR k	31 Jan. 2016	31 Jan. 2017
Land and land rights and buildings, including buildings on third-party land	7,136	6,513
Technical equipment and machinery	525	126
Other equipment, furniture and fixtures	691	1,056
Carrying amount	**8,352**	**7,695**

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. 2016	31 Jan. 2017
Minimum lease payments		
due within one year	2,409	1,445
due after one year but not more than five years	8,453	9,205
due in more than five years	1,395	651
Interest	– 2,321	– 1,887
Present value of minimum lease payments	**9,936**	**9,414**

Operating leases

PHOENIX holds numerous assets under operating lease agreements. 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. 2016	31 Jan. 2017
Minimum lease payments		
due within one year	110,192	130,270
due after one year but not more than five years	274,897	319,367
due in more than five years	168,278	173,081
Total minimum lease payments	**553,367**	**622,718**

The expected income from sublet properties amounts to EUR 2,078k (prior year: EUR 3,583k). The lease expense from operating leases breaks down as follows:

EUR k	31 Jan. 2016	31 Jan. 2017
Lease expense		
Minimum lease payments	129,106	146,353
Contingent rents	2,919	3,274
Sublease payments received	1,163	1,006
Total lease expense	**133,188**	**150,633**

Leases where the Group acts as lessor

PHOENIX acts as lessor in several countries of operation. The lease agreements represent operating leases. The most significant arrangements in which the Group acts as lessor are held by the German subsidiaries transmed Transport GmbH and ADG. transmed Transport GmbH acts as lessor for transport vehicles. ADG leases software and cash systems. Further lessor arrangements exist in the Netherlands, Finland, Hungary, the Czech Republic and the United Kingdom.

The future minimum lease payments are as follows:

EUR k	31 Jan. 2016	31 Jan. 2017
Minimum lease payments		
due within one year	14,679	16,324
due after one year but not more than five years	14,601	22,356
due in more than five years	1,096	4,203
Total minimum lease payments	**30,376**	**42,883**

11 Investment property

Properties in the Netherlands and the United Kingdom were reclassified from “Land and buildings” to “Investment property” in the fiscal year 2016/17 as they were not owner-occupied but instead held for capital appreciation.

The fair value of the investment property held as of 31 January 2017 determined by expert appraisers using market data (level 2) for comparable properties came to EUR 11,993k (31 January 2016: EUR 7,982k). Rental income in the fiscal year 2016/17 came to EUR 448k (prior year: EUR 222k), while expenses totalled EUR 614k (prior year: EUR 713k).

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 2015/16			FY 2016/17		
EUR k	Brocacef Group	Comifar Group	PHOENIX Int. Beteiligungs GmbH	Brocacef Group	Comifar Group	PHOENIX Int. Beteiligungs GmbH
Current assets	228,713	707,948	979,794	381,651	777,132	1,094,053
Non-current assets	221,075	121,246	2,964,019	654,236	114,279	3,149,874
Current liabilities	169,484	499,484	2,220,419	326,105	566,667	2,338,992
Non-current liabilities	31,991	26,963	3,908	299,564	24,972	3,515
Revenue	1,254,470	2,173,352	0	1,959,301	2,283,394	0
Gain/loss from continuing operations	19,964	18,248	330,997	18,399	6,741	181,934
Gain/loss after taxes from discontinued operations	0	0	0	0	0	0
Total comprehensive income	19,964	18,604	330,997	18,399	6,741	181,934
Cash inflow/outflow from:						
– operating activities	41,584	51,418	100,725	63,585	7,023	105,031
– investing activities	– 7,667	– 2,341	– 123,843	– 277,221	– 5,376	4,840
– financing activities	– 22,680	– 50,000	– 128,198	213,470	– 1,562	– 33,420
Gain/loss attributable to non-controlling interests	8,984	1,649	6,377	9,379	461	5,380
Accumulated non-controlling interests at the end of the reporting period	107,764	21,118	94,554	182,664	20,922	103,170
Dividends paid to non-controlling interests	3,858	454	0	4,102	409	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. 2016	31 Jan. 2017
Brocacef Group	107,764	182,664
Comifar Group	21,118	20,922
PHOENIX Int. Beteiligungs GmbH	94,554	103,170
Other	22,152	14,682
	245,588	**321,438**

PHOENIX holds investments in 29 associates (prior year: 21). In the prior year, PHOENIX also held investments in two joint ventures. The aggregate amounts are presented below:

EUR k	FY 2015/16	FY 2016/17
Net carrying amount	15,757	14,134
Group share in gain/loss from continuing operations	3,082	1,671
Group share in total comprehensive income	3,082	1,671

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. 2016	31 Jan. 2017
Trade receivables, non-current	35	153
Other financial assets		
Available-for-sale financial assets	34,656	36,699
Loans to and receivables from associates	5,022	2,827
Other loans	32,380	44,391
Other non-current financial assets	1,063	7,731
	73,121	**91,648**

14 Inventories

EUR k	31 Jan. 2016	31 Jan. 2017
Raw materials and supplies	14,620	13,340
Finished goods and merchandise	1,953,835	2,063,224
Prepayments	12,872	19,446
	1,981,327	**2,096,010**

During the fiscal year, inventories were written down by EUR 10,780k (prior year: EUR 8,847k). Impairment losses of EUR 4,570k (prior year: EUR 5,651k) were reversed during the period mainly due to the unexpected sale of written-down inventories. Inventories with a carrying amount of EUR 164,412k (31 January 2016: EUR 139,103k) are measured at net realisable value at the reporting date.

15 Trade receivables and other current financial assets

EUR k	31 Jan. 2016	31 Jan. 2017
Trade receivables	2,539,905	2,672,065
Other financial assets		
Loans to and receivables from associates or related parties	6,498	8,874
Other loans	28,702	28,990
Derivative financial instruments	8,128	3,323
Other current financial assets	124,843	138,919
	168,171	**180,106**

Trade receivables and other assets with a carrying amount of EUR 96,948k (prior year: EUR 86,780k) have been pledged as a guarantee for a loan agreement.

The trade receivables transferred under factoring and ABS transactions as of 31 January 2017 are presented below:

EUR k	31 Jan. 2016	31 Jan. 2017
Transferred but only partly derecognised receivables		
Receivables not derecognised in accordance with IAS 39		
Volume of receivables	415,163	587,485
Financial liability	380,500	525,971
Continuing involvement		
Volume of receivables	164,233	175,577
Continuing involvement	7,292	7,866
Financial liability	7,340	7,911
Transferred and fully derecognised receivables		
Volume of receivables	24,831	23,953
Retentions of title	30,620	40,262

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 2015	**66,159**	**11,535**
Additions	9,844	2,488
Utilisation	– 6,644	– 1,320
Reversal	– 6,202	– 554
Currency and other changes	335	– 395
Allowances as of 31 January 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**

As of 31 January 2017 and 31 January 2016, 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								
		Neither past due nor impaired	Impaired	Past due but not impaired						
				< 30 days	31 – 60 days	61 – 90 days	91 – 150 days	151 – 240 days	241 – 330 days	> 330 days
31 Jan. 16										
Trade receivables	**2,539,940**	2,277,111	42,556	139,075	21,702	10,670	14,307	15,022	6,993	12,504
Other loans	**61,082**	58,427	2,646	9	0	0	0	0	0	0
31 Jan. 17										
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

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, Italy, Bosnia and Bulgaria. 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 assets

EUR k	31 Jan. 2016	31 Jan. 2017
Prepayments	60,463	63,118
Tax claims – VAT and other taxes	24,005	22,154
Sundry other assets	24,297	19,462
Other assets	**108,765**	**104,734**

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. 2016	31 Jan. 2017
Bank balances	364,334	483,320
Cash on hand	3,489	4,528
Cash equivalents	58	13
	367,881	**487,861**

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

18 Equity

Unlimited and limited partners' capital

In the 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. The unlimited partners' capital is still EUR 0k.

We refer to the section, "Subsequent events" as regards the decrease in the limited partners' capital in 2017. 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 20,148k (prior year: EUR 22,173k).

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. 2016	31 Jan. 2017
Equity	EUR k	2,726,468	2,849,764
Total equity and liabilities	EUR k	7,772,558	8,598,348
Equity ratio	**in %**	**35.1**	**33.1**

EUR k	31 Jan. 2016	31 Jan. 2017
+ Financial liabilities (non-current)	604,262	753,516
– Derivative financial instruments (non-current)	–370	–216
+ Financial liabilities (current)	734,796	961,878
– Derivative financial instruments (current)	–398	–1,172
– Cash and cash equivalents	–367,881	–487,861
+ Receivables sold in the course of factoring and ABS transactions	181,772	191,664
– Factoring receivables	–26,461	–24,941
– Receivables from ABS programmes	–4,159	–15,321
Net financial liabilities	**1,121,561**	**1,377,547**

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 financial liabilities 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 issuer as are customary in 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 the PHOENIX group 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 19R, 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 when the pension is 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 pharmaceutical 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 the plan assets must, in accordance with the provisions of the pension fund, 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 63,627k (prior year: EUR 53,459k). This amount includes the contributions the Group made to statutory pension insurance funds which 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. 2016	31 Jan. 2017
Calculation of net defined benefit liability		
Present value of funded obligations	– 508,893	– 600,879
Plan assets at fair value	385,816	441,570
Defined benefit obligations in excess of plan assets	**– 123,077**	**– 159,309**
Present value of non-funded obligations	– 88,182	– 92,503
Net defined benefit liability	**– 211,259**	**– 251,812**

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. 2016	31 Jan. 2017	31 Jan. 2016	31 Jan. 2017	31 Jan. 2016	31 Jan. 2017
Norway	378,610	449,464	279,007	330,393	– 99,603	– 119,071
Switzerland	77,499	87,554	61,109	67,224	– 16,390	– 20,330
United Kingdom	51,579	62,306	44,737	42,891	– 6,842	– 19,415
Other	89,387	94,058	963	1,062	– 88,424	– 92,996
Total	**597,075**	**693,382**	**385,816**	**441,570**	**– 211,259**	**– 251,812**

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 2015	**693,678**	**– 401,311**	**292,367**
Service cost	27,939		27,939
Interest expenses/income	15,315	– 7,663	7,652
Other	– 53		– 53
	43,201	**– 7,663**	**35,538**
Remeasurements			
Return on plan assets excluding amounts contained in interest expenses/income		855	855
Gain/loss from changes in demographic assumptions	6,365		6,365
Gain/loss from changes in financial assumptions	– 67,986		– 67,986
	– 61,621	**855**	**– 60,766**
Employer contributions		– 32,712	– 32,712
Employee contributions	2,290	– 2,290	0
Benefits paid	– 19,438	13,752	– 5,686
Plan settlements	– 25,789	19,407	– 6,382
Other changes recognised in equity	– 695	– 941	– 1,636
Exchange differences	– 34,551	25,087	– 9,464
31 January 2016	**597,075**	**– 385,816**	**211,259**

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		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	32,147		32,147
	50,171	**–11,361**	**38,810**
Employer contributions		–27,657	–27,657
Employee contributions	2,357	–2,357	0
Benefits paid	–15,076	12,973	–2,103
Plan settlements	–126	11	–115
Exchange differences	24,035	–17,605	6,430
31 January 2017	**693,382**	**–441,570**	**251,812**

Net interest expenses are recognised within the financial result.

Plan assets break down as follows:

EUR k	31 Jan. 2016	31 Jan. 2017
Plan assets with underlying active market		
Cash and cash equivalents	2,913	5,397
Equity instruments	47,989	41,960
Debt instruments	177,379	222,329
Property	32,923	39,647
Investment funds	60,243	63,405
Insurance assets	56,153	62,486
Structured debt instruments	7,524	5,286
Other	962	1,060
	385,816	**441,570**

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

The Group expects to contribute EUR 29,949k to its defined benefit plans in the fiscal year 2017/18.

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

in %	FY 2015/16	FY 2016/17
Discount rate by currency region		
NOK	2.7	2.6
GBP	3.8	3.0
EUR	1.5 – 2.4	0.2 – 2.0
CHF	0.9	0.6
SEK	3.0	2.7
Future salary increases	1.2 – 4.3	0.8 – 4.8
Future pension increases	1.5 – 3.3	1.5 – 3.8

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 2017	Change in actuarial assumptions in %	Increase in assumption EUR k	Decrease in assumption EUR k
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

31 January 2016	Change in actuarial assumptions in %	Increase in assumption EUR k	Decrease in assumption EUR k
Interest rate	0.5	56,354	– 65,043
Future salary increases	0.5	– 28,120	25,246
Future pension increases	0.5	– 32,856	25,014
Life expectancy	10.0	– 7,797	7,679

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

In Norway and the Netherlands, the PHOENIX group has pension plans which 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, the PHOENIX group expects contribution payments of EUR 13,250k for the fiscal year 2017/18. The coverage ratio of these plans (ratio of plan assets to obligation) is between 90.8% and 94.1% (prior year: between 97.0% and 101.3%). 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 2017 the PHOENIX group does not expect any major burdens to arise from the multi-employer plans; there is no intention to exit one of these plans.

The PHOENIX group 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 2016	**1,492**	**13,356**	**16,756**	**31,604**
Currency translation	– 63	41	0	– 22
Changes in the basis of consolidation	299	2,890	3,176	6,365
Addition	4,815	7,400	15,824	19,539
Utilisation	– 6,437	– 5,049	– 2,384	– 13,870
Reversal	0	– 210	0	– 210
Interest	0	113	0	113
31 January 2017	**106**	**18,541**	**33,372**	**52,019**

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 8,030k (prior year: EUR 3,812k). 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. 2016	31 Jan. 2017
Financial liabilities (non-current)		
Liabilities to banks	1,179	150,243
Bonds	592,696	594,116
Loans	65	100
Other financial liabilities	10,322	9,057
	604,262	**753,516**

EUR k	31 Jan. 2016	31 Jan. 2017
Financial liabilities (current)		
Liabilities to banks	115,050	182,155
Loans	126,247	134,131
Liabilities to associates and related parties	49,434	49,412
Liabilities for customer rebates and bonuses	35,766	35,244
ABS and factoring liabilities	387,840	533,882
Other financial liabilities	20,459	27,054
	734,796	**961,878**

In May 2013, the PHOENIX group 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, the PHOENIX group issued a corporate bond with a volume of EUR 300m, a term of seven years and an interest coupon of 3.625%.

In June 2012, the PHOENIX group 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, the PHOENIX group 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, the PHOENIX group made use of the option to extend the agreement by one year.

In October 2016, the PHOENIX group issued promissory notes 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. 2016	31 Jan. 2017
VAT and other tax liabilities	85,477	87,160
Personnel liabilities	120,897	143,136
Liabilities relating to social security/similar charges	25,280	27,421
Prepayments	11,516	13,571
Sundry other liabilities	15,345	15,114
Other liabilities	**258,515**	**286,402**

24 Non-current assets held for sale

The assets held for disposal relate to pharmacies in the Netherlands (EUR 7,619k; prior year: EUR 0k), which have to be sold off because of anti-trust requirements in connection with the acquisition of Mediq Apotheken Nederland B.V., and to real estate in Bulgaria (EUR 605k; prior year: EUR 605k).

OTHER NOTES

Contingent liabilities

Contingent liabilities totalling EUR 67,679k (31 January 2016: EUR 70,651k) relate exclusively to guarantees.

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.

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 the fiscal year 2016/17:

31 January 2017	Category pursuant to IAS 39						
EUR k	Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Financial assets held for trading	Outside 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	0	3,323	0	3,323	3,323
Other financial assets	146,650	0	0	0	0	146,650	147,681
Cash and cash equivalents	487,861	0	0	0	0	487,861	487,861

The carrying amounts for each category and class and the fair values for each class are presented in the following table for the fiscal year 2015/16:

31 January 2016	Category pursuant to IAS 39						
EUR k	Loans and receivables	Available-for-sale financial assets	Held-to-maturity financial assets	Financial assets held for trading	Outside the scope of IFRS 7	Carrying amount	Fair value
Assets							
Available-for-sale financial assets	0	31,165	0	0	0	31,165	31,165
Available-for-sale financial assets at acquisition cost		3,491				3,491	n/a
Trade receivables	2,539,940	0	0	0	0	2,539,940	2,539,940
Loans to and receivables from associates or related parties	11,520	0	0	0	0	11,520	11,394
Other loans	61,082	0	0	0	0	61,082	61,118
Derivative financial assets without hedge accounting	0	0	0	8,128	0	8,128	8,128
Other financial assets	125,906	0	0	0	0	125,906	125,978
Cash and cash equivalents	367,881	0	0	0	0	367,881	367,881

Available-for-sale financial assets primarily contain shares in unlisted entities. Where no fair value can be determined, they are recorded at acquisition cost. Shares in listed entities are measured at the quoted price determined as of the reporting date. 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 0.64 and 1.34 (prior year: between 0.62 and 1.2). A 10% increase in the multipliers would increase the value by EUR 4,703k (prior year: EUR 4,234k); a 10% decrease in the multipliers would decrease the value by EUR 4,708k (prior year: EUR 4,227k).

Derivatives are carried at fair value.

Due to the short-term maturities of cash and cash equivalents, receivables and other current financial assets, 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 the fiscal year 2016/17:

31 January 2017	Category pursuant to IAS 39					
EUR k	Other financial liabilities	Financial liabilities held for trading	No category according to IAS 39.9	Outside 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	25,309	0	0	0	25,309	25,309
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

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 the fiscal year 2015/16:

31 January 2016	Category pursuant to IAS 39					
EUR k	Other financial liabilities	Financial liabilities held for trading	No category according to IAS 39.9	Outside the scope of IFRS 7	Carrying amount	Fair value
Financial liabilities						
Liabilities to banks	116,229	0	0	0	116,229	116,229
Bonds	592,696	0	0	0	592,696	617,120
Loans	126,312	0	0	0	126,312	126,312
Trade payables	3,047,380	0	0	0	3,047,380	3,047,380
Liabilities to associates and related parties	49,434	0	0	0	49,434	46,348
Liabilities and provisions for customer rebates and bonuses	35,766	0	0	0	35,766	35,766
ABS and factoring liabilities	387,840	0	0	0	387,840	387,840
Other financial liabilities	20,077	0	0	0	20,077	20,077
Lease liabilities	0	0	9,936	0	9,936	n/a
Derivative financial liabilities without hedge accounting	0	768	0	0	768	768
Derivative financial liabilities with hedge accounting	0	0	0	0	0	0

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).

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

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 2017				
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	8,848	8,848
31 January 2016				
Available-for-sale financial assets	0	0	31,165	31,165
Derivative financial assets without hedge accounting	0	8,128	0	8,128
Derivative financial liabilities without hedge accounting	0	768	0	768
Other financial liabilities	0	0	5,651	5,651

The fair value of available-for-sale assets measured at cost of EUR 2,657k (prior year: EUR 3,491k) 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 2015	**31,630**	**5,928**
Total gains and losses recognised in accumulated other comprehensive income	– 111	0
Purchase	450	0
Sale of shares	– 804	0
thereof recognised through profit or loss	123	0
Acquisitions	0	0
Payments due to acquisitions	0	– 1,158
Other	0	881
31 January 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 in the income statement	27	0
Acquisitions	0	2,666
Payments due to acquisitions	0	– 863
Other	0	1,394
31 January 2017	**34,042**	**8,848**

Net gains or losses on each category of financial instruments

EUR k	FY 2015/16	FY 2016/17
Loans and receivables	– 12,401	– 39,344
Available-for-sale financial assets	1,109	4,643
thereof recognised in accumulated other comprehensive income	– 111	2,118
thereof recognised through profit or loss	1,220	2,525
Financial liabilities measured at amortised cost	339	296
Financial instruments held for trading	992	27,379
	– 9,961	**– 7,026**

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 2015/16	FY 2016/17
Trade receivables	11,986	11,339
Loans to and receivables from associates	125	1,034
Other loans	2,488	3,631
Other financial assets	71	55
Bonds and other financial assets (available for sale)	828	0
	15,498	**16,059**

The following financial assets are subject to offsetting:

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 2017			
Other financial assets	332,328	– 152,222	180,106
31 January 2016			
Other financial assets	0	0	0

The following financial liabilities are subject to offsetting:

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 2017			
Trade payables	3,299,615	– 26,083	3,273,532
Financial liabilities	0	0	0
31 January 2016			
Trade payables	3,071,493	– 24,113	3,047,380
Financial liabilities	870,203	– 135,407	734,796

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

EUR k	31 Jan. 2016 Nominal amount	31 Jan. 2016 Market value	31 Jan. 2017 Nominal amount	31 Jan. 2017 Market value
Assets				
Derivatives held for trading				
Foreign currency contracts	337,182	8,128	394,753	3,323
Interest rate transactions	0	0	0	0
Liabilities				
Derivatives held for trading				
Foreign currency contracts	114,359	398	212,910	1,172
Interest rate transactions	3,146	370	2,813	216

Financial risk management and derivative financial instruments

Objectives and principles of the financial risk management

Due to its multinational business activities, the PHOENIX group 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 the PHOENIX group. 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 is 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 the fiscal year 2016/17.

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 2017 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 2,673k (prior year: EUR 2,813k) 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 1,716k (prior year: EUR 1,274k) 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 2,046k (prior year: EUR 1,448k) and accumulated other comprehensive income would be EUR 5,719k (prior year: EUR 5,456k) 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 SEK depreciates (appreciates) by 10% against the EUR, accumulated other comprehensive income would be EUR 11,093k (prior year: EUR 11,208k) lower (higher). This effect resulted from an internally issued hybrid loan.

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 2017, 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: 100 basis points) would impact net debt subject to floating interest rates, leading to a negative impact of EUR 1,442k (prior year: EUR 1,151k) 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 255k (EUR 256k) 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 100 basis points would have resulted in a negative (positive) effect of EUR 347k (EUR 349k).

For the interest rate collar in the portfolio, a positive (negative) parallel shift of 50 basis points (prior year: 100 basis points) for the EUR interest rate curves would have a positive (also positive) effect of EUR 10k (EUR 21k) 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 127k (EUR 101k).

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 a rigorous 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 therefore has 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 in 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 2017.

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**	

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 2016 are presented in the following table:

EUR k	Cash flows 2016/17	Cash flows 2017/18	Cash flows 2018/19 – 2020/21	Cash flows 2021/22 – 2025/26	Cash flows > 2026/27
Liabilities to banks	121,729	4,266	10,553		
Bonds	20,278	20,222	360,778	310,862	
Loans	130,209	27	13		
Trade payables	3,046,137	1,243			
Liabilities to associates and related parties	425			49,009	
Liabilities and provisions for customer rebates and bonuses	35,766				
ABS and factoring liabilities	391,455				
Other financial liabilities	4,016		1,500	3,157	
Finance lease liabilities	2,409	2,113	6,340	1,395	
Financial guarantee contracts	70,651				
Derivative financial liabilities without hedge accounting					
Cash outflow	114,481	90	163	51	
Cash inflow	–113,944				
Total	**537**	**90**	**163**	**51**	

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

The PHOENIX group 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 2015/16	FY 2016/17
From hedged items	0	385
From hedging instruments	0	–385
Ineffective portion	0	0

There were no hedge relationships as of the reporting date.

Notes to the cash flow statement

Cash and cash equivalents amounted to EUR 487,861k at the end of the reporting period (prior year: EUR 367,881k) and comprised cash of EUR 487,848k (prior year: EUR 367,823k) as well as cash equivalents of EUR 13k (prior year: EUR 58k). Restricted cash at the end of the period amounts to EUR 16,058k (prior year: EUR 8,229k) 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 11,751k (prior year: EUR 11,812k) 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 made for acquisitions of consolidated entities and business units correspond to the purchase price of EUR 403,558k (prior year: EUR 53,629k) less any cash and cash equivalents acquired of EUR 74,986k (prior year: EUR 1,327k). Cash received from the sale of consolidated entities and business units correspond to the sale proceeds received of EUR 33,373k (prior year: EUR 27,052k) less cash and cash equivalents disposed of EUR 0k (prior year: EUR 16,102k).

Related party disclosures

General

In accordance with IAS 24, entities or persons, which are in control of or controlled by the PHOENIX group must be disclosed. Members of the Merckle family and entities controlled by them are considered as related parties. 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	2015/16	2016/17	2015/16	2016/17
Partners	**15**	**13**	**13,194**	**13,233**
from financing	0	0	0	0
from leases, other services	15	13	13,194	13,233
Associates	**36,681**	**38,962**	**10,334**	**9,862**
from financing	189	136	125	0
from leases, other services	123	89	9,083	8,535
from goods sold	36,369	38,737	1,126	1,327
Other related parties	**6**	**41**	**643**	**1,680**
from financing	0	0	26	105
from leases, other services	6	41	617	1,575
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	2016	2017	2016	2017
Partners	**128**	**25**	**63,805**	**63,837**
from financing	0	0	49,007	49,007
from leases, other services	128	25	14,798	14,830
Associates	**8,942**	**5,716**	**1,058**	**107**
from financing	5,213	3,095	0	0
from leases, other services	7	2	1,029	107
from goods sold	3,722	2,619	29	0
Other related parties	**16**	**52**	**1,114**	**167**
from financing	0	0	0	0
from leases, other services	16	52	1,114	167
from goods sold	0	0	0	0
Impairment losses	**–151**	**–775**	**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.

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.

Remuneration of the members of management board
The total expense for remuneration of the management board in the reporting period was EUR 5,869k (prior year: EUR 7,007k) and is classified as short-term employee benefits, of which EUR 409k relate to the prior year (prior year: EUR 785k).

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

Former members of management received remuneration (including severance payments and non-competition payments) of EUR 654k in the reporting year (prior year: EUR 1,402k). Pension provisions of EUR 27,676k (prior year: EUR 27,353k) were recognised.

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

Subsequent events
In March 2017, 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. At the same time, the PHOENIX group received a loan of the same amount.

Mannheim, 31 March 2017

Management of the unlimited partner
PHOENIX Verwaltungs GmbH

Oliver Windholz Helmut Fischer Frank Große-Natrop Stefan Herfeld

AUDIT OPINION

We have audited the consolidated financial statements prepared by PHOENIX Pharmahandel GmbH & Co KG, Mannheim, comprising the income statement, the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in equity and the notes to the financial statements, together with the group management report for the fiscal year from 1 February 2016 to 31 January 2017. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU as well as the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, complies with the legal requirements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Stuttgart, 31 March 2017

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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FINANCIAL CALENDAR 2017

Please consult our calendar for the most important announcement dates:

27 June	Quarterly report February to April 2017
27 September	Half-year report February to July 2017
21 December	Quarterly report February to October 2017

IMPRINT

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Ingo Schnaitmann
Head of Corporate Communications
Jacob-Nicolas Sprengel
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Concept, design and realisation
Corporate Communications PHOENIX group
HGB Hamburger Geschäftsberichte GmbH & Co. KG, Hamburg, Germany

Photographs
Marc Fippel (p. 33)
Erik Fuglseth (p. 5)
Thomas Gasparini (p. 3, 10/11, 12, 13, 15, 26/27)
Getty Images (Cover, p. 1, 2, 3, 4, 5, 6, 7, 16, 17, 18)
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PHOENIX group (Cover, p. 4, 17, 32, 35)
Sander van der Torren (p. 17)
László Víg (p. 32)

Printing
CHARTERHOUSE Print Management Ltd., Köln, Germany

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Translation of the German version.
The German version is binding.

PHOENIX group

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