Annual Report

2016

FAGRON

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Chairman's message

After more than a year of change, Fagron has navigated its way to calmer waters. There have been changes in many areas: our markets, where the most important development has been the changed reimbursement system for non-sterile compounding in the United States; our organization, where, with a new CEO and CFO, we are now ready for the next phase of the business; and our financing, for which we were able to find a long-term solution.

We managed to keep up with the changes and ensure that our business was able to adapt to the new reality, while achieving good operating results. We realized substantial cost reductions and the turnover of almost all activities showed positive development.

After Hans Stols, independent director at Fagron at that point, took office as CEO at the end of 2015, Karin de Jong was appointed CFO in May 2016, before joining the Board of Directors in October 2016 as executive member. There were also changes among the non-executive directors. In August, once Fagron had reached calmer waters, Nathalie van Woerkom and our very esteemed director from day one, Luc Vandewalle, announced they would be resigning. The remaining directors decided to co-opt Ms. Giulia Van Waeyenberge and Mr. Koen Hoffman as new non-executive directors of Fagron. In October Mr. Filip Balcaen and Ms. Freya Loncin stepped down and it was decided that Mr. Marc Janssens and Mr. Marc Coucke would be co-opted as non-executive directors. The definitive appointment of Ms. De Jong and Ms. Van Waeyenberge and Mr. Hoffman, Mr. Janssens and Mr. Coucke will be submitted to the General Meeting of Shareholders on May 8, 2017.

We are very grateful for the confidence that investors and financiers have put in the company. After reaching agreement with the banks at the end of 2015 on a waiver to get the finances back in order, we managed to get a number of important investors on board via a private placement during the first half of 2016. With the commitments from these investors, we then successfully realized a capital increase by means of a public capital increase with preferential subscription rights. The agreements with the banks were also renewed, and we are now operating well within those agreements.

Fagron is fully confident about the future and continuously focused on the development and distribution of innovative, profitable pharmaceutical products. The 2016 results and our strengthened financial position provide us with a strong foundation for the future.

I would like to thank everyone who contributed to the result in 2016 with their energy, devotion and expertise.

Robert Peek
Chairman of the Board of Directors

CEO's message

Fagron prepares medication for special groups, medication that can be tailored precisely to the needs of individual patients. As such, Fagron operates in a rapidly evolving world in which regulations play an important role. Our success is driven by our focus on the optimization and innovation of pharmaceutical compounding. This enables us to continue to satisfy the growing demand worldwide for tailor-made pharmaceutical care.

After a turbulent 2015, during which we saw a high degree of volatility in our markets, in 2016 we were once again able to look to the future. An important part of this involved getting our financing in order. Thanks to investments from a cornerstone investor and five individual investors, in combination with a public capital increase, Fagron put its balance sheet back in shape and is now well-positioned to continue its business operations for the long term.

In line with our expectations, Fagron's turnover for 2016 showed a slight decrease to 422 million euros, with REBITDA decreasing to 91 million euros. Despite this slight decrease, we see that almost all activities developed positively.

As mentioned, the change to the reimbursement system for non-sterile compounding in the United States had a negative impact on our business and by extension on the results. The Fagron Specialty Pharma Services (FSPS) activities, the sterile compounding in the United States, showed strong growth. We opened a new state-of-the-art facility in Wichita (Kansas, US) where the latest techniques can be used to produce sterile medication. Although we are still in the process of securing the last licenses, the facility has been operational since March 2017.

In Europe, we realized modest growth, in contrast to South America where we saw strong organic growth at constant exchange rates. In order to contend with the structurally changed market in the United States, which permanently reduced the profitability of our non-sterile activities, we announced a cost-saving program in 2015 which started to show concrete results over the past year. Thanks in part to this, we see that REBITDA increased by more than 10% in the second half of the year. The costs, which fell by 6% during this period, are now well in line with the forecast profitability.

Because of the permanently changed nature of the US reimbursement system, Freedom Pharmaceuticals in the United States had to be written down by just over 48 million euros at the end of 2016. The interest expenses will decrease significantly in 2017 as a result of the drastically reduced net financial debt. Because of the strong operational cash flow and capital increase achieved in 2016, we now have healthy financial ratios once again. We are operating well within the covenants agreed with the banks.

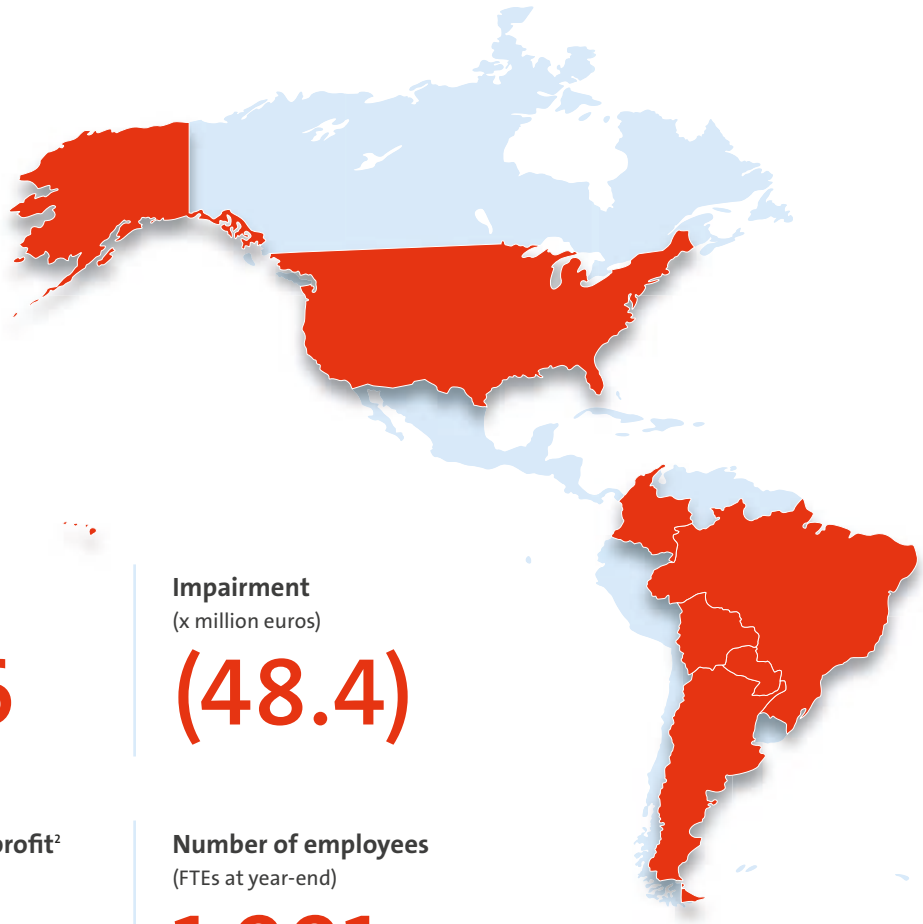
Fagron continues to develop well operationally. After a long period of changes to get our affairs in order, we can now turn our full focus back to the business. For 2017 as well, we are positive about the opportunities we see in the various markets in which we operate. With an organization equipped for it, we are setting our sights fully on the future.

Our employees have shown exceptional perseverance to realize this firm foundation. On behalf of the entire Board of Directors, I would like to thank all our colleagues for their dedication. I look forward to the performance we can achieve together in 2017 and to the value creation for all our stakeholders.

Hans Stols
Chief Executive Officer

Fagron at a glance

Fagron is a leading player in the growing market of pharmaceutical compounding and active in 32 countries in Europe, North America, South America, the Middle East, Africa, Asia and Australia. Fagron products are sold to more than 200,000 customers in over 60 countries. Fagron NV has been listed on Euronext Brussels and Euronext Amsterdam since 5 October 2007 and is included in the BEL Mid-index and the Amsterdam Smallcap Index (ticker: FAGR).



Turnover
(x million euros)

421.8

REBITDA[1]
(x million euros)

90.6

Impairment
(x million euros)

(48.4)

Net loss
(x million euros)

(18.1)

Recurrent net profit[2]
(x million euros)

29.6

Number of employees
(FTEs at year-end)

1,991

[1] EBITDA before non-recurrent result.

[2] Recurrent net profit is defined as the profit before non-recurring items and the revaluation of financial derivatives, corrected for taxes.

Fagron Essentials

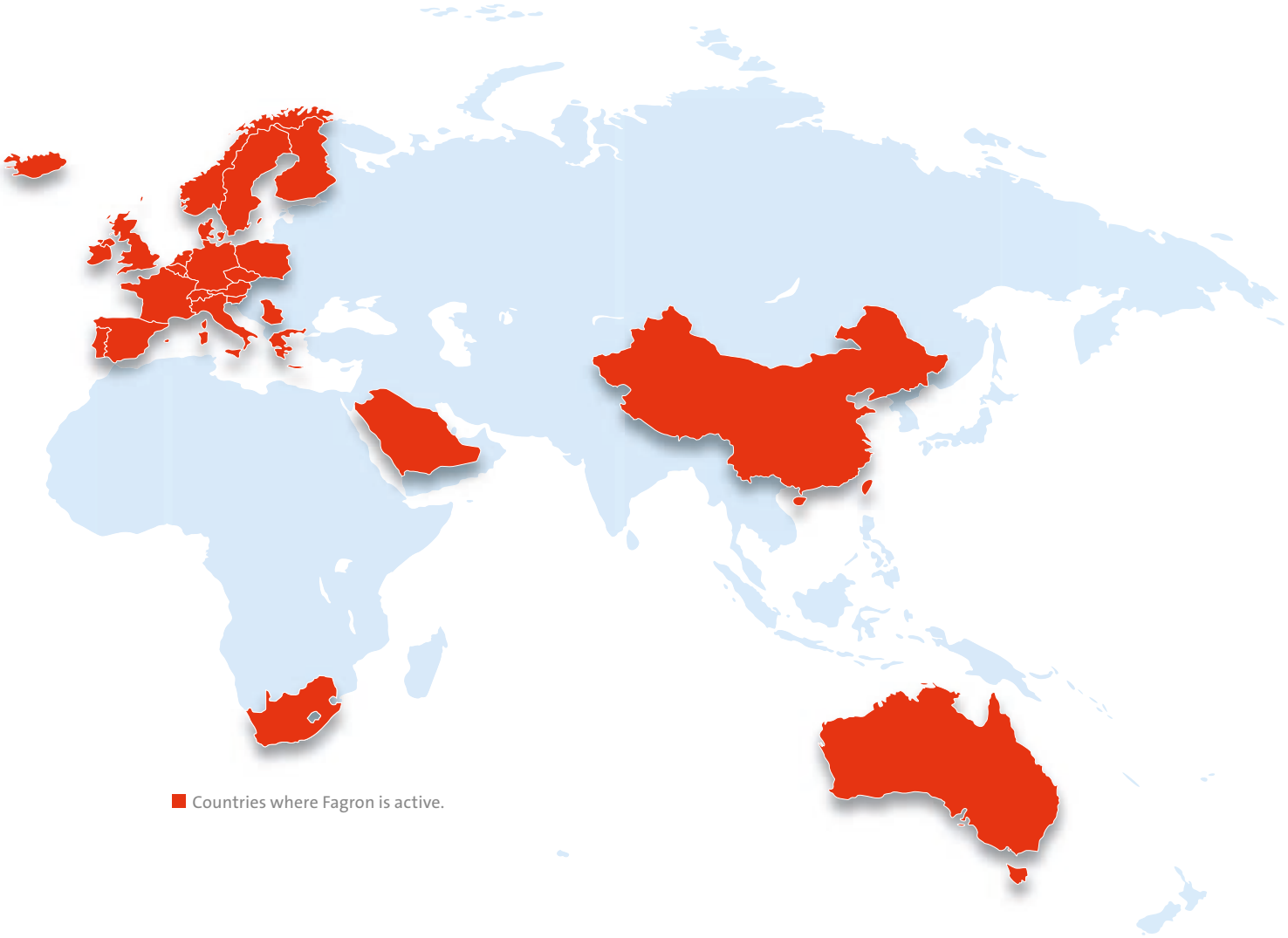
209,861,050 euros
Turnover

Fagron Specialty Pharma Services

150,557,769 euros
Turnover

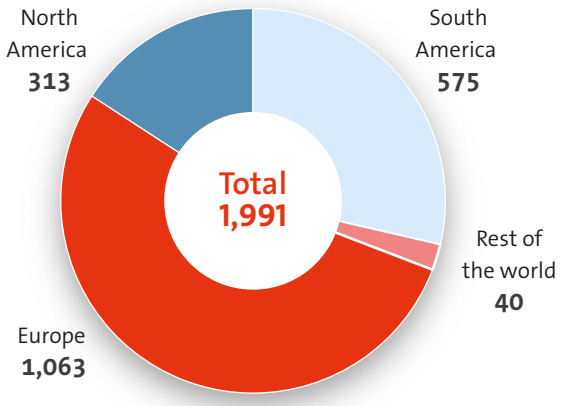
Fagron Trademarks

53,761,497 euros
Turnover



Countries where Fagron is active.

Number of FTEs (Year-end 2016)



Strategy

After more than a year of change, Fagron navigated its way to calmer waters during the second half of 2016. There have been changes in a number of areas: the markets, where the most important development has been the changed reimbursement system for non-sterile compounding in the United States; the organization, where, with a new CEO and CFO, Fagron is now ready for the next phase of the business; and the financing, for which a long-term solution was found. The successful conclusion of the capital increase has put Fagron in a position to once again focus fully on the business. For 2017, Fagron is positive about the opportunities in the various markets in which it operates.

Fagron's strategy is focused on the development and sale of innovative, high-quality products and concepts in the market for personalized medication. Fagron wants to consolidate its leading position in the pharmaceutical compounding market by realizing sustainable and profitable growth in its core markets of Europe, North America and South America. Fagron wants to achieve this by realizing organic growth.
In combination with selective acquisitions, the company's current strengths will be supplemented and expanded.

Fagron's business model

Fagron is a leading, globally-active pharmaceutical compounding company which focuses on providing tailor-made pharmaceutical care to hospitals, pharmacies, clinics and patients in 32 countries worldwide.

Fagron's three primary segments (Fagron Specialty Pharma Services, Fagron Trademarks and Fagron Essentials) each have a different position in the value chain of pharmaceutical compounding and together make the company a vertically integrated player that spans the whole of this value chain.

Fagron Specialty Pharma Services
Fagron Specialty Pharma Services (FSPS) prepares ready-to-use and ready-to-administer tailor-made medication that satisfies the specific needs of patients. FSPS offers compounding both for individual patients and on a large scale, before a prescription for a particular patient is received, for example, in order to supply hospital pharmacies with the most commonly prescribed individualized medications. FSPS has sterile and non-sterile compounding facilities in Europe, North America, Colombia and South Africa which supply pharmaceutical medication to public pharmacies and hospital pharmacies, as well as directly to patients in South Africa, Colombia and France.

Fagron Trademarks
Fagron Trademarks are innovative vehicles, formulations, compounding instructions and combinations that are developed for pharmaceutical compounding to satisfy the specific needs and preferences of patients, public pharmacies and hospital pharmacies, and prescribers. A vehicle, also called a base, contains no APIs and can either be mixed with APIs to create pharmaceutical medication or be prescribed directly to patients.

Fagron Essentials
Fagron Essentials are conditioned (repackaged) and distributed pharmaceutical raw materials, necessities and equipment that pharmacists worldwide need in order to prepare medication. Fagron Essentials are sold to public pharmacies and hospital pharmacies, as well as veterinary clinics and pharmaceutical companies; Fagron Essentials also supplies materials to FSPS for compounding.

Innovation

Although Fagron does not develop new medications, innovation is an essential part of Fagron's strategy of constantly developing new formulations using existing APIs and new vehicles.

Fagron employs more than 200 pharmacists who work to continually develop innovative concepts and solutions to meet the growing need for tailor-made medication worldwide. Fagron's innovation strategy is focused on working with patients, prescribers and pharmacists to figure out what adjustments there is a demand for and where there are still gaps in terms of solutions on the market.

The Fagron innovation team will then develop and produce the product. This is followed by stringent testing and, finally, introduction. Although most of the innovation resources are earmarked for Fagron Trademarks, some are used for both FSPS and Fagron Trademarks in order to build product dossiers, validate compounds and perform the final analyses that are required before pharmaceutical medication (FSPS) or vehicles (Fagron Trademarks) can be released.

What is pharmaceutical compounding?

Pharmaceutical compounding involves the creation of unlicensed (unregistered or not patent-protected) pharmaceutical preparations by or at the request of public pharmacies or hospital pharmacies or other healthcare institutions, with the aim of producing a tailor-made or personalized medication (which is not commercially available) based on a prescription from a doctor. Although a compounded product is a personalized medication, pharmaceutical compounders like Fagron can prepare medications on a large scale even before receiving a prescription for a particular patient, for example, in order to stock hospital pharmacies with the most commonly prescribed personalized medicines. Even in these kinds of instances of anticipatory pharmaceutical compounding, the batch is generally too small to make this kind of compounding for the traditional pharmaceutical companies (including manufacturers of generic medications) a lucrative market.

Compounded products can be either non-sterile (creams, ointments, capsules or suspensions, for instance) or sterile (syringes for injection, IV bags, elastomeric pumps or cassettes, for instance). The products can also be either high risk or no risk for the professional employees who prepare and administer the medication. Some examples of high-risk medication are cytostatic and nuclear (radioactive) medication. Compounded products can be made from either branded pharmaceutical materials or APIs or generic pharmaceutical materials or APIs.

Why personalized medication?

There are various reasons why patients might need compounded, personalized medication, including:

- *Dose adjustment.* Children and the elderly require a smaller dose of most medicines than the average adult. Smaller doses are often not generally available and must therefore be specially prepared. Oncology patients also receive a personalized dose based on their height and weight in order to provide the optimal balance between toxicity and effectiveness.
- *Need for a different administration form.* A large share of the population has difficulty swallowing tablets and capsules, including children under six, oncology patients and hospitalized patients receiving tube feeding.
- *The medication is simply not available or no longer available on the market.* This occurs when there are too few patients to make registering a medication or continuing to produce it commercially interesting for large pharmaceutical companies.
- *Instability.* The medication is chemically and/or physically unstable in its ultimate form.
- *Home care.* Compounded products can help terminally ill patients or patients with an infection who must be treated intravenously at home (instead of in the hospital) for a longer period of time. 'Hospital in the Home' is an example of clinical care focused on reducing or entirely preventing the need for hospital admission. There are a number of clinical disorders that can be treated effectively and safely without hospital visits or admission. This not only improves the patient's quality of life, but also lowers healthcare costs in general.
- *Personalized and fewer side effects.* The one-size-fits-all character of many mass-produced medications means that some patients' needs are not met. Pharmaceutical compounding allows pharmacists to work together with the patient and prescriber to create a medication that satisfies the specific needs of the patient and takes into account allergies and other intolerances. These patients also often encounter fewer side effects with personalized compounded products than with generic medication.
- *New or unavailable treatment is needed.* If the patient does not respond to the treatment that is available, but there is a medication available in a different territorial jurisdiction or a medication is described in the literature, in many cases a pharmacist can prepare this medication for the patient.

Mortar and pestle, used by pharmacists for pharmaceutical compounding.

Key figures

Results (x 1,000 euros)	2016	2015[1] revised	2015	2014[2]	2013[3] revised	2013	2012[4] revised	2012
Turnover	421,839	427,560	472,996	447,056	342,711	386,119	337,500	547,020
REBITDA[5]	90,597	98,733	106,546	118,450	79,094	97,950	75,837	87,405
EBITDA	87,364	92,294	98,845	113,361	75,231	88,043	67,454	75,305
Impairment	(48,364)	(47,338)	(225,564)					
EBIT	17,881	28,845	(150,338)	94,336	66,318	73,909	53,788	58,064
Net profit (loss)	(18,112)	(24,948)	(202,283)	43,190	41,824	43,783	50,886	43,821
Recurrent net profit[6]	29,603	44,249	44,249	46,688	44,330	45,818	54,123	49,356
Gross margin	62.9%	63.1%	65.4%	64.5%	56.8%	59.7%	56.0%	49.6%
REBITDA margin	21.5%	23.1%	22.5%	26.5%	23.1%	25.4%	22.5%	16.0%
EBITDA margin	20.7%	21.6%	20.9%	25.4%	22.0%	22.8%	20.0%	13.8%

Balance sheet (x 1,000 euros)	2016	2015	2014	2013	2012[7] revised	2012
Total assets	868,053	689,381	973,752	804,693	748,894	748,894
Equity	152,875	(64,772)	156,948	155,168	245,186	245,384
Operational working capital[8]	39,770	38,298	44,078	32,977	51,315	51,315
Net operational capex[9]	14,777	22,052	12,492	15,800	19,480	19,480
Net financial debt[10]	285,408	523,846	448,663	289,181	233,117	233,117
Net financial debt / annualized REBITDA	3.18	-	3.18	2.61	2.64	2.64
Average number of shares	53,956,847	31,303,765	30,758,685	30,646,532	30,519,821	30,519,821

1 2015 results are on the basis of continuing operations. The consolidated income statement has been revised for application of IFRS 5.

2 2014 results are on the basis of continuing operations.

3 2013 results are on the basis of continuing operations. The consolidated income statement has been revised for application of IFRS 5.

4 2012 results are on the basis of continuing operations. The consolidated income statement has been revised for application of IFRS 5 and IAS 19 Revised.

5 In 2014, 2015 and 2016, REBITDA refers to EBITDA after corporate costs and before non-recurrent result. In 2012 and 2013, REBITDA refers to EBITDA before corporate costs and non-recurrent result from continuing operations.

6 Recurrent net profit is defined as net profit before non-recurring items and the revaluation of financial derivatives, corrected for taxes.

7 The opening balance sheet and closing balance sheet for 2012 have been revised for the application of IAS 19 Revised.

8 Operational working capital is the sum of stock and trade receivables, less trade payables.

9 Net operational capex is defined as intangible assets and property, plant and equipment that have been acquired or produced (excluding acquisitions), less assets sold.

10 Net financial debt is the sum of non-current and current financial liabilities, less cash and cash equivalents (excluding financial instruments).

Cash flow statement (x 1,000 euros)	2016	2015[11] revised	2015	2014	2013	2012
Cash flow from operating activities	67,504	73,311	73,311	101,696	63,078	67,744
Cash flow from investing activities	(22,932)	(46,276)	(46,276)	(193,785)	(63,533)	(84,868)
Cash flow from financing activities	171,438	(61,460)	(61,460)	64,990	66,525	23,827
Net cash flow for the period	216,010	(34,426)	(34,426)	(27,099)	66,069	6,702

Data per share (euros)	2016	2015[12] revised	2015	2014	2013	2012
Net profit[13]	(0.38)	(6.46)	(6.47)	1.41	1.36	1.67
Recurrent net profit	0.55	1.41	1.41	1.52	1.45	1.77
Dividend	-	-	-	1.00	0.72	0.60
Closing price (year-end)	9.71	7.06	7.06	34.72	27.64	15.50
Market capitalization[14]	697,819,840	226,709,499	226,709,499	1,091,296,819	866,745,015	484,816,967

Personnel	2016	2015[15] revised	2015	2014	2013	2012
FTEs as at December 31[16]	1,991	2,017	2,184	2,143	1,600	1,698

[11] The 2015 cash flows have been revised for application of IFRS 5.
[12] The 2015 data per share have been revised for application of IFRS 5.
[13] Net profit is on the basis of continuing operations.
[14] Market capitalization is calculated by multiplying the number of shares outstanding at year-end by the closing price of the share on December 31.
[15] The 2015 FTEs have been revised for application of IFRS 5.
[16] FTEs are on the basis of continuing operations.

Fagron Group

Fagron Group

- Turnover decreased by 1.3% (0.0% at constant exchange rates) to 421.8 million euros
- Organic turnover growth of -3.4% (-2.2% at constant exchange rates)
- REBITDA[1] decreased by 8.2% to 90.6 million euros; REBITDA margin of 21.5%

(x 1,000 euros)	2016	2015	Change
Turnover	421,839	427,560	(1.3%)
REBITDA[1]	90,597	98,773	(8.2%)
REBITDA margin	21.5%	23.1%	(1.6%)

Fagron's turnover decreased by 1.3% in 2016 (0.0% at constant exchange rates), to 421.8 million euros. Organic development in turnover was -3.4% (-2.2% at constant exchange rates). REBITDA decreased by 8.2% to 90.6 million euros. REBITDA as a percentage of turnover decreased to 21.5%.

Fagron's turnover developed positively in 2016 on all continents where Fagron is active, except in the United States. The changed reimbursement system for non-sterile compounding in the United States has resulted in a declining market for pharmaceutical raw materials (Fagron Essentials) and the market for verhicles developed by Fagron (Fagron Trademarks), whereby competition among the various providers has increased. This has a negative impact on the turnover and profitability of both activities in the United States. As a consequence of this, Fagron had to recognize an impairment of 48.4 million euros on Freedom Pharmaceuticals as of the end of December 2016. The Fagron Specialty Pharma Services (FSPS) activities of Fagron in the United States saw strong growth in 2016.

[1] EBITDA before non-recurrent result.

Compounding facility for sterile and non-sterile medication in Johannesburg (South Africa).

Financing – capital increase

The change to the reimbursement system for non-sterile compounding in the United States had a major impact on Fagron's results and as such on the company's financing as well. Once the precise impact on REBITDA, and by extension on the net financial debt / REBITDA ratio, became clear, Fagron started talks with its financing banks about a waiver and a possible public or private capital increase.
The constructive discussions with the financing banks resulted in a waiver in relation to the covenants until the end of March 2016. At the end of March 2016 this waiver was extended to the end of June 2016.
At the beginning of March 2016, Fagron announced that it had successfully concluded the negotiations with a cornerstone investor and five individual investors concerning a private capital

increase in combination with a public capital increase of in total 220 million euros.

After approval from the Extraordinary General Meeting of Shareholders, the first tranche of the capital increase (capital increase with cancellation of the preferential subscription rights of the existing shareholders) of approximately 131 million euros was concluded on May 20, 2016. In the first tranche of the capital increase, 22,626,387 new shares were placed with WPEF VI Holdco III BE B.V., Alychlo NV, Carmignac Gestion S.A., Carmignac Portfolio SICAV, Midlin NV, Bart Versluys and Johannes Stols at a subscription price of 5.7916 euros per share.

Fagron concluded the second tranche of the capital increase (the capital increase with preferential subscription rights for the existing shareholders) of approximately 88.3 million euros on July 7, 2016. In the second tranche of the capital increase, 17,105,690 new shares were placed at an issue price of 5.16 euros.

As agreed in the Long Term Waivers, Fagron can use the proceeds of the capital increase exclusively for the repayment, on their stated maturity date, of (i) the 45.0 million US dollars 4.15% Series A Notes that mature on April 15, 2017, (ii) the 22.5 million euros 3.55% Series B Notes that mature on April 15, 2017 and (iii) the 225.0 million Eurobonds that mature on July 2, 2017.

Financing – Long Term Waivers

On May 5, 2016, Fagron received Long Term Waivers under the Revolving Credit Facility and the Note Purchase Agreement. In the Long Term Waivers, the financiers waived the levels of the financial covenants stipulated in the Revolving Credit Facility and Note Purchase Agreement until June 30, 2018. The financial covenants were adjusted to give Fagron extra latitude with respect to the original levels of the financial covenants. The extra latitude in the financial covenants will decrease with every six-month test period, starting with the first test period ending on December 31, 2016 until the test period ending on June 30, 2018.

In each test period ending after June 30, 2018, the levels of the two financial covenants will return to the levels stipulated in the Revolving Credit Facility and Note Purchase Agreement.

Test period	Net financial debt / REBITDA	Financial covenants REBITDA / net interest expenses
December 31, 2016	Max. 5.02x	Min. 1.81x
June 30, 2017	Max. 4.60x	Min. 1.98x
December 31, 2017	Max. 4.09x	Min. 2.32x
June 30, 2018	Max. 3.60x	Min. 2.80x
After June 30, 2018	Max. 3.25x	Min. 4.00x

As a result of the two tranches of the capital increase with net proceeds of 216.1 million euros and the strong operational cash flow of 76.8 million euros, Fagron's net financial debt decreased to 285.4 million euros. The net financial debt / REBITDA ratio on December 31, 2016 was well below the level of 5.02 as agreed with the financiers. The REBITDA / net interest expenses ratio on December 31, 2016 was also above the minimum agreed on with the financiers.

Fagron Academy

An integral part of Fagron's marketing strategy is to provide information to prescribers and pharmacists about pharmaceutical compounding via Fagron Academies in the countries in which it operates. Fagron Academy organizes courses and training programs to increase and improve prescribers' and pharmacists' knowledge and skills in relation to compounding. Fagron believes that it offers the most extensive training and educational opportunities for, among other things, compounding techniques, the use of materials, administration formulations and quality and safety procedures.

Fagron Compounding Matters

Fagron Compounding Matters is a worldwide initiative that provides pharmacists and prescribers with a broad range of specific formulations linked to the indications for which they can be prescribed. Fagron Compounding Matters is a science-based selection of formulations for tailor-made medication to meet the needs of individual patients. Prescribers can search this free database for formulations and print out the tailor-made recipes.
For pharmacists, Compounding Matters provides tailor-made formulations in addition to the required compounding methods and protocols.


SYRSPEND® SF PH4

Fagron Specialty Pharma Services

Fagron Specialty Pharma Services

- Turnover increased by 5.7% (6.0% at constant exchange rates) to 150.6 million euros
- Organic turnover growth of 1.5% (1.8% at constant exchange rates)
- REBITDA[2] decreased by 4.5% to 31.8 million euros; REBITDA margin of 21.1%

(x 1,000 euros)	2016	2015	Change
Turnover	150,558	142,458	5.7%
REBITDA[2]	31,790	33,297	(4.5%)
REBITDA margin	21.1%	23.4%	(2.3%)

The turnover of Fagron Specialty Pharma Services ('FSPS') increased by 5.7% in 2016 (+6.0% at constant exchange rates), to 150.6 million euros. The organic turnover growth is 1.5% (+1.8% at constant exchange rates). REBITDA decreased in 2016 by 4.5% to 31.8 million euros, or 21.1% of turnover.

The existing FSPS activities in the United States showed strong growth in 2016. The turnover of the new FDA 503B compounding facility in Wichita (Kansas, United States) was still limited in 2016, as expected. The new facility is currently licensed in 43 states, including the key states of Florida and Texas. The new facility has been operational since March 2017 and supplies sterile products to hospitals and clinics in the United States.

[2] EBITDA before non-recurrent result.

In the second quarter of 2016, Fagron decided to divest a small compounding pharmacy in Marseilles (France). The disposal had a negative impact of 3 million euros on the turnover of Fagron's activities in Europe in 2016. Corrected for the loss of turnover from this compounding pharmacy in Marseilles, Fagron's FSPS activities in Europe realised modest turnover growth in 2016.

Fagron Specialty Pharma Services

FSPS offers a complete range of ready-to-use sterile and non-sterile medications. FSPS prepares tailor-made medication to meet the specific requirements of the patient. FSPS compounding takes place both on individual patient basis and on a larger scale. The sterile and non-sterile FSPS locations in Europe, the United States, Colombia and South Africa supply compounded medication to

Fagron Specialty Pharma Services offers a full range of ready-to-use sterile and non-sterile medication.

pharmacies and hospitals. FSPS not only offers hospitals and public pharmacies a cost-effective solution, but also limits the risk for these customers, while increasing the total quality of the care for patients.

Non-sterile compounds

Non-sterile pharmaceutical compounds include tablets, capsules, liquids, suppositories, creams/ointments and suspensions. These options are usually prepared using APIs in powder form. These APIs are incorporated in vehicles in order to facilitate alternative mechanisms of medication release. In other instances, existing commercial medications may be incorporated in ointments, creams or suspensions. For example, tablets may be ground up and mixed into an ointment base.

Many patients are unable to use the commercially available administration formulations of existing medications, either because of problems with swallowing or the inability to undergo oral treatment because of side effects. An alternative form of dosage, such as a topical form of dosage, can reduce side effects and the potential for addiction and deliver the medication directly to the spot of the condition, for example, when treating pain.

FSPS produces non-sterile pharmaceutical medication for, among other uses, local pain management, various dermatological conditions, nutritional supplements for problems with mental health or mood disorders, diabetic neuropathy, chronic pain/ neuropathy, chronic migraine, hormone replacement therapy and local wound treatment. As more information becomes available on the chronic use of opioids, local pain management offers an alternative to traditional oral medication which entails significant side effects and a high potential for addiction. Combinations of prescription nutritional supplements contain ingredients that have been demonstrated to reduce the effects of depression, mood disorders, diabetic peripheral neuropathy, chronic pain and chronic migraine. Many conditions are varied in nature and compounding affords the possibility of using combinations of medications to treat patients and of reducing the number of pills they need to take, which can result in better compliance and improved results.

Sterile compounds

Sterile compounds are usually medications that are injected or infused and which entail a higher risk of infection and other negative side effects. Sterility is the absence of viable microorganisms and sterilization is the active, validated process for killing microorganisms. It is the most crucial step in the preparation of sterile products.

Examples of sterile pharmaceutical compounds from FSPS include injections packaged in syringes, vials, ampules and IV bags, and include products such as TPN, cytostatics, medications used during surgery, epidural injections, opthalmologic injections, dialysis products, pain pump syringes and cassettes. Sterile products also include eye drops used in advance of cataract surgery, topical solutions used to alleviate pain before injections

Sterile medication used for medical imaging.

Ready to administer syringes used in the operating theater.

are administered or stitches performed on children, and urological irrigations for treating bladder cancer.

It is becoming increasingly difficult for hospitals worldwide to satisfy the ever more stringent legislation and regulations and more demanding quality requirements for the production of sterile medications. General awareness of quality in the preparation of medications has also increased significantly over the past few years. In the quest for better quality and efficiency, hospitals are increasingly opting to outsource their sterile compounding to Fagron Specialty Pharma Services.

JCB Laboratories

JCB Laboratories is an FDA-registered 503B compounding facility located in Wichita (Kansas, United States). JCB Laboratories is spread across two locations which are approximately 20 kilometers from each other. The first facility has been in use since 2012. The second was built in 2015/2016 and supplied the first products to its customers in March 2017.

JCB Laboratories is specialized in sterile medications which are not commercially available because they were pulled from the market for economic reasons or were never registered. The portfolio of JCB Laboratories covers both the aseptic admixture of sterile medication and the high-risk sterile compounding of medications. JCB Laboratories supplies its products to surgical outpatient clinics, hospitals, primary care practices and dialysis centers and is specialized in opthalmologic medication, pain medication, medication used for (hemo) dialysis and medication shortages.

JCB Laboratories traditionally focuses on sterile medication for outpatient centers, dialysis clinics and hospitals. Because JCB Laboratories is one of the few compounding facilities that can make sterile medication from non-sterile raw materials, this provided a head start on the competition.

JCB Laboratories has made use of the opportunities offered within the Drug Quality and Security Act (DQSA) and the current medication shortages.

In the new 5,000 m² facility with 1,200 m² of clean rooms, JCB Laboratories has access to automated sterile filling systems which are ahead of the competition. This will not only significantly boost production, but also minimize the risk of microbiological contamination. The new facility also has its own microbiological and chemical validation and quality control at its disposal.

The automated filling system enables JCB Laboratories to do the following:

- Fully automated washing of vials, removal of endogens, filling and sealing of vials, at a rate of 720 vials per hour.
- Fully automated filling of sterile syringes with a capacity of 900 syringes per hour.
- Fully automated filling of dropper bottles with a capacity of 2,400 dropper bottles per hour.

Becacizumab intravitreal (eye) injections.


NOURIVAN™ ANTIOX
ANTIOXIDANT O/W CREAM BASE - 500 g

Fagron Trademarks

Fagron Trademarks

- Turnover increased by 6.8% (9.2% at constant exchange rates) to 53.8 million euros
- REBITDA[3] increased by 10.6% to 17.3 million euros; REBITDA margin of 32.2%

(x 1,000 euros)	2016	2015	Change
Turnover	53,761	50,343	6.8%
REBITDA[3]	17,302	15,639	10.6%
REBITDA margin	32.2%	31.1%	1.1%

The turnover of Fagron Trademarks increased by 6.8% in 2016 (+9.2% at constant exchange rates), to 53.8 million euros. REBITDA increased in 2016 by 10.6% to 17.3 million euros, or 32.2% of turnover.

Fagron Trademarks saw a strong organic growth in Brazil. In Europe, Fagron Trademarks also realised a healthy organic growth. As a result of the changed reimbursement system for non-sterile compounding, the market for Fagron Trademarks has declined in the United States during the reporting period. The increased competition among the various suppliers in the United States and the decision to integrate and centralise the activities of Freedom Pharmaceuticals at Fagron in Minneapolis have also contributed to this. The process of integrating Freedom Pharmaceuticals and Fagron Inc. was successfully concluded in the fourth quarter of 2016.

Fagron Trademarks

Innovation is the driving force behind the steady growth of Fagron Trademarks. In close cooperation with pharmacists, physicians and universities, locally and regionally, new and innovative vehicles and concepts are developed to satisfy the growing need for individualized patient care.

A vehicle, also called a base, contains no APIs and can either be mixed with APIs to create pharmaceutical medication or be prescribed directly to patients. Fagron Trademarks develops innovative vehicles for administering medication, including emulsions, powder mixtures, creams, ointments, and transdermal bases (for administering medication via the skin) and ready-to-use kits.
The creams can also be prescribed to patients directly as skincare products. Although not required to do so by law, Fagron Trademarks produces its

[3] EBITDA before non-recurrent result.

Nourivan™ Antiox is a gentle antioxidant enriched vanishing cream base.

Fagron Advanced Derma products.

vehicles in GMP-compliant facilities in order to guarantee high quality and distinguish itself from the competition.

In addition to supplying vehicles, Fagron Trademarks also provides customers with added value in the form of formulations and compounding protocols. Compounding protocols contain instructions that enable the pharmacist to prepare the medication correctly. Fagron also has independent GMP and ISO-certified laboratories, that are audited by the Group, perform stability and compatibility testing. Stability tests inform pharmacists how long the vehicle and API will remain stable after compounding and the compatibility tests inform pharmacists which APIs are compatible with the vehicle. Without having to perform their own research and testing, pharmacists know precisely which APIs can be combined with vehicles from Fagron Trademarks in order to supply physically and chemically stable tailor-made medication that a patient or patient group needs. The formulations and compounding protocols provided also simplify the pharmacist's work since he/she can follow the instructions for the correct compounding process instead of following steps for a compound based on personal experience alone. By providing formulations, compounding protocols and instructions and stability and compatibility studies along with the vehicle, Fagron Trademarks has simplified and streamlined the compounding process so that pharmacists and compounders have everything they need, including the knowledge of which materials can be used and how the ingredients must be combined in order to create pharmaceutical medication. Fagron Trademarks has created kits for the most commonly used compounds based on its vehicles. These kits consist of the vehicle, pre-weighed APIs and all the materials necessary to prepare and administer the compounded formulation.

In addition to the successful global Fagron Trademarks, such as SyrSpend® SF, Fagron Advanced Derma, the Alopecia concept, Pentravan® and the CapsiCards® System, a start was made in 2016 on the roll-out of Pigmerise™ and Fagron's first two medical devices: Nourisil™ MD and MediSpend™.

Solydra™ is a natural oil base with exceptional hydration.

SyrSpend® SF Kits.

Fagron Advanced Derma

Fagron Advanced Derma (FAD) is a complete range of vehicles for treating various skin diseases and conditions. FAD contains a formulary for basic skincare and for the treatment of various skin conditions and disorders.

In order to assure continuous skincare throughout both the exacerbation phase and maintenance phase, most conditions require extreme flexibility when active pharmaceutical and dermaceutical ingredients are prescribed.

The formulary supports advanced custom dermatological care for every patient on three levels:

- Indication-specific recommendations for the suitable active pharmaceutical and dermaceutical ingredients.
- Vehicle-specific recommendations and ready-to-use formulations for compounds.
- Basic skincare recommendations for selecting the suitable vehicle for every patient, based on skin type.

The FAD product line is made up of exceptionally skin-friendly and compatible vehicles. Combined with compounding instructions and stability studies, these provide prescribers and pharmacists with a tailor-made solution that is entirely geared to the patient's indication and skin type. The choice of vehicle is extremely important in dermatology; it is 60-70% responsible for the effectiveness of the product.

Opinions on the safety and tolerability of vehicle ingredients have changed drastically as a result of advanced scientific research. In order to prevent skin irritation, long-term side effects and allergies, the FAD vehicles contain no harmful, obsolete or controversial ingredients. The extremely careful selection of ingredients and the use of emulsifying agents and preservatives which have been demonstrated to be tolerable for vulnerable and sensitive skin has resulted in vehicles that can be safely used by all patients, including children and the elderly.

Fagron believes that Fagron Advanced Derma is the worldwide standard for advanced individual dermatological care because it provides solutions that are based on the latest scientific knowledge in the field of dermatology.

SyrSpend® SF

Commercially available medication and dosage forms often do not satisfy patients' needs. Children and elderly patients often have difficulty swallowing medications and may require divergent doses depending on their body weight, immature or impaired metabolism and an increased risk of side effects.

In some cases, adjusted doses and careful selection of vehicles and aids are required for the treatment of vulnerable patient groups such as children, the elderly, patients with neurological problems and patients who are resistant to certain medications. In these cases, a liquid oral dosage form simplifies the administering of medication, allows individual and flexible dosing and prevents metabolic complications and side effects. Compounds, such as suspensions, are therefore essential for patient-specific solutions.

SyrSpend® SF is a series of innovative vehicles developed by Fagron for compounding a liquid formulation for oral administration. SyrSpend® SF uses an innovative, patented "active suspension technology" that guarantees accuracy and consistency during dosing. SyrSpend® SF also

SyrSpend® SF: the superior choice for pediatric suspension

When developing pediatric medication, consideration must be given to the taste and problems with swallowing, accurate dosing, an immature or weakened metabolism and increased chance of side effects. The age, development and pathology of the child must also be taken into account. SyrSpend® SF provides a unique solution for compounding oral liquid medication in pediatric care.

contains only ingredients designated by the WHO, EMEA and FDA as safe for use in children and newborns. SyrSpend® SF has a pleasant taste and is easy to administer. The SyrSpend® SF vehicles reduce medication errors in prescribing, compounding and administering. All vehicles are produced in accordance with GMP on the basis of pharmaceutically analyzed ingredients, thus guaranteeing the highest quality.

SyrSpend® SF is compatible with a wide range of Active Pharmaceutical Ingredients (APIs). In 2014 Fagron started investigating the compatibility of SyrSpend® SF with more than 100 of the most commonly used APIs. This research is carried out by a number of independent laboratories appointed by Fagron. The research results are continually being published in various independent, international, peer-reviewed pharmaceutical journals. All the combinations that have been scientifically studied for chemical, physical and microbiological stability are available for pharmacists and prescribers via the SyrSpend® SF compatibility table and the Fagron Compounding Matters database with formulations.

There is growing demand for SyrSpend® SF among hospitals, public pharmacies and the pharmaceutical industry. A number of large pharmaceutical companies have validated and approved SyrSpend® SF for worldwide use in clinical studies with both adults and children. The first clinical studies using SyrSpend® SF started in 2016.

Following on the success of Omeprazole in SyrSpend® SF Alka Kit, in 2016 Fagron again introduced various user-friendly and ready-made kits for the most commonly prescribed medicines. The kits contain the SyrSpend® SF vehicle, the correct quantity of the particular medicine and all the other materials required to produce and administer the suspension. As such the kit offers maximum preparation efficiency and patient safety.

Fagron's medical devices

Traditionally, Fagron develops innovative concepts and solutions as a response to demand from the compounding market. With the introduction of high-quality medical devices, Fagron directly satisfies the patient's wishes. Fagron launched two medical devices in 2016: Nourisil™ MD and MediSpend™.

Nourisil™ MD is an ultra-light, transparent, self-drying silicone gel developed for the treatment and prevention of new and old scars caused by surgery, wounds or burns. Nourisil™ MD contains a unique blend of silicones and vitamin E that keeps skin hydration in balance and reduces scarring.

MediSpend™ is a universal viscous (thick) liquid which facilitates the administering of tablets, capsules and other solid medication for people who have difficulty swallowing pills. Scientific studies have demonstrated the compatibility of a great many different medications with MediSpend™. MediSpend™ is composed of exclusively safe and easily tolerated ingredients.

In addition to SyrSpend®, Fagron Advanced Derma, CapsiCards®, Pentravan®, and Fagron's medical devices, Fagron has a pipeline of innovations which will be brought to market in the coming years.

The newly introduced medical device Nourisil™ MD is a silicone gel used for the prevention and management of new and old keloids and hypertrophic scars.


SOLYDRA™
NATURAL OIL BASE - 250 ml

Fagron Essentials

Fagron Essentials

- Turnover decreased by 6.8% (-5.2% at constant exchange rates) to 209.9 million euros
- Organic development in turnover of -8.2% (-6.5% at constant exchange rates)
- REBITDA[4] decreased by 15.6% to 41.0 million euros; REBITDA margin of 19.6%

(x 1,000 euros)	2016	2015	Change
Turnover	209,861	225,212	(6.8%)
REBITDA[4]	41,030	48,604	(15.6%)
REBITDA margin	19.6%	21.6%	(2.0%)

The turnover of Fagron Essentials decreased in 2016 by 6.8% (-5.2% at constant exchange rates) to 209.9 million euros. Organic development in turnover was -8.2% (-6.5% at constant exchange rates). REBITDA decreased in 2016 by 15.6% to 41.0 million euros, or 19.6% of turnover.

Fagron Essentials saw a strong organic growth in Brazil. In Europe, Fagron Essentials realised a modest organic growth in 2016. The changed reimbursement system for non-sterile compounding in the United States resulted in a decrease in the sale of pharmaceutical raw materials in 2016. The shrinking market for

[4] EBITDA before non-recurrent result.

pharmaceutical raw materials has also resulted in an increase in (price) competition among the various suppliers in the United States.
The project started up in the second quarter of 2016 to integrate the activities of Freedom Pharmaceuticals and Fagron Inc. and centralize these in Minneapolis was successfully concluded in the fourth quarter of 2016.

Fagron Essentials

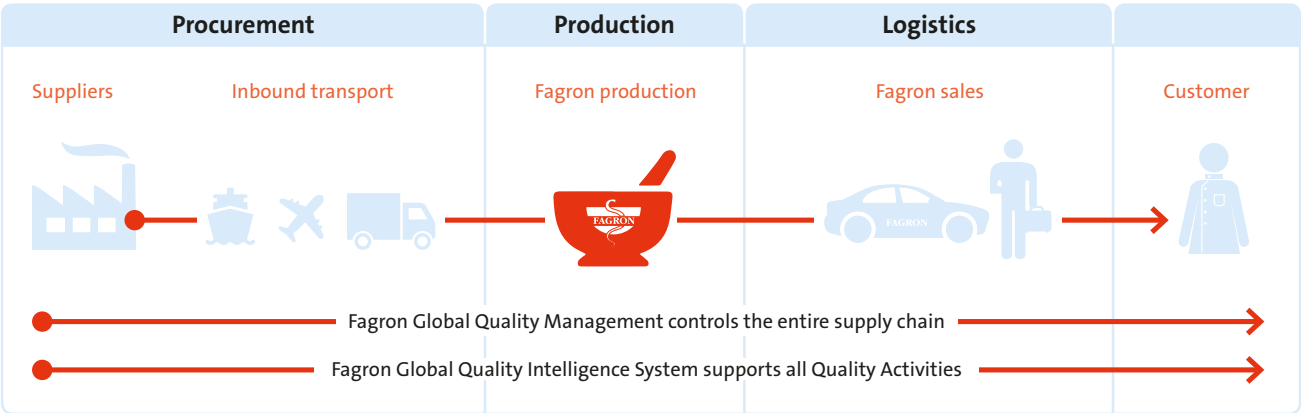
Fagron Essentials conditions (repackages) and distributes pharmaceutical raw materials, necessities and equipment that pharmacists worldwide need in order to compound medication. Fagron Essentials sells to public pharmacies and hospital pharmacies, as well as veterinary clinics and pharmaceutical companies; Fagron Essentials also supplies materials to FSPS for compounding.

Fagron Essentials' product range includes more than 2,500 raw materials, such as amino acids, antibiotics, corticosteroids, hormones, opiates, vitamins, alcohol and ancillary substances, which are bought in bulk from selected and qualified suppliers who must satisfy strict quality standards. All the raw materials purchased must go through acceptance and quality control in accordance with the most recent guidelines, or pharmacopoeia, and are delivered with certificates of analysis. The raw materials are then repackaged in the Group's GMP-compliant clean-room facilities into approximately 6,500 different packaging forms which are sold to public pharmacies and hospital pharmacies under the Fagron brand.

On every continent where Fagron operates, specifically in China (Shanghai), Brazil (São Paulo), the US (Minneapolis) and the Netherlands (Rotterdam), Fagron Essentials has an office for central purchasing, quality control, random sampling and audits to consolidate the purchasing of pharmaceutical raw materials worldwide and carry out on-site GMP audits of suppliers. Fagron keeps a full view on the supply chain of more than 2,500 pharmaceutical raw materials, which results in 100% traceability. Since approximately 70% of the purchase value of raw materials is produced in Asia, particularly in China and India (by local suppliers), Fagron's office in Shanghai strengthens relations and communication with its strategic suppliers.

The necessities and equipment that Fagron Essentials provides consist of semi-manufactures used in pharmaceutical compounds, such as distilled water, basic solutions, powder mixtures, and bases for creams and ointments, pharmaceutical packaging material such as capsules, vials, bottles, blister packs and boxes, as well as equipment used by pharmacists for compounding, such as scales, mortars and pestles, and packaging equipment, such as encapsulation machines.

Warehouse of Fagron the Netherlands (Capelle aan den IJssel, the Netherlands).




FAGRON
Nourisil™ MD
30 g

HL Technology

HL Technology

- Turnover decreased by 19.8% (-18.1% at constant exchange rates) to 7.7 million euros
- REBITDA[5] decreased by 60.2% to 0.5 million euros; REBITDA margin of 6.2%
- The results of the strategic analysis by the Board of Directors will be announced in the course of the first half of 2017

(x 1,000 euros)	2016	2015	Change
Turnover	7,659	9,547	(19.8%)
REBITDA[5]	475	1,193	(60.2%)
REBITDA margin	6.2%	12.5%	(6.3%)

Hader Click small. A torque limiter to tighten implants in joints.

Easy is a sterile torque wrench for the orthopedic market.

HL Technology develops and produces innovative precision components and orthopedic tools for the dental and medical industry. The turnover of HL Technology decreased in 2016 by 19.8% (-18.1% at constant exchange rates) to 7.7 million euros. REBITDA decreased in 2016 by 60.2% to 0.5 million euros.

One-stop shop

In 2016, HL Technology further specialized in the from-idea-to-product development of micro-mechanical medical aids. HL Technology has multiple competences, including: design, engineering, project management and the compilation of a master file for the CE marking or FDA.

HL Technology has numerous production possibilities, including clean-room assembly and final validation of the finished products. This approach makes HL Technology a unique partner throughout the entire process from development to commercialization. From the customer's perspective, the one-stop shop principle reduces the complexity for the customer.

Innovations from HL Technology

Easy is a sterile single-use torque wrench for the orthopedic market. This not only eliminates the costs and risks entailed by the requirement of traceability for product type and batch, but also the need for trained personnel to correctly clean the torque wrenches. The risks of any microbiological contaminations or defective or incomplete surgical kits are consequently avoided.

Omega is the newest generation of universal torque wrenches for the dental market. This innovation is used to tighten the means of affixing dental implants. Omega is compatible with all brands of dental implants. Omega was launched at the IDS in Cologne in March 2017.

The patented **Hader Click** torque limiter is generally used in orthopedic surgery to tighten screws for back, knee, hip, shoulder and smaller joint implants. The use of this instrument prevents the overtightening of screws. The Hader Click is affixed to a screwdriver and produces a clear click when the screw has been properly tightened.

[5] EBITDA before non-recurrent result.


EPIfactor®

Information about the Fagron share

Information about the Fagron share

Stock market quotation

The Fagron share is listed on Euronext Brussels and Euronext Amsterdam. The share is included in the BEL MID index and the Amsterdam Smallcap Index (AScX). Options on ordinary Fagron shares are traded on Euronext Derivatives Brussels, Euronext's derivatives market. These American-style options expire on the third Friday of the contract month and have an initial option life of 1, 2, 3, 6, 9 and 12 months. Each option represents 100 Fagron shares and is cleared by LCH. Clearnet SA.

As of December 31, 2016, the market capitalization of Fagron amounted to 697.8 million euros, a 207.8% increase compared to the value as of December 31, 2015. At December 31, 2016, 71,843,904 shares and 225,000 bonds with a nominal value of 1,000 euros per bond were in circulation.

Development in number of outstanding shares

On December 31, 2015, the number of voting securities with rights in Fagron was 32,111,827. On May 20, 2016, Fagron issued 22,626,387 new shares in the first tranche of the capital increase (capital increase with cancellation of the preferential subscription rights of the existing shareholders). On July 7, 2016, Fagron issued 17,105,690 new shares in the second tranche of the capital increase (capital increase with preferential subscription rights for the existing shareholders). On December 31, 2016, the number of voting securities was 71,843,904. The total number of voting rights (denominator) is 71,843,904. The authorized capital amounts to 494,192,221.68 euros.

Shares
ISIN code: BE0003874915
Euronext: FAGR

Bonds
ISIN code: BE0002180462
Euronext: FAG17

Options
ISIN code: BE0003874915
Euronext Derivatives Brussels: RCU

Shareholder structure

Fagron received notifications of shareholding pursuant to the Belgian Law of May 2, 2007 concerning the disclosure of major shareholdings in listed companies. The table below shows the shareholder structure as of March 31, 2017. Article 11 of Fagron's Articles of Association stipulates that shareholdings must be disclosed as soon as a threshold of 3%, 5% and multiples of 5% has been exceeded.

Dividend

Fagron's Board of Directors will propose to the General Shareholders' Meeting of 8 May to not pay a dividend over the 2016 financial year.

	Number of shares	% of effective voting rights
Waterland Private Equity Fund VI C.V., Filip Balcaen and Fagron NV	22,656,725	31.54%
Alychlo NV / Marc Coucke	10,838,384	15.09%
Adrianus van Herk	2,171,279	3.00%
Carmignac Gestion*	1,492,006	4.65%

* The notification of the participating interest of Carmignac Gestion was received on March 18, 2016 and is based on a denominator of 32,111,827.

Investor Relations Policy

Fagron attaches substantial value to good, open and timely communication with its investors, analysts and others with (financial) interests in the company with the aim of informing them as effectively and as promptly as possible about prevailing policies and developments in the company. Fagron actively seeks to engage in dialogue with existing and potential investors, as well as with analysts that follow the company's share. This annual report is one of those forms of communication. All other relevant information, such as the annual and half-year figures, trading updates, press releases and background information, is available at investors.fagron.com.

Investors and potential investors, analysts, journalists and other interested parties are invited to direct questions to:

Constantijn van Rietschoten
Chief Communications Officer
+31 6 53 69 15 85
constantijn.van.rietschoten@fagron.com

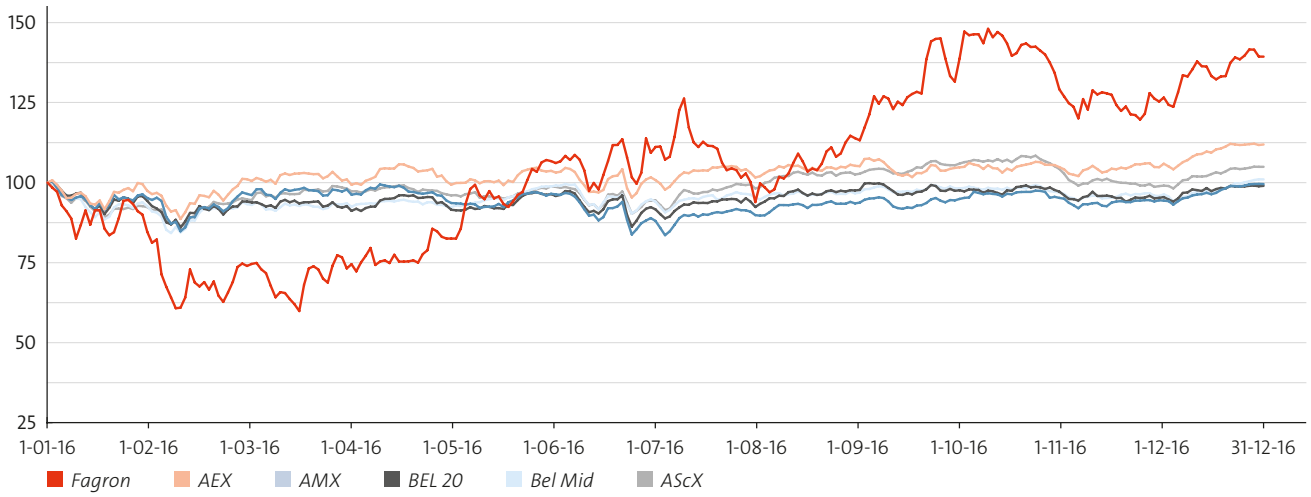
Financial calendar

April 13*	Trading update, first quarter 2017
May 8	Annual General Meeting of Shareholders
August 4*	Half-year figures 2017
October 12*	Trading update, third quarter 2017

* Results and trading updates are published at 7:00 CET.

Trading	2016	2015	2014	2013	2012	2011
Highest share price (in euros)	10.59	43.92	44.98	27.90	15.50	12.90
Lowest share price (in euros)	4.08	3.70	24.63	15.50	10.39	8.91
Closing price at the end of the financial year (in euros)	9.71	7.06	34.72	27.64	15.50	11.03
Highest day volume	1,729,879	5,759,396	705,581	494,244	210,164	282,010
Lowest day volume	56,184	8,792	13,635	5,575	2,007	2,919
Average day volume	351,225	328,233	99,032	66,121	29,428	38,633
Dividend (in euros)	-	-	1.00	0.72	0.60	0.50
Dividend yield at closing price	-	-	2.9%	2.6%	3.9%	4.5%
Market capitalization at the end of the financial year (in euros)	697,819,840	226,709,499	1,091,296,819	866,745,015	484,816,967	344,322,274

Development in Fagron share price and the indices in 2016




Pigmentise
10 g

Report of the Board of Directors

Report of the Board of Directors on the consolidated financial statements

Consolidated income statement

Fagron's activities were subdivided into the following segments in 2016:

- Fagron Specialty Pharma Services (FSPS) refers to all personalized medication that is prepared in Fagron's sterile and non-sterile compounding facilities in Europe, the United States, Colombia and South Africa.
- Fagron Trademarks (FTM) encompasses the innovative concepts, vehicles and formulations developed by Fagron, often in close cooperation with prescribers, pharmacies and universities.
- Fagron Essentials (FE) refers to all pharmaceutical raw materials, equipment and consumables that pharmacists require in order to be able to prepare medication in the pharmacy.
- HL Technology develops and produces innovative precision components and orthopedic tools for the dental and medical industry.

Total turnover decreased by 1.3% from 427.560 million euros in 2015 to 421.839 million euros in 2016.

Fagron's turnover developed positively in 2016 on the continents where Fagron is active, except in the United States. The changed reimbursement system for non-sterile compounding in the United States has resulted in a declining market for pharmaceutical raw materials (Fagron Essentials) and the market for verhicles developed by Fagron (Fagron Trademarks), whereby competition among the various providers has increased. This has a negative impact on the turnover and profitability of both activities in the United States. Fagron's FSPS activities in the United States showed strong growth in 2016.

The turnover of Fagron Specialty Pharma Services increased by 5.7% in 2016 (+6.0% at constant exchange rates), to 150.6 million euros. The organic turnover growth is 1.5% (+1.8% at constant exchange rates). REBITDA decreased in 2016 by 4.5% to 31.8 million euros, or 21.1% of turnover.

The existing FSPS activities in the United States showed strong growth in 2016. The turnover of the new FDA 503B facility in Wichita (Kansas, US) was still limited in 2016, as expected. The new facility is currently licensed in 43 states, including the key states of Florida and Texas. The new facility has been fully operational since March 2017 and supplies sterile products to hospitals and clinics in the United States.

In the second quarter of 2016, Fagron decided to sell off a small compounding pharmacy in Marseilles (France). The disposal had a negative impact of 3.0 million euros on the turnover of Fagron's activities in Europe in 2016. Corrected for the loss of turnover from this compounding pharmacy in Marseilles, Fagron's FSPS activities in Europe realised modest turnover growth in 2016.

The turnover of Fagron Trademarks increased by 6.8% in 2016 (+9.2% at constant exchange rates), to 53.8 million euros. REBITDA increased in 2016 by 10.6% to 17.3 million euros, or 32.2% of turnover.

Fagron Trademarks saw a strong organic growth in Brazil. In Europe, Fagron Trademarks also realised a healthy organic growth. As a result of the changed reimbursement system for non-sterile compounding, the market for Fagron Trademarks has declined in the United States during the reporting period. The increased competition among the various suppliers in the United States and the decision to integrate and centralise the activities of Freedom Pharmaceuticals at Fagron in Minneapolis have also contributed to this. The process of integrating Freedom Pharmaceuticals and Fagron was successfully concluded in the fourth quarter of 2016.

The turnover of Fagron Essentials decreased in 2016 by 6.8% (-5.2% at

constant exchange rates) to 209.9 million euros. The organic turnover growth is -8.2% (-6.5% at constant exchange rates). REBITDA decreased in 2016 by 15.6% to 41.0 million euros, or 19.6% of turnover.

Fagron Essentials saw a strong organic growth in Brazil. In Europe, Fagron Essentials realised a modest organic growth in 2016. The changed reimbursement system for non-sterile compounding in the United States prompted a decline in the sale of pharmaceutical raw materials in 2016. The shrinking market for pharmaceutical raw materials has also resulted in an increase in (price) competition among the various suppliers in the United States.

HL Technology, the segment focused on the development, production and introduction of innovative precision components and orthopedic tools for the dental and medical industry, achieved turnover of 7.7 million euros in 2016, a decrease of 19.8% (-18.1% at constant exchange rates) compared to 2015. REBITDA decreased by 60.2% from 1.2 million euros in 2015 to 0.5 million euros in 2016.

The decline in turnover at HL Technology in 2016 was mainly due to the limited growth in the underlying markets (dental and medical orthopedic industry). The results of the strategic analysis in relation to HL Technology will be announced in the course of the first half of 2017.

The consolidated gross margin (the difference between turnover on the one hand and trade goods on the other) amounted to 263.648 million euros in 2016. This represented 62.5% of the turnover, compared to a gross margin of 63.0% in 2015.

The total operating expenses, defined as services and various goods, employee benefit expenses and other operating expenses minus other operating income, amounted to 176.284 million euros, a decrease of 0.4% compared to 2015. The cost coverage, defined as operating expenses versus gross margin, was 66.9% in 2016.

Depreciation and amortization increased by 31.1% from 16.111 million euros in 2015 to 21.119 million euros in 2016. As a result of the change to the reimbursement system for non-sterile compounding in the United States and the consequences this had for the profitability of Freedom Pharmaceuticals, Fagron recognized an impairment of 48.364 million euros in 2016.

The operating result amounted to 17.881 million euros in 2016. EBIT before impairment amounted to 66.245 million euros, a decrease of 13.0% compared to 2015.

The financial result amounted to -24.246 million euros in 2016 compared to -44.954 million euros in 2015.
The improvement was mainly the result of the Long Term Waivers received. These waivers resulted in a change in the expected cash flows, whereby the extra costs of 10.0 million euros recognized in 2015 have been recognized as proceeds in the 2016 reporting year.
The interest rate swap was subject to a positive revaluation of 1.284 million euros in 2016. This interest rate hedge does not qualify for hedge accounting according to IAS 39.

This brought the result before taxes to -6.364 million euros, a decrease of 9.744 million euros compared to 2015.
The negative result was largely due to the impairment. The effective tax rate as a percentage of the profit before taxes and before impairment was 28.0%. Taxes increased in 2016 to 11.748 million euros, from 8.840 million euros in 2015.

Because of the impairment, the net result on the basis of continuing operations amounted to -18.122 million euros in 2016.

Consolidated statement of financial position

The consolidated balance sheet total increased by 25.9% from 689.381 million euros in 2015 to 868.053 million euros in 2016.

Assets

Total fixed assets amounted to 455.707 million euros, a decrease of 45.828 million euros compared to 2015.

Intangible assets decreased by 39.595 million euros to a total of 371.006 million euros. The decrease in the intangible assets was mainly due to the impairment on Freedom Pharmaceuticals. This decrease was partly mitigated by the strengthening of the Brazilian real against the euro.

Property, plant and equipment increased by 1.747 million euros to 72.879 million euros. The investments in the new warehouse and its automation in Belgium, the investments in the new FDA 503B facility in the United States, and the strengthening of the Brazilian real against the euro were in total higher than the write-downs in the United States (primarily at Bellevue Pharmacy) and the depreciation recognized by the Group.

The net operational capital expenditures amounted to 14.777 million euros, representing 3.5% of the 2016 turnover. The net operational capital expenditures are made up mainly of investments in new compounding facilities in the United States, Europe and South Africa, improvements to facilities in Brazil and Belgium, the automation of logistics processes and software implementations.

The financial fixed assets amounted to 2.123 million euros in 2016, a decrease of 3.735 million euros compared to 2015.

Deferred tax assets represented a value of 9.698 million euros.

Total current assets amount to 412.346 million euros in 2016 compared to 187.846 million euros in 2015, an increase of 224.499 million euros. The most important change is the inclusion of 220.622 million euros in cash that cannot be freely disposed of*. Stock decreased by 7.198 million euros, trade receivables decreased by 1.211 million euros, the other receivables increased by 12.798 million euros and cash and cash equivalents decreased by 0.512 million euros.

Equity and liabilities

Total equity amounted to 152.875 million euros. This represented an increase of 217.647 million euros in comparison to 2015. The increase in the equity capital was caused by the capital increase (216.092 million euros), the result in 2016 (1.471 million euros) and share-based payments (0.085 million euros).

Total liabilities decreased from 754.154 million euros in 2015 to 715.178 million euros in 2016. This represented a decrease of 38.976 million euros.

Provisions decreased by 3.211 million euros to 12.776 million euros. This decrease was mainly caused by the utilization of a provision for Schein.

Pension obligations in 2016 amounted to 5.680 million euros, an increase of 0.533 million euros in comparison to 2015.

Deferred tax liabilities relate to, among other things, temporary differences between reporting and fiscal accounting at the local entities. These amounted to 0.236 million euros in 2016 against 1.519 million euros in 2015.

Non-current interest-bearing financial liabilities (long-term borrowings) amounted to 290.433 million euros in 2016, an increase of 286.022 million euros against 2015. Current interest-bearing financial liabilities (short-term borrowings) amounted to 290.559 million euros in 2016, a decrease of 304.349 million euros compared to 2015. These changes were caused by a reclassification of some of the financial liabilities from current to non-current, as a result of the Long Term Waivers received.

At December 31, 2016, net financial debt (total current and non-current interest-bearing financial liabilities plus other long-term liabilities less cash, cash equivalents and cash that cannot be freely disposed of) amounted to 285.408 million euros, compared to 523.846 million euros at year-end 2015.

Current trade payables were 9.880 million euros lower than in 2015, amounting to 53.163 million euros.

Current tax on profit, remuneration and social security amounted to 34.977 million euros, an increase of 9.694 million euros in comparison to 2015.

Other (current) payables amounted to 18.825 million euros in 2016, versus 41.859 million euros in 2015.

Consolidated cash flow statement

The consolidated cash flow statement starts with the result before taxes of -8.786 million euros.

From this amount are deducted the outgoing cash flows before taxes, being 12.831 million euros. This amount includes all taxes effectively paid during 2016. Then the elements from operating activities not having a cash flow effect or not directly related to operating activities are reintroduced. This represented a total of 86.152 million euros. This amount is made up of the impairment, other depreciation and amortization on tangible and intangible assets, interest paid and changes in provisions and deferred taxes. The next step is to set off the changes in working capital in the cash flow statement (positive effect of 2.969 million euros). The total cash flow from operating activities amounted to 67.504 million euros, a decrease of 7.9% in comparison to 73.311 million euros in 2015.

Total cash flows from investing activities produced an outflow of 22.932 million euros relating to capital expenditures in the amount of 14.777 million euros and payments for existing shareholdings (subsequent payments) and new holdings in the amount of 8.155 million euros.

The total of cash flows from financing activities represented an inflow of 171.438 million euros. The capital increases produced an inflow of 216.092 million euros while the new borrowings produced an inflow of 147.814 million euros. The outflow of cash flows consisted of: payment of interest on loans and other financial elements such as financial discounts of 36.261 million euros and repayment on loans of 156.206 million euros.

Total cash, cash equivalents and cash that cannot be freely disposed of increased by 216.010 million euros: from 75.474 million euros at the start of the reporting period to 295.585 million euros at the end of the reporting period.

The difference of -4.100 million euros between the changes in cash and cash equivalents of 216.010 million euros and the increase in the cash and cash equivalents of 220.111 million euros was caused by exchange rate differences.

* As agreed in the Long Term Waivers, the cash that cannot be freely disposed of is exclusively used for repayment of the financial debts falling due in 2017.

Significant events after balance sheet date

For significant events after the balance sheet date, see Note 32 as contained in the Notes to the consolidated financial statements.

Description of risk management

See Note 3 as included in the Notes to the consolidated financial statements.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Corporate Governance Statement

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Application of the Belgian Corporate Governance Code

Fagron NV (the 'Company') adheres to the Belgian Corporate Governance Code 2009 as reference code. This code is available at the website www.corporategovernancecommittee.be in the section 'Code 2009'. Fagron adheres to the 'comply-or-explain' principle. Fagron believes that for the 2016 financial year, it satisfies all principles and provisions from the Belgian Corporate Governance Code 2009, with one exception: no independent internal audit function was set up. The Audit Committee found that there was no need to set up an independent internal audit function for 2016.

Composition of the Board of Directors

As of May 9, 2016, Mr. Peeters resigned as member of the Board of Directors, member of the Executive Committee and CFO of the Company. Ms. Karin de Jong, Group Controller at that time, was appointed CFO as of May 9, 2016.

With the realization of the First Tranche of the Capital Increase, the six new directors below definitively joined the Company's Board of Directors as of May 20, 2016 for a term of 4 years: Holdco FV B.V., permanently represented by Mr. Frank Vlayen, Mr. Matthias Geyssens, WPEF VI Holdco III BE B.V., permanently represented by Ms. Nathalie Clybouw, Mr. Filip Balcaen, Aubisque BVBA, permanently represented by Ms. Freya Loncin and Michael Schenck BVBA, permanently represented by Mr. Michael Schenck.

After the realization of the Second Tranche of the Capital Increase, Mr. Luc Vandewalle and Ms. Nathalie van Woerkom resigned as members of the Company's Board of Directors on August 3, 2016. Following that, AHOK BVBA, permanently represented by Mr. Koen Hoffman, and Vanzel G.Comm.V., permanently represented by Ms. Giulia Van Waeyenberge, were co-opted by the Board of Directors on August 3, 2016 as new directors of the Company. As a consequence of this, the membership of Mr. Vandewalle and Ms. Van Woerkom on the Audit Committee and the Nomination and Remuneration Committee also ended on August 3, 2016.

Mr. Peek also resigned his membership of the Audit Committee and the Nomination and Remuneration Committee as of August 3, 2016. Following this, the Board of Directors appointed Mr. Matthias Geyssens (Chairman), Michael Schenck BVBA, permanently represented by Mr. Michael Schenck, and AHOK BVBA, permanently represented by Mr. Koen Hoffman, as members of the Audit Committee. Holdco FV B.V., permanently represented by Mr. Frank Vlayen (Chairman), AHOK BVBA, permanently represented by Mr. Koen Hoffman, and Vanzel G.Comm.V., permanently represented by Ms. Giulia Van Waeyenberge, were appointed by the Board of Directors as members of the Nomination and Remuneration Committee.

On October 16, 2016, Aubisque BVBA, permanently represented by Ms. Freya Loncin, and Mr. Filip Balcaen resigned as directors of the Company. On that same day, the Company's Board of Directors decided to co-opt Alychlo NV, permanently represented by Mr. Marc Coucke, Mr. Marc Janssens and Ms. Karin de Jong as directors of the Company.

The current terms of Mr. Peek, Mr. Stols and Ms. De Jong (subject to confirmation by the General Meeting) end after the General Meeting in 2018.

The current terms of AHOK BVBA, permanently represented by Mr. Koen Hoffman, and of Vanzel G. Comm.V., permanently represented by Ms. Giulia Van Waeyenberge (both subject to confirmation by the General Meeting) end after the General Meeting in 2019.

The current terms of Alychlo NV, permanently represented by Mr. Marc Coucke, and of Mr. Marc Janssens (both subject to confirmation by the General Meeting) and the current terms of Holdco FV B.V., permanently represented by Mr. Frank Vlayen, Mr. Matthias Geyssens, WPEF VI Holdco III BE B.V., permanently represented by Ms. Nathalie Clybouw, and Michael Schenck BVBA, permanently represented by Mr. Michael Schenck, end after the General Meeting of 2020.

Composition of the Executive Committee

Mr. Jacob Jackson's term as member of the Executive Committee of the Company was ended as of February 4, 2016.

Mr. Jan Peeters resigned as of May 9, 2016. Ms. Rita Hoke was appointed member of the Executive Committee as of May 9, 2016.

Mr. René Clavaux's term was ended by mutual agreement as of October 11, 2016. Mr. Kalman Petro was appointed member of the Company's Executive Committee as of October 11, 2016.

Mr. Michaël Hillaert's term was ended by mutual agreement as of February 6, 2017.

Composition of the Executive Committee
Composition during the 2016 financial year

Name and position	Term of the position
Johannes (Hans) Stols – Chairman and Chief Executive Officer	4 years
Jan Peeters – Chief Financial Officer	Term ended: May 9, 2016
Karin de Jong - Chief Financial Officer	4 years
René Clavaux – Chief Information Officer	Term ended: October 11, 2016
Kalman Petro – Area General Manager of Fagron Central and Northern Europe	4 years
Rita Hoke – President of Fagron North America	4 years
Michaël Hillaert – Area General Manager of Fagron Belgium, France, Germany, Scandinavia, Poland, Czech Republic and Greece	Term ended: February 6, 2017
Rafael Padilla – Area General Manager of Fagron South America and Southern Europe	4 years
Constantijn van Rietschoten – Chief Communications Officer/Area General Manager Fagron Australia and South Africa	4 years

As of May 9, 2016, Rita Hoke was appointed member of the Executive Committee for a term of four years:

Name	Nationality	Position	Information
Rita Hoke (1960)	American	President of Fagron North America	Rita Hoke is a pharmacist who started her career at Baxter Healthcare, a prominent US-based healthcare company, where she worked in a number of roles. From 2004 to 2011, Ms. Hoke was responsible for the American hospital division of Grifols, a Spanish multinational active in healthcare and biosciences. Since 2011, she has served as an adviser to multinationals active or interested in entering the compounding market in the United States. Rita Hoke is President of Fagron North America.

As of October 11, 2016, Kalman Petro was appointed member of the Executive Committee for a term of four years:

Name	Nationality	Position	Information
Kalman Petro (1965)	Dutch	Area General Manager of Fagron Central and Northern Europe	Kalman Petro's most recent position was at the Mosadex Group as Managing Director for Fisher Farma. From 2007, Mr. Petro was Managing Director Actavis, with ultimate responsibility for the Benelux, Germany, Austria and Switzerland. From 2012, Mr. Petro served as Vice President Western Europe at Actavis, in which position, after a sale process, he became responsible for integration in seven countries. Prior to this Mr. Petro held various national and international positions at the Celesio Group, including Director Corporate Purchasing Wholesale and Pharmacies. Kalman Petro graduated from the University of Utrecht in 1989 and started his career in management and sales in the financial sector. Kalman Petro is Area General Manager of Fagron Central and Northern Europe.

Composition of the Board of Directors

Composition during the 2016 financial year

	Term of the position	Independent director	Nomination and Remuneration Committee	Audit Committee
Jan Peeters	Term ended: May 9, 2016			
Robert Peek (Chairman)	AGM 2018	●	[●]	[●]
Johannes (Hans) Stols – CEO	AGM 2018			
Karin de Jong – CFO	AGM 2018 (subject to confirmation by the AGM)			
Luc Vandewalle	Term ended: August 3, 2016	(●)	[●]	[●]
Nathalie van Woerkom	Term ended: August 3, 2016	(●)	[●]	[●]
AHOK BVBA, permanently represented by Mr. Koen Hoffman	AGM 2019 (subject to confirmation by the AGM)	●	●	●
Vanzel G.Comm.V., permanently represented by Ms. Giulia Van Waeyenberge	AGM 2019 (subject to confirmation by the AGM)	●	●	
Holdco FV B.V., permanently represented by Mr. Frank Vlayen	AGM 2020		●	
Matthias Geyssens	AGM 2020			●
WPEF VI Holdco III BE B.V., permanently represented by Ms. Nathalie Clybouw	AGM 2020			
Filip Balcaen	Term ended: October 16, 2016			
Marc Janssens	AGM 2020 (subject to confirmation by the AGM)			
Aubisque BVBA, permanently represented by Ms. Freya Loncin	Term ended: October 16, 2016			
Alychlo NV, permanently represented by Mr. Marc Coucke	AGM 2020 (subject to confirmation by the AGM)			
Michael Schenck BVBA, permanently represented by Mr. Michael Schenck	AGM 2020			●

[●] The membership of Mr. Peek, Mr. Vandewalle and Ms. Van Woerkom on both the Audit Committee and the Nomination and Remuneration Committee ended as of August 3, 2016. They were replaced on the Audit Committee by Mr. Geyssens (Chairman), Michael Schenck BVBA, permanently represented by Mr. Michael Schenck, and AHOK BVBA, permanently represented by Mr. Koen Hoffman, and on the Nomination and Remuneration Committee by Holdco FV B.V., permanently represented by Mr. Frank Vlayen (Chairman), AHOK BVBA, permanently represented by Mr. Koen Hoffman, and Vanzel G. Comm.V., permanently represented by Ms. Giulia Van Waeyenberge.

(●) Ms. Van Woerkom and Mr. Vandewalle were independent directors.

Abbreviated curricula vitae

Below are summarized the curricula vitae of the members of the most important management bodies or their permanent representatives.

Johannes (Hans) Stols (1959): Chief Executive Officer
Johannes (Hans) Stols held various positions in the Government Audit Department (Rijksaccountantsdienst), ABN AMRO Bank NV and Stada Arzneimittel AG. Until 2006, he was Chief Operational Officer and a member of the Board of Directors of Stada Arzneimittel AG, and was founding member of the board of many Stada subsidiaries. In addition, he chaired the European Generic Medicine Association, the Euro Specialities Association and the Netherlands Cystic Fibrosis Foundation. Mr. Stols was independent director of Fagron NV (originally: Arseus NV) since 2007. Mr. Stols has been CEO of Fagron NV with effect from December 12, 2015.

Jan Peeters (1966): Chief Financial Officer – term ended: May 9, 2016
Jan Peeters was Chief Financial Officer of Fagron NV. Mr. Peeters joined Omega Pharma as Chief Financial Officer in 1993, after working for three years as a business analyst at Exxon Chemical International. Mr. Peeters served as CFO of Omega Pharma for eight years, during which Omega Pharma was successfully floated. In 2001, Mr. Peeters was appointed Deputy Chief Executive Officer at Omega Pharma, a position he held until November 7, 2006. In 2005, he was appointed business unit manager of Omega Pharma's dental division and was assigned global responsibility for the split of Arseus from Omega Pharma. In 2006, he was appointed CFO of Arseus NV, now Fagron NV. Mr. Peeters obtained a master's degree in Applied Economics from the University of Antwerp and an MBA from the Vlerick Management School.

Robert Peek (1945)
Robert Peek is a graduate of the Hogere Textielschool in Enschede, the Nederlandse Economische Hogeschool in Rotterdam and the Hochschule für Wirtschaft und Sozialwissenschaften in Sankt Gallen, Switzerland. In 1973, he joined Organon International, part of the pharmaceutical division of Akzo Nobel. After holding various positions, including director of Organon Greece, Organon Venezuela and regional manager South America, he became manager Marketing Services, responsible for the global marketing policy. In 1988, he moved to OPG Groep NV (now Mediq NV), where he joined the Board of Directors on July 1, 1989. From January 2001, he became responsible on the Board of Directors for all operational activities of the group companies (COO), followed by his appointment as chairman of the Board of Directors (CEO) on March 1, 2003, the position he held until his retirement at the end of 2005.

Luc Vandewalle (1944) – term ended: August 3, 2016
Luc Vandewalle obtained a master's degree in Applied Economics from Ghent University. He was appointed to the board and the Executive Committee of BBL in December 1992. He chaired the bank's Executive Committee from January 1, 2000 to June 30, 2007. From July 1, 2007 to May 9, 2011, Mr. Vandewalle was the chairman of the Board of Directors of ING Belgium. From May 9, 2011 to May 12, 2014, Mr. Vandewalle was a member of ING's Supervisory Board. Mr. Vandewalle is currently chairman of VZW CAW Stimulans, chairman of the West Flanders Regional Fund of the King Boudewijn Foundation and chairman of the VZW Waak (sheltered workshops). Mr. Vandewalle is also a member of the Board of Directors at various listed and non-listed companies.

Nathalie van Woerkom (1970) – term ended: August 3, 2016
Nathalie van Woerkom is currently a (lawyer and) partner at AKD lawyers and civil-law notaries in Rotterdam in the business law practice group, after having worked at Buruma Maris and Andersen Legal. She has vast experience in general company law, mergers and acquisitions and shareholder agreements. Ms. Van Woerkom is also a member of a number of professional associations. She graduated in law from Erasmus University Rotterdam and also holds an MBA from the Rotterdam School of Management.

Vanzel G.Comm.V., permanently represented by Giulia Van Waeyenberge (1982)
Giulia Van Waeyenberge obtained a master's degree in Electrical Engineering from the Catholic University of Leuven in 2005 and a master's degree in Applied Economic Sciences from Singapore Management University in 2006. Ms. Van Waeyenberge works as a Senior Investment Manager at investment company Sofina. She worked previously at family-run investment business De Eik and at Sofina as Investment Manager. Prior to that she served as vice president at Bank of America Merrill Lynch, both in London and Singapore. She started her career in investment banking at ABN AMRO Singapore. Ms. Van Waeyenberge has already served on a number of boards, among others at Flemish employer's organization Voka, and is a member of the Board of Directors of Havenbedrijf Antwerpen NV.

AHOK BVBA, permanently represented by Koen Hoffman (1968)
Koen Hoffman obtained a master's degree in Applied Economic Sciences from the University of Ghent in 1990 and an MBA from the Vlerick Business School in 1991. Mr. Hoffman was appointed Chief Executive Officer of Value Square in August 2016. He previously served as Chief Executive Officer of KBC Securities, member of the Supervisory Board of Patria Securities and member of the Board of Directors of Omnia Travel Belgium. Mr. Hoffman started his career in the corporate finance department of KBC Bank in 1992.

Holdco FV B.V., permanently represented by Frank Vlayen (1965)
Frank Vlayen is currently group managing partner/CEO at Waterland Private Equity. In this position, Mr. Vlayen serves on Waterland's investment committee and is responsible for Waterland's day-to-day management and its strategy. He is also responsible for investor relations and for Waterland's (investment) activities in Belgium. Mr. Vlayen started his career in the corporate finance and trade finance departments at Generale Bank. His positions following that included vice president at Tractebel's international energy division, where he held a number of senior positions in operational management, business development and corporate and project finance. Before joining Waterland, he worked as Engagement Partner at Accenture UK, where he advised utility companies and industrial businesses on mergers and acquisitions and corporate strategy, and prior to that at Citigroup in London, where he was responsible for corporate development within the European consumer division. Mr. Vlayen has worked in Belgium, the United Kingdom, Hong Kong and Central and Eastern Europe.

Matthias Geyssens (1984)
Matthias Geyssens is currently Investment Manager at Waterland Private Equity in Belgium. Prior to this he worked at Deloitte Corporate Finance in London as Assistant Director, in which position he advised companies in Europe on mergers and acquisitions. Mr. Geyssens started his career at Deloitte as an auditor and later moved to the corporate finance division. Mr. Geyssens obtained a degree in Management Science and Finance from the University of Kent and an MBA from Cambridge University. He worked as a consultant at Warburg Pincus during his MBA study.

WPEF VI Holdco III BE B.V., permanently represented by Nathalie Clybouw (1965)
Nathalie Clybouw is currently Associate Principal at Waterland Private Equity NV in Belgium. Over the past 10 years, Ms. Clybouw has served as CFO and M&A professional and has held various management positions in a number of business sectors including outdoor retail, building materials and telecom. Prior to that she served as CFO at Latexco, global market leader in the production of latex mattresses, senior investment manager at Fortis Private Equity (ex-VIV) and auditor at Arthur Anderson. Nathalie holds a master's degree in Applied Economics with a major in Accountancy from the University of Antwerp, as well as an executive master's degree in Interim Management from the University of Antwerp Management School.

Filip Balcaen (1960) – term ended: October 16, 2016
Filip Balcaen is currently chairman at Baltisse NV, the family-run investment group. Mr. Balcaen has vast experience in supporting the growth of and managing businesses, particularly in the floor covering industry, first as CEO and chairman of the Balta Group, one of Europe's largest manufacturers of textile floor covering (which was sold to British private equity group Doughty Hanson in 2004, after which Mr. Balcaen continued to serve on the board until the sale by Doughty Hanson in 2015), and after that as CEO and chairman of the IVC Group, European market leader in residential vinyl floor covering. The IVC Group was sold in 2015 to US-based listed company Mohawk Industries. After the sale of the IVC Group, Mr. Balcaen continued to be engaged in the floor covering industry as shareholder and board member at Mohawk Industries.

Marc Janssens (1959)
Marc Janssens has been director of asset management and member of the Executive Committee at Baltisse since 2015. Baltisse is the family-run investment business of Filip Balcaen and family. In 1988, Mr. Janssens joined Petercam (now DeGroof Petercam), where he became partner in 1996 and was appointed to the Board of Directors in 2011. From 1984 to 1988, he served as economics editor at the Belgian newspaper De Standaard. Mr. Janssens graduated in Economic Sciences from the Catholic University of Leuven.

Karin de Jong (1979)
Karin de Jong has been CFO of Fagron since May 2016. Ms. De Jong has been with Fagron since 2008, when she started as corporate controller; she was appointed group controller in 2013. After finishing her degree in business administration, accounting and control, Ms. De Jong completed the postdoctoral registered controller program at Erasmus University Rotterdam.

Aubisque BVBA, permanently represented by Freya Loncin (1974) – term ended: October 16, 2016
Freya Loncin currently serves as general counsel at Alychlo NV, the investment company of Marc Coucke. Ms. Loncin was previously Head of Legal at Omega Pharma NV and TVH NV and started her career as a lawyer at Allen & Overy. Ms. Loncin has vast experience in general company law, mergers and acquisitions and commercial contracts. Ms. Loncin graduated in law from the University of Antwerp.

Alychlo NV, permanently represented by Marc Coucke (1965)
Marc Coucke is the founder of Omega Pharma. Since its sale, he has invested in various listed and non-listed companies via Alychlo NV, at which he serves as chairman.
Mr. Coucke graduated as a pharmacist from the University of Ghent and obtained an MBA from the Vlerick Management School in Ghent.

Michael Schenck BVBA, permanently represented by Michael Schenck (1982)
Michael Schenck is currently Investment Manager at Alychlo NV, the investment company of Marc Coucke. Mr. Schenck previously served as Investment Manager at Waterland Private Equity. He started his career in corporate finance in France and has worked in Africa as both volunteer and entrepreneur. Mr. Schenck holds master's degrees in business administration and international management from Erasmus University Rotterdam and HEC Paris.

Board of Directors

The composition and functioning of the Board of Directors of Fagron satisfies all provisions of the Belgian Corporate Governance Code 2009. The Company's Board of Directors consists of at least five and no more than eleven members, with at least one third of the members of the Board of Directors being of a different gender than the other members. The Board of Directors is composed of executive, non-executive and independent directors, who do not necessarily have to be shareholders.

Appointment of the members of the Board of Directors

Non-executive directors must hold at least half of the seats on the Board of Directors, and at least three directors must be independent, within the meaning of Article 526ter of the Belgian Companies Code. In accordance with Article 518bis of the Belgian Companies Code, at least one third of the members of the Board of Directors must be of a different gender than the other members.
Executive and non-executive directors are appointed by a meeting of shareholders for a renewable term of up to maximum four years. If a seat becomes available on the board before the end of the term, the remaining directors have the right to temporarily appoint a new director to fill that position until the shareholders decide to appoint a new director at the next meeting of shareholders. This matter must be included in the agenda for the next meeting of shareholders.
There is no age limit for directors.

Function and role of the Board of Directors
The Board of Directors established its internal regulations as part of the preparation of the Corporate Governance Charter. In addition to those things it is legally obliged to do, the Board of Directors is in particular responsible for: determining the strategy, the risk profile, the values and the main policy lines, ensuring that the necessary financial and human resources are available to achieve the objectives, supervising and assessing the financial and operational performance and development of the operating results of the group, approving the framework for internal control and risk management, structuring the Executive Committee, establishing its powers and obligations and evaluating its performance, supervising the quality and completeness of financial announcements as well as the integrity and prompt publication of the financial statements and other substantive financial and non-financial information, determining the corporate governance structure and supervising compliance with the provisions of the Corporate Governance Code, installing specialized Committees, establishing their internal regulations and assessing their effectiveness, promoting an effective dialogue with the shareholders and potential shareholders, approving contracts for the appointment of the CEO and other members of the Executive Committee, selecting the Statutory Auditor on the nomination of the Audit Committee and supervising his performance, and supervising the internal audit function if an independent internal audit function is established.
The Corporate Governance Charter and the internal regulations of the Board of Directors can be found on the corporate website (www.fagron.com) in the section entitled 'Corporate Governance'.

Specialized Committees within the Board of Directors

These Committees have an advisory role. They assist the Board of Directors in specific circumstances which they thoroughly monitor and for which they submit recommendations to the Board of Directors. The ultimate decision making lies with the Board of Directors. The composition, powers and functioning of the Committees are described in their respective internal regulations, which are available at the corporate website (www.fagron.com) in the section entitled 'Corporate Governance'. The Committees report to the Board of Directors after every meeting.

Audit Committee
The composition of the Audit Committee complies with all provisions of the Belgian Corporate Governance Code 2009.

All members of the Audit Committee have sufficient bookkeeping and auditing experience. The Audit Committee is the primary point of contact for the internal audit function (if an internal audit function was set up) and the Statutory Auditor. Without prejudice to the statutory duties of the Board of Directors, the Audit Committee is responsible for developing an audit program that covers all activities of the Company in the long term, and is, in particular, responsible for:

1. determining the internal financial reporting to the Board of Directors;
2. monitoring the financial reporting process;
3. monitoring the effectiveness of the Company's internal control and risk management systems;
4. monitoring the internal audits and their effectiveness;
5. monitoring the statutory audit of the financial statements and the consolidated financial statements, including follow-up to questions and recommendations formulated by the Statutory Auditor;
6. assessing and monitoring the independence of the Statutory Auditor, taking particular note of additional services provided to the Company.

Following internal talks, the Audit Committee found that there was no need to set up an independent internal audit function for 2016.

Nomination and Remuneration Committee
The Board of Directors decided in 2010 to merge the Nomination Committee and the Remuneration Committee. The composition of the Nomination and Remuneration Committee complies with all provisions of the Belgian Corporate Governance Code 2009.
The members have the necessary expertise in the area of remuneration policy.

The main duties with regard to nominations are drawing up the appointment procedures for the members of the Board of Directors and members of the Executive Committee, nominating suitable candidates for vacant directorships, formulating proposals for reappointments, evaluating and making recommendations on the composition of the Board of Directors and its Committees, offering advice on proposals concerning the appointment or dismissal of directors and members of the Executive Committee, and evaluating potential candidates for a position on the Executive Committee.

The main duties with regard to remuneration consist of:

1. preparing, assessing and making proposals to the Board of Directors concerning the remuneration policy to be implemented regarding the directors, the members of the Executive Committee, the other executives as referred to in the last subsection of Article 96 §3 of the Belgian Companies Code and the persons responsible for the daily management, and, where applicable, concerning the ensuing proposals to be presented to the shareholders by the Board of Directors;
2. preparing, assessing and making proposals to the Board of Directors concerning individual remuneration of the directors, the members of the Executive Committee, the other executives as referred to in the last subsection of Article 96 §3 of the Belgian Companies Code and the persons responsible for the daily management, including variable remuneration and long-term premiums, which may be associated with shares, in the form of share options or other financial instruments, and severance pay, and, where applicable, concerning the ensuing proposals to be presented to the shareholders by the Board of Directors;
3. preparing recommendations regarding performance targets for the CEO and the other members of the Executive Committee and other key managers;
4. preparing recommendations regarding allocation of bonuses and long-term incentives to the CEO and other members of the Executive Committee;
5. discussing the functioning and performance of the Executive Committee;
6. reviewing both the functioning and performance of the Executive Committee with the CEO at least once per year;
7. preparing the remuneration report to be added to the Corporate Governance Statement by the Board of Directors, and announcing the remuneration report to the Works Council, or, if there is no Works Council, to the employee representatives in the Committee for prevention and protection at work, or, if this is not in place, to the union representatives;
8. providing an explanation of the remuneration report at the annual General Meeting of Shareholders.

Executive Committee

Appointment of the members of the Executive Committee
The composition and functioning of the Executive Committee complies with all provisions of the Belgian Corporate Governance Code 2009.

The Company has established an Executive Committee in the sense of the Corporate Governance Act of August 2, 2002.
The Board of Directors appoints the members of the Executive Committee based on the recommendations of the Nomination and Remuneration Committee. The members are appointed for a four-year term.

Role of the Executive Committee
The Executive Committee is responsible for the Company's management.
It exercises the management powers that the Board of Directors has delegated to it (within the limits of the general and strategic policy and where not expressly reserved for the Board of Directors by law or otherwise).
This means that the Executive Committee exercises the most extensive powers in daily management, mergers, acquisitions, investments and divestments, research and product development, distribution, purchasing and production, marketing and sales, logistics and information technology, accounting, administration and financial matters, treasury, supervision and control of the business units (managers), legal matters, intellectual property, environment and permits, human resources, insurances, tax and subsidy matters, and the preparation of press releases and the financial statements.
More detailed information can be found in the internal regulations of the Executive Committee, which is an annex to the Corporate Governance Charter and is available at the corporate website (www.fagron.com), in the section entitled 'Corporate Governance'. The Executive Committee meets as often as the interests of the Company demand it and within fourteen days of the request to do so by two members of the Executive Committee. The Executive Committee also provides quarterly reports on its activities to the Board of Directors.

Activity report of the Board of Directors and the Committees in 2016

Board of Directors
In 2016, in addition to discussing the financial reporting, the Board of Directors devoted a great deal of attention to determining the corporate strategy and the corporate financing, particularly in relation to the possibilities of a private and public capital increase, strengthening the company's balance sheet and the composition of the Board of Directors in light of Article 518bis of the Belgian Companies Code. At the time of writing of this annual report, the Board of Directors was concluding its work concerning that so as to satisfy the aforementioned stipulation no later than on the date of the annual meeting. In that context, at the advice of the Nomination and Remuneration Committee the Board of Directors held a number of talks with potential candidates and engaged an external adviser to provide independent advice in this area.

The executive and non-executive members of the Board of Directors convened eleven times in 2016 (January 25 (conference call), February 4, April 7, May 2 (conference call), May 9, June 13, August 3, October 11 (conference call), October 13, October 16 (conference call), and December 8).

All directors attended these meetings, unless stated otherwise below:

- August 3, 2016: Ms. Van Woerkom and WPEF VI Holdco III BE B.V., permanently represented by Ms. Nathalie Clybouw, were unable to attend;
- October 13, 2016: WPEF VI Holdco III BE B.V., permanently represented by Ms. Nathalie Clybouw, and Aubisque BVBA, permanently represented by Ms. Freya Loncin, were unable to attend;
- December, 8 2016: WPEF VI Holdco III BE B.V., permanently represented by Ms. Nathalie Clybouw, was unable to attend.

The non-executive directors convened separately on eight occasions in 2016 (February 22, February 29, March 1, March 14, March 18, March 24, April 1 and October 13). The key topics discussed were the company's remuneration policy and its financing and the progress of the various transaction processes and the progress of carrying out the private and public capital increase. All non-executive members of the Board of Directors were in attendance at these meetings.

Audit Committee
The Audit Committee, consisting until August 3, 2016 of Mr. Vandewalle (Chairman), Mr. Peek and Ms. Van Woerkom, and consisting from August 3, 2016 of Mr. Matthias Geyssens (Chairman), Michael Schenck BVBA, permanently represented by Mr. Michael Schenck, and AHOK BVBA, permanently represented by Mr. Koen Hoffman, met three times in 2016 (February 4, August 3 and December 8). All members of the Audit Committee in office attended these meetings.
Also in attendance at these meetings, at the Audit Committee's request, were Mr. Stols and Mr. Peeters (on February 4) and Ms. De Jong (on August 3 and December 8).

Nomination and Remuneration Committee
The Nomination and Remuneration Committee, consisting until August 3, 2016 of Ms. Van Woerkom (Chairman) and Mr. Luc Vandewalle and Mr. Robert Peek, and consisting from August 3, 2016 of Holdco FV B.V., permanently represented by Mr. Frank Vlayen (Chairman), AHOK BVBA, permanently

represented by Mr. Koen Hoffman, and Vanzel G.Comm.V., permanently represented by Ms. Giulia Van Waeyenberge, convened five times in 2016 (January 11, March 14, May 9, August 3 and October 13).
All members of the Nomination and Remuneration Committee in office attended these meetings.

Process for the evaluation of the Board of Directors and its Committees

Under the leadership of the Chairman, the Board of Directors conducts an evaluation every two years of its own size, composition and functioning and that of its Committees, as well as of its interaction with the Executive Committee. The Chairman of the Board of Directors and the performance of his role within the Board of Directors are also evaluated.
This evaluation has four objectives:

1. to assess the functioning of the Board of Directors and the Committees;
2. to determine whether key issues are thoroughly prepared and discussed;
3. to assess the actual contribution of every director to the work of the Board of Directors, his or her attendance of Board and Committee meetings, and his or her constructive involvement in the talks and the decision-making process;
4. to assess the existing composition of the Board of Directors and the Committees in the light of the required composition of the Board of Directors or of the Committees.

The evaluation of the Board of Directors in terms of its size, composition and functioning and that of its Committees, as well as of its interaction with the Executive Committee, took place on March 30, 2015 under the leadership of the Chairman of the Board of Directors. This evaluation resulted in a positive assessment with a number of less significant points to be worked on.

The CEO and the Nomination and Remuneration Committee annually assess both the functioning and the performance of the Executive Committee. The evaluation of the Executive Committee takes place in the context of determining the variable remuneration of the Executive Committee members.

Policy on transactions and other contractual relationships between the Company and its directors or members of the Executive Committee not covered by the conflicts of interest arrangement

The Board of Directors has drawn up a number of guidelines for transactions and other contractual relationships between the Company and its Board members or members of the Executive Committee not covered by the conflicts of interest arrangement. All members of the Board of Directors and the Executive Committee are expected to avoid actions, positions or interests that are contrary to, or appear to be contrary to, the interests of the Company or of one of the companies of the Fagron Group. Furthermore, all transactions between the Company and members of the Board of Directors or the Executive Committee (or their permanent representatives) require the approval of the Board of Directors.
If the members of the Board of Directors or the Executive Committee (or their permanent representatives) identify a possible conflict of interest with respect to a decision or activity of the Company, they must also notify the Chairman of the Board of Directors at the earliest opportunity.

If Article 523 of the Belgian Companies Code applies, the director in question must also refrain from participating in the relevant deliberations and from voting.

Rules for the prevention of insider trading and market abuse

The Board of Directors has drawn up rules to prevent privileged information being unlawfully used by directors, shareholders, managers, employees and certain third parties (jointly referred to as 'Insiders'). These rules are an integral part of the Corporate Governance Charter and are available at the corporate website (www.fagron.com) in the section 'Corporate Governance'. The Board of Directors has also appointed a Compliance Officer to supervise, among other things, observance of the rules by Insiders. The position of Compliance Officer is currently performed by Ms. De Jong. Insiders and persons closely related to them may not conduct any transactions with respect to securities of the Company during Closed Periods and Blocked Periods.

A Closed Period is:

(i) the period of 30 calendar days before the Company's annual results for the past financial year are published;
(ii) the period of 30 calendar days before the Company's half-yearly results for the previous six-month period are published; and
(iii) the period of fifteen days immediately preceding the publication of the Company's quarterly results, or, if shorter, the period from the closing date of the quarter concerned up to and including the moment of publication of the quarterly results.

The Blocked Period is considered to be the period communicated as such by the Compliance Officer on the instructions of the Board of Directors or the Executive Committee and which commences from the date on which the Insider Knowledge is known to the Board of Directors or the Executive Committee and lasts until immediately after the Insider Knowledge is announced or until the date on which the Insider Knowledge loses its price-sensitive character.

Certain transactions – to be named specifically – remain possible in exceptional cases during Closed Periods and Blocked Periods. Insiders who wish to acquire or sell securities of the Company must notify the Compliance Officer in writing of this intention prior to the transaction. In response to this notification, the Compliance Officer may issue a negative recommendation with respect to the planned transaction. In that case, the Insider must consider this as an explicit rejection of the transaction by the Company. Every request and every recommendation from the Compliance Officer is recorded in a special register. Transactions that can reasonably be expected to potentially have a sensitive impact on the stock market price of the Company's shares will be announced in compliance with the rules for the occasional provision of information.

Description of the main features of the internal control and risk management systems

The Board of Directors is responsible for the strategy and the accompanying risk profile, and for the design and operation of the internal risk management and control systeMs. The purpose of these systems is (1) to be continually aware, with a reasonable degree of certainty, of the extent to which Fagron is achieving its strategic and operational objectives, (2) to guarantee the reliability of the financial reporting, and (3) to act in compliance with the laws and regulations applicable to Fagron.

The design of these internal risk management and control systems in relation to Fagron's strategic, operational, compliance and financial reporting risks has high priority within Fagron and is, partly in view of the development of the environment and the company itself, continually subject to further refinement and improvement.
The design and operation of these internal risk management and control systems is continually evaluated. Nevertheless, these systems can never guarantee with absolute certainty that no material inaccuracies can arise at Fagron. Fagron gives priority to internal control and management. The internal control and management is continually assessed and further professionalized, with attention devoted to the governance structure, processes, systems and controls and to awareness among the management and employees of the importance of implementing these correctly.
In concrete terms, the internal governance of Fagron is built up of the following elements:

Development of strategy
Fagron's strategy and the associated objectives and ambitions are critically assessed each year on the basis of market developments, the opportunities and threats identified, an analysis of strengths and weaknesses, and a strategic risk assessment, and adjusted where necessary. The Board of Directors is responsible for this.

Budgets
The strategic objectives, including the main opportunities and risks, are discussed with the Executive Committee. The strategic objectives of Fagron as a whole constitute the basis for the budgets of the business units. In addition to a financial budget, the budget for each business unit contains a number of concrete business targets that are translated into key performance indicators (KPIs), which are consistently monitored for progress during the year.

Reporting, analysis and review
The financial results and forecasts are analyzed monthly at both the local and central level, with the aid of the Fagron Management Information System. This system is available to the management and the business controllers, and to the Executive Committee and the Corporate Controlling department.

The management and the business controllers report monthly on progress in achieving their business plans, the resulting KPIs and their financial performance to the Executive Committee and the Corporate Controlling department. Progress meetings are held regularly on the basis of these reports, at which at least the actions agreed in earlier reviews, the financial results, the updated forecasts, staff turnover and recruitment, and the progress and developments in the business are discussed.

Global Policies and Code of Ethics
Responsibilities, powers, guidelines and procedures at Fagron are clearly and accessibly set down in Fagron's Global Policies and Code of Ethics. Every important process is covered.
The management and business controllers of the business units are responsible for the correct application of the processes and systeMs. Acquisitions are also integrated in terms of guidelines, procedures, processes and systems as soon as further integration occurs.

Compliance reviews and external audits

In addition to the external audits, various compliance reviews are performed of the quality system used, the administrative organization and the financial results.

The Statutory Auditor focuses on the correct application and operation of internal control measures that are important for the preparation of the financial statements. The outcomes of the Statutory Auditor's audits are reported orally and in writing to Corporate Controlling, the CFO and the Audit Committee. The compliance reviews are performed by Corporate Controlling and also focus on the correct application of and compliance with internal procedures and guidelines. They are oriented towards both financial and operational audits. The aim is to achieve continual further professionalization of our internal controls on the basis of the outcomes. These instruments also contribute towards a continual increase in risk awareness within Fagron.

The Audit Committee found that there was no need to set up an independent internal audit function for 2016.

Corporate Governance information

Corporate Governance Charter

The Board of Directors approved the first version of the Company's Corporate Governance Charter on October 4, 2007. This Charter was supplemented with the internal regulations of the Board of Directors, the Executive Committee, the Audit Committee, the Nomination Committee and the Remuneration Committee. The Charter also includes the policy established by the Board of Directors for transactions and other contractual relations between the Company and its directors and members of the Executive Committee. The Board of Directors had furthermore established rules to prevent insider trading. The Charter was based on the provisions of the Belgian Corporate Governance Code 2004, and the Board of Directors had set the primary goal of compliance with the principles and provisions of this Code as fully and closely as possible. On April 24, 2008, the Board of Directors then approved a new version of the Company's Corporate Governance Charter, in which a number of general points were further refined.
The Corporate Governance Charter was subsequently adapted in line with the Belgian Corporate Governance Code of March 12, 2009 and the Board of Directors approved the revised version of the Corporate Governance Charter on March 23, 2010.
The Appointment Committee and Remuneration Committee were formally merged to create the Nomination and Remuneration Committee by a decision of the Board of Directors on October 27, 2010. After that, the definition of 'Closed Period' was amended and the Corporate Governance Charter was aligned with the new mandatory provisions of the Belgian Companies Code.
Subsequently, by decision of the Board of Directors of May 14, 2012, Article 3.3.2 of Annex 3 to the Corporate Governance Charter (Rules for the prevention of insider trading and market abuse) was amended to allow not only the exercise of warrants, but also the exercise of stock options during a Closed Period or Blocked Period. Finally, by decision of the Board of Directors of February 6, 2017, the Corporate Governance Charter was updated, and in particular articles 3.1 to 3.7 of annex 3 (Rules for the prevention of insider trading and market abuse) were amended in line with the provisions of the Market Abuse Regulation. The current version of the Corporate Governance Charter was approved by the Board of Directors on February 6, 2017.

The Company is of the opinion that it fulfills all principles and provisions of the Belgian Corporate Governance Code 2009 (with the exception of the internal audit function not being in place) and all provisions of the Act of April 6, 2010.

The complete Corporate Governance Charter, including its annexes, is available at the corporate website (www.fagron.com) in the section 'Corporate Governance'.

Future changes to the Charter will also be published on the corporate website.

General Meeting

The General Meetings are convened by the Board of Directors or the Statutory Auditor(s) (or, as the case may be, the liquidators).

The annual General Meeting will be held on the second Monday of May at 3 pm. If that day is an official public holiday, the General Meeting is held at the same time on the next working day. The venue is Fagron NV's registered office or the venue as stated in the convocation notice for this meeting.

Convocation notices for the General Meetings are in the form and within the time limits as set out in the Belgian Companies Code and the convocation notices must at least contain the details as set out in Article 533bis of the Belgian Companies Code.

The right to attend the General Meeting and to exercise voting rights shall be granted solely based on the administrative registration of the shares in the shareholder's name on the fourteenth day before the General Meeting at midnight, Belgian time, either through the shareholder's registration in the Company's shares register, or by their registration in the accounts of a certified account holder or intermediary, irrespective of the number of shares that the shareholder is holding on the actual date of the General Meeting. The date and hour as aforementioned serve as the registration date. Shareholders shall report their intention to attend the General Meeting at the latest by the sixth day before the date of the meeting to the Company or to the relevant person appointed by the Company. The certified account holder or intermediary shall provide the shareholder with a certificate proving with how many dematerialised shares that were registered in its accounts in the shareholder's name as at the registration date the shareholder has indicated to participate in the General Meeting.
A register designated by the Board of Directors will serve to record for each shareholder who expressed a wish to attend the General Meeting the name and address or statutory office, the number of shares in his/her possession as of the registration date and with which he/she indicated he/she would be participating at the General Meeting, and a description of the documents showing that he/she held the relevant shares as of the registration date.
Holders of bonds, warrants or depositary receipts issued with the Company's cooperation are permitted to attend the General Meeting with an advisory vote, on the condition of compliance with the admission conditions that are provided for the shareholders.
Every shareholder with a right to vote may be represented by a natural person or legal entity at the General Meeting in accordance with the applicable provisions in the Belgian Companies Code. In the convocation notice, the Board of Directors defines the procedure for voting by proxy and the proxy form to be used when granting the proxy, such within the limits as set out in the Belgian Companies Code.
The Company must receive the proxies at the latest by the sixth day before the date of the General Meeting in accordance with the procedure determined by the Board of Directors.
The calculation of the rules regarding quorum and majority shall be based solely on the proxies of the shareholders that comply with the admission formalities such as set out in the Articles of Association.
One or more shareholders that jointly hold at least 3% of the authorized share capital can have items placed on the agenda of the General Meeting and can submit motions for a vote in relation to the agenda items or items to be placed on the agenda. This article does not apply for a General Meeting convened with application of paragraph 2 of Article 533 §2 of the Belgian Companies Code.
On the date that shareholders submit an agenda item or motion to vote, the relevant shareholders must prove that they satisfy the 3% threshold, either based on a certificate of registration of the relevant shares in the Company's shares register, or based on a certificate issued by a certified account holder or intermediary proving that the relevant number of dematerialized shares was registered to their name and account.
The subjects to be placed on the agenda and the motions to vote that were placed on the agenda are discussed only if the above-mentioned 3% of the capital is registered in accordance with Article 536 §2 of the Belgian Companies Code.

The requests must be set out in writing and must be accompanied by the text of the subjects to be discussed and the associated motions to vote, or by the text of the motions to vote to be placed on the agenda. A mailing address or email address must be included, to which the Board of Directors will send the confirmation of receipt of these requests.
The Company must receive the requests at the latest by the twenty-second day before the date of the General Meeting. Requests are sent to the Company electronically at the address stated in the convocation notice for the General Meeting.
The Company shall confirm receipt of the requests within a period of forty-eight hours from receipt.
Upon receipt of the requests, the Company shall act in accordance with the Belgian Companies Code, in particular with Article 533ter §3 of the Belgian Companies Code.
The provision set out in Article 533ter of the Belgian Companies Code must be applied in good faith by both the shareholders and the Company.
This may be applied only in the interest of the Company.
The directors shall answer the questions asked by the shareholders during the meeting or in writing regarding their report, or regarding the agenda items, insofar sharing the information or facts is not potentially detrimental to the Company's business interests or to the confidentiality to which the Company, its directors or the Statutory Auditor(s) have committed.
During the meeting, the Statutory Auditor(s) shall answer the questions asked verbally by the shareholders during the meeting or in writing regarding its/their report.
If there are various questions regarding the same subject, the directors and Statutory Auditor(s) may answer these in a single response.
As soon as the convocation notice has been published, the shareholders may submit the questions referred to in the first paragraph in writing and these shall be answered in the meeting by, as the case may be, the directors or the Statutory Auditor(s), to the extent the relevant shareholders complied with

the formalities to be completed before being admitted to the meeting.
The questions may be addressed to the Company's electronic address as stated in the convocation notice for the General Meeting. The Company must have received the questions in writing at the latest on the sixth day before the meeting.

Fagron NV's Articles of Association were amended during the Extraordinary General Meetings:
On May 14, 2012 in order to satisfy the mandatory provisions of the Act of December 20, 2010 (Act regarding exercising certain rights of shareholders of listed companies).
On December 12, 2014 concerning the:

- Change of the company name from Arseus to Fagron;
- Renewal of the authorization for the acquisition and disposal of treasury shares;
- Amendment of the provisions in the Articles of Association concerning the discontinuation of bearer shares (Act of December 14, 2005);
- Amendment of the provisions in the Articles of Association concerning the liquidation procedure in accordance with the stipulations of the Belgian Companies Code (Acts of March 19, 2012 and April 25, 2014).

On June 29, 2015 in order to increase the capital in the context of the authorized capital by contribution in kind upon the issue of new shares.
On August 5, 2015 in order to increase the capital within the context of the authorized capital by contribution in kind upon the issue of new shares.
On May 20, 2016 in order to increase the capital on the issue of new shares, as approved during the Extraordinary General Meeting of May 4, 2016.
On July 1, 2016 in order to reduce the capital by making up transferred losses without the cancellation of shares.
On July 7, 2016 in order to increase the capital on the issue of new shares, as approved during the Extraordinary General Meeting of May 4, 2016.

The coordinated Articles of Association can be consulted on the corporate website (www.fagron.com) in the section 'Corporate Governance'.

Consultation of the Company's documents

The stand-alone and consolidated financial statements, Articles of Association, annual reports and other information that is made public for the benefit of the shareholders are available from the registered office of the Company free of charge.

The Articles of Association can be consulted on the corporate website (www.fagron.com) in the section 'Investors'.

Number of shares and authorized capital

Fagron NV was founded on June 29, 2007 (under its previous name: Arseus NV). Upon incorporation, the share capital was 61,500 euros represented by 100 registered shares without nominal value, fully paid-up in cash, each representing an identical fraction of the share capital of Fagron.

On September 7, 2007, the Extraordinary Shareholders Meeting of Fagron NV resolved, subject to completion of the IPO, to increase the share capital through a contribution in kind consisting of:
(i) a contribution in kind in the form of shares of Fagron BV (previously Arseus BV) by Omega Pharma, and (ii) the contribution of claims held by the contributors.
This resulted in the issue of (i) 6,000,000 and (ii) (a) 24,999,900 and (b) 195,121 shares.
This brought the total number of Fagron shares to 31,195,121 and the authorized capital to 319,810,475.00 euros.

On February 16, 2011, 1,018 new shares were issued as the result of the exercise of warrants under the Warrant Plan of the Offer. Non-exercised warrants under the Warrant Plan of the Offer lapsed. After this issue, the number of voting securities of Fagron amounted to 31,196,139. The total number of voting rights (denominator) amounted to 31,196,139. The authorized share capital amounted to 319,820,911.43 euros.

On June 16, 2011, 20,749 new shares were issued as a result of the exercise of warrants under Warrant Plans 1 and 2, both approved by the Board of Directors on September 6, 2007.
The number of voting securities of Fagron amounted to 31,216,888.
The total number of voting rights (denominator) amounted to 31,216,888.
The authorized capital amounted to 320,023,050.35 euros.

On June 14, 2012, 61,626 new shares were issued as a result of the exercise of warrants under Warrant Plans 1 and 2, both approved by the Board of Directors on September 6, 2007.
The number of voting securities of Fagron amounted to 31,278,514.
The total number of voting rights (denominator) amounted to 31,278,514.
The authorized capital amounted to 320,601,893.93 euros.

On June 13, 2013, 79,844 new shares were issued as a result of the exercise of warrants under Warrant Plans 1 and 2, both approved by the Board of Directors on September 6, 2007.
The number of voting securities of Fagron amounted to 31,358,358.
The total number of voting rights (denominator) amounted to 31,358,358.
The authorized capital amounted to 321,384,974.57 euros.

On June 13, 2014, 73,002 new shares were issued as a result of the exercise of warrants under Warrant Plans 1 and 2, both approved by the Board of Directors on September 6, 2007.

	Number of shares	% of effective voting rights
Waterland Private Equity Fund VI C.V., Filip Balcaen and Fagron NV	22,656,725	31.54%*
Alychlo NV and Marc Coucke	10,838,384	15.09%
Adrianus van Herk	2,171,279	3.00%
Carmignac Gestion**	1,492,006	4.65%

* Since the exceeding of the 30% threshold is the result of the subscription for the Second Tranche of the Capital Increase, no mandatory takeover bid needs to be issued in accordance with Article 52 §1 of the Royal Decree of April 27, 2007 on public takeover bids.

** The notification from Carmignac Gestion was received on March 18, 2016 and is based on a denominator of 32,111,827.

The number of voting securities of Fagron amounted to 31,431,360. The total number of voting rights (denominator) amounted to 31,431,360. The authorized capital amounted to 322,111,645.98 euros.

On June 5, 2015, 12,301 new shares were issued as a result of the exercise of warrants under Warrant Plans 1 and 2, both approved by the Board of Directors on September 6, 2007. The number of voting securities of Fagron amounted to 31,443,661. The total number of voting rights (denominator) amounted to 31,443,661. The authorized capital amounted to 322,217,493.06 euros.

On June 29, 2015, 224,133 new shares were issued in the context of the authorized capital. The number of voting securities of Fagron amounted to 31,667,794. The total number of voting rights (denominator) amounted to 31,667,794. The authorized capital amounted to 324,514,856.31 euros in order to increase the capital in the context of the authorized capital by contribution in kind upon the issue of new shares.

On August 4, 2015, 444,033 new shares were issued in the context of the authorized capital. The number of voting securities of Fagron amounted to 32,111,827. The total number of voting rights (denominator) amounted to 32,111,827. The authorized capital amounted to 329,066,194.56 euros in order to increase the capital in the context of the authorized capital by contribution in kind upon the issue of new shares.

On May 20, 2016, 22,626,387 new shares were issued in the context of the resolutions adopted to this end by the Extraordinary General Meeting of May 4, 2016. The number of voting securities of Fagron amounted to 54,738,214. The total number of voting rights (denominator) amounted to 54,738,214. The authorized capital amounted to 460,109,177.55 euros.

On July 1, 2016, the authorized capital was reduced by 54,182,316.27 euros by making up transferred losses without the cancellation of shares. The number of voting securities of Fagron amounted to 54,738,214. The total number of voting rights (denominator) amounted to 54,738,214. The authorized capital amounted to 405,926,861.28 euros.

On July 7, 2016, 17,105,690 new shares were issued in the context of the resolutions adopted to this end by the Extraordinary General Meeting of May 4, 2016. The number of voting securities of Fagron amounted to 71,843,904. The total number of voting rights (denominator) amounted to 71,843,904. The authorized capital amounted to 494,192,221.68 euros.

At the time of preparation of this annual report, therefore, the capital amounts to four hundred ninety-four million one hundred ninety-two thousand two hundred twenty-one euros and sixty-eight euro cents (494,192,221.68 euros), represented by seventy-one million eight hundred forty-three thousand nine hundred four (71,843,904) shares, without indication of nominal value but with an accounting par value of one seventy-one million eight hundred forty-three thousand nine hundred fourth (1/71,843,904th) part of the capital.

Shareholder structure and notifications of shareholding

Based on the notifications of shareholding received by the Company as of March 31, 2017, and taking into account the denominator, the shareholder structure of the Company is as shown in the table on the next page.

The notifications are also available on the corporate website (www.fagron.com), in the section 'Investors'.

In accordance with Article 11 of the Company's Articles of Association, the applicable quota for the application of Articles 1-4 of the Act of March 2, 1989 on the disclosure of significant participations in listed companies and regulation of public acquisition bids are determined at 3%, 5% and multiples of 5%.

Conflicts of interest

The procedure from Article 523 of the Belgian Companies Code was applied four times in 2016, specifically during the meetings of the Board of Directors on February 4 (Process update and financing status), May 2 (Capital increase and Long Term Waiver), May 9 (Granting of discharge to the members of the Executive Committee) and June 13 (Approval of Warrant Plan 2016).
The passage from the minutes of the particular decision is presented verbatim below, stating the reasons for the conflict of interest as well as the explanation and property-law consequences for the Company.

Extract from the minutes of the Board of Directors of February 4, 2016:
Process update and financing status
Prior to the discussion of this agenda item, Mr. Stols reported that he had a conflict of interest in relation to this agenda item and agenda item 8, which concerned the granting of exclusivity for negotiations with investors (which he was asked to be a part of) in the sense of Article 523 of the Belgian Companies Code. He would refrain from the deliberation and decision making on these agenda items.
For Mr. Stols, this conflict of interest arises from the fact that he is CEO and executive director of the Company, on the one hand, and, on the other, is a member of the group of investors who will invest in the company on condition that Waterland will invest in the company, and under the same conditions. Mr. Stols will notify the Company's Statutory Auditor of his conflict of interest.

Description of the decision and justification:
The proposed decision concerns the granting of exclusivity of negotiations to Waterland, in order to arrive at a binding subscription commitment to the Company on the basis of which a number of investors, including Mr. Stols, will likewise invest in the Company, under the same conditions, on condition that this subscription commitment is fulfilled.
It is customary when private investors make investments that the CEO is asked to also invest to a limited extent in the Company under the same conditions so as to guarantee the CEO's dedication to the proposed investment in the Company for the coming years.

The property-law consequences are as follows:
The exclusivity of negotiations with Waterland could result in agreement being reached with Waterland that it will invest in the company under conditions under which Mr. Stols will likewise invest and acquire shares in the Company. Furthermore, this exclusivity means that, until the exclusivity expires or an agreement with Waterland is reached, no further talks are held with other interested investors.
Mr. Peeters updated the Board of Directors on the current process, indicating that the investment proposal from Waterland was the most advanced, offered the most favorable conditions for the Company and its shareholders and had the greatest chance of success given the lack of commitment that had characterized treatment of the dossier to date by other interested investors. Waterland's offer was set out and explained. It was proposed that Waterland be given exclusivity for two weeks in order to persuade it to issue a binding offer.

RESOLUTION: To grant Waterland exclusivity of negotiations for two weeks, based on an exclusivity letter to be agreed on.

Extract from the minutes of the Board of Directors of May 2, 2016:
Capital increase and Long Term Waiver
Prior to the discussion of this agenda item, Mr. Stols reported that he had a potential conflict of interest in the sense of Article 523 of the Belgian Companies Code in relation to the approval of the Long Term Waiver and the Capital Increase.
For Mr. Stols, this conflict of interest arose from the fact that he would be participating in the First Tranche of the Capital Increase of the Company as an individual investor, on condition that WPEF VI Holdco III B.V. would invest in the first tranche and the investment by WPEF VI Holdco III B.V. is conditional on, among other things, the reaching of a long-term solution with the Company's financiers concerning the existing financing documentation which will be formalized by the signing of the Long Term Waiver. This means that Mr. Stols has an (indirect) financial interest in the approval of the Capital Increase and the Long Term Waiver during this meeting. Mr. Stols will notify the Company's Statutory Auditor of his conflict of interest. Since he would not be participating in the deliberations and decision making or voting on the approval of the Capital Increase and Long Term Waiver, he took his leave of the meeting.

Description of the decision and justification:
The signing of the Long Term Waiver and the Capital Increase is in the interest of the Company since the Long Term Waiver will provide a long-term solution for the Company in satisfying its financial covenants and the Capital Increase will (once again) give the Company sufficient flexibility to operate its business. The signing of the Long Term Waiver is also required as a condition for the successful effectuation of the Capital Increase as announced on March 2, 2016.

The property-law consequences are as follows:
If the Long Term Waiver were not signed, the Company could possibly face breach of its financial covenants for the period ending June 30, 2016. This scenario could possibly result in a default under the bonds issued by the Company on July 2, 2012 (for an amount of 225,000,000 euros) and in a default

under the Company's bilateral debt agreements. The signing of the Long Term Waiver is, moreover, a key requirement for effectuation of the Capital Increase.

RESOLUTION: To approve the Capital Increase and the Long Term Waiver and authorize the management to implement the documentation drawn up.

Extract from the minutes of the Board of Directors of May 9, 2016:
Granting of discharge to board members
Prior to the discussion of this agenda item, Mr. Stols reported that he may have a conflict of interest within the meaning of Article 523 of the Belgian Companies Code in the granting of discharge in his capacity as a member of the Company's Executive Committee during the 2015 financial year.
For Mr. Stols, this conflict of interest arises from the fact that he is a director of the Company, on the one hand, and, on the other, served as a member of the Company's Executive Committee during (part of) the 2015 financial year.
Mr. Stols will notify the Company's Statutory Auditor of his conflict of interest.
Mr. Stols will not participate further in the deliberations or in the vote on the granting of discharge to himself and will take leave of the meeting when the resolution on the discharge of Mr. Stols is taken.
The conflict of interest regulations also apply with regard to Mr. Peeters, who, however, is absent at the moment of the deliberations and the vote on the agenda item.

Description of the decision and justification:
The proposed decision concerns the granting of discharge to every one of the Executive Committee members individually for the way in which he/she performed his/her directorship during the 2015 financial year.

The property-law consequences of granting discharge are as follows:
The consequence of granting discharge is that none of the Executive Committee members can be held personally financially liable by the Board of Directors for errors and breaches committed in the performance of his or her assignment.

During the course of the 2015 financial year, the Board of Directors was given full insight at regular times into all important decisions of the Executive Committee and the Board of Directors was adequately able, on the basis of this, to determine that every one of the individual members of the Executive Committee performed his/her assignment properly during the 2015 financial year, with the exception of Mr. Jacob Jackson, for whom a reservation was formulated.
Furthermore, the granting of discharge to Mr. Ger van Jeveren constitutes part of the compromise agreement concluded with Mr. Van Jeveren upon his departure on December 12, 2015.

RESOLUTION: In individual votes (one for each Executive Committee member), the Board of Directors unanimously resolved to grant every one of the Executive Committee members discharge individually (Ger van Jeveren, Jan Peeters, Karin de Jong, René Clavaux, Constantijn van Rietschoten, Rafael Padilla, Michaël Hillaert and Hans Stols) for the way in which he/she performed his/her mandate and assignment during the 2015 financial year.

Extract from the minutes of the Board of Directors of June 13, 2016:
Conflict of interest regulations
Before the discussion concerning the agenda commences, Mr. Hans Stols, executive director of the Company, announces that in his view, a conflict of interest of a property-law nature could arise in relation to the decisions that the Board of Directors will take with a view to approving a warrant plan since he is also a beneficiary of that.
The Board of Directors takes note of this conflict of interest and the fact that this was also communicated by the particular director to the Company's Statutory Auditor.
In accordance with the provisions of Article 523 of the Belgian Companies Code - and taking into account the fact that the Company has drawn publicly on the savings system - the particular director is asked to refrain from the further deliberations and voting on the approval of the "Warrant Plan 2016" and the granting thereunder.

The particular director consequently refrained from participating in the deliberations and voting hereon.

The grounds for justification concerning the aforementioned conflict of interest are:
The initiative taken by the Board of Directors at the proposal of the Nomination and Remuneration Committee to launch the "Warrant Plan 2016" has the aim of encouraging the beneficiaries of the plan to contribute to the growth of the business on the one hand, and to promote and strengthen their loyalty to the business on the other.

The property-law consequences are as follows:
The property-law consequences for the company arising from the fact of granting warrants to the aforementioned executive director are not known at this moment since the granting of the warrants to the aforementioned executive director in essence constitutes granting by the Board of Directors of variable remuneration, the main parameters of which, such as the granting price and exercise price, are not yet known.
The financial consequences of the warrants consist of an accounting cost estimated to be between 2.3 and 3.7 million euros and, in the event of exercise, dilution for the existing shareholders.

The Warrant Plan 2016 has been appended to these minutes as Annex 6. The Board of Directors discusses and examines the "Warrant Plan 2016."

RESOLUTION: To approve the "Warrant Plan 2016."

Acquisition of treasury shares

The Extraordinary General Meeting of June 16, 2009 granted the Company's Board of Directors the additional authorization to buy back treasury shares for a period of five years from June 16, 2009, for a price of no less than 1 euro and no more than the average of the closing prices in the ten working days prior to the date of the acquisition or exchange, plus 10%, in such a manner that the Company at no time owns shares in its own capital with an accounting par value in excess of 20% of the Company's issued capital.
This authorization expired on June 16, 2014 and the Extraordinary General Meeting of December 12, 2014 subsequently granted the Board of Directors a new authorization to buy back treasury shares, up to a maximum of ten percent (10%) of the issued capital, by acquisition or exchange, directly or via an intermediary acting on his own account or on the company's behalf, for a price of no less than 1 euro and no more than the average of the closing prices in the ten working days prior to the date of the acquisition or exchange, plus 10%, in such a manner that the Company at no time owns shares in its own capital with an accounting par value in excess of 10% of the Company's issued capital.

The Company did not buy back any shares in its capital in 2016 and transferred 224,133 shares in its capital to the former owners of AnazaoHealth in the context of earn-out obligations. As of December 31, 2016, Fagron held 103,627 treasury shares.

Warrants

On September 6, 2007, the Company's Board of Directors approved three warrant plans for employees, for directors/ managers/consultants of Fagron NV and/or its subsidiaries, and for shareholders of Omega Pharma NV who had subscribed for shares in the priority tranche in the Arseus NV IPO. The Board of Directors is of the opinion that the possibility for employees, key third parties and consultants to participate forms a key stimulus for the Company's further expansion and growth.

The warrants of the Offer expired in January 2011. On February 16, 2011, 1,018 new shares were issued as a result of the exercise of warrants under the Warrant Plan of the Offer.
Pursuant to a decision taken by the Board of Directors dated May 11, 2009, held in the presence of the notary Mr. Dirk van Haesebrouck, the period during which the warrants granted to beneficiaries prior to August 31, 2008 in the context of Warrant Plan 1 (employee plan) are exercisable was extended by five years to December 17, 2020, in accordance with the Belgian Amendment Act (Herstelwet).

The General Meeting of May 10, 2010 ratified the decision of the Board of Directors of July 13, 2009 extending the exercise period for the rights granted to the beneficiaries before August 31, 2008 in the context of Warrant Plan 2 (plan for directors/managers/ consultants) by five years, in other words until December 17, 2017, on the understanding that beneficiaries exercising their rights following the expiry of the initial period (in other words, exercising rights after December 17, 2012) will solely be entitled to acquire existing, instead of new, shares in the Company.

In 2011, a total of 20,749 warrants were exercised under Warrant Plans 1 and 2. On June 16, 2011, 20,749 new shares were issued as a result of the exercise of warrants under Warrant Plans 1 and 2.
In 2012, a total of 61,626 warrants were exercised under Warrant Plans 1 and 2. On June 14, 2012, 61,626 new shares were issued as a result of the exercise of warrants under Warrant Plans 1 and 2.
In 2013, a total of 79,844 warrants were exercised under Warrant Plans 1 and 2. On June 13, 2013, 79,844 new shares were issued as a result of the exercise of warrants under Warrant Plans 1 and 2.
In 2014, a total of 73,002 warrants were exercised under Warrant Plans 1 and 2. On June 13, 2014, 73,002 new shares were issued as a result of the exercise of warrants under Warrant Plans 1 and 2. In addition to this, 48,625 warrants were exercised under Warrant Plan 2, for which existing shares of the Company were provided.

In 2015, a total of 12,301 warrants were exercised under Warrant Plans 1 and 2. On June 5, 2015, 12,301 new shares were issued as a result of the exercise of warrants under Warrant Plans 1 and 2. In addition to this, 10,000 warrants were exercised under Warrant Plan 2, for which existing shares of the Company were provided.

In 2016, no warrants were exercised under Warrant Plans 1 and 2.

On June 3, 2014, the Company's Board of Directors approved the 2014 Warrant Plan for employees and managers/ consultants of Fagron NV and/or its subsidiaries, which decision was ratified by resolution by the Board of Directors dated September 2, 2014 in the presence of civil-law notary Luc De Ferm. The Board of Directors is of the opinion that the possibility for employees and managers/consultants to participate forms an important stimulus for the Company's further expansion and growth.

On June 13, 2016, the Company's Board of Directors approved the Warrant Plan 2016 for employees and managers/ consultants of Fagron NV and/or its subsidiaries, which decision was ratified by resolution by the Extraordinary General Meeting of July 1, 2016 in the presence of civil-law notary Liesbet Degroote, in which it was decided that 1,000,000 warrants would be issued. The Board of Directors is of the opinion that the possibility for employees and managers/consultants to participate forms an important stimulus for the Company's further expansion and growth.

For further details regarding the conditions of Warrant Plans 1, 2, 2014 and 2016 and the movements in the number of warrants during the 2016 financial year, see Note 21 to the consolidated financial statements.

Stock options

On December 7, 2009, the Company's Board of Directors approved the Stock Option Plan 2009 for directors, consultants and employees of Fagron NV and/ or its subsidiaries.
The Stock Option Plan 2009 was approved by the Extraordinary General Meeting of January 27, 2010.

With the Stock Option Plan 2009, the Board of Directors aims to create a long-term incentive for persons who can make a significant contribution to the Company's success, growth and value creation. The Stock Option Plan 2009 is regarded as an important retention tool and aims to create a common interest between the Company's option holders and shareholders, aimed at an increase in the value of the Company's shares.

The Stock Option Plan 2009 can be consulted at the corporate website (www.fagron.com) in the section 'Investors'.

In 2010, 987,500 stock options were awarded under the Stock Option Plan 2009.
In 2012, a total of 127,250 stock options were exercised under the Stock Option Plan 2009.
In 2013, 328,250 stock options were exercised under the Stock Option Plan 2009.
In 2014, 282,500 stock options were exercised under the Stock Option Plan 2009.
In 2015, 246,000 stock options were exercised under the Stock Option Plan 2009.
In 2016, no stock options were exercised under the Stock Option Plan 2009.

On October 27, 2011, the Company's Board of Directors approved the Stock Option Plan 2011 for consultants and employees of Fagron NV and/or its subsidiaries, under the suspensive condition of approval by the General Meeting. The Stock Option Plan 2011 was presented for approval to the Annual General Meeting held on May 14, 2012, which approved the Stock Option Plan 2011.

In the context of the Stock Option Plan 2011, the Board of Directors intends to (i) better align the new managers joining the group (through acquisitions or otherwise) with Fagron's long-term success, and (ii) be able to give existing managers an extra financial incentive when they are promoted by offering them options.

The Stock Option Plan 2011 can be consulted at the corporate website (www.fagron.com) in the section 'Investors'.

In 2012, a total of 250,000 stock options were awarded under the Stock Option Plan 2011.
In 2014, 22,500 stock options were exercised and 4,650 stock options were awarded under the Stock Option Plan 2011.
In 2015, 27,500 stock options were exercised under the Stock Option Plan 2011.
In 2016, no stock options were exercised under the Stock Option Plan 2011.

For further details regarding the conditions of Stock Option Plans 2009 and 2011 and the movements in the number of stock options during the 2015 financial year, see Note 21 to the consolidated financial statements.

Authorized capital

The Extraordinary General Meeting on June 5, 2012 decided to renew the authorization of the Board of Directors to increase the authorized share capital, with a majority of at least three fourths of the votes and within the limits of the existing authorization as set out in Article 5bis of the Articles of Association, in one or more rounds by a maximum amount of 320,023,050.35 euros, within a period of five years from the date of announcing such a decision in the Appendices to the Belgian Official Gazette (June 29, 2012).

On September 2, 2014, the Board of Directors issued 2,140,000 warrants in the context of the authorized capital.

On June 29, 2015, 224,133 new shares were issued in the context of the authorized capital. The number of voting securities of Fagron amounted to 31,667,794. The total number of voting rights (denominator) amounted to 31,667,794. The authorized capital amounted to 322,217,493.06 euros in order to increase the capital by 2,297,363.25 euros in the context of the authorized capital by contribution in kind upon the issue of new shares bringing it to 324,514,856.31 euros.

On August 4, 2015, 444,033 new shares were issued in the context of the authorized capital. The number of voting securities of Fagron amounted to 32,111,827. The total number of voting rights (denominator) amounted to 32,111,827. The authorized capital amounted to 324,514,856.31 euros in order to increase the capital by 4,551,338.25 euros in the context of the authorized capital by contribution in kind upon the issue of new shares bringing it to 329,066,194.56 euros.

Since the granting of the authorized capital authorization to the Board of Directors, the Company's capital was therefore increased by 6,848,701.50 euros (on June 29, 2015 and August 4, 2015).

No use was made during the 2016 financial year of the authorized capital authorization.

If the capital is increased within the limits of the authorised capital then the Board of Directors will be competent to request payment of a share premium. If the Board of Directors so decides, this issue premium will be deposited into a blocked account, called 'issue premium', which will constitute the guarantee of third parties to the same extent as the authorized capital, and which can only be disposed of, notwithstanding the possibility of converting this premium into capital, in accordance with the conditions for reducing authorized capital stipulated by the Belgian Companies Code.

This power of the Board of Directors will apply to capital increases that are subscribed to in cash or in kind, or that result from capitalization of reserves with or without the issue of new shares. The Board of Directors is permitted to issue convertible bonds or warrants within the limits of the authorized capital.

This authorization of the Board of Directors to increase the authorized share capital, with a majority of at least three fourths of the votes and within the limits of the existing authorization as set out in Article 5bis of the Articles of Association, in one or more rounds, within a period of five years from the date of announcing such a decision in the Appendices to the Belgian Official Journal (June 29, 2012) expires on June 29, 2017. The Board of Directors will propose to an Extraordinary General Meeting which will be held immediately following the Annual General Meeting that the current authorization be revoked and a new authorization be granted for a new 5-year period.

Statutory Auditor

Fagron's Statutory Auditor is CVBA PricewaterhouseCoopers Bedrijfsrevisoren, a company governed by Belgian law with registered office at Woluwedal 18, 1932 Sint-Stevens-Woluwe. This company has designated Peter Van den Eynde, statutory auditor, as representative who is authorized to represent it and who is charged with performing the mandate in the name of and for the account of the BCVBA. CVBA PricewaterhouseCoopers Bedrijfsrevisoren was appointed in 2016 as Fagron's Statutory Auditor for a term of three financial years, ending on the date of the Annual General Meeting to be held in 2019.

PricewaterhouseCoopers received a total annual Audit fee of 473,378.00 euros in 2016. Of this, 107,750.00 euros was in relation to Fagron NV. It will be proposed to the General Meeting of Shareholders on May 8, 2017 to approve this remuneration.
Details about the remuneration of the Statutory Auditor in 2016 can be found in Note 31 to the financial statements.

Remuneration Report

Remuneration for non-executive directors
The non-executive directors do not receive any performance-based remuneration, or any benefits in kind or benefits connected with pension schemes.
The chairman of the Board of Directors receives an annual fee of 60,000 euros, irrespective of the number of committees of which the chairman is a member, and (ii) the other non-executive directors of the Company receive an annual fee of 30,000 euros, plus 7,200 euros per committee of which they are a member.
In concrete terms, this means that the remunerations as shown in the table on page 72 were paid in 2016.

Remuneration policy for executive directors and members of the Executive Committee
The remuneration of executive directors follows entirely from their executive positions. The members of the Executive Committee do not receive a separate remuneration for their membership of the Board of Directors. The following principles were applied in 2016 for the policy for executive directors and members of the Executive Committee:

On the one hand there is a fixed remuneration. This remuneration is based on market rates, taking account of the size of the company, the sector, the growth profile and the profitability. On the other hand there is also variable remuneration in cash. For the CEO, this remuneration amounts to a maximum of 120% of the fixed annual remuneration and for the other members of the Executive Committee, to a maximum of 60% of the fixed annual remuneration.
The executive directors and the members of the Executive Committee do not receive any long-term result-related share-based incentive programs.

(in euros)	
Robert Peek	60,000.00
Luc Vandewalle*	33,300.00
Nathalie van Woerkom*	17,741.00
AHOK BVBA, permanently represented by Mr. Koen Hoffman*	18,500.00
Vanzel G.Comm.V., permanently represented by Ms. Giulia Van Waeyenberge*	15,500.00
Holdco FV B.V., permanently represented by Mr. Frank Vlayen*	21,750.00
Matthias Geyssens*	21,750.00
WPEF VI Holdco III BE B.V., permanently represented by Ms. Nathalie Clybouw*	18,750.00
Filip Balcaen*	12,500.00
Marc Janssens*	6,250.00
Aubisque BVBA, permanently represented by Ms. Freya Loncin*	12,500.00
Alychlo NV, permanently represented by Mr. Marc Coucke*	6,250.00
Michael Schenck BVBA, permanently represented by Mr. Michael Schenck*	21,750.00

* Amounts prorated to the term served by the directors.

Currently there is no intention to implement any amendments to the remuneration policies for the executive directors and the members of the Executive Committee in the coming two years.
As part of the sale of Omega Pharma's 24.04% interest and Couckinvest's 1.06% interest to Waterland, the Board of Directors approved a stock option plan amounting to 1,000,000 stock options on December 7, 2009.
This stock option plan aims to provide an additional incentive to the directors and management of the Company.
The plan was approved by the Extraordinary General Meeting of Shareholders on January 27, 2010.
The executive members of the Board of Directors and the members of the Executive Committee were granted stock options in January 2010.
In 2012 a total of 125,000 stock options were exercised under the Stock Option Plan 2009 by the executive members of the Board of Directors and members of the Executive Committee. In 2013 a total of 295,000 stock options were exercised under the Stock Option Plan 2009 by the executive members of the Board of Directors and members of the Executive Committee.

In 2014 a total of 210,000 stock options were exercised under the Stock Option Plan 2009 by the executive members of the Board of Directors and members of the Executive Committee.

In 2015 a total of 189,500 stock options were exercised under the Stock Option Plan 2009 by the executive members of the Board of Directors and members of the Executive Committee.

In 2016, no stock options were exercised under the Stock Option Plan 2009 by the executive members of the Board of Directors or members of the Executive Committee.

On May 14, 2012, the Annual General Meeting approved the Stock Option Plan 2011 for consultants and employees of Fagron NV and/or its subsidiaries.
This stock option plan aims to provide an additional incentive to the directors and management of the Company.
The Stock Option Plan 2011 can be consulted at the corporate website (www.fagron.com) in the section 'Investors'.

In 2012, 105,000 stock options were granted to the executive members of the Board of Directors under the Stock Option Plan 2011.

In 2013, no stock options were exercised under the Stock Option Plan 2011 by the executive members of the Board of Directors or members of the Executive Committee.

In 2014, no stock options were exercised under the Stock Option Plan 2011 by the executive members of the Board of Directors or members of the Executive Committee.

In 2015, 8,750 stock options were exercised under the Stock Option Plan 2011 by the executive members of the Board of Directors and members of the Executive Committee.

In 2016, no stock options were exercised under the Stock Option Plan 2011 by the executive members of the Board of Directors or members of the Executive Committee.

On September 2, 2014, the Board of Directors approved and awarded the Warrant Plan 2014 for consultants and employees of Fagron NV and/or its subsidiaries.

This warrant plan aims to provide an additional incentive to the directors and management of the Company. The Warrant Plan 2014 can be consulted at the corporate website (www.fagron.com) in the section 'Investors'.

In 2015, no warrants were granted to certain directors and the management of the Company under the Stock Option Plan 2014.

In 2016, no warrants were granted to certain directors and the management of the Company under the Stock Option Plan 2014. The Extraordinary General Meeting of July 1, 2016 approved the Warrant Plan 2016 for consultants and employees of Fagron NV and/or its subsidiaries.
This warrant plan aims to provide an additional incentive to the directors and management of the Company. The Warrant Plan 2016 can be consulted at the corporate website (www.fagron.com) in the section 'Investors'.
In 2016, 983,091 warrants were granted to certain directors and the management of the Company under the Warrant Plan 2016.

For further details regarding the warrants/stock options, see Note 21 to the consolidated financial statements.

Evaluation criteria for bonuses paid to members of the Executive Committee on the basis of the performance of the Company or its business units
The criteria to be taken into account in 2016 for the award of performance-related bonuses to members of the Executive Committee are 75% based on financial targets, particularly on (1) turnover, (2) and REBITDA, each of these two components being assessed on an equal basis. For the remaining 25%, the criteria are based on personal/discretionary targets that are clearly defined and set down in writing annually.

The variable remuneration is granted on the basis of these financial and personal targets that are fixed and evaluated annually. The management agreements do not explicitly provide a reclaim right for the Company regarding any variable allowances that are awarded based on incorrect financial data.

Article 520ter of the Belgian Companies Code states that as of the 2011 financial year, excepting where the Articles of Association explicitly state otherwise or upon explicit approval by the General Meeting, the variable remunerations must be spread out over time as follows:

- 50% of the variable remunerations may be related to performance in the particular year (in this case, 2016) and is paid out after one year therefore;
- the remainder must be spread out over at least the two following years, whereby at least 25% must be based on performance over a period of at least three years, therefore 25% in 2017 and 25% in 2018.
  This mandatory spread does not apply if the variable remuneration amounts to 25% or less of the annual remuneration.
  The Nomination and Remuneration Committee is of the opinion, however, that there are justified reasons why it would not be opportune for Fagron to change its current bonus system, based on annual targets, and to link it to long-term objectives over two and three years for the sake of the following reasons and has therefore advised that Fagron's current bonus system based on annual targets be retained:
  - First of all, Fagron's Executive Committee is already strongly aligned with Fagron's long-term performance via the current warrant and stock option plans;
  - Moreover, Fagron also pursues an active buy-and-build strategy, which makes it neither simple nor opportune to set long-term targets relevant for Fagron in advance.

The use of long-term turnover, net income or EBIT targets would be pointless if significant acquisitions were to take place in the course of the subsequent years.

The Extraordinary General Meeting of May 14, 2012 gave its approval for the amendment of Article 26 of the Articles of Association to allow the Board of Directors to forgo application of the spread variable remuneration as provided for in Article 520ter of the Belgian Companies Code.

Remuneration of the CEO and the other members of the Executive Committee

The first table on page 74 provides information on the remuneration package for 2016.

The second table on page 74 provides information on the warrants and stock options awarded.
Note 21 of this annual report contains further details about the warrant and stock option plans.

The General Meeting of May 10, 2010 ratified the decision of the Board of Directors of July 13, 2009 extending the exercise period for the rights granted to the beneficiaries before August 31, 2008 in the context of Warrant Plan 2 (plan for directors/managers/consultants) by five years, in other words until December 17, 2017, on the understanding that beneficiaries exercising their rights following the expiry of the initial period (in other words, exercising rights after December 17, 2012) will solely be entitled to acquire existing, instead of new, shares in the Company.

Information on severance pay

A new management contract was concluded with Mr. Peeters' management company in 2010. This management contract provides for an 18-month notice period in the event the contract is terminated, or a fixed severance package, equal to the amount of the monthly fixed remuneration owed over 18 months, plus one and a half times the average of the variable remuneration granted over the last three calendar years prior to the calendar year in which the contract is terminated.

Although the Corporate Governance Act of April 6, 2010 prescribes that severance packages for executive directors and members of the Executive Committee may not exceed 12 months of fixed and variable remuneration, the Nomination and Remuneration Committee has advised in this case that a notice period of 18 months or severance pay of maximum 18 months be used, because of the many years served by Mr. Peeters within the Group. If, however, the service provider has not achieved 50% of the financial targets set annually, in implementation of Principle 7.18 of the Belgian Corporate Governance Code 2009, the notice period shall be 12 months in the event of termination with observance of a notice period. In the event of termination with payment of a fixed severance package, this severance pay will only be equal to the amount of the monthly fixed remuneration owed for 12 months. The management contract with Mr. Peeters was terminated in mutual consultation as of May 9, 2016 with continued payment of his remuneration until December 31, 2016.

Remuneration package

Information on remuneration (in euros)	CEO*	Total excluding CEO	Note
Base salary / remuneration		1,570,585	Concerns the gross salary of the other members of the Executive Committee during the term of the position.
Hans Stols	600,000		
Variable remuneration	720,000	333,250	Concerns the variable remuneration for 2016, during the term of the position, paid out in 2017.
Pension and other components		116,294	Concerns costs for pensions, insurances and the cash value of the other benefits in kind. A maximum pensionable salary of 100,000 euros applies.
Hans Stols	36,000		
Share options/warrants	513,091	380,000	Concerns the number of warrants granted to the CEO and the other members of the Executive Committee under the Warrant Plan 2016.

* Upon his appointment, Mr. Stols received the same remuneration package as Mr. Van Jeveren. More information on this can be found below in the section on 'Remuneration of the CEO'.

Information on stock options / warrants

Information on stock options / warrants	Balance as at 12/31/2015	Awarded in 2016	Exercised in 2016	Due as per 2016	Balance as at 12/31/2016
CEO – Hans Stols	0	513,091 (warrants)	0	0	513,091 (warrants)
CFO – Karin de Jong	35,375 (warrants)	50,000 (warrants)	0	375	85,000 (warrants)
Other members of the Executive Committee	277,500 (stockopties en warrants)	330,000 (warrants)	0	0	607,500 (stock options and warrants)

As of December 14, 2015, a management contract was concluded with Mr. Stols in the context of his appointment as CEO, under conditions identical to those which applied for Mr. Van Jeveren, on the understanding that if the contract is terminated, a notice period of 12 months is provided for.

From January 1, 2015, none of the other members of the Executive Committee is entitled to a severance package that exceeds a sum equal to 12 months of fixed and variable remuneration.

Annual information

A summary of the 'annual information' as referred to in Title X of the Belgian Act of June 16, 2006 on the public offer of investment instruments and the trading of investment instruments on the regulated market (Prospectus Act) is provided below. All this information can be found on the corporate website (www.fagron.com) in the section 'Investors'. Some of this information may be out of date.

Prospectus
Fagron NV (at the time: Arseus NV) issued a prospectus on September 11, 2007 for the IPO as an independent company.

On June 12, 2012, Fagron NV (at the time: Arseus NV) issued a prospectus with a view to the Public Offering and admission to the trading of the Bonds on the regulated market of Euronext Brussels.

On June 16, 2016, Fagron NV issued a prospectus with a view to the Public Offering and admission to the trading of new shares on the regulated market of Euronext Brussels.

Information to the shareholders
Is part of the prospectus of September 11, 2007 and of June 16, 2016.

Periodic press releases and information 2016

February 5, 2016	Annual figures 2015: Turnover increased 5.8% to € 473.0 million.
April 12, 2016	Trading update, first quarter 2016: Turnover from continued operations increased 0.9% to € 103.6 million
August 5, 2016	Half-year figures 2016: Organic turnover growth in Europe, Brazil and in US-based sterile activities
October 12, 2016	Trading update, third quarter 2016: Fagron realises turnover of € 103.4 million

Periodic press releases and information in the period from January 1, 2017 to April 5, 2017

February 7, 2017	Annual figures 2016: Fagron realises turnover of € 421.8 million

Occasional press releases and information 2016

March 2, 2016	Negotiations with investors in Fagron concluded successfully
March 15, 2016	Convocation Extraordinary General Shareholders Meeting
March 23, 2016	Disclosure of received notification
April 1, 2016	Fagron obtains extension of waivers from financiers
April 8, 2016	Convocation Annual General Meeting
April 12, 2016	Disclosure of received notification
April 14, 2016	Disclosure of received notification
April 15, 2016	Convocation Extraordinary General Shareholders Meeting
April 25, 2016	Disclosure of received notification
April 30, 2016	Publication of guarantor list and compliance certificate
May 6, 2016	Fagron shareholders approve all proposed resolutions during extraordinary general meeting of shareholders
May 10, 2016	Fagron shareholders approve all proposed resolutions during annual shareholders meeting
May 13, 2016	Disclosure of received notifications
May 17, 2016	Last condition precedent for capital increase with regard to Bellevue Pharmacy fulfilled
May 18, 2016	Disclosure of received notification
May 19, 2016	Disclosure of received notification
May 20, 2016	First tranche capital increase of Fagron completed
May 26, 2016	Disclosure of received notifications
May 30, 2016	Disclosure of received notification
June 1, 2016	Convocation Extraordinary General Shareholders Meeting
June 16, 2016	Capital increase with preferential subscription rights of maximum €88,265,360.40 through issuance of maximum 17,105,690 new shares at an issue price of €5.16 per share
July 4, 2016	Fagron shareholders approve all proposed resolutions during extraordinary general meeting of shareholders

Occasional press releases and information 2016

July 5, 2016	94.62% take up of Rights Offering
July 5, 2016	Successful completion of the Offering / Completion of the Scrips Private Placement
July 12, 2016	Disclosure of received notification
July 15, 2016	Disclosure of received notification
July 22, 2016	Fagron receives claim with regard to acquisition of AnazaoHealth
July 29, 2016	Disclosure in accordance with the Law of May 2, 2007
September 2, 2016	Disclosure of received notification
September 30, 2016	Publication of guarantor list and compliance certificate
October 17, 2016	Karin de Jong joins Board of Directors

Notifications of shareholding received in 2016

March 18, 2016	Carmignac Gestion
April 8, 2016	The Goldman Sachs Group, Inc.
April 13, 2016	The Goldman Sachs Group, Inc.
April 22, 2016	The Goldman Sachs Group, Inc.
May 10, 2016	The Goldman Sachs Group, Inc.
May 12, 2016	The Goldman Sachs Group, Inc.
May 17, 2016	The Goldman Sachs Group, Inc.
May 18, 2016	The Goldman Sachs Group, Inc.
May 23, 2016	Visium Asset Management, LP, JG Asset, LLC and Jacob Gottlieb
May 23, 2016	Alychlo NV and Marc Coucke
May 25, 2016	The Goldman Sachs Group, Inc.
May 26, 2016	Waterland Private Equity Fund VI C.V., Filip Balcaen and Fagron NV
July 7, 2016	Alychlo NV and Marc Coucke
July 13, 2016	Waterland Private Equity Fund VI C.V., Filip Balcaen and Fagron NV
August, 30 2016	Adrianus van Herk


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Consolidated financial statements 2016

FAGRON

Financial annual report 2016

Consolidated financial statements

The Report of the Board of Directors and the Corporate Governance Statement, as reported before, are an integral part of the consolidated financial statements.

Statement

We declare that, to the best of our knowledge, the consolidated financial statements for the year ended December 31, 2016, prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, and the legal and regulatory requirements applicable in Belgium, reflect a true and fair view of the equity, the financial situation and the results of the company and the companies that are included in the consolidation scope, and that the annual report provides a true and fair view of the development and the results of the company and of the position of the company and the companies included in the consolidation scope, and provides a description of the main risks and uncertainties they are faced with.

In the name and on behalf of the Board of Directors,

Hans Stols, CEO
Karin de Jong, CFO
April 7, 2017

Consolidated income statement

(x 1,000 euros)	Note	2016	2015[1]
Operating income		**425,054**	**436,182**
Turnover	6	421,839	427,560
Other operating income	7	3,215	8,622
Operating expenses		**407,173**	**407,336**
Trade goods		158,191	158,316
Services and other goods		79,218	77,535
Employee benefit expenses	8	96,801	103,839
Depreciation and amortization	9	21,119	16,111
Impairment	9	48,364	47,338
Other operating expenses	10	3,480	4,197
Operating profit		**17,881**	**28,845**
Financial income	11	12,996	2,013
Financial expenses	11	(37,242)	(46,967)
Profit before income tax		**(6,364)**	**(16,108)**
Taxes	12	11,748	8,840
Net result for the year from continuing operations		**(18,112)**	**(24,948)**
Net result from discontinued operations (attributable to shareholders)	13	(2,045)	(177,064)
Net result		**(20,157)**	**(202,012)**
Attributable to:			
Equity holders of the company (net result)		(20,562)	(202,328)
Non-controlling interests		405	315
Earnings per share from continuing and discontinued operations attributable to the equity holders of the parent entity during the year attributable to the ordinary equity holders of the parent entity			
Profit (loss) for the year per share (in euros)	14	**(0.38)**	**(6.46)**
From continuing operations	14	(0.34)	(0.81)
From discontinued operations	14	(0.04)	(5.66)
Diluted profit for the year per share (in euros)	14	**(0.38)**	**(6.44)**
From continuing operations	14	(0.34)	(0.80)
From discontinued operations	14	(0.04)	(5.63)

[1] The consolidated income statement for 2015 has been revised for application of IFRS 5.

Consolidated statement of comprehensive income

(x 1,000 euros)	Note	2016	2015[2]
Profit for the year		**(20,157)**	**(202,012)**
Other comprehensive income			
Items that will not be reclassified to profit or loss	23		
• Remeasurements of post-employment benefit obligations		(599)	791
• Tax relating to items that will not be reclassified		150	264
Items that may be subsequently reclassified to profit or loss			
• Currency translation differences		22,077	(26,335)
Other comprehensive income for the year net of tax		**21,628**	**(25,280)**
Total comprehensive income for the year		**1,471**	**(227,292)**
Attributable to:			
Equity holders of the company		1,088	(227,672)
Non-controlling interests		384	380
Total comprehensive income for the year		**1,471**	**(227,292)**
Total comprehensive income for the year attributable to equity owners of the company:			
From continuing operations		3,133	(50,608)
From discontinued operations	13	(2,045)	(177,064)
Total comprehensive income for the equity holders		**1,088**	**(227,672)**

[2] The consolidated statement of comprehensive income for 2015 has been revised for application of IFRS 5.

The unrealized exchange rate differences of 22.1 million euros are mainly due to the strengthening of the Brazilian real against the euro.

Consolidated statement of financial position

(x 1,000 euros)	Note	2016	2015
Non-current assets		**455,707**	**501,535**
Intangible fixed assets	15	371,006	410,601
Property, plant and equipment	16	72,879	71,133
Financial assets	17	2,123	5,859
Deferred tax assets	18	9,698	13,942
Current assets		**412,346**	**187,846**
Inventories	19	60,054	67,251
Trade receivables	20	32,879	34,090
Other receivables	20	23,829	11,031
Restricted funds	20	220,622	0
Cash and cash equivalents	20	74,962	75,474
Total assets		**868,053**	**689,381**
Equity	21	**152,875**	**(64,772)**
Shareholders' equity (parent)		149,792	(67,473)
Non-controlling interests		3,083	2,700
Non-current liabilities		**309,125**	**27,064**
Provisions	22	12,776	15,987
Pension obligations	23	5,680	5,146
Deferred tax liabilities	18	236	1,519
Borrowings	24	290,433	4,411
Current liabilities		**406,053**	**727,090**
Borrowings	24	290,559	594,908
Trade payables	25	53,163	63,043
Taxes, remuneration and social security	18	34,977	25,282
Other current payables	26	18,825	41,859
Financial instruments	24	8,530	1,996
Total liabilities		**715,178**	**754,154**
Total equity and liabilities		**868,053**	**689,381**

Consolidated statement of changes in equity

(x 1,000 euros)	Note	Share capital & share premium	Other reserves	Treasury shares	Profit carried forward	Total	Non-controlling interest	Total equity
Balance at January 1, 2015		**319,660**	**(223,781)**	**(20,235)**	**78,983**	**154,628**	**2,319**	**156,948**
Profit for the year					(202,328)	(202,328)	315	(202,013)
Other comprehensive income for the year			(25,344)			(25,344)	64	(25,280)
Total comprehensive income for the year			**(25,344)**		**(202,328)**	**(227,672)**	**379**	**(227,293)**
Capital increase		26,101				26,101		26,101
Treasury shares				4,792		4,792		4,792
Result on treasury shares				(3,380)		(3,380)		(3,380)
Dividends					(31,156)	(31,156)		(31,156)
Share-based payments			9,216			9,216		9,216
Balance at December 31, 2015		**345,760**	**(239,909)**	**(18,823)**	**(154,501)**	**(67,473)**	**2,700**	**(64,772)**
Profit for the year					(20,562)	(20,562)	405	(20,157)
Other comprehensive income for the year			21,650			21,650	-22	21,628
Total comprehensive income for the year			**21,650**		**(20,562)**	**1,088**	**384**	**1,471**
Capital increase	21	216,092				216,092		216,092
Treasury shares	21							
Result on treasury shares	21							
Dividends	21							
Share-based payments	21		85			85		85
Balance at December 31, 2016		**561,852**	**(218,174)**	**(18,823)**	**(175,063)**	**149,792**	**3,083**	**152,875**

Consolidated cash flow statement

(x 1,000 euros)	2016	2015[3]
Operating activities		
Profit before income tax from continuing operations	(6,364)	(16,108)
Profit before income tax from discontinued operations	(2,422)	(181,814)
Taxes paid	(12,831)	(19,413)
Adjustments for financial items	24,103	44,991
Total adjustments for non-cash items	62,049	243,835
Total changes in working capital	2,969	1,820
Total cash flow from operating activities	**67,504**	**73,311**
Investment activities		
Capital expenditure	(14,777)	(22,052)
Investments in existing shareholdings (subsequent payments) and in new holdings	(8,155)	(96,674)
Proceeds from disposal of assets	0	72,450
Total cash flow from investing activities	**(22,932)**	**(46,276)**
Financing activities		
Capital increase	216,092	106
Sale (purchase) of treasury shares	0	1,412
Dividends paid	0	(31,366)
New borrowings	147,814	100,289
Reimbursement of borrowings	(156,206)	(100,917)
Interest received	2,240	2,013
Interest paid	(38,501)	(32,998)
Total cash flow from financing activities	**171,438**	**(61,460)**
Total net cash flow for the period	**216,010**	**(34,426)**
Cash and cash equivalents – start of the period	75,474	108,552
Gains or losses on exchange on liquid assets	(4,100)	(1,349)
Cash and cash equivalents – end of the period (including restricted cash)	295,585	75,474
Changes in cash and cash equivalents (including restricted cash)	**216,010**	**(34,426)**
Net cash flow from discontinued operations		
Total cash flow from operating activities	(9,279)	8,474
Total cash flow from investment activities	(6,147)	(6,743)
Total cash flow from financing activities	0	-677
Total net cash flow from discontinued operations	**(15,426)**	**1,054**

[3] The consolidated cash flow statement of December 2015 has been revised for application of IFRS 5.

Corilus was sold on March 13, 2015. No cash flow was generated from this discontinued operation in 2015. In April 2016, the Board of Directors decided to close Bellevue Pharmacy; consequently the cash flows from Bellevue Pharmacy were classified in discontinued operations, both for 2016 and 2015.

The item 'adjustments for financial items' relates to interest paid and received and to other financial expenses and income not being cash flows, such as the revaluation of the financial instruments. The item 'total adjustments for non-cash flow items' relates in particular to depreciation, amortization, impairment and changes in provisions. The item 'total changes in working capital' concerns movements in the inventories, trade receivables and payables, other receivables and debts, and all other balance sheet elements that are part of the working capital. The aforementioned changes are adjusted as appropriate for non-cash flow items as presented above, for conversion differences and for changes in the consolidation scope.

Notes to the consolidated financial statements

1 General information

Fagron is a leading global company active in pharmaceutical compounding and focused on delivering tailored pharmaceutical care to hospitals, pharmacies, clinics and patients in 32 countries around the world.

The Belgian company Fagron NV is located at Venecoweg 20A, 9810 Nazareth, Belgium. The company's registration number is BE 0890 535 026. The operational activities of Fagron are driven by the Dutch company Fagron BV. The company's head office is located in Rotterdam.

Fagron NV shares are listed on Euronext Brussels and Euronext Amsterdam.

These consolidated financial statements were approved for publication by the Board of Directors on April 6, 2017.

2 Financial reporting principles

The principal accounting policies applied in preparing these consolidated financial statements are detailed below. These policies have been consistently applied by all of the consolidated entities including subsidiaries for all of the years presented, unless stated otherwise.

The consolidated financial statements of Fagron have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). The consolidated financial statements have been prepared on the basis of the historical cost convention, with the exception of derivative financial instruments and contingencies which are stated at fair value.

The consolidated financial statements for Fagron NV and its subsidiaries for 2016 as a whole have been prepared on the going concern basis, which assumes that the company will continue to be able to meet its liabilities as they fall due in the foreseeable future. Based on the situation at the end of 2015, the directors indicated that there was a material uncertainty which could cast doubt on the company's ability to continue as a going concern. On May 5, 2016, the Group received a long term waiver for the Revolving Loan Facility Agreement and Note Purchase Agreement. On May 20, 2016, the Group received the first tranche of the capital increase and on July 7, 2016, the second tranche of the capital increase was completed, which means there is currently no material uncertainty about the Company's ability to continue as a going concern.

IFRS developments

The following amendments to standards and interpretations have been issued, approved by the EU and are mandatory for the first time for the financial year beginning January 1, 2016.

Mandatory and applied		Impact
Amendments to IAS 1 Presentation of financial statements	The amendments to IAS 1 are part of the IASB's initiative to improve the presentation of financial statements and the disclosures therein and are intended to further encourage companies to use professional judgement in determining what information should be disclosed in their financial statements. The amendments make clear that materiality applies to the financial statements as a whole and that including unimportant information can diminish the usefulness of the financial disclosures. The amendments also make it clear that companies should use their professional judgement in deciding where and in what order the information is presented in the notes to the financial statements.	Fagron has determined the impact of the amendments and applied them.
Amendments to IAS 19	The amendment clarifies the accounting of employee contributions set out in the formal terms of a defined benefit plan.	Fagron has established that the application of these standards will not have a material impact on the consolidated financial statements.
Annual improvements to IFRS standards (2012-2014 cycle)	These improvements resulted in minor amendments to the following standards: • IFRS 5 'Non-current assets held for sale and discontinued operations' • IAS 19 'Employee benefits' • IFRS 7 'Financial instruments: disclosures' • IAS 34 'Interim financial reporting'	Fagron has determined the impact of the amendments and applied them.
Annual improvements to IFRS standards (2010-2012 cycle)	These improvements resulted in minor amendments to the following standards: • IFRS 2 'Conditions governing unconditional commitment' • IFRS 3 'Accounting of conditional remunerations' • IFRS 8 'Aggregation of operational segments' • IFRS 13 'Fair value measurement' • IAS 16 'Property, plant and equipment' • IAS 38 'Intangible assets' • IFRS 9 Financial Instruments • IAS 37 'Provisions, contingencies and conditional assets', • IAS 39 'Financial instruments - Valuation upon first recognition and after recognition'	Fagron has established that the application of these standards will not have a material impact on the consolidated financial statements.
Amendments to IFRS 10 Consolidated financial statements, IFRS 12 Disclosure of interests in other entities and IAS 28 Investments in associates and joint ventures	These amendments clarify the conditions for exempting investment entities from consolidation.	Fagron has established that the application of these standards will not have a material impact on the consolidated financial statements.

The following new standards, amendments to standards and interpretations have been issued and approved by the EU, but are not mandatory for the first time for the financial year beginning January 1, 2016.

Issued and approved by the EU, but not yet mandatory		Anticipated impact
IFRS 9 Financial Instruments *January 1, 2018*	The standard addresses the classification, measurement and derecognition of financial assets and liabilities.	Fagron has established that the application of these standards will not have a material impact on the consolidated financial statements.
IFRS 15 Revenues from contracts with customers *January 1, 2018*	The IASB and FASB have jointly published a standard concerning the recognition of revenue from contracts with customers. The standard will improve the financial reporting of revenues and deliver a better global comparison of the revenues accounted to in the financial statements. Entities that apply IFRS are required to apply this standard.	Fagron is currently analyzing the potential impact on the consolidated financial statements and expects a first reasonable estimate in the interim financial information on the first half of 2017.

The following new standards, amendments to standards and interpretations have been issued but not yet approved by the EU, and are not mandatory for the first time for the financial year beginning January 1, 2016.

Issued, not yet approved by the EU and not yet mandatory		Anticipated impact
IFRS 16 Leases *January 1, 2019*	The standard replaces the current standard, IAS 17, and contains a major change to the accounting for leases by the lessee. According to IAS 17, the lessee had to make a distinction between a financial lease (to be recognized in the balance sheet) and an operational lease (should not be recognized in balance sheet). IFRS 16, on the other hand, requires the lessee to recognize a debt in the balance sheet equal to the future lease payments and a 'right-of-use asset' for virtually all leases. For lessors, the recording in the accounts remains almost entirely the same. However, the IASB has amended the definition of a lease (as well as the sections concerning the combination and segregation of contracts), which means lessors are also impacted by the new standard. According to IFRS 16, a contract contains a lease if the contract includes a right to control an identified asset for a specified period of time in exchange for compensation.	Fagron expects the new standard will have a significant impact. The impact is expected to be of a magnitude as reported in note 24c.
Amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures *Effect date not yet known*	These amendments address the contradiction between the provisions in IFRS 10 and those in IAS 28 in the event of the sale or contribution of assets between an investor and its associate or joint venture. The most important effect of the amendments is that the profit or loss is recognized in full if a transaction involves a business (regardless of the fact of whether this business is accommodated in a subsidiary or not). The profit or loss is only included in part if the transaction includes assets that do not constitute a business, even if these assets are accommodated in a subsidiary.	Fagron will review the effects of these amendments and consider adoption when appropriate.
Amendments to IAS 12 Income taxes *January 1, 2017*	These amendments clarify the accounting for deferred tax claims arising from debt instruments valued at fair value.	Fagron will review the effects of these amendments and consider adoption when appropriate.

Issued, not yet approved by the EU and not yet mandatory		Anticipated impact
Amendments to IAS 7 Statement of cash flows *January 1, 2017*	The amendments introduce an additional disclosure that will prompt readers of the financial statements to evaluate changes in liabilities originating from financing activities. These amendments are part of the IASB 'Disclosure initiative,' which has the goal of constantly seeking to improve the notes to the financial statements.	Fagron will review the effects of these amendments and consider adoption when appropriate.
Amendments to IFRS 15 Revenue from contracts with customers *January 1, 2018*	These amendments clarify the identification of the various performance obligations, the accounting for licenses relating to intellectual property and the differences between principal and agent relations. The amendment also contains examples for clarification.	Fagron will review the effects of these amendments and consider adoption when appropriate.
Amendments to IFRS 2 Share-based payments *January 1, 2018*	The amendment clarifies the valuation method for cash-settled share-based payment transactions and the accounting for adjustments of the payment transaction of cash-settled to equity-settled share-based payment transactions. The amendment also provides for deviation from the IFRS 2 principles for regarding a payment transaction whereby the employer must withhold part of the payment for tax reasons and must pay this to the tax authorities as an equity-settled share-based payment transaction.	Fagron will review the effects of these amendments and consider adoption when appropriate.
Annual improvements to IFRS standards (2014-2016 cycle) *IFRS 1: January 1, 2018* *IAS 28: January 1, 2018* *IFRS 12: January 1, 2017*	These improvements resulted in minor amendments to the following standards: • IFRS 1 'First application of International Financial Reporting Standards' • IFRS 28 'Investments in associates and joint ventures' • IFRS 12 'Disclosure of interests in other entities'	Fagron will review the effects of these amendments and consider adoption when appropriate.
IFRIC 22 Foreign currency transactions and advance consideration *January 1, 2018*	This interpretation relates to transactions in foreign currencies or parts of transactions in foreign currencies where the advance payment is expressed in a foreign currency. The interpretation contains additional information if a single payment/receipt occurs as well as if multiple payments/ receipts occur. The purpose of this interpretation is to reduce the current diversity in how these transactions are recognized.	Fagron will review the effects of these amendments and consider adoption when appropriate.

Other new standards, amendments of standards and interpretations which were published but are not yet mandatory for this financial year starting January 1, 2016, are not applicable for Fagron.

Consolidation criteria

The consolidated financial statements include the accounts of Fagron and its subsidiaries. Subsidiaries are entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to Fagron. They are no longer consolidated as from the date Fagron no longer has control.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Changes to the fair value of the contingent consideration that is deemed to be an asset or liability are recognized in accordance with IAS 39 in the income statement. Contingent considerations that are classified as equity are not re-measured, and its subsequent settlement is accounted for within equity.

An acquisition is recognized using the purchase method. The cost price of an acquisition is defined as the fair value of the assets given, shares issued and liabilities assumed on the date of the exchange. Identifiable assets acquired and liabilities and contingencies assumed in a business combination are initially set at their fair value on the acquisition date. For each business combination, Fagron values any minority interest in the party acquired at fair value or at the proportional share in the identifiable net assets of the party acquired. The acquiring costs incurred are recognized as expenses. The positive difference between the acquisition price and the fair value of the share of Fagron in the net identifiable assets of the acquired subsidiary on the date of acquisition forms goodwill and is recognized as an asset.

Intercompany transactions, balances and unrealized gains on transactions between companies of the Group are eliminated. Unrealized losses are also eliminated, but are considered to be an indication of an impairment. Where necessary, the accounting basis for amounts reported by subsidiaries have been adjusted in accordance with the accounting policies of Fagron.

Transactions with minority interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with shareholders in their capacity as shareholders. For purchases from minority interests, the difference between the price that was paid and the corresponding share acquired against the carrying amount of the net assets of the subsidiary is recognized in equity. Gains or losses on disposals to minority interests are also recognized in equity.

Foreign currency translation

Items included in the financial statements of all entities of Fagron are measured using the currency of the primary economic environment in which the company operates ('the functional currency'). The consolidated financial statements are presented in euros, the presentation currency of Fagron. To consolidate Fagron and each of its subsidiaries, the respective financial statements are converted as follows:

- Assets and liabilities at the year-end rate;
- Income statement at the average exchange rate for the year;
- Components of the equity at historical exchange rate.

Exchange rate differences arising from the conversion of the net investment in foreign subsidiaries at year-end exchange rate are recognized as shareholders' equity elements under 'Cumulative conversion differences'.

Transactions in foreign currencies

Transactions in foreign currencies are translated to the functional currency using the exchange rates that apply on the transaction date. Profits and losses from exchange rate differences resulting from settling these transactions and from the conversion of monetary assets and liabilities in foreign currencies at exchange rates valid at year-end are recognized in the income statement.

Exchange rates of key currencies

	Balance sheet		Income statement	
	2016	2015	**2016**	2015
US dollar	1.054	1.089	1.107	1.109
Brazilian real	3.431	4.312	3.859	3.700
Polish zloty	4.410	4.264	4.363	4.183
Swiss franc	1.074	1.084	1.090	1.068

Assets held for sale and discontinued operations (13)

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sales transaction or through continuing use.

To be classified as held for sale, the following criteria of IFRS 5 should be met:

- Management must be committed to the sale;
- An active program to locate a buyer is initiated;
- The assets (or disposal groups) are available for immediate sale, taking into account the usual conditions for sale;
- The sale is highly probable, within 12 months of classification as held for sale;
- The asset is being offered for sale at a reasonable price: the price is in line with the fair value;
- Actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn.

When Fagron is committed to a sale plan that results in Fagron relinquishing control over a subsidiary, providing the criteria described above are met, all of the assets and liabilities of that subsidiary are classified as assets held for sale and liabilities directly associated with assets held for sale regardless of whether Fagron will retain a non-controlling interest after the sale.

Assets classified as held for sale and liabilities directly associated with assets held for sale (or groups of assets for disposal) are measured at the lower of their previous carrying amount and fair value less costs to sell.

A discontinued operation is a component of the Group that represents a separate, important operation or geographic business area, is part of a single coordination plan to hive off a separate, important operation or geographic business area, or concerns a subsidiary that has been acquired exclusively with the intention of selling it on.

The classification as a discontinued operation will take place on the date at which the transaction satisfies the conditions for recognition as held for sale or when an operation is hived off.

If an operation is classified as a discontinued operation, the result from the discontinued operations for the reporting period will be presented separately in the income statement and in the statement of comprehensive income.

In supplement to the criteria for the presentation in the balance sheet of groups of assets that are being hived off, comparable figures are included in the income statement and in the statement of comprehensive income for the presentation of the results of discontinued operations. Furthermore, the net cash flows attributable to the operating, investing and financing activities of the discontinued operations are reported separately.

Intangible fixed assets (15)

Intangible fixed assets are valued at cost price less accumulated amortization and impairment charges. All Intangible fixed assets are tested for impairment whenever there is an indication that the intangible asset may be impaired.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the share of Fagron in the net identifiable assets of the acquired subsidiary on the acquisition date. Goodwill on acquisitions of subsidiaries is recognized under Intangible fixed assets. Goodwill is tested at least annually for impairment and consistently when a trigger event occurs. Goodwill is recognized at cost price less accumulated impairment losses. Impairment losses on goodwill are never reversed. Gains and losses on the disposal of an entity include the book value of goodwill relating to the entity sold.

Brands, licenses, patents and other

Intangible fixed assets are recognized at cost, provided this cost is not higher than the reported economic value and the cost price is not higher than the recoverable value. No other intangible fixed assets with an unlimited useful life were identified. The costs of brands with a definite useful life are capitalized and generally amortized on a straight-line basis over a period of 5 to 7 years. When a part of the acquisition price of a business combination relates to trade names, brand names, formulas or customer records this will be considered an intangible asset.

Research and development

Research costs related to the prospect of gaining new scientific or technological knowledge and understanding are recognized as costs at the moment they are incurred.

Development costs are defined as costs incurred for the design of new or substantially improved products and for the processes preceding commercial production or use. They are capitalized if, among other things, the following criteria are met:

- Technical feasibility of the project;
- Intention to complete and to use or sell the asset;
- Ability to use or sell the asset;
- Probability that the asset will generate future economic benefits;
- Adequate resources to complete the asset;
- Ability to measure the cost reliability.

Development costs are amortized using the straight-line method over the period of their expected benefit, currently not exceeding 5 years. Amortization starts as of the moment that these assets are ready for use.

In-house development

Unique products developed in-house, including software controlled by Fagron that are expected to generate future economic benefits are capitalized at the cost directly related to their production. The software is depreciated over its useful life, which is currently estimated at 5 years.

Software

Acquired software is capitalized at cost price and then valued at cost price less accumulated depreciations and exceptional losses of value. The assets are depreciated over the useful life, which is currently estimated at 5 years.

Impairment

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less the sale costs and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows (cash-generating units).

Property, plant and equipment (16)

Tangible fixed assets are valued at the acquisition value or production costs plus directly attributable costs if applicable. Depreciation is pro rata calculated based on the useful life of the asset in accordance with the subsequent amortization parameters. The useful life of equipment and machinery is 3 to 20 years and for buildings range from 25 to 33 years. Land is not depreciated.

In general all assets are depreciated on a straight-line, based on the estimated economic life. Any residual value taken into account when calculating the depreciations is reviewed annually. Assets acquired under finance leasing arrangements are depreciated over their economic life, which may exceed the lease term if it is reasonably certain that ownership will be obtained at the end of the lease term.

Financial assets (17)

Fagron classifies its non-derivative financial assets into the following categories: loans and receivables, and financial assets available for sale. Management determines the investment classifications of its (non-derivative) financial assets at initial recognition, and re-evaluates them at each reporting date. The Group does not have any financial assets in the category held until maturity or any (non-derivative) financial assets designated at fair value for which any changes in value have to be included in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not intended to be traded. Loans and receivables are included in current assets, except for those maturing more than 12 months after the balance sheet date. Loans and receivables are measured at amortized costs using the effective interest method.

Financial assets available for sale

Financial assets available for sale are non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through the income statement. Financial assets available for sale are initially valued at fair value except where such fair value cannot be reliably determined, in which case they are valued at cost. Unrealized gains and losses arising from changes in the fair value are recognized in unrealized results. If the relevant assets are sold or impaired, the accrued adjustments are recognized at fair value in the income statement.

Any events or changes in circumstances indicating a decrease in the recoverable amount are monitored closely. Impairment losses are recognized in the income statement as and when required.

Taxes, remuneration and social security (18)

Income taxes as recognized in the income statement include current income tax and deferred taxes. Current income taxes include the expected tax liabilities on the taxable income of Fagron for the financial year, based on the applicable tax rates at balance sheet date, and any adjustments from previous years. Income tax due on dividends is recognized when a liability to pay the dividend is recognized.

Deferred taxes are recognized using the balance sheet liability method and are calculated on the basis of the temporary differences between the carrying amounts and the tax basis. This method is applied to all temporary differences arising from investments in subsidiaries and associates, except for differences whereby the timing of reversing the temporary difference is controlled by Fagron and whereby the temporary difference is not likely to be reversed in the near future. The calculation is based on the tax rates as enacted or substantially enacted at balance sheet date and expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled. Under this calculation method, Fagron is also required to account for deferred taxes relating to any difference between the fair value of the net acquired assets and their fiscal book value resulting from any acquisitions. Deferred taxes are recognized to the ratio as the tax losses carried forward are likely to be utilized in the foreseeable future. Deferred income tax receivables are fully written off when it ceases to be likely that the corresponding tax benefit will be realized.

Fagron will offset tax assets and tax liabilities if, and only if Fagron has a legally enforceable right to offset the recognized amounts; and either (a) intends to settle on a net basis, or (b) to realize the asset and settle the liability simultaneously.

Inventories (19)

Raw materials, auxiliary materials, and trade goods are valued at the acquisition value using the FIFO method or using the net realizable value (NRV) at the balance sheet date, whichever is lower. Work in progress and finished products are valued at production costs. In addition to purchasing cost of raw materials and auxiliary materials, production costs and production overhead costs directly attributable to the individual product or the individual product group are included.

Trade receivables (20)

Trade receivables are initially valued at fair value. A provision for impairment loss relating to trade receivables is created when there is objective evidence that Fagron will not be able to collect all amounts. Subsequently trade receivables are valued at amortized costs. Significant financial difficulties of the debtor, the probability of the debtor becoming insolvent or undergoing financial restructuring, and non or overdue payments are regarded as indicators for recognizing an impairment loss for the trade receivable in question.

If trade receivables are transferred to a third party (through factoring), the trade receivables are taken off the balance sheet provided that (1) there is no longer a right to receive cash flows and (2) Fagron has substantially transferred all risks and rewards. The factoring balance at December 31, 2016 came to 15.4 million euros.

Cash and cash equivalents (20)

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, and are valued at acquisition at fair value and subsequently recognized at cost. Adjustments to the carrying amounts are made when at balance sheet date realization value is lower than the book value.

Capital (21)

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are recognized in the equity as a deduction, net of taxes, from the proceeds.

If a company of Fagron purchases share capital of Fagron (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the shareholders of Fagron until the shares are cancelled, reissued or disposed of. If such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and related income tax effects, is included in equity attributable to the shareholders of Fagron.

Provisions (22)

Provisions exist for restructuring costs, legal claims, risk of losses or costs potentially arising from personal securities or collateral constituted as guarantees for creditors or commitments to third parties, from obligations to buy or sell non-current assets, from the fulfilment of completed or received orders, technical guarantees associated with turnover or services already completed by Fagron, unresolved disputes, fines and penalties related to taxes, or compensation for dismissal. Fagron recognizes a provision if:

- Fagron has an existing legal or actual obligation as a result of past events;
- it is more likely than not that an outflow of resources will be necessary to fulfil the obligation; and
- the amount can be estimated reliably.

Provisions for restructuring costs comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

Provisions are recognized based on management's best estimate of the expenditure required to settle the present obligation at balance sheet date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

Employee benefit expenses

Share-based payments (21)

Fagron operates an equity-based compensation plan, which is paid in shares. The total amount to be recognized as costs over the vesting period is determined by reference to the fair value of the warrants or options granted, excluding the impact of any non-market unconditional commitments (for example, profitability and turnover growth targets). Non-market unconditional commitments are included in the assumptions about the number of warrants or options expected to become exercisable. At each balance sheet date, Fagron revises its estimates of the number of warrants or options expected to become exercisable. Fagron recognizes any impact of the revision of original estimates in the income statement, and a corresponding adjustment to equity over the remaining vesting period. The proceeds received, net of any directly attributable transaction costs, are credited to share capital (nominal value) and share premium when the warrants are exercised. The modalities of the existing plans were not changed this year.

Pension obligations (23)

The companies of Fagron operate various pension schemes. The pension schemes are funded through payments to insurance companies, determined by periodic actuarial calculations. Fagron has both defined benefit and defined contribution plans.

The liability recognized on the balance sheet in respect of defined benefit plans is the present value of the future defined benefit obligations less the fair value of the plan assets. The defined benefit obligation is calculated periodically by independent actuaries using the 'projected unit credit' method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized immediately, in the period in which they arise, being added or deducted to or from the equity via the unrealized result.

For defined contribution plans, Fagron pays contributions to insurance companies. Once the contributions have been paid, Fagron ceases to have any liabilities. Contributions to defined contribution plans are recognized as costs in the income statement at the moment they are made.

Borrowings (24)

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized costs; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities, unless Fagron has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date. Consultancy costs for the refinancing are part of the financial costs.

Lease contracts – Operating leases (24)

Lease contracts in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments under operating leases are made on a straight-line basis over the life of the operating lease.

Lease contracts – Financial leases (24)

Lease contracts regarding property, plant and equipment whereby Fagron retains virtually all risks and rewards of ownership are classified as financial leases. Financial leases are capitalized at the inception of the lease contract at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between liability and financing costs, so as to achieve a constant amount on the outstanding financing balance.

The corresponding rental obligations, net of financing costs, are recognized as fixed (payable after 1 year) and short-term (payable within the year) borrowings. The interest component of the financing costs is recognized in the income statement over the lease period, so as to achieve a constant periodic rate of interest on the remaining balance of the liability for each period.

The tangible fixed assets acquired under financial leases are depreciated over the useful life of the asset, which may exceed the lease term if it is reasonably certain that ownership will be obtained at the end of the lease term.

Derivative financial instruments (24)

Fagron utilizes derivative financial instruments to limit risks relating to unfavorable fluctuations in interest rates and exchange rates. No derivatives are employed for trade purposes.

Derivative financial instruments are recognized at fair value on the balance sheet. Fair values are derived from market prices. As the derivative contracts of Fagron do not fulfil the criteria as set in IAS 39 to be regarded as hedging instruments, changes in fair value of derivatives are recognized in the income statement.

Revenue recognition

Revenue from the sale of goods is recognized at the moment that delivery of the products has been made to the customer, the customer has accepted the products and the related receivables are likely to be collectable. Revenue of services is recognized in the accounting period in which the services have been provided. Revenue from the sale of software is recognized as revenue at the time of delivery. The revenues from software service contracts are recognized over the term of the contract.

Segment reporting

IFRS 8 defines an operating segment as:

- a component of an entity that engages in business activities from which it may earn revenues and incur expenses;
- in whose operating results are regularly reviewed by the entity's Chief Operating Decision Maker to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

Fagron determines and presents operating segments on the information that is internally provided to the Executive Committee, the body that was Chief Operating Decision Maker during 2016. An operating segment is a group of assets and activities engaged in providing products or services that are the basis of the internal reporting to Fagron's Executive Committee.

The financial information of the current Fagron segments that is provided to the Executive Committee is split up in Fagron Specialty Pharma Services, Fagron Trademarks, Fagron Essentials and HL Technology. These are the segments within Fagron as per 2015.

With effect from the first quarter of 2017, Fagron will adjust the reporting structure and presentation of the financial results per segment to bring these in line with the way in which the business will be managed. Fagron's results will be reported in the segments Fagron Europe, Fagron North America, Fagron South America and HL Technology.

Earnings per share (EPS) (14)

Fagron presents basic and diluted earnings per share (EPS) for common shares. Basic EPS is calculated by dividing the profit or loss for the period attributable to holders of common shares by the weighted average number of common shares outstanding during the period. Dividend distribution to the shareholders of Fagron is recognized as a liability in the financial statements in the period in which the dividends are approved by the shareholders.

For the purpose of calculating diluted EPS, the profit or loss for the period attributable to holders of common shares adjusted for the effects of all dilutive potential shares should be divided by the sum of the weighted average number of outstanding ordinary shares used in the basic EPS calculation and the weighted average number of shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

3 Risk management

Adequate and reliable financial reporting is essential for both the internal management reports and the external reporting. Group-wide reporting guidelines have been drawn up within Fagron to this end, based on IFRS and internal information needs.

Risk management is an important core responsibility of Fagron in order to secure the long-term business objectives and the value creation of the company. The policy of Fagron is to focus on identifying all major risks, on developing plans to prevent and manage these risks, and on putting in place measures to contain the consequences should such risks effectively occur. Still, Fagron cannot conclusively guarantee that such risks will not occur or that there will be no consequences when they occur.

All entities periodically prepare business plans, budgets and interim forecasts at predetermined moments. Discussions with management of the entities take place periodically on the general course of affairs, including the realization and feasibility of the forecasts issued and strategic decisions. With regard to fiscal regulation, Fagron makes use of the possibilities offered by the fiscal legislation and regulation without taking any unnecessary risks in doing so. Fagron has the support of external fiscal advisers in this regard.

In addition to strategic and operational risks, Fagron is also subject to various financial risks. To sustain its day-to-day operations, Fagron has the following credit facilities at its disposal.

Bonds

On July 2, 2012, Fagron NV issued bonds for an amount of 225 million euros. The nominal value of the bonds is 1,000 euros. The bonds are listed on Euronext Brussels under ISIN code BE0002180462 on July 2, 2012. The issue price of the bonds was 101.875%. The bonds have a maturity of five years and offer a fixed annual gross interest of 4.75%. The bonds are redeemable at 100% of the nominal value on July 2, 2017. As main covenant Fagron must ensure that total EBITDA, calculated as result before interest, taxes, depreciation, amortization and impairment, of the guarantors is at least 70 per cent of the consolidated Group EBITDA. The companies that act as guarantors for the Fagron loans are listed in note 24.

Multi-currency facility

On December 16, 2014, Fagron NV amended and extended the existing credit facility with an originating amount of 150 million euros and maturity date in July 2017. The amended multi-currency facility of 220 million euros was given a term until December 2019 with two one-year extension options via a consortium of existing and new international banks. In 2016, this facility, along with the long term waiver of May 5, 2016, was renewed until April 2021 for an amount of at least 180 million euros by exercising the extension options. The consortium consists of ING (coordinator), BNP Paribas, HSBC, KBC Bank, Fifth Third Bank and Commerzbank. The key covenants of this credit facility are the net financial debt/recurring EBITDA ratio and the recurring EBITDA/net interest expenses ratio. The financial covenants were adjusted to give Fagron extra latitude with respect to the original levels of the financial covenants. The extra latitude in the financial covenants will decrease with every six-month test period, starting with the first test period ending on December 31, 2016 until the test period ending on June 30, 2018. For every test period ending after June 30, 2018, the levels of both financial covenants revert to the original levels. The test periods and accompanying levels are shown below.

Financial covenants

Test period	Net financial debt / REBITDA	REBITDA / net interest expenses
December 31, 2016	Max. 5.02x	Min. 1.81x
June 30, 2017	Max. 4.60x	Min. 1.98x
December 31, 2017	Max. 4.09x	Min. 2.32x
June 30, 2018	Max. 3.60x	Min. 2.80x
After June 30, 2018	Max. 3.25x	Min. 4.00x

At year-end 2016, an amount of 191 million euros had been withdrawn (2015: 199 million euros).

Privately placed loans (senior unsecured notes)

Fagron NV issued a series of privately placed loans pursuant to a loan agreement originally dated April 15, 2014, which includes 45.0 million US dollars 4.15% Series A Senior Notes due April 15, 2017, 22.5 million euros 3.55% Series B Senior Notes due April 15, 2017, 15.0 million euros 4.04% Series C Senior Notes due April 15, 2019, 5.0 million euros Floating Rate Series D Senior Notes due April 15, 2019, 20.0 million US dollars 5.07% Series E Senior Notes due April 15, 2019 and 60.0 million US dollars 5.78% Series F Senior Notes due April 15, 2021.

The agreement dated April 15, 2014 was amended in 2016 as a result of the Long Term Waiver of May 5, 2016. The key covenants of this credit facility are the net financial debt/recurring EBITDA ratio and the recurring EBITDA/net interest expenses ratio.
The financial covenants were adjusted to give Fagron extra latitude with respect to the original levels of the financial covenants. The extra latitude in the financial covenants will decrease with every six-month test period, starting with the first test period ending on December 31, 2016 until the test period ending on June 30, 2018. For every test period ending after June 30, 2018, the levels of both financial covenants revert to the original levels. The test periods and accompanying levels are shown below.

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June 30, 2018	Max. 3.60x	Min. 2.80x
After June 30, 2018	Max. 3.25x	Min. 4.00x

Capital management

The group's objectives in relation to capital management are:

- to safeguard the company's equity in order to guarantee its continuity, and
- to maintain the best possible capital structure so as to reduce capital costs.

The amount to be paid on dividends can be adjusted by the Group (see note 21) in order to retain or adjust the capital structure. It may also issue new shares or dispose of assets in order to reduce indebtedness.

In keeping with the conditions governing the largest credit facilities, the group is obliged to comply with the following financial covenants:

a) a maximum net financial debt/recurrent EBITDA-ratio of 3.25 and
b) a minimum interest coverage ratio of 4.0, measured by dividing the recurrent EBITDA with the consolidated net interest expenses.

The covenant levels above were temporarily relaxed by the signed waivers of May 5, 2016, after which the above levels will once again apply. These temporary levels are reported in the chapter "Privately placed loans (senior unsecured notes)."

Policy in relation to capital management is being reviewed at present following the recent changes in the Executive Committee and the Board of Directors.

Cash pool

Fagron manages the cash and financing flows and the risks arising from these by means of a group-wide treasury policy. In order to optimize the financial position and keep the related interest charges to a minimum, the cash flows of the companies are centralized as much as possible by means of domestic and cross border cash pooling. Fagron has in total three local cash pools in the regions of North America and Europe (the Netherlands and Belgium). These are used by the operating companies, whereby zero balancing is applied in Europe and target balancing in North America. The three local cash pools are pooled daily into one central notional cash pool.

Credit risk

Credit risk involves the risk that a debtor or other counterparty is unable to fulfill its payment obligations to Fagron, resulting in a loss for Fagron. Fagron has an active credit policy and strict procedures to manage and limit credit risks. No individual customers make up a substantial part of either turnover or outstanding receivables. Fagron has an active policy to reduce operational working capital. From this perspective the group aims to reduce the accounts receivable balance.

Interest risk

Fagron regularly assesses the maintained mix of financial debts with fixed and variable interest rates. At this moment, the financing consists in part of financing with a variable interest rate ranging from 1 to 6 months. A higher Euribor rate of 10 base points would have increased the variable interest charges by approximately 91 thousand euros before tax (2015: 131 thousand euros). The interest risk of the variable interest rate for 70 million euros of financing is hedged with financial derivatives with an expiry date of June 26, 2017. This hedging was taken into account in calculating the impact of an increase in the Euribor rate by 10 base points.

Exchange rate risk

The exchange rate risk is the risk on results due to fluctuations in the exchange rates. Fagron reports its financial results in euros and is, because of the international distribution of its activities, subject to the potential impact of currencies on its profits. Exchange rate risk is the result on the one hand of several entities of Fagron operating in a functional currency other than euros and on the other hand of the circumstance that purchasing and retail prices of Fagron have foreign currencies as reference. The risk involved in entities of Fagron operating in a functional currency other than the euro concerns entities operating in US dollars, Brazilian reals, Polish zloty, Czech crowns, Swiss francs, British pounds, Danish crowns, Colombian pesos, Chinese yuan, South African rand, Australian dollars and Argentinian pesos. In 2016, these entities collectively represent approximately 52.2% of the consolidated turnover.

Some of the Group's revenue is realized in currencies other than the euro, such as in Brazil, the United States, Poland and Switzerland. The table below sets out the hypothetical supplementary effect of the euro strengthening or weakening by 10% against the US dollar, the Brazilian real, the Polish zloty and the Swiss franc for the year 2016 and its subsequent effect on profit before tax, impairment loss and equity capital. The impairment losses in 2015 and 2016 resulted in negative equity in the United States. The hypothetical supplementary impact consequently has a loss-reducing effect.

	Profit before tax and impairment loss		Equity	
(x 1,000 euros)	Strength-ening	Weak-ening	Strength-ening	Weak-ening
US dollar	1,499	(1,832)	5,538	(6,768)
Brazilian real	(1,731)	2,116	(11,648)	14,236
Polish zloty	(883)	1,079	(3,448)	4,214
Swiss franc	218	(266)	(395)	483

The company also incurs indirect currency risk as a large part of its purchases in Brazil are actually transactions in US dollars. This means that the Group's products become relatively more expensive to the consumer each time the US dollar rises against the Brazilian real. The risk is difficult to quantify, as such price increases are directly charged to the consumer entirely or partly.

Currency risks in relation to debt in foreign currency, privately placed loans (senior unsecured notes), some of which were borrowed in US dollars, have been hedged in part with intercompany loans to the US subsidiary. A portion of the multi-currency facility raised in US dollars was converted to euros in 2016. This has caused part of the natural hedge with the intercompany loans to evaporate, prompting Fagron to decide to hedge this risk with FX derivatives. The nominal value of these derivatives was 157 million US dollars at the end of 2016, with a fair value of -7.8 million euros. The expiry dates are in April and May 2017

Fair value risk

Fagron utilizes financial derivatives to hedge interest and currency risks. Fagron hedged the variable interest rate for 70 million euros of financing. Derivatives (FX forwards) with nominal value of 157 million US dollars are used to hedge the US dollar debt.
In accordance with IFRS, all financial derivatives are recognized either as assets or as liabilities. In accordance with IAS 39, financial derivatives are recognized at fair value. Changes in fair value are recognized by Fagron directly in the income statement because these are financial derivatives that do not qualify as cash flow hedging instruments. At the end of 2016, the cumulative revaluation of financial derivatives amounted to -8.5 million euros (2015: -2.0 million euros) whereby this is treated as a non-cash item.

4 Critical accounting estimates and judgments

Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are deemed reasonable given the circumstances.

Critical estimates and judgments
Fagron makes estimates and judgments concerning the future. The resulting estimates will, by definition, rarely match the related actual results. Those estimates and assumptions that entail a significant risk of causing the need for a material adjustment of the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated impairment loss of goodwill and intangible fixed assets
Fagron performs annual goodwill impairment tests in accordance with the accounting policies specified in note 15. The recoverable amount of cash flow-generating units is the higher of the asset's fair value less the sale costs and value in use. These calculations require the application of estimates. Primarily as a consequence of the ongoing impact of the changes to the reimbursement system in the United States, Fagron had to recognize an impairment loss of 48.4 million euros in 2016. This contributes to the book value of goodwill as per December 31, 2016 of 342.8 million euros (2015: 373.6 million euros).

Estimated deferred tax assets
Deferred tax assets are mainly accounted for by differences in depreciation rates, tax deductible losses and goodwill acquired in business acquisitions. The tax deductible losses are tested twice a year for impairment. If these losses may not be used within a reasonable time, they will be written off. A deferred tax asset is recognized when the book value of goodwill is less than the tax base and it is expected that taxable profits will arise against which the temporary differences can be utilized.

Pension obligations
The present value of the pension obligations depends on a number of actuarially determined factors based on a number of assumptions. The assumptions applied to determine net costs (net income) for pensions include expected rates for salary increases, price inflation, pension increases and the discount rate. Any changes in these assumptions will impact the book value of pension obligations. The gross defined benefit obligation is calculated periodically by independent actuaries.

The book value of pension obligations as at December 31, 2016 is 5.7 million euros (2015: 5.1 million euros).

Provisions for disputes
As stated, provisions are valued at present value of the best estimate by management of the expenditure required to settle the existing obligation at the balance sheet date. Provisions for disputes require significant professional judgment in terms of the ultimate outcome of administrative law rulings or court judgments. Estimates are always based on all available information at the moment the financial statements are prepared. However, the need for significant adjustments cannot be absolutely precluded if a ruling or judgment proves not as expected. Estimates and judgments are continuously evaluated on the basis of past experience and other factors including projected development of future events that are regarded as reasonable given the circumstances.

Uncertain tax positions
The company is subject to tax on profits in different jurisdictions. Significant judgments must be made in determining the income tax provision. There are some transactions and calculations for which the ultimate taxable amount is uncertain. When the final income tax is determined, the deviations will affect the current and deferred taxes and liabilities for the period in which the determination is made.

5 Segment information

Fagron's divisional structure is tailored to the various activities of Fagron; effective decision-making and individual responsibility are also accounted for. Because of the announced change in the reporting structure, reporting has taken place in four segments from 2015 onwards. The four segments are Fagron Specialty Pharma Services, Fagron Trademarks, Fagron Essentials and HL Technology. This is in accordance with IFRS 8, which states that the operational segments must be determined on the basis of the components that the Executive Committee applies to assess the performance 'other 'of the operational activities and on which the decisions are based.

With effect from the first quarter of 2017, Fagron will adjust the reporting structure and presentation of the financial results per segment to bring these in line with the way in which the business will be managed. Fagron's results will be reported in the segments Fagron Europe, Fagron North America, Fagron South America and HL Technology.

Fagron was organized in four main operational segments in 2015 and 2016:

1. **Fagron Specialty Pharma Services (FSPS)** refers to all personalized medication that is prepared in Fagron's sterile and non-sterile compounding facilities in Europe, the United States, Colombia and South Africa.

2. **Fagron Trademarks (FTM)** encompasses the innovative concepts, vehicles and formulations developed by Fagron, often in close cooperation with prescribers, pharmacies and universities.

3. **Fagron Essentials (FE)** refers to all pharmaceutical raw materials, equipment and supplies a pharmacist needs to prepare medication in its own pharmacy.

4. **HL Technology** develops and produces innovative precision components and orthopedic tools for the dental and medical industry.

The segment results for continuing operations for the reporting period ending December 31, 2016 are as follows:

2016

(x 1,000 euros)	FSPS	FTM	FE	HL Technology	Total
Turnover	150,558	53,761	209,861	7,659	**421,839**
Intersegment turnover			1,679		**1,679**
Total turnover	**150,558**	**53,761**	**211,540**	**7,659**	**423,518**
Operating result per segment	23,722	14,409	(16,810)	(3,440)	**17,881**
Financial result					**(24,245)**
Profit before taxes					**(6,364)**
Taxes on profits					**11,748**
Net result from continuing operations					**(18,112)**

The segment results for continuing operations for the reporting period ending December 31, 2015 are as follows:

2015

(x 1,000 euros)	FSPS	FTM	FE	HL Technology	Total
Turnover	142,458	50,343	225,212	9,547	**427,560**
Intersegment turnover			6,889		**6,889**
Total turnover	**142,458**	**50,343**	**232,101**	**9,547**	**434,449**
Operating result per segment	18,763	13,184	7,671	(10,773)	**28,845**
Financial result					**(44,954)**
Profit before taxes					**(16,108)**
Taxes on profits					**8,840**
Net result from continuing operations					**(24,948)**

Other segmented items recognized in the income statement for continuing operations are as follows:

2016

(x 1,000 euros)	FSPS	FTM	FE	HL Technology	Total
Depreciation, amortization and impairment	7,630	2,527	54,806	1,579	**66,543**
Write-down on inventories	18	316	1,272	826	**2,432**
Write-down on receivables	251	132	116	9	**508**

2015

(x 1,000 euros)	FSPS	FTM	FE	HL Technology	Total
Depreciation, amortization and impairment	12,868	1,506	35,413	11,938	**61,724**
Write-down on inventories	201	117	918		**1,236**
Write-down on receivables	94	56	310	28	**488**

The assets and liabilities, and the capital expenditure (investments) are as follows:

2016

(x 1,000 euros)	FSPS	FTM	FE	HL Technology	Total
Total assets	212,646	89,653	562,130	5,814	**868,053**
Total liabilities	270,666	87,325	357,909	1,469	**715,178**
Capital expenditure	7,628	1,271	4,589	118	**13,606**

2015

(x 1,000 euros)	FSPS	FTM	FE	HL Technology	Total
Total assets	172,069	52,823	456,077	8,413	**689,381**
Total liabilities	316,200	77,517	358,655	1,783	**754,154**
Capital expenditure	16,485	1,888	7,619	166	**26,159**

Segment assets consist primarily of property, plant and equipment, intangible fixed assets, inventories, receivables and cash from operations.

Turnover of Fagron for continuing operations by geographical segments is as follows:

(x 1,000 euros)	2016	2015
The Netherlands	116,822	117,945
Brazil	88,795	79,072
United States	76,147	92,643
Belgium	33,732	31,858
Poland	22,457	19,113
Germany	15,374	15,734
France	12,730	14,952
Italy	11,082	10,642
Czech Republic	10,362	8,983
Spain	9,331	9,627
Switzerland	7,659	9,547
Denmark	6,838	6,819
Greece	2,681	2,290
Colombia	2,334	2,712
United Kingdom	2,283	2,761
South Africa	2,068	1,973
Australia	1,143	888
Total	**421,839**	**427,560**

Fagron has a broad customer base in which no customer accounts for more than 10% of turnover.

Concerning the geographical segments, Fagron applies the following allocation for fixed assets excluding deferred tax assets, for continuing operations:

(x 1,000 euros)	2016	2015
The Netherlands	123,812	125,096
United States	114,849	173,593
Brazil	89,067	70,678
Belgium	27,962	27,245
Other	90,294	90,997
Total	**445,984**	**487,609**

6 Turnover

(x 1,000 euros)	2016	2015
Sale of goods	421,839	427,560
Turnover	**421,839**	**427,560**

7 Other operating income

(x 1,000 euros)	2016	2015
Gain on disposal of fixed assets	219	318
Other operating income	2,995	8,303
Total other operating income	**3,215**	**8,622**

The change in the item 'Other operating income' relates mainly to one-off occurrences in 2015, specifically the release of an earn-out regarding JCB Laboratories and the sale of the headquarter office in Belgium. The other operating income in 2016 related mainly to income from the sale of activities in the past.

8 Employee benefit expenses

(x 1,000 euros)	2016	2015
Wages and salaries	65,882	67,868
Social security costs	14,042	14,602
Pension costs – defined benefit plans	58	687
Pension costs – defined contribution plans	2,242	1,444
Other post-employment benefit contributions	2,527	6,070
Other employee expenses	12,050	13,168
Total employee benefit expenses	**96,801**	**103,839**

Full-time equivalents continuing operations

Full-time equivalents (rounded to one unit)	2016	2015
Brazil	509	495
The Netherlands	422	417
United States	313	308
Czech Republic	123	114
Poland	121	120
France	95	131
Belgium	85	101
Colombia	66	72
Switzerland	61	61
Germany	38	40
Spain	36	38
Italy	36	36
Greece	31	32
South Africa	27	23
Denmark	9	11
China	9	9
United Kingdom	7	7
Australia	4	4
Total	**1,991**	**2,017**

At December 31, 2016, Fagron's workforce (fully consolidated companies), for continuing operations, comprised 2,106 (2015: 2,163) employees or 1,990.7 (2015: 2,017.2) full-time equivalents. The geographical distribution of the number of full-time equivalents is as follows:

Full-time equivalents (rounded to one unit)	2016	2015
Europe	1,063	1,107
North America	313	308
South America	575	567
Rest of the world	40	36
Total	**1,991**	**2,017**

9 Depreciation, amortization and impairment

(x 1,000 euros)	2016	2015
Depreciation and amortization	18,179	14,386
Impairment	48,364	47,338
Write-down on inventories	2,432	1,236
Write-down on receivables	508	488
Total depreciation, amortization and impairment	**69,483**	**63,449**

Depreciation, amortization and impairments increased in 2016, partly as a result of accelerated depreciation in the United States and Switzerland. Amounts written off on inventories also increased because of the building up of provisions in the United States and Switzerland.

Fagron recognized an impairment of 48.4 million euros in 2016 and 47.4 million euros in 2015, mainly as a result of the changed reimbursement system for non-sterile compounding in the United States and the consequences of this change for the profitability of Freedom Pharmaceuticals. Further details involving the impairment are stated in note 15.

10 Other operating expenses

(x 1,000 euros)	2016	2015
Increase (decrease) in provisions for current liabilities	(4,022)	306
Increase (decrease) in provisions for pension liabilities	109	99
Taxes and levies (excluding income tax)	1,101	725
Other operating expenses	6,292	3,067
Total other operating expenses	**3,480**	**4,197**

An amount of 4.4 million euros of the decrease in provisions for current liabilities in 2016 relates to a release of a provision following a settlement with Henry Schein concerning a dispute on the sale of several companies in 2013. This decrease was compensated in part by the creation of a provision for a tax assessment in Brazil (0.8 million euros). In 2016, the line 'Other operating expenses' includes 5.3 million euros relating to the settlement with Henry Schein.

In 2015, the line 'Other operating expenses' included 1.1 million euros relating to acquisition costs, 0.8 million euros relating to losses on realized receivables and 0.5 million euros relating to results on fixed assets sold.

11 Financial result

The financial results are presented in the consolidated income statement as follows:

(x 1,000 euros)	2016	2015
Financial income	11,713	1,147
Revaluation of financial derivatives	1,284	866
Total financial income	**12,996**	**2,013**
Financial expenses	(7,994)	(19,291)
Interest expenses	(29,714)	(24,758)
Currency translation differences	467	(2,917)
Total financial expenses	**(37,242)**	**(46,967)**
Total financial result	**(24,245)**	**(44,954)**

The positive revaluation of financial derivatives, 1.3 million euros in 2016 and 0.9 million euros in 2015, relates to the change in the market value of the interest rate hedges that are not a cash flow and do not qualify for hedge accounting in accordance with IAS 39. The interest hedging instruments are valued on the basis of discounted cash flows. This instrument hedges the interest risk on 70 million euros of the total financing.

The financial result, excluding the revaluation of the financial derivatives, amounts to -25.5 million euros, compared to -45.8 million euros in 2015. This improvement was chiefly the result of the Long Term Waivers received. These waivers resulted in a change in the expected cash flows, whereby the extra costs of 10.0 million euros recognized in 2015 have been recognized as proceeds in the 2016 reporting year.

12 Income taxes

Income taxes from continuing operations are as follows:

(x 1,000 euros)	2016	2015
Current tax expenses	7,939	10,082
Deferred taxes	3,809	(1,243)
Tax on profits	**11,748**	**8,840**
Effective tax rate	(184.59%)	(54.88%)
Profit before income tax from continuing operations	**(6,364)**	**(16,108)**
Tax calculated at weighted Fagron NV's statutory tax rate	(2,163)	(5,475)
Effect of rate differences compared with foreign jurisdictions	(3,959)	(1,576)
Income not subject to taxes	1,177	(2,615)
Expenses not deductible for tax purposes	960	1,369
Tax on profit previous years	(571)	(593)
Effect of impairment	16,439	16,090
Other	(135)	1,640
Tax on profits	**11,748**	**8,840**

The 'Tax calculated based on Fagron NV's statutory tax rate' is the taxes expected based on the Belgian statutory rate. The 'Effect of rate differences compared with foreign jurisdictions' pertains to the impact of the statutory rates to which the entities in the Group are subject compared to the Belgian statutory rate.

The 'Income not subject to taxes' is the exempt income and costs and mainly pertains to the untaxed capital loss resulting from the sale of a French compounding pharmacy.

The 'Expenses not deductible for tax purposes' are all costs that are not tax deductible and relate mainly to non-deductible interest expenses, non-deductible intercompany expenses and other non-deductible expenses.

The 'Tax on profit previous years' is a reflection of all adjustments to earlier estimates for taxes.

The 'Effect of impairment' concerns the impact of the impairments. In 2016 this concerned the impairment on Fagron United States Essentials & Trademarks and in 2015 this mainly concerned an impairment on Bellevue Pharmacy and Fagron United States Essentials & Trademarks. The impairment is not tax deductible.

The item 'Other' concerns all other movements that impact the effective tax rate. This pertains to, among other things, the use of tax losses that were not recognized earlier as a deferred tax claim or tax losses in the current year which have not been recognized because of insufficient expected future tax profits.

13 Discontinued operations

Fagron sold the ICT division Corilus to AAC Capital on March 13, 2015 for a total consideration of 74 million euros. Management recognized no impairment, given that the sale value was higher than the carrying amount of the assets held for sale minus related liabilities. Further details on the sold assets and liabilities and on the calculation of the result on the sale are explained in note 30.

Fagron announced in April 2016 it would be closing Bellevue Pharmacy. The changed reimbursement system in the United States had a major impact on the turnover and profitability of Bellevue Pharmacy. After the impairment on Bellevue Pharmacy at the end of 2015 and the losses in the first quarter of 2016, the Group decided to close Bellevue Pharmacy. Bellevue was included in the

discontinued operations for 2015 and 2016. Because Bellevue Pharmacy is being shut down, it has not been included as an asset or liability held for sale.

The combined results of the discontinued operations included in the profit for the year and cash flows are set out below.

Net result from discontinued operations

(x 1,000 euros)	2016	2015
Operating income	**4,340**	**45,483**
Turnover	4,192	45,436
Other operating income	148	47
Expenses	**6,762**	**227,297**
Profit before income tax	**(2,422)**	**(181,814)**
Attributable income tax expenses	3,317	1,886
Profit / (loss) from fair value revaluation, settlement costs and selling costs	(2,940)	2,864
Profit / (loss) for the year from discontinued operations (attributable to the company's shareholders)	**(2,045)**	**(177,064)**

Net cash flows from discontinued operations

(x 1,000 euros)	2016	2015
Total cash flow from operating activities	(9,279)	8,474
Total cash flow from investment activities	(6,147)	(6,743)
Total cash flow from financing activities	0	(677)
Total net cash flows from discontinued operations	**(15,426)**	**1,054**

14 Earnings per share

(in euro)	2016	2015
Basic earnings (loss) per share	**(0.38)**	**(6.46)**
• from continuing operations	(0.34)	(0.81)
• from discontinued operations	(0.04)	(5.66)
Diluted earnings (loss) per share	**(0.38)**	**(6.44)**
• from continuing operations	(0.34)	(0.80)
• from discontinued operations	(0.04)	(5.63)

The earnings used in the calculations are as follows:

(x 1,000 euros)	2016	2015
Profit (loss) attributable to equity holders of the company	**(20,562)**	**(202,328)**
• from continuing operations	(18,518)	(25,263)
• from discontinued operations	(2,045)	(177,064)

The diluted earnings are equal to the 'basic' earnings.

The weighted average number of shares used in the calculations is as follows:

(number of shares x 1,000)	2016	2015
Weighted average number of ordinary shares	53,957	31,304
Effect of warrants and stock options		122
Weighted average number of ordinary shares (diluted)	53,957	31,425

The increase in the number of ordinary shares was the result of the capital increases in May 2016 and July 2016.

No ordinary share transactions were executed after the balance sheet date which have impacted on earnings per share. The effect on the number of warrants and stock options that are anti-dilutive for the period but which could dilute basic earnings per share in the future is 1,657,277. These are warrants with an exercise price higher than the average stock price of Fagron in 2016.

15 Intangible fixed assets

(x 1,000 euros)	Goodwill	Development	Concessions & patents	Brands and customer relations	Software	Other	Total
Net book value as at January 1, 2015	**522,069**	**2,996**	**1,073**	**40,560**	**8,259**	**295**	**575,252**
Investments		702	16	36	2,369		**3,123**
Acquisitions	46,392		543	13,463			**60,397**
Transfers and disposals		(307)		341	266	(295)	**6**
Amortization		(984)	(165)	(8,549)	(2,460)		**(12,158)**
Impairment	(200,239)	(160)		(24,420)	(44)		**(224,863)**
Exchange differences	5,387	53	(75)	3,732	(253)		**8,844**
Net book value as at December 31, 2015	**373,608**	**2,302**	**1,392**	**25,163**	**8,136**		**410,601**
Gross carrying amount	573,847	6,366	2,064	89,079	19,234	24	**690,613**
Accumulated amortization	(200,239)	(4,065)	(671)	(63,915)	(11,098)	(24)	**(280,012)**
Net book value	**373,608**	**2,302**	**1,392**	**25,163**	**8,136**		**410,601**
Net book value as at January 1, 2016	**373,608**	**2,302**	**1,392**	**25,163**	**8,136**		**410,601**
Investments		2,215	97	89	635		**3,035**
Acquisitions							
Transfers and disposals	371	215	13	(1,515)	644		**(271)**
Amortization		(960)	(164)	(6,677)	(4,245)		**(12,046)**
Impairment	(48,364)						**(48,364)**
Exchange differences	17,169	25	29	387	439		**18,050**
Net book value as at December 31, 2016	**342,785**	**3,797**	**1,368**	**17,447**	**5,610**		**371,006**
Gross carrying amount	591,828	5,678	2,117	89,324	17,159	22	**706,128**
Accumulated amortization	(294,043)	(1,881)	(749)	(71,877)	(11,549)	(22)	**(335,122)**
Net book value	**342,785**	**3,797**	**1,368**	**17,447**	**5,610**		**371,006**

The intangible fixed assets have not been pledged as security for obligations.

The category 'Development' consists mainly of unique software developed in-house in full control of Fagron. The development costs were fully capitalized in 2016. These are mainly related to employee costs.

Impairment

Goodwill is tested at least annually for impairment and consistently when a trigger event occurs.

In 2015 the Group was confronted with a change in the reimbursement system for non-sterile compounds in the United States. The impact of this change affected the profitability of the cash-generating units Fagron United States Essentials & Trademarks and Bellevue Pharmacy.
Especially the change in reimbursement system resulted in a downward revision of projected cash flows in such way that the recoverable amount of some cash-generating units is lower than its carrying amount. The recoverable amount of the cash-generating unit has been determined based on a value-in-use calculation. The impairment test resulted in an impairment of the goodwill by 200.2 million euros and of other intangible fixed assets by 24.6 million euros in 2015. The impairment is included in the section 'impairment loss' and for Bellevue Pharmacy in the section 'net result from discontinued operations' in the consolidated income statement.

The negative impact of the changed reimbursement system on the turnover and profitability of Fagron United States Essentials & Trademarks emerged to be greater and more structural than initially estimated. This resulted in 2016 in an impairment of the goodwill (48.4 million euros).

The impairment loss in 2016 and discount rate used for this are as follows:

(x million euros)	Recovera-ble value	Impair-ment loss	Discount rate	Pre-tax discount rate*
Fagron United States Essentials and Trademarks	39.2	48.4	10.4%	12.4%

* De pre-tax discount rate in 2015 was 15.7%.

The following changes in assumptions have an impact on the impairment loss as shown in the table below:

(x million euros)	Increase/decrease in maintenance capex as % of sales by 2%	Increase/ decrease in discount rate by 2%	Increase/ decrease in long-term growth by 2%	Increase/ decrease in gross margin by 2%
	1.3	6.5	(7.4)	(4.0)
Fagron United States Essentials and Trademarks	(1.3)	(10.6)	4.5	4.0

Goodwill

Goodwill acquired in business mergers and acquisitions is allocated to cash-generating units or groups of cash-generating units which are expected to have future economic benefits following the merger or acquisition. Where a group of cash-generating units are operational in several segments, they are not regarded as comprising a segment. Goodwill is recognized at cost price less accumulated impairment losses.

The net book value of goodwill was attributed as follows to the cash-generating units:

(x million euros)	December 2016	December 2015
Fagron Europe Essentials and Trademarks	111.6	105.3
Fagron Europa Specialty Pharma	63.8	71.4
Fagron United States Essentials and Trademarks	30.9	79.1
JCB Laboratories	18.3	17.7
AnazaoHealth	32.7	31.3
Fagron Brazil Essentials and Trademarks	76.7	61.0
Fagron Rest of the World	8.8	7.8
HL Technology	0.0	0.0
Total	**342.8**	**373.6**

The decline in goodwill is due to the impairment in 2016 and to exchange differences.

Goodwill impairment tests on continuing operations

The methodology for testing impairment is in accordance with IAS 36. Goodwill is tested at least annually for impairment with respect to cash-generating units and consistently when a trigger event occurs during the year which may result in an impairment loss. The realizable value of the cash-generating units is determined on the basis of the 'value in use' calculations.

The key judgments, estimates and assumptions that are commonly used are as follows:

- The first year of the model is based on detailed financial budgets approved by Management and the Board of Directors.
- The year-one budget figures are extrapolated for the years two to five, taking into account an internal growth rate or using a business plan. The figures take into account economic assumptions and historical experience of market share, revenue and expenses, capital expenditures and working capital.
- For the following years, an estimate of the perpetual growth is used. For the main cash-generating units, the following long-term growth rates are used: 2% for Fagron Europe Specialty Pharma, Fagron Europe Essentials and Trademarks, 2% for Fagron United States Essentials and Trademarks, JCB Laboratories and AnazaoHealth, and 7% for Fagron Brazil Essentials and Trademarks. The same growth rates were used in 2015.
- Projections made for Brazil and the United States are done in their functional currency unit and are discounted at the weighted average capital cost of the unit. For the main cash-generating units the following weighted average cost of capital is used: 8.8% (pre-tax: 11.3%) for Fagron Europe Specialty Pharma, 8.8% (pre-tax: 12.6%) for Fagron Europe Essentials and Trademarks, 10.4% (pre-tax: 12.4%) for Fagron United States Essentials and Trademarks, 10.4% (pre-tax: 15.6%) for JCB Laboratories, 10.4% (pre-tax: 15.5%) for AnazaoHealth, and 18.6% (pre-tax: 27.4%) for Fagron Brazil Essentials and Trademarks.
- The corporate assets and goodwill have been allocated on the basis of turnover to the cash-generating units Fagron Europe Specialty Pharma and Fagron Europe Essentials and Trademarks. It would have no material impact on the results if the assets and goodwill were allocated to all cash-generating units.

Of the main cash-generating units, AnazaoHealth and Fagron Brazil Essentials and Trademarks have the smallest relative difference between the net book value of the asset and its enterprise value. The difference is estimated at 7.3 million euros and 24.4 million euros, respectively. The following changes in assumptions could individually decrease the enterprise value to its net book value.

	Increase in maintenance capex as % of sales (basis points)	Increase in discount rate (basis points)	Decrease in long-term growth (basis points)	Decrease in gross margin (basis points)
AnazaoHealth	714	178	253	237
Fagron Brazil Essentials and Trademarks	805	343	562	466

The outcome of the impairment test for Fagron Europe Specialty Pharma, Fagron Europe Essentials and Trademarks, JCB Laboratories and Fagron Brazil Essentials and Trademarks shows that a reasonable change in the assumptions used will not lead to an impairment.

The value of each cash-generating unit, according to the above mentioned calculations is compared with the net book value of the assets of the cash-generating unit. For all cash-generating units, the enterprise value exceeds the net book value, except for Fagron United States Essentials and Trademarks, for which the net book value equals the enterprise value.

16 Property, plant and equipment

(x 1,000 euros)	Land and buildings	Machinery and installations	Furniture and vehicles	Leasing and other similar rights	Other tangible assets	Assets under construction	Total
Net book value as at January 1, 2015	**37,269**	**10,257**	**6,231**	**1,330**	**3,760**	**1,123**	**59,969**
Investments	2,622	7,745	2,142		1,412	10,158	**24,079**
Acquisitions	256	724	228	145	732	30	**2,114**
Transfers and disposals	(738)	(23)	(363)	(7)	(1,871)	(995)	**(3,996)**
Depreciation	(2,706)	(2,698)	(1,951)	(686)	(587)	(330)	**(8,959)**
Impairment	(318)	(135)	(1)	(192)	(54)		**(699)**
Classified as assets held for sale							
Other movements							
Exchange differences	(1,266)	(175)	(167)	130	111	(8)	**(1,375)**
Net book value as at December 31, 2015	**35,119**	**15,694**	**6,119**	**719**	**3,504**	**9,978**	**71,133**
Gross carrying amount	46,786	38,386	16,439	6,705	11,827	9,978	**130,439**
Accumulated depreciation	(11,668)	(22,691)	(10,320)	(5,986)	(8,323)		**(58,306)**
Net book value	**35,119**	**15,694**	**6,119**	**719**	**3,504**	**9,978**	**71,133**
Net book value as at January 1, 2016	**35,119**	**15,694**	**6,119**	**719**	**3,504**	**9,978**	**71,133**
Investments	1,000	1,359	1,183		310	6,719	**10,571**
Acquisitions							
Transfers and disposals	5,308	2,843	(242)	7	2,857	(6,516)	**4,257**
Depreciation	(4,423)	(3,553)	(2,599)	(580)	(3,756)	(460)	**(15,371)**
Impairment							
Classified as assets held for sale							
Other movements		(326)	(49)				**(375)**
Exchange differences	1,482	571	301	7	(1)	305	**2,666**
Net book value as at December 31, 2016	**38,485**	**16,587**	**4,713**	**153**	**2,915**	**10,026**	**72,879**
Gross carrying amount	54,420	40,746	15,903	6,572	8,018	10,026	**135,686**
Accumulated depreciation	(15,935)	(24,159)	(11,190)	(6,420)	(5,103)		**(62,807)**
Net book value	**38,485**	**16,587**	**4,713**	**153**	**2,915**	**10,026**	**72,879**

The Group's liability regarding financial leasing is guaranteed as the lessor holds the legal property title of the leased assets. The other tangible fixed assets have no restrictions on the title of ownership. Nor have these assets been pledged as security for obligations, with the exception of a building owned by HL Technology on which a mortgage rests, see note 33: additional notes.

17 Financial assets

(x 1,000 euros)	Financial assets available for sale	Loans and receivables	Total
Net book value as at January 1, 2015	**1,595**	**3,469**	**5,064**
Investments		1,479	1,479
Transfers and disposals	(55)	(197)	252
Other movements		(432)	(432)
Net book value as at December 31, 2015	**1,540**	**4,319**	**5,859**
Investments	3	822	825
Transfers and disposals	(272)	(4,304)	(4,576)
Other movements		16	16
Net book value as at December 31, 2016	**1,271**	**853**	**2,123**

The assets available for sale mainly consist of a minority interest participation of 1.2 million euros. This asset is stated at cost due to the unavailability of reliable information on its fair value. The loans and receivables decreased because a loan was converted into a fixed asset.

An analysis of the assets above showed that none of these assets needs to be impaired in 2016 and 2015.

Loans and receivables concern receivables with different due dates. The book value approximates the fair value.

18 Taxes, remuneration and social security

a) Current taxes, remuneration and social security

(x 1,000 euros)	2016	2015
Tax liabilities for the current year	7,333	(964)
Other current tax and VAT payable	12,767	10,934
Remuneration and social security payable	14,876	15,312
Current taxes, remuneration and social security	**34,977**	**25,282**

b) Deferred tax assets

(x 1,000 euros)	Differences in depreciation rates	Employee benefits	Provisions	Tax losses	Other	Total
Balance at January 1, 2015	**23,231**	**950**	**1,724**	**4,127**	**(7,670)**	**22,362**
Result	64,441	271	(1,569)	12,700	3,301	**79,144**
Change in scope of consolidation	(719)					**(719)**
Impairment	(79,038)			(7,808)		**(86,846)**
Balance at December 31, 2015	**7,915**	**1,221**	**155**	**9,019**	**(4,369)**	**13,942**
Result	12,426	(269)	1,193	59,838	2,102	**75,291**
Change in scope of consolidation						
Impairment	(18,620)			(60,914)		**(79,534)**
Balance at December 31, 2016	**1,721**	**952**	**1,348**	**7,943**	**(2,266)**	**9,698**

The category 'Other' mainly concerns netting with deferred tax liabilities.

An impairment test on tax losses is performed twice per year. If it becomes clear that the losses cannot be assigned within a reasonable time, they are written off. This calculation is based on result projections with a five-year forecast horizon, based on detailed financial budgets approved by the management for the first year and an extrapolation of these figures for the second through fifth year. Extending the result projections for one year will result in the deferred taxes increasing by 2.0 million euros.

In 2016 goodwill was impaired at Fagron United States Essentials and Trademarks for an amount of 48.4 million euros. For tax purposes, the goodwill can be amortized as a result of which the related deferred tax asset further increased. It is expected that limited future taxable profits are derived, as a result of which the deferred tax asset has been impaired for 18.6 million euros.

In 2016, Fagron Holding USA LLC achieved a tax loss in connection with the write-down of its participating interest in Bellevue Pharmacy. This loss amounted to 165.9 million euros.

Based on the impairment test on tax losses, an amount of 60.9 million euros was written back. This is related to deferred tax claims for tax losses of the current year not being assessed, or the (further) write-down of deferred tax claims for losses of previous years. This concerns, among others, Fagron Holding USA LLC, Fagron NV, Fagron Compounding Services NV, Arseus Dental Solution SAS, Fagron Compounding Services France SAS and HL Technology SA. At year-end 2016, the tax losses came to 244.0 million euros, of which 27.2 million euros have been assessed, resulting in a deferred tax claim of 7.9 million euros.

c) Deferred tax liabilities

(x 1,000 euros)	Differences in depreciation rates	Other	Total
Balance at January 1, 2015	**13,666**	**(7,504)**	**6,162**
Result	(5,518)	875	**(4,643)**
Change in scope of consolidation			
Discontinued operations			
Balance at December 31, 2015	**8,148**	**(6,629)**	**1,519**
Result	(5,469)	4,186	**(1,283)**
Change in scope of consolidation			
Discontinued operations			
Balance at December 31, 2016	**2,679**	**(2,443)**	**236**

The category 'Other' mainly concerns netting with deferred tax assets.

On the balance sheet date the Group has not included any deferred tax liability for taxes payable as the result of any dividend payment. The Group has not included any deferred tax liability because no adopted intercompany dividend policy applies and an autonomous decision can therefore be made as to when a dividend will be paid and in what amount. The deferred tax liability not assessed amounts to 2.5 million euros. There were no indications on the balance sheet date that these deferred tax liabilities would materialize.

19 Inventories

(x 1,000 euros)	2016	2015
Raw materials	19,609	23,708
Work in progress	1,690	3,757
Finished goods	9,441	9,394
Trade goods	29,314	30,392
Inventories	**60,054**	**67,251**

The decrease in inventories is mainly due to a phasing out of inventory positions because of the changed reimbursement system for non-sterile compounds in the United States. The inventories are not encumbered with collateral.

20 Trade receivables, other receivables, cash and cash equivalents

a) Trade receivables and other receivables

(x 1,000 euros)	2016	2015
Trade receivables	35,375	36,223
Provision for impairment of receivables	(2,496)	(2,133)
Total trade receivables	**32,879**	**34,090**
Other receivables	**23,829**	**11,031**

There is no concentration of credit risk with respect to trade receivables as the majority of Fagron's customers are internationally dispersed. If there are indications that trade receivables will be uncollectible, a provision has been made.

The increase in the other receivables is mainly attributable to income taxes that can be claimed back in the United States (15.2 million euros). Other receivables also include value-added tax, prepayments and various smaller receivables.

Fagron applies a strict credit policy with regard to its customers, ensuring that the company controls and minimizes credit risk. No individual customers make up a substantial part of either turnover or outstanding receivables.

					Of which due at year-end	
(x 1,000 euros)	Carrying amount	Of which not over-due at year-end	Less than 30 days	Between 31 and 90 days	Between 91 and 150 days	More than 150 days
Trade receivables at December 31, 2016	**32,879**	**25,588**	**4,377**	**1,837**	**486**	**591**
Trade receivables at December 31, 2015	34,090	23,236	6,320	3,207	346	981

(x 1,000 euros)	Provision for impairment of receivables
Balance at January 1, 2015	**(2,787)**
Additions:	
• Through business combinations	(378)
• Other	(833)
Amounts used	1,814
Other	51
Balance at December 31, 2015	**(2,133)**
Additions:	
• Through business combinations	0
• Other	(982)
Amounts used	684
Other	(65)
Balance at December 31, 2016	**(2,496)**

b) Cash and cash equivalents

(x 1,000 euros)	2016	2015
Investments with a maturity of less than three months	1,668	1,544
Cash and cash equivalents	73,294	73,930
Restricted cash	220,622	0
Cash and cash equivalents	**295,585**	**75,474**

The increase in the cash and cash equivalents was mainly a result of the capital increases in May 2016 and July 2016. These are classified as cash that may not freely be disposed of and must exclusively be used for the repayment of the 4.15% Series A Notes (45.0 million US dollars), the 3.55% Series B notes (22.5 million euros) and the Eurobonds (225.0 million euros) in 2017.

The majority of the cash comprises cash and cash equivalents in bank accounts and cash. The cash and cash equivalents are centralized as much as possible in a cash pool, held in accounts with banks that mostly have an A-rating. All new bank accounts are only opened with banks awarded at least an A-rating.

Trade receivables, other receivables and cash and cash equivalents are generally within a close range of their maturities. Therefore, the carrying amount approximates their fair value.

21 Equity

Authorized capital

By resolution adopted by the Extraordinary General Meeting of September 7, 2007, the Board of Directors was granted the power to increase the capital in one or more instalments by a maximum amount of 319,810,475.00 euros by means and on terms to be decided by the Board of Directors, such within a period of five years as of the publication date of said resolution in the Annexes of the Belgian Bulletin of Acts, Orders and Decrees.

The Extraordinary General Meeting decided on May 14, 2012 to renew the Board of Director's authorization to increase the authorized share capital, such within the limits of the existing authorization as set out in Article 5bis of the Articles of Association, in one or more rounds by a maximum amount of 320,023,050.35 euros, such within a period of five years from the date of announcing such a decision in the Annexes of the Belgian Bulletin of Acts, Orders and Decrees. This proxy to increase the capital may be exercised only subject to the approval of at least three fourths (3/4) of the directors present or lawfully represented.

On June 29, 2015, 224,133 new shares were issued in the context of the authorized capital. The number of voting securities of Fagron amounted to 31,667,794. The total number of voting rights (denominator) amounted to 31,667,794. The authorized capital amounted to 322,217,493.06 euros in order to increase the capital by 2,297,363.25 euros in the context of the authorized capital by contribution in kind upon the issue of new shares bringing it to 324,514,856.31 euros.

On August 4, 2015, 444,033 new shares were issued in the context of the authorized capital. The number of voting securities of Fagron amounted to 32,111,827. The total number of voting rights (denominator) amounted to 32,111,827. The authorized capital amounted to 324,514,856.31 euros in order to increase the capital by 4,551,338.25 euros in the context of the authorized capital by contribution in kind upon the issue of new shares bringing it to 329,066,194.56 euros.

Since the granting of the authorized capital authorization to the Board of Directors, the Company's capital was therefore increased by 6,848,701.50 euros (on June 29, 2015 and August 4, 2015). No use was made during the 2016 financial year of the authorized capital authorization.

If the capital is increased within the limits of the authorized capital then the Board of Directors will be competent to request payment of a share premium. If the Board of Directors adopts this decision, then this share premium will be deposited into a blocked account, the balance of which may only be reduced or transferred on the basis of a resolution adopted by a General Meeting of Shareholders in accordance with the clauses governing an amendment of the Articles of Association.

This power of the Board of Directors will apply to capital increases that are subscribed to in cash or in kind, or that result from capitalization of reserves with or without the issue of new shares. The Board of Directors is permitted to issue convertible bonds or warrants within the limits of the authorized capital.

Statement of changes in the capital and in the number of shares

The movements in this balance sheet item are presented in the statement of changes in equity. During 2016, no treasury shares were bought back (2015: 54,000). The decrease in treasury shares by 224,133 was due to the transfer of shares related to the takeover of AnazaoHealth. As at December 31, 2016, Fagron NV owned a total of 103,627 treasury shares (2015: 327,760). In accordance with IFRS, these shares are deducted from equity and do not affect the income statement. No new shares were issued in the context of the warrant plans in 2016 (2015: 12,301). The nominal number of shares issued at December 31, 2016 is 71,843,904 (2015: 32,111,827). The total number of shares outstanding at December 31, 2016 was 71,740,277 (2015: 31,784,067).

	2016		2015	
Number of ordinary shares and the equity value thereof	Number of shares x 1,000	x 1,000 euros	Number of shares x 1,000	x 1,000 euros
Issued shares as at January 1	32,112	345,760	31,431	319,660
Issue of shares under Warrant Plan			12	106
Issue of shares related to acquisition payments in shares			668	25,995
Issue of shares in relation to capital increases	39,732	216,092		
Issued shares as at December 31	71,844	561,852	32,112	345,760
Treasury shares as at December 31	**104**	**18,823**	**328**	**18,823**
Shares outstanding as at December 31	71,740	543,029	31,784	326,937

All ordinary shares are fully paid. The ordinary shares have no nominal value denotation but have an accounting par value of 1/71,843,904th of the capital as at December 31, 2016 (2015: 1/32,111,827th). Each ordinary share carries one vote and a right to dividends.

The capital increases in 2016 had a net effect of 216.1 million euros on the equity. The costs were 3.3 million euros.

Share-based payments

On September 6, 2007, the Board of Directors approved two warrant plans for the benefit of the employees, directors and consultants of the company and/or subsidiaries (Warrant Plan 1 and Warrant Plan 2).

The warrants granted under Warrant Plan 1 (for employees) have a lifetime of eight years as of the date on which they are granted.

For employees (Warrant Plan 1) the warrants are exercisable in annual instalments of 25%, in May of the fourth, fifth, sixth and seventh calendar year after the calendar year in which the Warrants are offered.

Pursuant to a decision taken by the Board of Directors dated May 11, 2009, held in the presence of the civil-law notary Mr. Dirk van Haesebrouck, the period during which the warrants granted to beneficiaries prior to August 31, 2008 in the context of Warrant Plan 1 are exercisable was extended by five years to December 17, 2020, in accordance with the Amendment Act (Herstelwet).

The warrants granted under Warrant Plan 2 (for directors and consultants) have a lifetime of five years as of the date on which they are granted. The warrants granted under Warrant Plan 2 were fully exercised as per December 31, 2015.

On June 3, 2014, the company's Board of Directors approved the Warrant Plan 2014 for employees, directors and consultants of the company and/or its subsidiaries. The warrants were issued in response to the decision taken by the Board of Directors dated September 2, 2014 in presence of notary Luc De Ferm. In total 2,140,000 warrants were issued. In 2015 50,000 warrants were granted at an exercise price of 38.06 euros.

On June 13, 2016, the company's Board of Directors approved the Warrant Plan 2016 for employees, directors and consultants of the company and/or its subsidiaries. The warrants were issued in response to the decision taken by the Board of Directors dated 1 September 2016 in presence of notary Liesbet Degroote. In total 1,000,000 warrants were issued. In 2016, 983,091 warrants were granted at an exercise price of 7.38 euros.

The condition for vesting warrants for employees is that they still have an employment contract with the company; for directors and consultants the condition is that their relationship with the company has not been terminated.

The costs of the warrants have been determined at the warrants' real value on grant date and are spread over the vesting period of the warrants. The costs are recognized at the item 'Other employee benefits expenses' for the amount of 1.4 million euros for the 2016 financial year and 2.0 million euros for the 2015 financial year. A release of 1.3 million euros occurred in 2016 for forfeited warrants, however. The warrants are settled via equity instruments.

No shares were issued in 2016 (June 5, 2015: 12,301) as a result of the exercise of warrants under the Warrant Plan 2014. The number of Fagron shares with voting rights is currently 71,843,904 (2015: 32,111,827). The total number of voting rights (denominator) is currently 71,843,904 (2015: 32,111,827). The authorized capital amounts to 494,192,221.68 euros (2015: 329,066,195 euros).

The movements in the number of outstanding warrants under Warrant Plan 1, Warrant Plan 2, Warrant Plan 2014 and Warrant Plan 2016 and their related weighted average exercise prices are as follows:

	Average exercise price in euros	Number of warrants
Outstanding as at January 1, 2015	**38.82**	**949,428**
Exercised	10.25	(3,150)
Exercised	8.14	(6,462)
Exercised	7.77	(2,564)
Exercised	8.11	(125)
Forfeited	39.37	(364,500)
Granted	38.06	50,000
Outstanding as at December 31, 2015	**39.04**	**622,627**
Granted	7.38	983,091
Forfeited	10.25	(1,750)
Forfeited	7.77	(2,752)
Forfeited	8.11	(125)
Forfeited	39.37	(80,000)
Forfeited	38.06	(50,000)
Forfeited	7.38	(15,000)
Outstanding as at December 31, 2016	**18.10**	**1,456,091**

The weighted average exercise price per share at year-end amounted to 18.10 euros in 2016 (2015: 39.04 euros).

As at December 31, 2016, the total number of warrants not yet exercised which could prompt the issue of the same number of shares of the Company amounted to 1,456,091. Their average exercise price amounts to 18.10 euros. Outstanding warrants at year-end have the following expiry dates and exercise prices:

Expiry date	Average exercise price in euros	Number of warrants
2017 – March	39.37	239,000
2018 – March	39.37	127,000
2019 – March	39.37	122,000
2019 – November	7.38	484,046
2020 – November	7.38	242,023
2021 – July	7.38	242,023
	18.10	**1,456,091**

Stock option plan

On December 7, 2009, the Board of Directors approved the Fagron NV Stock option plan (Stock option plan) for employees, directors and consultants of the company and/or subsidiaries, which approval was subsequently ratified by the Extraordinary General Meeting of January 27, 2010.
The options granted under the Stock option plan were granted free of charge and, in line with the plan, have a term of six years from the date of offer. Options not exercised at the end of the six-year term, on January 16, 2016 therefore, are void by operation of law.
In accordance with the provisions of Section 43, paragraph 4, 1° of the Act of March 26, 1999 concerning the Belgian Action Plan for Employment 1998 (the Stock Options Act), the exercise price shall be determined on the basis of the share's average closing price during the thirty days preceding the date of the offer of the options, and was therefore calculated at 8.5214 euros per option.
The options shall be exercisable during the third, fourth, fifth and sixth calendar year following the calendar year in which the options were offered, each time for 25%.
The exercise of the options at the exercise price shall take place unconditionally and may only take place in the month of April of each calendar year and may take place for the first time in April 2012 in the proportions specified below:

Exercise maximum	Time
25 % of the options granted	April 2012
50 % of the options granted	April 2013
75 % of the options granted	April 2014
100 % of the options granted	April 2015

On October 27, 2011, the company's Board of Directors approved the Stock Option Plan 2011 for consultants and employees of Fagron NV and/or its subsidiaries, such under the suspensive condition of approval by the General Meeting. The Stock Option Plan 2011 was approved by the Annual General Meeting of May 14, 2012. In 2012, the procedure of Article 523 of the Belgian Companies Code was applied.

In June 2012, 250,000 stock options were granted at an exercise price of 13.73 euros. The options are settled via equity instruments. In 2014, 4,650 stock options were granted at an exercise price of 32.82 euros. No new stock options were granted in 2016.

During the financial years 2015 and 2016, the following number of options were exercised and forfeited, including their corresponding average exercise price:

	Average exercise price in euros	Number of stock options
Outstanding as at January 1, 2015	**11.21**	**491,775**
Exercised	10.25	(13,625)
Exercised	8.52	(246,000)
Exercised	13.73	(27,500)
Forfeited	13.73	(5,000)
Outstanding as at December 31, 2015	**14.17**	**199,650**
Forfeited	13.73	(7,500)
Outstanding as at December 31, 2016	**14.19**	**192,150**

Outstanding stock options at year-end have the following theoretical expiry dates and exercise prices:

Theoretical expiry date	Average exercise price in euros	Number of stock options
2017 – April	13.73	187,500
2018 – April	32.82	2,325
2019 – April	32.82	1,163
2020 – April	32.82	1,162
	14.19	**192,150**

Fair value

The fair value of the warrants and stock options was determined using the 'Black & Scholes' valuation model at grant date. The main data used in the model were the share price at grant date, the above-mentioned exercise price, the standard deviation of Fagron share price returns during option life and expected dividend, the option life specified above, and the annual risk-free interest rate.

The calculated fair value of the warrants granted in 2016 is 2.846 euros. The main data used for the warrants granted in 2015 were the above-mentioned exercise price, the standard deviation of expected share price returns of 28.2% with an expected dividend yield of 1.7%, an average expected option life of 3.8 years, and the annual risk-free interest rate of 0.5%. The main data used for the warrants granted in 2016 were the above-mentioned exercise price, the standard deviation of expected share price returns of 58.3% with an expected dividend yield of 1.7%, an average expected warrant life of 3.3 years, and the annual risk-free interest rate of -0.2%.

Dividend

No dividend was made payable in 2016 (2015: 31.2 million euros). At the Annual General Meeting of May 8, 2017, a proposal will be made not to pay any dividend for 2016.

A further explanation of the equity is included in the Corporate Governance Statement.

Other reserves

(x 1,000 euros)	Consolidated reserves	Cumulative conversion differences	Transactions with non-controlling interest	Remeasurements of post-employment benefit obligations	Share-based payments	Total
Balance at January 1, 2015	**(195,967)**	**(27,922)**	**(377)**	**(2,602)**	**3,086**	**(223,781)**
Other comprehensive result		(26,399)		1,055		(25,344)
Share-based payments					9,216	9,216
Change in non-controlling interest						
Balance at December 31, 2015	**(195,967)**	**(54,321)**	**(377)**	**(1,547)**	**12,302**	**(239,909)**
Other comprehensive result		22,077		(449)		21,650
Share-based payments					85	85
Change in non-controlling interest		22				
Balance at December 31, 2016	**(195,967)**	**(32,222)**	**(377)**	**(1,996)**	**12,387**	**(218,174)**

22 Provisions

(x 1,000 euros)	Taxes	Disputes	Other	Total
Balance at January 1, 2015	**47**	**63**	**8,780**	**8,891**
Additions:				
• Through business combination			9,174	9,174
• Other	294	123	900	1,317
Amounts used	(48)	(45)	(2,969)	(3,062)
Currency translation differences	(41)	(299)	7	(333)
Transfers		1,393	(1,393)	
Balance at December 31, 2015	**252**	**1,236**	**14,499**	**15,987**
Additions:				
• Through business combination				
• Other	881	14	2,214	3,109
Amounts used	(282)	(108)	(6,649)	(7,040)
Currency translation differences	140	284	296	720
Transfers				
Balance at December 31, 2016	**991**	**1,426**	**10,359**	**12,776**

The US government is conducting an investigation into the pricing of pharmaceutical products in the period primarily prior to the acquisition of Bellevue Pharmacy and Freedom Pharmaceuticals. The investigation relates to the sector as a whole. In order to limit the uncertainty and further attorneys' fees and (internal) investigation costs, Fagron is considering reaching a settlement with the government. The opening balance sheet of Bellevue Pharmacy included a provision of 10 million US dollars for costs arising from this investigation. The provision is an estimate of attorneys' fees, (internal) investigation costs and the costs of a possible settlement with the government. At year-end 2016, the provision amounts to 7.9 million euros. It is expected that this provision will be further used between 2017 and 2018. The same expectation applies for the other long-term provisions.

The additions to the provision for taxes relate to a tax assessment in Brazil. The additions to the other provisions mainly relate to provisions for loss-making contracts in the United States. The use of the other provisions mainly involves the utilization of a provision for Schein. This was a provision for a claim from Henry Schein concerning a dispute relating to the sale of several businesses in 2013.

23 Pension obligations

Pension obligations and costs

The amounts recognized in the balance sheet are determined as follows:

(x 1,000 euros)	2016	2015
Defined benefit obligations	4,905	4,358
Other defined benefit obligations	775	788
Pension obligations	**5,680**	**5,146**

The category 'Defined benefit obligations' include Fagron's Dutch defined benefit plans held by Fagron Services BV and Spruyt hillen BV. The 'Other defined benefit obligations' include multiple insignificant defined benefit plans, which are not further disclosed.

Defined benefit obligations are estimated in accordance with IAS19 using the Projected Unit Credit method. Under this method each participant's benefits under the plan are attributed to years of service, taking into consideration future salary increases and the plan's benefit allocation formula. Thus, the estimated total pension to which each participant is expected to become entitled at retirement is broken down into units, each associated with a year of past or future credited services. If an employee's service in later years will lead to a materially higher level of benefit than in earlier years, these benefits are attributed on a straight-line basis.

All defined benefit plans are final salary pension plans paid on a monthly basis. The amounts pertaining to post-employment medical plans are included in the liability but are not significant. There are no informal constructive obligations.

The amounts recognized regarding the Dutch defined benefit plans held by Fagron Services BV and Spruyt hillen BV are determined as follows:

(x 1,000 euros)	2016	2015
Present value of defined benefit obligations	21,644	18,988
Fair value of plan assets	(16,739)	(14,630)
Present value of net defined benefit obligations	**4,905**	**4,358**
Net liability arising from defined benefit obligation	**4,905**	**4,358**

Movements in the present value of the defined benefit obligations and the fair value of the plan assets were as follows:

(x 1,000 euros)	Present value of defined benefit obligations	Fair value of plan assets	Total
Balance at January 1, 2015	**20,367**	**(15,062)**	**5,305**
Service costs			
Interest expense (income)	446	(338)	**108**
Remeasurements:			
• Return on plan assets (excluding interest income)		605	**605**
• (Gains)/losses arising from changes in demographic assumptions			
• (Gains)/losses arising from changes in financial assumptions	(1,660)		**(1,660)**
• (Gains)/losses arising from experience adjustments			
Employer contributions			
Benefit payments from plan	(165)	165	
Balance at December 31, 2015	**18,988**	**(14,630)**	**4,358**
Service costs			
Interest expense (income)	490	(392)	**98**
Remeasurements:			
• Return on plan assets (excluding interest income)		(2,000)	**(2,000)**
• (Gains)/losses arising from changes in demographic assumptions	(54)		**(54)**
• (Gains)/losses arising from changes in financial assumptions	2,503		**2,503**
• (Gains)/losses arising from experience adjustments			
Employer contributions			
Benefit payments from plan	(283)	283	
Balance at December 31, 2016	**21,644**	**(16,739)**	**4,905**

The assets comprise qualifying insurance policies and are not part of the in-house financial instruments of Fagron. The pension insurer invested the assets fully in Aegon Strategic Allocation Fund 80/20. This fund has a market quotation.

Actuarial assumptions

The principal actuarial assumptions used for the actuarial valuations are:

	December 31, 2016	December 31, 2015
Weighted average discount rate	2.00%	2.60%
Expected rate of salary increase	N/A	N/A
Expected rate of price inflation	N/A	N/A
Future rate of pension increases actives	2.00%	2.00%

The life expectancy is based on the 'Prognosetafel AG2016'.

Realized and unrealized result

The amounts recognized in the realized and unrealized result in respect of these defined benefit plans are as follows:

(x 1,000 euros)	December 31, 2016	December 31, 2015
Net interest costs	98	108
Defined benefit plan costs recognized in income statement	**98**	**108**
Remeasurement on the present value of the non-financed liabilities:		
• Return on plan assets (excluding interest income)	(2,000)	605
• (Gains)/losses arising from changes in demographic assumptions	(54)	
• (Gains)/losses arising from changes in financial assumptions	2,503	(1,660)
Defined benefit costs recognized in other comprehensive income	**449**	**(1,055)**
Total defined benefit costs	**547**	**(947)**

There were no new entrants to the defined benefit plan; further accrual only takes place in a defined contribution plan. New employees are offered a defined contribution plan.

The expected defined benefit costs for 2017 are 0.1 million euros and only concerns interest costs.

Sensitivity analysis

The sensitivity analysis shows the sensitivity of the defined benefit obligation as at December 31, 2016 and the 'Pension costs attributed for the year of service' compared to the principal actuarial assumptions.

The following table sets out the defined benefit obligation as at December 31, 2016 for each principal actuarial assumption compared to the corresponding amounts if the actuarial assumption of the various scenarios are applied. The increase in salary and price inflation is not included in the sensitivity analysis because the pension is non-contributory.

	Base scenario	Increase base scenario	Decrease base scenario
Weighted average discount rate	**2.00%**	**2.50%**	**1.50%**
Defined benefit obligation	21,644	19,527	24,115
Pension increase	**+0.00%**	**+0.50%**	**(0.50%)**
Defined benefit obligation	21,644	22,625	20,745
Life expectancy	**+/- 0 year**	**+ 1 year**	**- 1 year**
Defined benefit obligation	21,644	22,157	21,124

Pension plans in Belgium

Fagron has nine pension plans in place in Belgium which are legally structured as defined contributions plans. Because of the Belgian legislation applicable to 2nd pillar pension plans (so-called 'Vandenbroucke Law'), all Belgian Defined Contribution plans have to be considered under IFRS as Defined Benefit plans. The Vandenbroucke Law stated that in the context of defined contribution plans, the employer must guarantee a minimum return of 3.75% on employee contributions and 3.25% on employer contributions. This law was amended in 2015 as follows:

- The employer must continue to guarantee a minimum return of 3.75% on employee contributions and 3.25% on employer contributions made until December 31, 2015;
- As from 2016, the employer must guarantee a minimum return ranging between 1.75% and 3.75% for all contributions, depending on the development of the average interest on OLO 10 years over a period of 24 months. The current guaranteed minimum return is 1.75%.

Because of this minimum guaranteed return for defined contributions plans in Belgium, the employer is exposed to a financial risk. The employer has a legal obligation to pay further pension contributions to the pension fund if the fund does not hold sufficient assets to pay all current and future pension commitments. These Belgian defined contributions plans should therefore be classified and accounted for as a defined benefit plans under IAS 19.

In the past, Fagron did not apply the defined benefit accounting for these plans because higher discount rates were applicable and the return on plan assets provided by insurance companies was sufficient to cover the minimum guaranteed return. As a result of continuous low interest rates offered by the European financial markets, the employers in Belgium effectively assumed a higher financial risk related to the pension plans with a minimum fixed guaranteed return than in the past. As a result, these plans need to be considered as defined benefit plans.

Management made an estimate of the potential additional liabilities as at 31 December 2016. Based on this estimation, it has been established that there are no substantive obligations. The 2016 employer contribution for these Belgian pension plans amounts to 0.1 million euros (2015: 0.1 million euros). The employee contribution for 2016 is nil (2015: nil), the employee contribution was stopped in 2014. The total amount of the plan assets as per December 31, 2016 amounts to 0.9 million euros (2015: 0.8 million euros).

24 Financial debts and financial instruments

(x 1,000 euros)	2016	2015
Non-current		
Financial lease liabilities	184	260
Bank borrowings	290,149	3,845
Other borrowings	100	307
Total non-current	**290,433**	**4,411**
Current		
Financial lease liabilities	84	238
Bank borrowings	290,475	594,670
Total current	**290,559**	**594,908**
Total financial debts	**580,992**	**599,320**

(x 1,000 euros)	Financial leases	2016 Bank borrow-ings	Financial leases	2015 Bank borrow-ings
Non-current borrowings by term				
More than 1 year but less than 5 years	184	288,730	260	2,162
More than 5 years		1,519		1,990
Total non-current borrowings	**184**	**290,249**	**260**	**4,152**

a. Bank borrowings and financial instruments

The book value of the bank borrowings is expressed in euros. The effective interest rate at balance sheet date on 31 December 2016 was 4.50% (2015: 3.51%).

On July 2, 2012, Fagron NV issued bonds for an amount of 225 million euros. The nominal value of the bonds is 1,000 euros. The bonds have a maturity of five years and offer a fixed annual gross interest of 4.75%. The bonds are redeemable at 100% of the nominal value on July 2, 2017. The total EBITDA, calculated as result before interest, taxes, depreciation and amortization, of the guarantors is at least 70 per cent of the consolidated Group EBITDA.

On April 15, 2014, Fagron NV issued a series private loans comprising of 45.0 million US dollars 4.15% Series A Senior Notes due April 15, 2017, 22.5 million euros 3.55% Series B Senior Notes due April 15, 2017, 15.0 million euros 4.04% Series C Senior Notes due April 15, 2019, 5.0 million euros Floating Rate Series D Senior Notes due April 15, 2019, 20.0 million US dollars 5.07% Series E Senior Notes due April 15, 2019 and 60.0 million US dollars 5.78% Series F Senior Notes due April 15, 2021.

On December 16, 2014, Fagron NV amended and extended the existing credit facility with an originating amount of 150 million euros and maturity date in July 2017. The amended multi-currency facility of 220 million euros was given a term until December 2019 with two one-year extension options via a consortium of existing and new international banks. In 2016, this facility, along with the long term waiver of May 5, 2016, was renewed until April 2021 for an amount of at least 180 million euros by exercising the extension options. The consortium consists of ING (coordinator), BNP Paribas, HSBC, KBC Bank, Fifth Third Bank and Commerzbank.

The key covenants of the credit facility and the private loans are the net financial debt/recurring EBITDA ratio and the recurring EBITDA/net interest expenses ratio. The financial covenants were adjusted to give Fagron extra latitude with respect to the original levels of the financial covenants. The extra latitude in the financial covenants will decrease by each six-month test period, starting with the first test period ending on December 31, 2016 through the test period ending on June 30, 2018. For every test period ending after June 30, 2018, the levels of both financial covenants revert to the original levels. The test periods and accompanying levels are shown below.

		Financial covenants
Test period	Net financial debt/REBITDA	REBITDA/net interest expenses
December 31, 2016	Max. 5.02x	Min. 1.81x
June 30, 2017	Max. 4.60x	Min. 1.98x
December 31, 2017	Max. 4.09x	Min. 2.32x
June 30, 2018	Max. 3.60x	Min. 2.80x
After June 30, 2018	Max. 3.25x	Min. 4.00x

The interest risk relating to 70 million euros of these loans has been hedged with financial derivatives. The currency risk relating to 157 million US dollars has also been hedged using financial derivatives. These instruments have been valued in accordance with a Level 2 method. This implies that the valuation is based on inputs other than the listed prices in active markets such as included in Level 1. The fair values of all derivatives held for hedging purposes are based on valuation methods. These methods maximize the use of detectable market data where available and minimize the impact of the company's estimates and projections. The interest hedging instruments are valued on the basis of discounted cash flows. The parameters used for these models are those applicable as at year-end and are therefore classified as Level 2. The valuation is calculated using the discounted cash flows of the nominal value and interest flows.

The fair value of these financial derivatives at year-end 2016 was -8.5 million euros (2015: -2.0 million euros). The full movement in fair value, a loss of 6.5 million euros (2015: profit of 0.9 million euros), was charged to the result in 2016. Fagron has no other financial derivatives.

All financial instruments are measured at amortized cost except for derivative financial instruments and contingent considerations for acquisitions, which are valued at fair value.
The fair value of the financial instruments valued at the amortized cost price approximates the carrying amount. The fair value of the bond loan is approximately 228 million euros.

As do the borrowing companies, Fagron NV and Fagron Capital NV, the following companies serve as guarantors for the bank loan and bond loan concluded by Fagron:

Company name of guarantors	
ACA Pharma NV	Fagron Poland Sp. Z.o.o.
Arseus België NV	Freedom Pharmaceuticals Inc.
B&B Pharmaceuticals Inc.	GMP Apotheek Mierlo-Hout BV
Fagron België NV	Pharma Cosmetic K.M. Adamowicz Sp. Z.o.o.
Fagron GmbH & Co KG	SM Empreendimentos Farmaceuticos Ltda
Fagron Inc.	Spruyt hillen BV
Fagron Nederland BV	

b. Financial leases

Property, plant and equipment include the following amounts where Fagron is a lessee under a financial lease.

(x 1,000 euros)	2016	2015
Cost-capitalized financial leases	6,572	6,513
Accumulated depreciation	(6,420)	(5,794)
Net amount of assets in leasing	**153**	**719**

The Group's liability regarding financial leasing is guaranteed as the lessor holds the legal property title of the leased assets.

The net amount of the financial leases concerns the following investments:

(x 1,000 euros)	2016	2015
Machinery and installations	150	704
Furniture and vehicles	2	15
Net amount of assets in leasing	**153**	**719**

Financial lease liabilities – minimum lease payments:

(x 1,000 euros)	2016	2015
Within 1 year	91	260
More than 1 year but less than 5 years	228	325
Total	**319**	**585**
Future charges on financial leases	51	88
Present values of financial lease liabilities	**268**	**497**

c. Operating leases

Operating lease liabilities – minimum lease payments:

(x 1,000 euros)	2016	2015
Within 1 year	4,690	4,026
More than 1 year but less than 5 years	12,226	7,451
More than 5 years	11,930	3,337
Total	**28,846**	**14,814**

Most of the lease contracts relate to the US entities.

The fair values of the bank borrowings and financial leasing liabilities are calculated based on the present value of the future payments associated with the debt. The increase in 2016 was mainly the result of the expansions in the FSPS companies in the United States.

25 Trade payables

(x 1,000 euros)	2016	2015
Trade payables	50,292	58,250
Investment payables	2,871	4,793
Total trade payables	**53,163**	**63,043**

Trade payables generally have due dates that are close to each other. The reported values approximate their fair values. The decrease with respect to the previous year is mainly due to an improved purchasing process in Brazil and discontinuation of the activities at Bellevue Pharmacy.

26 Other current payables

(x 1,000 euros)	2016	2015
Prepayments	30	124
Other payables	7,615	26,532
Accrued expenses	11,180	15,204
Other current payables	**18,825**	**41,859**

The due date for all other current payables is in 2017.

1.9 million euros (2015: 21.7 million euros) of the other payables relate to amounts to be paid to existing participations (subsequent payments). The decrease with respect to 2015 is mainly due to payments and the release of the SARs obligation. The SARs obligation pertains to an incentive plan in favor of certain senior executives at Bellevue Pharmacy. In May 2016, an agreement was reached between the Group and the former employees of Bellevue Pharmacy, which resulted in a release (11.4 million euros) of part of the SARs obligation.

The 'Accrued expenses' includes an amount of 8.6 million euros (2015: 7.4 million euros) related to interest still to be paid.
The remainder of this item concerns various accruals and deferrals. The decrease with respect to 2015 pertains mainly to the lower interest rates, the payment of the waiver fees and the payment of the former CEO's severance pay.

The debts generally have due dates that are close to each other. The reported values approximate their fair values. All other current payables are expected to be paid in 2017.

27 Contingencies

Fagron is involved in a number of claims, disputes and legal proceedings within the normal conduct of its business. Management believes that these claims, disputes and legal proceedings will not, on aggregate, have a materially adverse impact on Fagron' financial position. The term 'material' in this context is defined as a financial risk exceeding 0.750 million euros.

28 Related parties

The overall remuneration package for members of the Executive Committee and the CEO individually, as well as the non-executive directors, for the 2016 and 2015 financial years was as follows:

(x 1,000 euros)	Fixed remuneration component[4]	Variable remuneration component	Other remuneration components[5]
2015 financial year			
Ger van Jeveren, CEO until 14 December 2015	569		35
Hans Stols, CEO as from 14 December 2015	30		2
Executive Committee, including the CEO	2,481	222	109
Non-executive members of the Board of Directors	162		
Severance pay, Ger van Jeveren			1,785
2016 financial year			
Hans Stols, CEO	600	720	36
Executive Committee, including the CEO	2,171	1,053	152
Non-executive members of the Board of Directors	266		

[4] Costs incurred by Fagron, i.e. the gross amount including any social security contributions.

[5] Includes costs regarding pensions, insurances and the cash value of the other benefits in kind.

The variable remuneration component for the 2016 financial year is the bonus effectively paid out in 2017. The Nomination and Remuneration Committee prepares proposals annually for the remuneration policy and/or other benefits for members of the Executive Committee and the CEO.

In 2016, 893,091 warrants and no stock options were granted to the members of the Executive Committee, in the composition in effect on December 31, 2016. Mr. Stols and the other members of the Executive Committee exercised no stock options or warrants in 2016. The members of the Executive Committee, in the composition in effect on December 31, 2016, together hold 1,205,591 stock options and warrants.

29 Business combinations

Fagron did not complete any acquisitions in the 2016 financial year.

Fair value of the acquired assets and liabilities AnazaoHealth Inc.

In April 2015, AnazaoHealth Inc. was acquired. AnazaoHealth Inc. is a sterile compounding pharmacy in the United States, specialized in nuclear, pain and intrathecal compounds. The acquisition involved a payment of approximately 36.6 million euros (8.1 million in shares), representing an increase in goodwill of 30.5 million euros. Expectation was that the goodwill will be fully tax deductible. The final fair value of the acquired assets and liabilities was determined as detailed below.

(x 1,000 euros)	
Intangible fixed assets	11,994
Property, plant and equipment	1,189
Inventories	1,101
Trade receivables	2,775
Other receivables	980
Cash and cash equivalents	250
Total assets	18,290
Borrowings	1,224
Trade payables	976
Other current payables	10,068
Net acquired assets	6,022
Goodwill	30,539
Total acquisition amount	**36,561**

Fair value of the acquired assets and liabilities of ABC Chemicals SA

In July 2015, ABC Chemicals SA was acquired in Belgium. The acquisition involved a payment of approximately 6.2 million euros, representing an increase in goodwill of 11.5 million euros. The final fair value of the acquired assets and liabilities was determined as detailed below.

(x 1,000 euros)	
Intangible fixed assets	19
Property, plant and equipment	104
Inventories	1,559
Trade receivables	582
Other receivables	708
Cash and cash equivalents	638
Total assets	3,610
Borrowings	6,806
Trade payables	640
Other current payables	1,463
Net acquired assets	(5,299)
Goodwill	11,484
Total acquisition amount	**6,185**

The final determination of the fair value of the assets and liabilities acquired in the earlier mentioned minor acquisitions in 2015 did not result in any adjustment of goodwill. The total increase in goodwill by acquisitions amounts to 0.4 million euros.

At year-end, the Group had an amount of approximately 1.3 million euros in contingencies. These fees payable to former shareholders were determined on the basis of business plans at the time of acquisition and all have a due date in 2017.

The contingencies relate to Greece, South Africa and Colombia.

The contingency ranges from 0 euros to a maximum of 1.3 million euros. The considerations are measured at the fair value at the moment of acquisition. This is estimated based on the maximum compensation if the conditions are met.

30 Discontinued operations

Consideration received

(x 1,000 euros)	2016	2015
Consideration received in cash and cash equivalents		74,001
Subsequent payments		(4,374)
Total consideration received		**69,627**

In March 2015, Fagron sold the ICT division, Corilus, to AAC Capital. With the sale of Corilus, Fagron completed the last part of the divestment program of the dental, medical and ICT operations, as announced in 2013. For this transaction Fagron received an amount of 74.0 million euros. There was no material sale of operations in 2016.

Analysis of the assets and liabilities disposed of:

(x 1,000 euros)	2016	2015
Current assets		**11,300**
Inventories		1,440
Trade receivables		4,783
Other receivables		3,525
Cash and cash equivalents		1,552
Non-current assets		**73,636**
Goodwill		72,746
Other intangible fixed assets		
Property, plant and equipment		831
Deferred tax assets		
Other non-current assets		59
Current liabilities		**14,453**
Trade payables		7,201
Taxes, remuneration and social security		6,173
Other current payables		1,078
Non-current liabilities		**1,127**
Provisions		
Pension obligations		61
Borrowings		109
Deferred tax assets		957
Net assets disposed of		**69,357**

Gain (loss) on disposal of assets

(x 1,000 euros)	2016	2015
Consideration received		69,627
Net assets disposed of		69,357
Gain (loss) on disposal		**270**

31 Information on the Statutory Auditor, its remuneration and related services

The Company's Statutory Auditor is PricewaterhouseCoopers Bedrijfsrevisoren BCVBA, represented by Mr. Peter Van den Eynde.

(x 1,000 euros)	2016	2015
Audit fee for the Group audit		
Fagron Group	474	595
Audit fee for PricewaterhouseCoopers Bedrijfsrevisoren	236	237
Audit fee for parties linked to PricewaterhouseCoopers Bedrijfsrevisoren	237	359
Additional services rendered by the Statutory Auditor to Fagron		
Other audit assignments	14	25
Other non-auditing assignments	342	1
Additional services rendered by parties linked to the Statutory Auditor		
Tax advisory services	131	130
Other non-auditing assignments	38	374

The item 'other non-auditing assignments' in 2015 mainly related to due diligence work, consulting and the preparation of special reports. In 2016, these mainly related to special reports, in the context of the capital increase, for instance.

32 Significant events after the balance sheet date

No significant events occurred after the balance sheet date.

33 Additional notes

1. Off-balance sheet rights and liabilities – collateral:
HL Technology SA has a current liability in the amount of 1.0 million euros (1.0 million Swiss francs), the initial mortgage loan amounts to 1.8 million Swiss francs. Fagron Services BV has a liability in the amount of 0.7 million euros, the initial mortgage loan amounts to 2.0 million euros. ABC Chemicals SA has a liability in the amount of 0.4 million euros, the initial pledge on the commercial property fund amounts to 1.9 million euros. The Group does not have any material obligations to purchase fixed assets at the moment.

2. Fagron NV signed a liability statement on behalf of a number of Dutch subsidiaries, specifically:
Fagron Brazil Holding BV
Fagron BV
Fagron Nederland BV
Fagron Services BV
Fagron Steriele Bereidingsapotheek BV
GMP Apotheek Mierlo-Hout BV
Hoogeveen Bereidingsapotheek BV
Panoramix BV
Pharmaline BV
Pharma Assist BV
Spruyt hillen BV
Twipe BV

3. Fagron NV signed a liability statement on behalf of a number of a German subsidiary, specifically:
Fagron GmbH & Co KG
Fagron GmbH & Co KG in Barsbüttel (Germany) is exempt from the obligation to set up its annual accounts and statements according to §264b of the German commercial code, and to audit and publish these in line with the applicable regulations for businesses.

34 List of the consolidated companies

Name	Address	Ownership
ABC Chemicals SA	Parc Industriel 19, 1440 Wauthier-Braine (Belgium)	100.0%
ABC Dental & Pharmaceutical Consultancy NV	Venecoweg 20A, 9810 Nazareth (Belgium)	100.0%
ACA Pharma NV	Venecoweg 20A, 9810 Nazareth (Belgium)	100.0%
Fagron Technologies Ltda	Avenida 9 de Julho 3575, 13.208-056 Jundiai (Brazil)	100.0%
AnazaoHealth Inc.	5710 Hoover Boulevard, 33634 Tampa, Florida (United States)	100.0%
ApodanNordic PharmaPackaging A/S	Kigkurren 8M 2. Sal, 2300 Copenhagen (Denmark)	100.0%
APPEG SA	Rue de la Sambre 6, 6032 Charleroi (Belgium)	100.0%
Arseus België NV	Venecoweg 20A, 9810 Nazareth (Belgium)	100.0%
Arseus Capital NV	Venecoweg 20A, 9810 Nazareth (Belgium)	100.0%
Arseus Dental Solutions SAS	Boulevard Ornano Zac Axe Pleyel 30, 93200 St-Denis (France)	100.0%
B&B Pharmaceuticals Inc.	17200 East Ohio Drive, 80017 Aurora, Colorado (United States)	100.0%
Belgophar NV	Hillestraat 12, 8800 Roeselare (Belgium)	100.0%
Coast Quality Pharmacy LLC	5710 Hoover Boulevard, 33634 Tampa, Florida (United States)	100.0%
DPI Inc.	5967 S. Garnett Rd., 74146 Tulsa, Oklahoma (United States)	100.0%
Ducere LLC	5710 Hoover Boulevard, 33634 Tampa, Florida (United States)	100.0%
Dynaceuticals Ltd	55 14th Avenue, Northcliff, Gauteng (South Africa)	100.0%
Euphaco NV	Hillestraat 12, 8800 Roeselare (Belgium)	100.0%
Fagron a.s.	1098/31M, 779 00 Olomouc (Czech Republic)	73.1%
Fagron Academy LLC	1111 Brickell Avenue, Suite 1550, 33131 Miami, Florida (United States)	100.0%
Fagron België NV	Venecoweg 20A, 9810 Nazareth (Belgium)	100.0%
Fagron Brazil Holding BV	Lichtenauerlaan 182, 3062 ME Rotterdam (The Netherlands)	100.0%
Fagron BV	Lichtenauerlaan 182, 3062 ME Rotterdam (The Netherlands)	100.0%

Name	Address	Ownership
Fagron Colombia SAS	Calle 95 47A-28 Bogota (Colombia)	100.0%
Fagron Compounding Services LLC	1111 Brickell Avenue, Suite 1550, 33131 Miami, Florida (United States)	100.0%
Fagron Compounding Services NV	Woestijnstraat 53, 2880 Bornem (Belgium)	100.0%
Fagron Compounding Services SAS	37 Rue Hélène Muller, 94320 Thiais (France)	100.0%
Fagron Compounding Supplies Australia Pty Ltd	Atkinson Road 2/16, Taren Point, 2229 Sydney (Australia)	100.0%
Fagron GmbH & Co KG	Von-Bronsart-Straße 12, 22885 Barsbüttel (Germany)	100.0%
Fagron Hellas A.B.E.E.	12km NR, 42100 Trikala-Larissa (Greece)	100.0%
Fagron Holding USA LLC	1209 Orange street, 19801 Wilmington, Dellaware (United States)	100.0%
Fagron Iberica SAU	Carrer de Josep Tapiolas 150, 08226 Terrassa (Spain)	100.0%
Fagron Inc.	2400 Pilot Knobroad, 55120 St. Paul, Minnesota (United States)	100.0%
Fagron Italia SrL	Via Lazzari 4-6, 40057 Quarto Inferiore (Italy)	100.0%
Fagron Lékárna Holding s.r.o.	1098/31M, 779 00 Olomouc (Czech Republic)	100.0%
Fagron Ltd	2315 Ocean Tower, 550 Yan An East Road, 200001 Shanghai, (China)	100.0%
Fagron Nederland BV	Venkelbaan 101, 2908 KE Capelle aan den IJssel (The Netherlands)	100.0%
Fagron Nordic A/S	Kigkurren 8M 2. Sal, 2300 Copenhagen (Denmark)	100.0%
Fagron NV	Venecoweg 20A, 9810 Nazareth (Belgium)	100.0%
Fagron Poland Sp. z o.o	Albatrosów 1, 30-176 Krakau (Poland)	100.0%
Fagron Sarl	Intendente Neyer 924, B1643 Béccar (Argentina)	100.0%
Fagron SAS	37 Rue Hélène Muller, 94320 Thiais (France)	100.0%
Fagron Services BV	Molenwerf 13, 1911 DB Uitgeest (The Netherlands)	100.0%
Fagron Services BVBA	Industrieweg 2, 2850 Boom (Belgium)	100.0%
Fagron South Africa Ltd	55 14th Avenue, Northcliff, Gauteng (South Africa)	100.0%
Fagron Steriele Bereidingsapotheek BV	Siemensstraat 4, 7903 AZ Hoogeveen (The Netherlands)	100.0%
Fagron UK Ltd	4B Coquet Street, NE1 2QB Newcastle upon Tyne (United Kingdom)	100.0%
Flores e Ervas Comercio Farmaceutico Ltda	Estrada Vicente Bellini, No 175 13.427-225 Piracicaba City (Brazil)	100.0%
Freedom Pharmaceuticals Inc.	801 W. New Orleans Street, 74011 Broken Arrow, Oklahoma (United States)	100.0%
GMP Apotheek Mierlo-Hout BV	Steenovenweg 15, 5708 HN Helmond (The Netherlands)	100.0%
HL Technology SA	Rue Jardiniere 153, 2300 La Chaux-de-Fonds (Switzerland)	100.0%
Hoogeveen Bereidingsapotheek (HBA) BV	Lichtenauerlaan 182, 3062 ME Rotterdam (The Netherlands)	100.0%
JCB Laboratories LLC	3510 N. Ridge Rd. STE.900, 67205 Wichita, Kansas (United States)	100.0%
Jupiter Health Holding LLC	Millwell Drive 212, Maryland Heights, 63043 Missouri (United States)	100.0%
Liberty Rx LLC	Millwell Drive 212, Maryland Heights, 63043 Missouri (United States)	100.0%
Link Medical LLC	Millwell Drive 212, Maryland Heights, 63043 Missouri (United States)	100.0%
Mar-Kem Ltd	Main Road 20, Knysna, 6570 George (South Africa)	100.0%
Mercury Innovations LLC	Millwell Drive 212, Maryland Heights, 63043 Missouri (United States)	100.0%
Midwest Rx LLC	Millwell Drive 212, Maryland Heights, 63043 Missouri (United States)	100.0%
Northern Rx LLC	Millwell Drive 212, Maryland Heights, 63043 Missouri (United States)	100.0%
Panoramix BV	Münsterstraat 4, 7575 ED Oldenzaal (The Netherlands)	100.0%
Pharma Assist BV	Dieselstraat 3, 7903 AR Hoogeveen (The Netherlands)	100.0%
Pharma Cosmetic K.M. Adamowicz Sp. z.o.o.	Ul. Pasternik 26, 31-354 Krakau (Poland)	100.0%
Pharmacy Services Inc.	Millwell Drive 212, Maryland Heights, 63043 Missouri (United States)	100.0%
Pharmaline BV	Münsterstraat 4, 7575 ED Oldenzaal (The Netherlands)	100.0%
PPH Galfarm Sp. z.o.o.	Ul. Przemysłowa, 12, 30701 Krakow (Poland)	100.0%

Name	Address	Ownership
PSI Services Inc.	Millwell Drive 212, Maryland Heights, 63043 Missouri (United States)	100.0%
Rausa Kem Pharmacy Ltd	Clarendon Street 61, Parow Valley, 7500 Kaapstad (South Africa)	100.0%
Slovgal s.r.o	Štúrova 19, 058 01 Poprad (Slovakia)	100.0%
SM Empreendimentos Farmaceuticos Ltda	Rua Jurupari, 803 – Jardim Oriental, 04348-070 Sao Paulo (Brazil)	100.0%
Southern Rx LLC	Millwell Drive 212, Maryland Heights, 63043 Missouri (United States)	100.0%
Spruyt hillen BV	Tinbergenlaan 1, 3401 MT IJsselstein (The Netherlands)	100.0%
Texas Southern Rx LLC	Millwell Drive 212, Maryland Heights, 63043 Missouri (United States)	100.0%
Twipe BV	Lichtenauerlaan 182, 3062 ME Rotterdam (The Netherlands)	100.0%

Statutory Auditor's Report

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Free Translation

STATUTORY AUDITOR'S REPORT TO THE GENERAL SHAREHOLDERS' MEETING ON THE CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2016

In accordance with the legal requirements, we report to you on the performance of our mandate of statutory auditor. This report includes our opinion on the consolidated accounts, as well as the required additional statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2016, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Report on the consolidated accounts – Unqualified opinion

We have audited the consolidated accounts of Fagron NV ("the Company") and its subsidiaries (jointly "the group") for the year ended 31 December 2016 , prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium. The total of the consolidated statement of financial position amounts to KEUR 868.053 and the consolidated income statement shows a loss for the year attributable to the shareholders of KEUR 20.562.

Board of directors' responsibility for the preparation of the consolidated accounts

The board of directors is responsible for the preparation and fair presentation of these consolidated accounts in accordance with International Financial Reporting Standards as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium, and for such internal control as the board of directors determines, is necessary to enable the preparation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

Statutory auditor's responsibility

Our responsibility is to express an opinion on these consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISAs) as endorsed in Belgium. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated accounts. The procedures selected depend on the statutory auditor's judgment, including the assessment of the risks of material misstatement of the consolidated accounts, whether due to fraud or error. In making those risk assessments, the statutory auditor considers internal control relevant to the group's preparation and fair presentation of the consolidated accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the board of directors, as well as evaluating the overall presentation of the consolidated accounts.

PwC Bedrijfsrevisoren cvba, burgerlijke vennootschap met handelsvorm - PwC Reviseurs d'Entreprises scrl, société civile à forme commerciale - Financial Assurance Services
Maatschappelijke zetel/Siège social: Woluwe Garden, Woluwedal 18, B-1932 Sint-Stevens-Woluwe
Vestigingseenheid/Unité d'établissement: Generaal Lemanstraat 67, B-2018 Antwerpen
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We have obtained from the board of directors and the company's officials the explanations and information necessary for performing our audit.

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

Unqualified Opinion

In our opinion, the consolidated accounts give a true and fair view of the group's net equity and consolidated financial position as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, and with the legal and regulatory requirements applicable in Belgium.

Report on other legal and regulatory requirements

The board of directors is responsible for the preparation and the content of the directors' report on the consolidated accounts.

In the context of our mandate and in accordance with the Belgian standard which is complementary to the International Standards on Auditing (ISAs) as applicable in Belgium, our responsibility is to verify, in all material respects, compliance with certain legal and regulatory requirements. On this basis, we provide the following additional statement which does not impact our opinion on the consolidated financial statements:

- The directors' report on the consolidated accounts includes the information required by law, is consistent with the consolidated accounts and does not present any material inconsistencies with the information that we became aware of during the performance of our mandate.

Antwerp, 6 April 2017

The Statutory Auditor
PwC Bedrijfsrevisoren BCVBA
Represented by

Peter Van den Eynde
Réviseur d'Entreprises / Bedrijfsrevisor


VERSATILE™ RICH
ENRICHED O/W CREAM BASE - 500 g

Statutory financial statement

Condensed stand-alone income statement Fagron NV

(x 1,000 euros)	2016	2015
Operating income	**14,314**	**10,098**
Turnover		
Other operating income	8,407	10,098
Non-recurring operating income	5,907	
Operating expenses	**13,344**	**6,708**
Trade goods, raw materials and auxiliary materials		
Services and other goods	3,135	4,695
Employee benefit expenses	1,412	(10)
Depreciation and amortization	51	
Provisions for risks and costs	(58)	(5,701)
Other operating expenses	4,312	6,914
Non-recurring operating expenses	4,492	811
Operating profit	**970**	**3,390**
Financial result	**5,296**	**(111,773)**
Recurring financial result	(1,351)	(8,678)
Non-recurring financial result	6,647	(103,095)
Profit for the year before taxes	**6,265**	**(108,384)**
Tax on result		**(1)**
Net result for the year	**6,265**	**(108,385)**

Condensed stand-alone balance sheet Fagron NV

(x 1,000 euros)	2016	2015
Non-current assets	**460,398**	**294,522**
Formation expenses		
Intangible fixed assets	43	
Property, plant and equipment	2	
Financial fixed assets	460,354	294,522
Current assets	**396,228**	**250,300**
Debtors due after one year	123,274	190,921
Inventories and orders in progress		
Debtors due within one year	25,746	22,148
Investments	221,629	2,314
Cash and cash equivalents	23,818	32,924
Other receivables	1,761	1,993
Total assets	**856,626**	**544,822**
Equity	**502,772**	**277,198**
Capital	494,192	329,066
Share premiums		19,202
Legal reserves	313	7,986
Unavailable reserves	1,007	2,314
Available reserves	7,260	27,015
Profit carried forward		(108,385)
Provisions and deferred tax	**21**	**50**
Provision for other risks	21	50
Liabilities	**353,833**	**267,574**
Creditors due after one year	284,327	91,000
Creditors due within one year	67,082	173,195
Other current payables	2,424	3,379
Total liabilities	**856,626**	**544,822**

Appropriation of profits Fagron NV

(x 1,000 euros)	2016	2015
Profit to be appropriated	**(102,119)**	**(108,385)**
Profit for the year to be appropriated	6,265	(108,385)
Profit carried forward from the previous year	(108,385)	
Transfers from capital and reserves	**108,385**	
From the capital and share premiums	73,384	
To reserves	35,000	
Transfers to capital and reserves	**6,265**	
To statutory reserves	313	
To other reserves	5,952	
Profit to be carried forward		**(108,385)**
Profit to be carried forward		(108,385)
Profit to be distributed as dividends		
Dividend		

Accounting policies

The accounting policies used for the stand-alone Statutory financial statements of Fagron NV are in accordance with the KB of 31.01.2001 implementing the Belgian Companies Code.

Statutory financial statements of Fagron NV

As required under Article 105 of the Belgian Companies Code, this annual report is a condensed version of the Statutory financial statements of Fagron NV. The annual report and the Statutory Auditor's report will be filed and will be available for inspection at the company's registered office.

The Statutory Auditor has expressed its unqualified opinion on the statutory financial statements of Fagron NV for the 2016 financial year.

Alphabetical terminology list

In addition to the terms as defined in IFRS, this annual report also includes other terms. These 'alternative performance indicators' are defined below. The IFRS terminology is in italics.

Operating result	*Result of operating activities*, EBIT ("Earnings Before Interests and Taxes")
Gross margin	Turnover less acquired *trade goods, raw and auxiliary materials* and adjusted for *changes in inventories and work in progress* as a percentage of turnover
EBIT	'Earnings Before Interests and Taxes', *Profit (loss) from operating activities*
EBITDA	'Earnings Before Interests, Taxes, Depreciations and Amortizations', *Profit (loss) from operating activities* plus depreciations and amortizations, including write-downs on inventories and receivables
Financial result	*The sum of current and non-current interest-bearing financial obligations plus derivative financial instruments and less cash and cash equivalents*
Net operational capex	Net capital expenditure, *intangible assets and property, plant and equipment that have been acquired or produced (excluding acquisitions), less assets sold*
Net financial debt	*Non-current and current financial liabilities, less cash and cash equivalents (excluding financial instruments)*
Non-recurring items	*One-off charges or gains not related to ordinary operations*
Net result	*Profit (loss) for the reporting period*, consolidated result
Operational working capital	*Inventories + Trade receivables – Trade payables*
REBITDA	'Recurring Earnings Before Interests, Taxes, Depreciations and Amortizations', *Profit (loss) from operating activities* plus depreciations and amortizations and adjusted for all non-recurring items
Recurrent net profit	*Profit (loss) for the reporting period*, adjusted for non-recurring items

Forward-looking statements caution

This annual report may contain forward-looking statements. Forward-looking statements are statements that are not historical facts, containing information such as, but not limited to, communications expressing or implying beliefs, expectations, intentions, forecasts, estimates or predictions (and the assumptions on which they are based) on the part of Fagron. Forward-looking statements by definition involve risks and uncertainties. The actual future results or circumstances may therefore differ materially from those expressed or implied in forward-looking statements. Such a difference may be caused by a range of factors (such as, but not limited to, evolving statutory and regulatory frameworks within which Fagron operates, claims in the areas of product liability, currency risk, etcetera).

Any forward-looking statements contained in this annual report are based on information available to the management of Fagron at date of publication. Fagron cannot accept any obligation to publish a formal notice each time changes in said information occur or if other changes or developments occur in relation to forward-looking statements contained in this annual report.

In the event of differences between the English translation and the Dutch original of the annual report, the latter prevails.