GALDERMA

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CONSOLIDATED FINANCIAL STATEMENTS OF SUNSHINE LUXEMBOURG VII SARL AND ITS SUBSIDIARIES

For the year ended December 31, 2023
(with the report of the Réviseur d'Entreprises agréé thereon)

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Contents

Consolidated statements of profit or loss

In M USD	Notes	Year ended December 31, 2023	Year ended December 31, 2022	Year ended December 31, 2021
Continuing operations				
Net sales	**5**	**4,081.7**	**3,760.3**	**3,416.9**
Other revenue		34.8	63.6	28.1
Cost of goods sold		(1,231.9)	(1,194.0)	(1 033.9)
Gross profit		**2,884.7**	**2,629.9**	**2 411.1**
Research and development		(286.9)	(315.9)	(342.6)
Sales and marketing		(1,292.4)	(1 259.6)	(1 147.2)
General and administrative		(466.9)	(439.3)	(387.7)
Medical and regulatory		(94.7)	(83.7)	(77.6)
Distribution		(132.8)	(125.4)	(98.8)
Other income / (expenses)	**6**	(75.2)	(94.9)	(93.1)
Operating profit / (loss)		**535.7**	**311.1**	**264.2**
Financial income / (expenses)	**7**	(526.5)	(385.5)	(425.7)
Foreign exchange gain / (loss) on financing activities		1.8	22.5	81.8
Income / (loss) before tax		**11.0**	**(51.9)**	**(79.7)**
Income taxes	**18**	(68.1)	(45.0)	(4.6)
Net income / (loss) from continuing operations		**(57.2)**	**(96.9)**	**(84.2)**
Discontinued operations				
Net income / (loss) from discontinued operations	**4**	-	(1.6)	(72.0)
Net income / (loss)		**(57.2)**	**(98.5)**	**(156.2)**
of which attributable to non-controlling interests	**23**	-	-	(1.9)
of which attributable to the owners of the Group		(57.2)	(98.5)	(154.3)

In USD cents	Notes	Year ended December 31, 2023	Year ended December 31, 2022	Year ended December 31, 2021
Earnings per share from continuing operations	**26**			
Basic loss per share		(1.0)	(1.9)	(1.6)
Diluted loss per share		(1.0)	(1.9)	(1.6)
Earnings per share				
Basic loss per share		(1.0)	(1.9)	(3.0)
Diluted loss per share		(1.0)	(1.9)	(3.0)

The accompanying notes form an integral part of the Consolidated Financial Statements.

Consolidated statements of comprehensive income

In M USD	**Year ended December 31, 2023**	**Year ended December 31, 2022**	**Year ended December 31, 2021**
Net income / (loss)	**(57.2)**	**(98.5)**	**(156.2)**
Foreign currency translation	(22.8)	(39.0)	(19.7)
Fair value changes on cash flow hedges, net of taxes [1]	(1.2)	11.4	(0.8)
Items that are or may be reclassified subsequently to the income statement	**(24.0)**	**(27.6)**	**(20.5)**
Remeasurement of employee benefits, net of taxes [2]	(29.5)	46.4	28.8
Items that will never be reclassified to statement of profit or loss	**(29.5)**	**46.4**	**28.8**
Other comprehensive income, net of taxes	**(53.5)**	**18.8**	**8.3**
Total comprehensive income	**(110.7)**	**(79.7)**	**(147.9)**
of which attributable to the owners of the Group	(110.7)	(79.7)	(146.0)
Continuing operations	(110.7)	(77.9)	(75.5)
Discontinued operations	-	(1.8)	(70.5)
of which attributable to non-controlling interests	-	-	(1.9)

[1] *Gross of tax (1.4) M USD (12.9 M USD in 2022, -1.6 M USD in 2021)*

[2] *Gross of tax (32.0) M USD (52.4 M USD in 2022, 33.7 M USD in 2021)*

The accompanying notes form an integral part of the Consolidated Financial Statements.

Consolidated balance sheets

In M USD	Notes	December 31, 2023	December 31, 2022	December 31, 2021
Non-current assets				
Goodwill	**9**	5,128.6	5,128.6	5,140.5
Intangible assets	**9**	4,922.9	5,100.0	5,281.9
Property, plant and equipment	**10**	529.2	400.8	341.8
Deferred tax assets	**18**	235.3	235.2	266.8
Employee benefits assets	**17**	0.3	0.5	7.3
Derivative assets	**15**	8.6	18.1	-
Other financial assets	**15**	10.3	8.8	7.3
Other assets		19.9	16.0	9.1
Total non-current assets		**10,855.1**	**10,908.0**	**11,054.7**
Current assets				
Inventories	**11**	419.7	442.3	346.8
Trade and other receivables	**12**	750.3	780.4	720.5
Prepayments and accrued income		56.0	35.1	36.5
Current income tax assets		15.4	10.2	11.0
Derivative assets	**15**	7.1	4.5	4.3
Cash and cash equivalents	**8**	367.8	234.1	287.2
Total current assets without disposal group		**1,616.3**	**1,506.6**	**1,406.3**
Assets of disposal group held for sale		**-**	**-**	111.0
Total current assets		**1,616.3**	**1,506.6**	**1,517.3**
Total assets		**12,471.4**	**12,414.6**	**12,572.0**
Non-current liabilities				
Financial debt	**8, 15**	(4,845.6)	(5,245.2)	(5,261.2)
Other financial liabilities	**15**	(10.4)	(71.2)	(90.4)
Deferred tax liabilities	**18**	(430.9)	(432.0)	(518.5)
Derivative liabilities	**15**	(7.2)	(8.7)	-
Employee benefits	**17**	(221.1)	(199.0)	(244.2)
Provisions	**14**	(16.1)	(29.1)	(52.6)
Total non-current liabilities		**(5,531.3)**	**(5,985.2)**	**(6,166.9)**
Current liabilities				
Financial debt	**8, 15**	(63.3)	(412.5)	(427.4)
Other financial liabilities	**3, 15**	(57.9)	(25.0)	-
Current income tax liabilities		(77.5)	(98.5)	(78.1)
Provisions	**14**	(60.3)	(67.4)	(75.6)
Accruals and deferred income	**13**	(527.3)	(535.4)	(506.2)
Trade and other payables	**12**	(653.0)	(690.2)	(586.6)
Employee benefits	**17**	(126.6)	(127.2)	(138.7)
Derivative liabilities	**15**	(4.8)	(4.5)	(5.3)
Total current liabilities without disposal group		**(1,570.7)**	**(1,960.7)**	**(1,817.9)**
Liabilities of disposal group held for sale	**4**	**-**	**-**	(38.7)
Total current liabilities		**(1,570.7)**	**(1,960.7)**	**(1,856.6)**
Total liabilities		**(7,102.0)**	**(7,945.9)**	**(8,023.6)**
Equity	**22**			
Share capital and share premium		(6,259.3)	(5,247.9)	(5,247.9)
Other reserves		(42.7)	(72.2)	(25.8)
Hedge and currency translation reserves		31.8	7.8	(19.7)
Accumulated losses		900.8	843.6	745.0
Total Equity		**(5,369.4)**	**(4,468.7)**	**(4,548.4)**
Total liabilities and equity		**(12,471.4)**	**(12,414.6)**	**(12,572.0)**

The accompanying notes form an integral part of the Consolidated Financial Statements.

Consolidated statements of cash flows

In M USD	Notes	Year ended December 31, 2023	Year ended December 31, 2022	Year ended December 31, 2021
Net income / (loss)		**(57.2)**	**(98.5)**	**(156.2)**
Add back non-operating (income) expense:				
Income taxes		68.1	44.8	(2.0)
Net financial income, expense and exchange loss		524.8	363.4	343.9
Operating profit / (loss)		**535.7**	**309.7**	**185.7**
Depreciation of property, plant and equipment	**10**	55.3	52.3	51.4
Amortization of intangible assets	**9**	221.1	225.4	201.7
Net result on disposal of assets		-	0.7	-
Impairment of assets	**6**	0.6	15.2	89.0
Non-cash items in financial assets and liabilities		0.5	(0.8)	(3.2)
Variation of trade and other receivables		47.2	(66.9)	(36.9)
Variation of inventories		31.1	(127.4)	(52.8)
Variation of trade and other payables		(65.6)	146.2	155.2
Variation of prepayments and accrued income		(21.3)	(3.4)	0.6
Variation of accruals and deferred income		(12.8)	(2.9)	(83.2)
(Increase) / Decrease in working capital		**(21.3)**	**(54.4)**	**(17.1)**
Variation of other operating assets and liabilities		(12.8)	(24.1)	42.7
Cash generated from operations		**779.1**	**524.0**	**550.2**
Interest paid		(526.4)	(339.1)	(305.6)
Taxes paid		(87.3)	(73.6)	(48.9)
Total cash flows from operating activities		**165.4**	**111.3**	**195.7**
Acquisition of subsidiary undertakings, net of cash acquired		(25.0)	-	(386.8)
Expenditure on property, plant and equipment	**10**	(121.3)	(101.6)	(49.9)
Expenditure on intangible assets	**9**	(31.5)	(57.9)	(78.1)
Net proceeds from disposals	**4, 9, 10**	4.0	93.0	-
Other investments		-	-	(8.0)
Total cash flows in investing activities		**(173.7)**	**(66.5)**	**(522.8)**
Proceeds from issues of share capital (net of transaction costs)	**2.2**	1,011.4	-	-
Proceeds from financial debt, net of transaction costs	**8**	855.7	400.0	396.0
Repayments of financial debt	**8**	(1,725.4)	(472.1)	(78.8)
Acquisition of non-controlling interest	**3**	-	(7.3)	(10.7)
Total cash flows from financing activities		**141.7**	**(79.4)**	**306.5**
Currency retranslations		0.3	(24.9)	(16.5)
Increase / (decrease) in cash and cash equivalents		**133.7**	**(59.5)**	**(37.1)**
Cash and cash equivalents at opening		234.1	293.6	330.7
Cash and cash equivalents at closing	**8**	**367.8**	**234.1**	**293.6**

The accompanying notes form an integral part of the Consolidated Financial Statements.

Consolidated statements of changes in equity

In M USD	Share capital	Share premium	Other reserves	Translation reserve	Hedge reserve	Accumulated losses	Equity attributable to Group owners	Non-controlling interest	Total equity
As at December 31, 2020	**5.3**	**5,242.6**	**(3.1)**	**65.7**	**(25.7)**	**(571.7)**	**4,713.0**	**2.6**	**4,715.6**
Net Income / (Loss) for the period	-	-	-	-	-	(154.3)	(154.3)	(1.9)	(156.2)
Cash-flow hedges	-	-	-	-	(0.8)	-	(0.8)	-	(0.8)
Remeasurements of employee benefits	-	-	28.8	-	-	-	28.8	-	28.8
Foreign currency translation	-	-	-	(19.7)	-	-	(19.7)	-	(19.7)
Total comprehensive income	**-**	**-**	**28.8**	**(19.7)**	**(0.8)**	**(154.3)**	**(146.0)**	**(1.9)**	**(147.9)**
Changes in ownership interest in subsidiaries	-	-	0.1	0.3	-	(19.0)	(18.6)	(0.7)	(19.3)
As at December 31, 2021	**5.3**	**5,242.6**	**25.8**	**46.3**	**(26.5)**	**(745.0)**	**4,548.4**	**-**	**4,548.4**
Net Income / (Loss) for the period	-	-	-	-	-	(98.5)	(98.5)	-	(98.5)
Cash-flow hedges	-	-	-	-	11.4	-	11.4	-	11.4
Remeasurements of employee benefits	-	-	46.4	-	-	-	46.4	-	46.4
Foreign currency translation	-	-	-	(39.0)	-	-	(39.0)	-	(39.0)
Total comprehensive income	**-**	**-**	**46.4**	**(39.0)**	**11.4**	**(98.5)**	**(79.7)**	**-**	**(79.7)**
As at December 31, 2022	**5.3**	**5,242.6**	**72.2**	**7.3**	**(15.1)**	**(843.6)**	**4,468.7**	**-**	**4,468.7**
Share issuance	1.0	1,010.4	-	-	-	-	1,011.4		1,011.4
Net Income / (Loss) for the period	-	-	-	-	-	(57.2)	(57.2)		(57.2)
Cash-flow hedges	-	-	-	-	(1.2)	-	(1.2)		(1.2)
Remeasurements of employee benefits	-	-	(29.5)	-	-	-	(29.5)		(29.5)
Foreign currency translation	-	-	-	(22.8)	-	-	(22.8)		(22.8)
Total comprehensive income	**1.0**	**1,010.4**	**(29.5)**	**(22.8)**	**(1.2)**	**(57.2)**	**900.8**		**900.8**
As at December 31, 2023	**6.3**	**6,253.0**	**42.7**	**(15.5)**	**(16.3)**	**(900.8)**	**5,369.4**		**5,369.4**

The accompanying notes form an integral part of the Consolidated Financial Statements.

Notes

1. Basis of preparation and key accounting assumptions

1.1 General information

On October 1, 2019, a consortium led by EQT, GIC, ADIA and PSP investments (“the EQT consortium”), through an investment by Sunshine Luxembourg VII SARL (“the Company” or “Sunshine VII”), acquired 100% of the share capital of Galderma Holding SA, a Swiss based company, and of all its subsidiaries.

Sunshine Luxembourg VII SARL is a limited liability company, which was founded and incorporated in Luxembourg on March 7, 2019 for an unlimited period of time. Its registered office and principal place of business is 51A, Boulevard Royal, L – 2449, Luxembourg, registration number B233117.

The terms “Galderma”, “Galderma Group” or “the Group” refer to Sunshine Luxembourg VII SARL together with its subsidiaries included in the scope of consolidation (see Note 23). Galderma is a global leader in dermatology. The Group offers a range of leading therapeutic dermatology, injectable aesthetics and dermatological skincare brands

The reference “2023”, “2022” and "2021” is a twelve-month period and refers to January 1, 2023 to December 31, 2023, January 1, 2022 to December 31, 2022 and to January 1, 2021 to December 31, 2021 respectively.

These consolidated financial statements have been approved for issue by the Board of Managers of the Company (‘the Board’) on February 28, 2024.

1.2 Presentation and functional currency

The consolidated financial statements are presented in US dollars (USD), which is also the Company’s functional currency.

1.3 Basis of accounting

Basis of presentation

These consolidated financial statements have been prepared in accordance with the IFRS Accounting Standards as adopted by the European Union (IFRS). The consolidated financial statements are prepared using the going-concern principle and based on historical cost conventions unless stated otherwise. These consolidated financial statements for the years ended December 31, 2023, 2022 and 2021 are prepared to be included in a prospectus in the context of a potential Initial Public Offering (IPO readiness) in Switzerland.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 1.4.

Due to rounding, numbers presented throughout these consolidated financial statements may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures. All ratios and variances are calculated using the underlying amount rather than the presented rounded amount.

Future new and revised standards

The group has applied the following standards and amendments for the first time for its annual reporting period commencing 1 January 2023:

- International Tax Reform – Pillar Two Model Rules – amendments to IAS 12;
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021).

Certain amendments to accounting standards have been published that are not mandatory for 31 December 2023 reporting periods and have not been early adopted by the group. These amendments are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Basis of consolidation

The consolidated financial statements include the Company and its subsidiary undertakings.

1.4 Key accounting judgements, estimates and assumptions

The preparation of the Group Financial Statements requires management to exercise judgement and to make estimates and assumptions that affect the application of policies, reported amounts of revenues, expenses, assets and liabilities, and disclosures. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.
The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Those areas affect mainly revenue recognition, impairment of financial assets, leases, goodwill and intangible assets, employee benefits, provisions, discontinued operations and contingencies and taxes.

Business combinations

The Group initially recognizes the fair value of identifiable assets acquired, the liabilities assumed, any non-controlling interest and the consideration transferred in a business combination. Management judgement is particularly involved in the assessment of whether or not the net assets acquired constitute a business, as well as in the recognition and fair value measurement of intangible assets, inventories, contingent liabilities and contingent consideration. In making this assessment, management considers the underlying economic substance of the items concerned in addition to the contractual terms.

Assets held for sale and discontinued operations

Non-current assets are classified as assets held for sale or related to discontinued operations when their carrying amount is to be recovered principally through a sale transaction or distribution to owners, and a sale or distribution to owners is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell with any resulting impairment recognized. Assets related to discontinued operations and assets of disposal group held for sale are not depreciated or amortized. The prior-year consolidated balance sheet is not restated.

Management judgement is involved when assessing a disposal of business to be a major line of business that needs to be presented as a discontinued operation. For more information, refer to Note 4.

Revenue recognition

Galderma recognizes revenue when control of promised goods or services is transferred to the company’s customers, in an amount that reflects the consideration Galderma expects to be entitled to in exchange for those goods or services.. Certain contracts include a right of return, rebates, discounts, and refunds that give rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount based on which method better predicts the amount of consideration to which it will be entitled. Before including any amount of variable consideration in the transaction price, the Group considers whether the amount of variable consideration is constrained. Refer to accounting policy on Sales in Note 27.

Goodwill and intangible assets

Goodwill and other intangible assets with an indefinite useful life or that are not yet available for use are tested for impairment at least once a year. This involves estimating the value in use of the cash-generating unit (“CGU”) or group of CGUs to which the goodwill is allocated. It also requires a forecast of expected future cash flows as well as the application of an appropriate discount rate to calculate the present value of these cash flows, refer to Note 9.

Leases

In determining the lease term, the Group applies significant judgement to determine the lease term for some lease contracts that include renewal options and whether the Group is reasonably certain to exercise extension options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of the right-of-use asset and lease liability, refer respectively to Note 10.

Impairment of financial assets

The allowance for doubtful accounts is based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the calculation of the allowance for doubtful accounts, based on the company’s past experience, existing market conditions as well as forward-looking estimates at the end of each reporting period.

Provisions and contingencies

Events can occur where there is uncertainty over future obligations arising from past events. Judgement is required to determine if an outflow of economic resources is probable, or possible but not probable. Where it is probable, a liability is recognized, and further judgement is used to determine the level of the provision. Where it is possible but not probable, further judgement is used to determine if the likelihood is remote, in which case no disclosures are provided; if the likelihood is not remote then judgement is used to determine the contingent liability disclosed.

Share based payments

The Group has a Value Creation Bonus (“VCB”) plan accounted for as a cash settled share-based payment plan and an equity participation plan accounted for as an equity settled share-based payment plan.

(a) Cash settled share-based payment plans

The Group implemented a Value Creation Bonus (“VCB”) plan. The plan is open to selected employees of the Group to incentivize them to maximize shareholder value creation. The awards granted under the scheme vest in case of a successful exit by the Group’s main shareholder the EQT consortium. The amount payable to participants in case of vesting follows a non-linear payout profile based on the increase in value of the equity of one of the Groups’ parent entities.

Management exercised judgement in concluding that the plan should be treated as a shared-based payment plan. The plan is considered a cash-settled share-based payment plan. In accounting for the plan, Management made certain estimates which significantly affect the amount and timing of recognition for the expense:

- the expected timing of an exit event as the payment to the participants is contingent on an exit event,
- the expected value the Group achieved upon such an exit event which drives the amount of cash payable to participants in case of an exit event
- the forfeiture rate which is based on the expected employee turnover rate within the participants group.

(b) Equity settled share-based payment plans

The Group implemented a Management Participation Plan (“MPP”) in order to enable top management members, on an invitational and voluntary basis, to be exposed to the long-term financial success of the Galderma Group through a direct financial investment. The plan allows participants to invest ultimately in Sunshine Luxembourg III SARL (“Sunshine III”). The investment is done through a separate partnership in Luxembourg which acts as an intermediary to invest in Sunshine III, which holds 100% of the shares of Sunshine Luxembourg VII SARL through various vehicles.

The MPP is accounted for as an equity settled share-based payment plan terminating at the exit date (full or partial sale of the Group) or an Initial Public Offering.

Estimates made by management which impact the recognition of the expense include:

- The number of equity instruments for which the service and any non-market performance conditions are expected to be satisfied.
- The fair value of the instruments granted

Pensions and other post-employment benefits

The Group maintains several defined benefit plans and the values of the recognized plan assets and liabilities are based upon statistical and actuarial calculations. The measurement of the net defined benefit obligation is particularly sensitive to changes in the discount rate, inflation rate, expected mortality, medical cost trend rate assumptions and future growth of salaries and pensions. The actuarial assumptions used may differ materially from actual results due to changes in market and economic conditions, longer or shorter lifespans of participants, and other changes in the factors being assessed. These differences could impact the defined benefit plan assets and liabilities recognized in the balance sheet in future periods.

Income taxes and other taxes

Significant estimates are required to determine the current and deferred tax assets and liabilities. Some of these estimates are based on interpretations of existing tax laws or regulations. Where tax positions are uncertain, accruals are recorded within income tax liabilities for management's best estimate of the ultimate liability that is expected to arise based on the specific circumstances and the Group's historical experience. Factors that may have an impact on current and deferred taxes include changes in tax laws, regulations, or rates, changing interpretations of existing tax laws or regulations, future levels of research and development spending and changes in pre-tax earnings.

The tax impact of a transaction or item can be uncertain until a conclusion is reached with the relevant tax authority or through a legal process. The Group uses in-house tax experts when assessing uncertain tax positions and seeks the advice of external professional advisors where appropriate (refer to Note 18.5).

2. Significant events

2.1 War in Ukraine

The Group has neither material asset nor operation both in Russia and Ukraine and no impairment was recorded during the years ended December 31, 2023 and December 31, 2022. Net sales in Russia and Ukraine combined accounted for less than 1% of the Group net sales for the years ended December 31, 2023 and December 31, 2022.

2.2 Private placement

On June 26, 2023, the Group announced a private placement of more than 1 billion USD of newly issued shares. The transaction was performed through a series of closings running from June to August 2023.
As at September 30, 2023, a closing has been executed for 1,012 M USD. As at September 30, 2023, the Group recorded it as an equity contribution.

The proceeds of this placement have been used to reduce the Group's indebtedness:

- Subordinated loan (non-current financial debt) has been repaid for 357M USD including 30 M USD of accrued interests;
- Second lien (non-current financial debt) has been repaid for 388 M USD including 6 M USD of accrued interests;
- The rest of the proceeds, 255 M USD, have been used to partially repay the Revolving credit facility (current financial debt).

3. Business combinations and other acquisitions

3.1 Business combinations

2023:
There were no material business combinations in 2023.

2022:
There were no material business combinations in 2022. Certain adjustments were made during the measurement period following the acquisition of Alastin. Refer to the table in the section below.

2021:
Acquisition of Alastin
On December 29, 2021, Galderma acquired 100% of the share capital of Alastin Skincare Inc, a US based company ("Alastin").

Alastin is a physician-dispensed skincare brand, with innovative, scientifically proven and clinically tested dermatology products. Founded in 2015, Alastin provides a comprehensive collection of cutting-edge products for daily skincare regimens and peri-procedural use.

The total consideration was 470.5 M USD, of which 398.8 M USD was cash consideration and 71.7 M USD represented the fair value of the contingent consideration included in the total acquisition price.

The identifiable assets, liabilities and contingent liabilities qualifying for recognition under IFRS 3 were recognized in the initial balance sheet at their fair value at the acquisition date of December 29, 2021. The goodwill of 251.2 M USD arising from the acquisition is attributable the high growth potential of Alastin and significant synergy potential between Alastin and Galderma. None of the goodwill is expected to be deductible for tax purposes.
Because of the short period between the acquisition and the balance sheet date, the valuations were provisional and further adjustments had been made to the purchase price and the fair values assigned to the identifiable assets acquired and liabilities assumed up to twelve months from the date of the acquisition. The valuation of goodwill and its allocation to cash generating units were completed in 2022, leading to the final balance of 239.3 M USD in goodwill arising from the recognition of 11.9 M USD of deferred tax assets.

The following tables summarize the consideration paid for Alastin and the amount of net assets acquired as at December 29, 2021.

In M USD	**As at December 29, 2021**
Purchase price	398.8
Cash acquired	(12.0)
Net consideration in cash transferred	**386.8**
Contingent consideration	71.7
Total net consideration	**458.5**

In M USD	**Fair value as at December 31, 2022**	**Fair value recognized upon acquisition**
Identifiable intangible assets	253.8	253.8
Right-of-use assets	0.8	0.8
Inventories	29.3	29.3
Trade and other receivables	2.4	2.4
Deferred tax assets	11.9	-
Other assets	1	1
Total assets	**299.2**	**287.3**
Trade and other payables	(3.0)	(3.0)
Other current liabilities	(3.0)	(3.0)
Deferred tax liabilities	(60.2)	(60.2)
Financial liabilities	(13.0)	(13.0)
Lease liabilities	(0.8)	(0.8)
Total liabilities	**(80.0)**	**(80.0)**
Total net assets acquired (excluding cash acquired)	**219.2**	**207.3**
Goodwill arising on acquisition	**239.3**	**251.2**

The fair value of trade receivables was 2.4 M USD and was deemed to approximate their carrying value. The gross contractual amount for trade receivables due is 2.5 M USD, with a loss allowance of 0.1 M USD recognized on acquisition.

The fair value of the acquired identifiable intangible assets was 253.8 M USD. These mainly comprised of 137.6 M USD of trademarks, 38.5 M USD of patented and unpatented technology, 76.3 M USD of customer relationships and 1.4 M USD in non-compete agreements. None of the identifiable intangible assets were determined to have an indefinite useful life.

As part of the merger agreement, an earn out agreement has been established, which was accounted for as contingent consideration. In the event that certain pre-determined revenue and EBITDA targets are achieved by Alastin for the years ended December 31, 2022 and December 31, 2023, additional consideration of up to 75.0 M USD may be payable in cash.

2022 earn out
The potential undiscounted amount payable under the agreement is between:

- USD nil for 2022 revenue below 74.7 M USD and 12.5 M USD for 2022 revenue above 83.0 M USD
- USD nil for 2022 EBITDA below 10.3 M USD and 12.5 M USD for 2022 EBITDA above 11.5 M USD

2023 earn out
The potential undiscounted amount payable under the agreement is between:

- USD nil for 2023 revenue below 93.6 M USD and 25.0 M USD for 2023 revenue above 104.0 M USD
- USD nil for 2023 EBITDA below 16.2 M USD and 25.0 M USD for 2023 EBITDA above 18.0 M USD

As at December 31, 2023, the fair value of the contingent consideration was determined to be 50.0 M USD (2022: 71.1M USD; 2021: 71.7M USD), and recorded as a short term payable as the related earnout payment is expected for the first half year of 2024. In 2022 and 2021 the long term payable was discounted respectively using 8.5% and 4%. Only the change in discount rate had been affecting the contingent consideration.

For the period ending 2023, Alastin's net sales totaled 106.9 M USD, and it met its second and final earn out objectives in terms of adjusted net sales and EBITDA as defined in the merger agreement.

For the period ending 2022, Alastin's net sales totaled 81.4 M USD, and it met its first earn out objectives in terms of adjusted net sales and EBITDA as defined in the merger agreement.

3.2 Other acquisitions

2023:
There were no material other acquisitions in 2023.

2022:
There were no material other acquisitions in 2022.

2021:
Acquisition of Alchemee minority interests
On March 12, 2021, the Group acquired the remaining 25% of shares in Alchemee LLC, Lieberman Productions, LLC and The Proactiv Company Sàrl and their subsidiaries (Alchemee) which became wholly owned Subsidiaries. The fair value of the total consideration transferred or to be transferred amounts to 20 M USD, of which:

- consideration paid (10.7 M USD),
- compensation (2.3 M USD), and
- contingent considerations (7 M USD).

A total amount of 19.3 M USD was recognized directly in equity for the difference between the consideration and the amount by which the non-controlling interests are adjusted.

In February 2022, 7.3 M USD were paid to Guthy-Renker as a deferred purchase price in respect of the acquisition of the minority interests. There was no other significant price adjustment.

Sol-Gel in-licensing agreement
In May 2021, Galderma entered into two exclusive license agreements with Sol-Gel Technologies, a clinical-stage dermatology company, for the commercialization of EPSOLAY and TWYNEO in the United States. TWYNEO has obtained the Prescription Drug User Fee Act (PDUFA) approval in July 2021 while EPSOLAY has obtained the PDUFA approval in April 2022.

The rights to sell and distribute Sol-Gel products will be first recognized as non-commercialized intangible assets which are not amortized but tested for impairment. They will be reclassified as Operating rights once first commercial sale occurs and will be amortized over a period of five years. Currently, intangible assets related to Twyneo have been recognized for 7.5 M USD.

Sofregen's development agreement
In September 2021, Galderma had signed an exclusive agreement with Sofregen to develop the next generation of biostimulator fillers using silk-based technology. Under the agreement, the companies would perform specified development activities related to a portfolio of novel silk-based biostimulator fillers. Galderma would also have had an exclusive option to acquire Sofregen's Silk Voice® compound and the underlying technology platform for development of fillers in the aesthetic and dermatological field. Any payment made had been or would have been recognized as other asset (8.0 M USD in 2021) until exercise of the exclusive option.

In December 2022, the Group fully impaired the related asset of 8.0 M USD. In July 2023, the Group terminated the exclusive agreement.

4. Discontinued operations

On February 28, 2022, Galderma disposed certain companies within the "Alchemee" business for the price of 98.2 M USD.

The scope of the disposal included Alchemee LLC, Galderma Holdings, Inc., The Proactiv Company Corporation, Proactiv YK, and The Proactiv Company KK, as well as certain assets owned by other Group entities that were exclusively or primarily related to the business of Alchemee.

In November 2021, the Alchemee business was classified as held for sale. At that time, the net assets were valued at 141.9 M USD, and the fair value less cost to sell was estimated at 71.6 M USD. Impairment losses of 70.3 M USD (60.5 M USD net of tax) for write-downs of the disposal group to the lower of its carrying amount and its fair value less costs to sell have been included in "Other Expenses" from the discontinued operations. The impairment losses have been applied to reduce the carrying amount of goodwill and intangible assets within the disposal group.

The results of Alchemee as of the disposal date February 28, 2022 are presented in the following tables.

Assets and liabilities of discontinued operations

In M USD	**As at disposal date**	**December 31, 2021**
Assets		
Intangible assets	39.2	39.6
Property, plant and equipment	4.4	4.6
Deferred tax assets	7.6	7.3
Other assets	0.4	0.5
Non current assets	**51.6**	**52.0**
Inventory	18.2	17.1
Trade and other receivables	34.5	34.1
Prepayments and accrued income	4.5	1.2
Current income tax assets	0.7	0.2
Cash and cash equivalents	7.5	6.4
Current assets	**65.4**	**59.0**
Total Assets	**117.0**	**111.0**
Liabilities		
Financial debt	2.4	2.6
Deferred Tax liabilities	0.2	0.1
Employee benefits liabilities	3.5	3.3
Non current liabilities	**6.1**	**6.0**
Financial debt	1.4	1.3
Provisions	0.4	1.8
Other current liabilities	2.9	7.9
Trade and other payables	24.8	21.7
Current liabilities	**29.5**	**32.7**
Total Liabilities	**35.6**	**38.7**
Net assets disposed	**81.4**	**72.3**

Results of discontinued operations

In M USD	**Period ended February 28, 2022**	**Year ended December 31, 2021**
Net sales	**21.3**	**165.2**
Other revenue	12.3	-
Cost of goods sold	(17.1)	(40.1)
Gross Profit	**16.5**	**125.1**
Research and development	-	-
Sales and marketing	(10.2)	(79.1)
General and administrative	(4.4)	(21.1)
Medical and regulatory	(0.4)	(2.1)
Distribution	(3.8)	(29.5)
Other income / (expenses)	0.8	(71.8)
Operating profit / (loss)	**(1.5)**	**(78.5)**
Financial income / (expenses)	(0.4)	-
Foreign exchange gain / (loss) on financing activities	-	-
Income / (loss) before tax	**(1.9)**	**(78.5)**
Income taxes	0.3	6.5
Net income / (loss) from discontinued operations	**(1.6)**	**(72.0)**

Cash flows from / (used in) discontinued operations

In M USD	**Period ended February 28, 2022**	**Year ended December 31, 2021**
Net cash used in operating activities	(0.1)	(22.6)
Net cash used in investing activities	(7.0)	(8.8)
Net cash flow from financing activities	0.7	21.2
Net cash flow for the year	**(6.4)**	**(10.2)**

Effect of disposal on the financial position of the Group

The sale of the Alchemee business resulted in a loss on disposal of 0.6 M USD recognized in the Consolidated statement of profit or loss within Other Income / (Expenses).

In M USD	**Year ended December 31, 2022**
Consideration received	98.2
Transaction costs and advisory fees	(10.0)
Net asset disposed	(81.4)
Post-closing price adjustment	(7.4)
Loss on disposal of discontinued operations	**(0.6)**

Net proceeds from the disposal of the Alchemee business amounted to 93.0 M USD recognized as a cash flow from investing activity in the Consolidated statement of cash flows.

In M USD	**Year ended December 31, 2022**
Consideration received	98.2
Net cash flow used in discontinued operations	(6.4)
Intercompany loan payable adjustment	1.2
Net proceeds from disposals	**93.0**

5. Segment information and net sales

5.1 Segment information

Galderma operates as a single global segment dedicated to Dermatology.

This operating structure enables the Executive Committee (“ExCo”) as the chief operating decision maker (CODM), to allocate resources and assess business performance on a global basis in order to achieve established long-term strategic goals. The CEO, CFO, CHRO and Head Operations are the members of the ExCo.

The Group uses certain non-IFRS measures when measuring performance, including when measuring current period results against prior periods, primarily Core EBITDA and Net indebtedness (see Note 15.2). The Group's CODM believes that these non-IFRS measures provide valuable information regarding its financial and operational performance because they enable the reader to identify a consistent basis for comparing the business' performance between financial periods and provide more detail concerning the elements of performance that the managers are most directly able to influence or are relevant for an assessment of our performance. They also reflect an important aspect of the way in which operating targets are defined and performance is monitored by management.

5.2 Core EBITDA

Galderma defines earnings before interest, tax, depreciation, and amortization (“EBITDA”) as net (loss)/income excluding income taxes, depreciation of PPE, depreciation of right-of-use-assets, amortizations of intangible assets, financial expenses and foreign exchange gains and losses on financing items.

The Group defines its core EBITDA as EBITDA excluding the following items that are deemed non-core: acquisition and disposal, integration and carve-out related income and expenses, onerous contracts, business disposal gains and losses, restructuring and reorganization related items, litigation related items, impairment of PPE and software, IPO incentive plans as well as other income and expense items that management deems non-core and that are expected to accumulate within the year to be over a 1 M USD threshold. These include transformation, carve-out and build-up-related project costs as well as post-acquisition-related accounting impacts.

The below table illustrates the reconciliation of Loss from continuing operations to Core EBITDA:

In M USD	**Notes**	**Year ended December 31, 2023**	**Year ended December 31, 2022**	**Year ended December 31, 2021**
Continuing operations				
Net income / (loss) from continuing operations		**(57.2)**	**(96.9)**	**(84.2)**
Income taxes		68.1	45.0	4.6
Income / (loss) before tax		**11.0**	**(51.9)**	**(79.6)**
Financial income / (expenses)	**7**	526.5	385.5	425.7
Foreign exchange (gain) / loss on financing activities		(1.8)	(22.5)	(81.8)
Operating profit / (loss)		**535.7**	**311.1**	**264.3**
Amortization		221.1	225.4	199.8
Depreciation		55.3	52.3	49.7
EBITDA		**812.0**	**588.8**	**513.8**
Other (income) / expenses	**6**	75.2	94.9	93.1
Transformation costs[1]		26.5	56.8	64.2
Value creation bonus[2]		28.0	25.0	19.3
Acquisition accounting[3]		-	20.2	-
Separation and other non-core costs[4]		-	5.7	21.5
Core EBITDA		**941.7**	**791.4**	**711.9**

[1]Transformation costs relate to third-party consulting fees and project management costs, for the multi-year transformation program. These include the setup of a shared services organization, as well as implementation of IT solutions for Finance, HR, Procurement, Supply Chain.

[2]Value creation bonus (VCB) is a pre-IPO long-term incentive plan open to selected management employees of the Group. For more detail, refer to Note 16.

[3]Acquisition related accounting costs relate to inventory step-up resulting from the fair value assessment of Alastin inventories at the time of the acquisition.

[4] Separation costs are incurred over the three-year period following the exit of Galderma from Nestlé and include costs related to IT and third-party consulting fees, set-up of certain functions such as Treasury, Tax, Reporting, Internal audit, Legal and Digital and Pricing departments, retention bonuses for top executives, pension plan set-up in the UK, discontinuation of products, closure of a productions site and transfer of R&D activities. Non-core costs include post-merger integration costs, specific R&D acceleration costs including activities to accelerate recruitment of additional sites and patient incentives, study timeline extensions due to longer patient recruitment times. And finally supply chain re-start charge relate to incremental costs incurred, such as freight and sourcing premiums, to expedite product to meet customer demand.

5.3 Net sales by products and geographic area

The Group operates globally and derives revenue from a range of medical and consumer brands to meet a broad variety of skin health needs. The Group net sales are mainly attributable to the sales of Cetaphil, Restylane and Dysport/Azzalure. The different countries from where the Group operates are the basis to disaggregate revenue into categories that depict how the nature, amount, and timing of revenue and cash flows are influenced by economic factors.

In 2023, one wholesale distributor, located in the United States, accounted for 26% of total net sales for the year (28% in 2022 and 24% in 2021). This distributor provides distribution services to its customers, including customer billing and collections, distribution, and logistics services (known as 4PL services) and is one of the leading providers of such services in the US working with the top healthcare companies.

The table below illustrates the disaggregation of net sales by product categories:

In M USD	**Year ended December 31, 2023**	**Year ended December 31, 2022**	**Year ended December 31, 2021**
Neuromodulators	*1,161.9*	*1,002.3*	*792.9*
Fillers & Biostimulators	*966.0*	*990.1*	*881.1*
Injectable Aesthetics	2,127.9	1,992.4	1,674.0
Dermatological skincare	1,212.0	1,088.5	861.0
Therapeutic Dermatology	741.7	679.4	882.0
Total Net sales from continuing operations	**4,081.7**	**3,760.3**	**3,416.9**

The table below illustrates the disaggregation of net sales by destination:

In M USD	Year ended December 31, 2023	Year ended December 31, 2022	Year ended December 31, 2021
USA	1,810.5	1,737.5	1,626.4
International	2,271.2	2,022.8	*1,790.5*
Total Net sales from continuing operations	**4,081.7**	**3,760.3**	**3,416.9**

Net sales attributed to the United States of America (USA) are collectively the most material to the Group. The USA is the only territory where sales contribute 10% or more of total net sales. No sales were attributed to Luxembourg.

5.4 Non-current assets by country

In M USD	December 31, 2023	December 31, 2022	December 31, 2021
Switzerland	4,624.0	4,781.2	4,928.8
Luxembourg	4,889.1	4,889.1	4,890.8
Rest of the world	1,087.5	975.3	953.6
Total Non-current assets[1]	**10,600.7**	**10,645.6**	**10,773.3**

[1]Deferred tax assets, Employee Benefits Assets, Derivative Assets and Other Financial Assets are excluded from the Non-current assets.

6. Other income / (expenses)

In M USD	Year ended December 31, 2023	Year ended December 31, 2022	Year ended December 31, 2021
Restructuring costs	(14.0)	(13.2)	(25.1)
Litigations and onerous contracts	(23.6)	(23.7)	(19.1)
Acquisition and disposal related costs	(3.0)	(20.0)	(12.9)
Impairment of assets	(0.6)	(15.2)	(19.0)
FX loss on operating activities	(30.9)	(17.7)	(9.3)
Other miscellaneous expenses	(3.1)	(5.1)	(7.7)
Other income / (expenses)	**(75.2)**	**(94.9)**	**(93.1)**

Restructuring costs primarily relate to the platform transformation program and HQ corporate restructuring.

Litigation and onerous costs for 2023 and 2022 primarily relate to legal fees for legal arbitration cases as well as a distributor exit cost in the Middle East, while in 2021 they related to a commercial settlement with a customer and the relocation of the US office.

Acquisition and disposal related costs include 3.0 M USD of IPO readiness costs in 2023. (2022: 16.2 M USD and 2021: 3.1 M USD)

Impairment of assets in 2023 include 0.6 M USD right-of-use assets. In 2022, impairment of assets included 8.0 M USD of other assets, 6.2 M USD of intangible assets, 0.4 M USD owned assets, and 0.6 M USD right-of-use asset while in 2021 this related to impairment of onerous lease contract and associated tangible fixed assets.

7. Financial income and expenses

In M USD	Notes	Year ended December 31, 2023	Year ended December 31, 2022	Year ended December 31, 2021
Value Creation Bonus revaluation	16	32.0	13.0	-
Interest income		5.6	-	-
Total Financial income		**37.6**	**13.0**	**-**
Interest expense on financial debt		(560.8)	(396.0)	(350.9)
Value Creation Bonus revaluation	16	-	-	(73.0)
Interest expense on defined benefit plans		(3.4)	(2.4)	(1.8)
Total Financial expenses		**(564.2)**	**(398.5)**	**(425.7)**
Total Financial income / (expenses)		**(526.5)**	**(385.5)**	**(425.7)**

8. Cash flow statement reconciliations

8.1 Reconciliation of net financial debt

In M USD	**Financial debt current**	**Subordinated loan**	**Financial debt non-current**	**Total net financial debt**	*of which: lease obligation*
As at January 1, 2021	**(51.5)**	**(276.4)**	**(5,060.2)**	**(5,388.1)**	***(71.5)***
Cash inflows	(396.0)	-	-	(396.0)	-
Cash outflows	78.8	-	-	78.8	*19.0*
Foreign exchange adjustments	12.1	-	99.6	111.7	*2.2*
Non-cash movements	(47.7)	-	5.3	(42.4)	*(30.3)*
Interests accrued	(1.9)	(29.5)	-	(31.4)	*(1.9)*
Reclassification to liabilities of disposal group held for sale	(21.2)	-	-	(21.2)	*2.4*
As at December 31, 2021	**(427.4)**	**(305.9)**	**(4,955.3)**	**(5,688.6)**	***(80.1)***
As at January 1, 2022	**(427.4)**	**(305.9)**	**(4,955.3)**	**(5,688.6)**	***(80.1)***
Cash inflows	(400.0)	-	-	(400.0)	-
Cash outflows	472.1	-	-	472.1	*22.3*
Foreign exchange adjustments	(1.3)	-	56.9	55.6	*1.8*
Non-cash movements	(54.6)	-	(10.1)	(64.7)	*(39.9)*
Interests accrued	(1.3)	(30.8)	-	(32.1)	*(3.3)*
As at December 31, 2022	**(412.5)**	**(336.7)**	**(4,908.5)**	**(5,657.7)**	***(99.2)***
As at January 1, 2023	**(412.5)**	**(336.7)**	**(4,908.5)**	**(5,657.7)**	***(99.2)***
Cash inflows	(595.1)	-	(260.6)	(855.7)	-
Cash outflows	1,003.0	336.7	385.7	1,725.4	*24.6*
Foreign exchange adjustments	5.9	-	(60.6)	(54.8)	*(3.1)*
Non-cash movements	(61.2)	-	(1.5)	(62.7)	*(44.9)*
Interests accrued	(3.5)	-	-	(3.5)	-
As at December 31, 2023	**(63.3)**	**-**	**(4,845.6)**	**(4,908.9)**	***(122.6)***

8.2 Cash and cash equivalents at end of year

In M USD	**December 31, 2023**	**December 31, 2022**	**December 31, 2021**
Cash and bank balances	240.6	233.9	284.5
Time deposits	127.2	0.2	2.7
Cash and cash equivalents in the statement of financial position	**367.8**	**234.1**	**287.2**
Cash and bank balances related to Alchemee business	-	-	6.4
Cash and cash equivalents in the statement of cash flows	**367.8**	**234.1**	**293.6**

The Group has no restricted cash at December 31, 2023 (respectively December 31, 2022 and 2021).

9. Goodwill and intangible assets

9.1 Movement in Goodwill and intangible assets

In M USD	**Goodwill**	*Brands and intellectual property rights*	*Operating rights and others*	*Management Information system*	**Total intangible assets**
Net book value as at January 1, 2021	**4,890.8**	**3,432.7**	**1,799.7**	**39.3**	**5,271.7**
Capital expenditure	-	-	8.4	69.8	**78.2**
Acquired through business combination	251.2	137.6	116.0	0.2	**253.8**
Amortization	-	(36.5)	(151.1)	(14.1)	**(201.7)**
Impairments	-	-	-	(0.1)	**(0.1)**
Currency retranslations	-	-	(10.5)	(1.5)	**(12.0)**
Reclassification to assets of disposal group held for sale	(1.6)	(100.0)	-	(8.0)	**(108.0)**
Net book value as at December 31, 2021	**5,140.5**	**3,433.8**	**1,762.6**	**85.5**	**5,281.9**
As at December 31, 2021					
Gross value	5,140.5	3,515.0	2,100.3	107.9	5,723.2
Accumulated amortization and impairments	-	(81.3)	(337.7)	(22.4)	(441.3)
Net book value	**5,140.5**	**3,433.8**	**1,762.6**	**85.5**	**5,281.9**
of which indefinite useful life	-	*3,031.6*	-	-	*3,031.6*
Net book value as at January 1, 2022	**5,140.5**	**3,433.8**	**1,762.6**	**85.5**	**5,281.9**
Capital expenditure	-	-	6.4	51.5	57.9
Measurement period adjustment	(11.9)	-	-	-	-
Amortization	-	(40.2)	(158.6)	(26.6)	(225.4)
Impairments	-	-	(6.2)	-	(6.2)
Currency retranslations	-	-	(8.3)	0.1	(8.2)
Net book value as at December 31, 2022	**5,128.6**	**3,393.6**	**1,595.9**	**110.5**	**5,100.0**
As at December 31, 2022					
Gross value	5,128.6	3,515.0	2,082.8	160.1	5,757.9
Accumulated amortization and impairments	-	(121.4)	(486.9)	(49.6)	(657.9)
Net book value	**5,128.6**	**3,393.6**	**1,595.9**	**110.5**	**5,100.0**
of which indefinite useful life	**-**	*3,031.6*	-	-	*3,031.6*
Net book value as at January 1, 2023	**5,128.6**	**3,393.6**	**1,595.9**	**110.5**	**5,100.0**
Capital expenditure	-	-	2.3	29.1	**31.5**
Amortization	-	(37.7)	(143.9)	(39.5)	**(221.1)**
Disposals	-	-	-	(0.6)	**(0.6)**
Currency retranslations	-	-	4.0	9.2	**13.2**
Net book value as at December 31, 2023	**5,128.6**	**3,355.9**	**1,458.4**	**108.6**	**4,922.9**
As at December 31, 2023					
Gross value	5,128.6	3,515.0	2,091.7	205.3	5,811.9
Accumulated amortization and impairments	-	(159.1)	(633.3)	(96.6)	(889.0)
Net book value	**5,128.6**	**3,355.9**	**1,458.4**	**108.6**	**4,922.9**
of which indefinite useful life	**-**	*3,031.6*	-	-	*3,031.6*

Significant assets with an indefinite useful life

In M USD	**December 31, 2023**	**December 31, 2022**	**December 31, 2021**
Intangible assets in use - category			
Cetaphil - Brands	1,241.8	1,241.8	1,241.8
Restylane - Brands	1,142.7	1,142.7	1,142.7
Galderma - Brands	647.1	647.1	647.1

Significant assets with a finite useful life

In years and M USD	Remaining amortization period	December 31, 2023	December 31, 2022	December 31, 2021
Intangible assets in use				
Customer relationships Ax	6	321.7	377.6	433.6
Dysport (license agreement)	13	272.0	290.9	308.0
Sculptra (trademark & licensing)	6	104.9	127.4	151.4
Alastin Skincare (trademark)	28	128.4	133.0	137.6
Customer relationships Rx	6	94.4	110.8	127.2
Intangible asset not available for use				
Nemolizumab	N/A	397.4	397.4	397.4

9.2 Impairment

Annual impairment tests

To estimate the recoverable amount of an asset or CGU, the Group calculates its value in use using the discounted cash flow method. The projected cash flows (including sales and EBITDA margins) used in the calculation correspond to estimates made by management in financial plans and business strategies covering a period of five years after making adjustments to take into consideration the assets in their current condition. These projected cash flows were based on expectations of future outcomes taking into account past experience. They are then projected to perpetuity using a multiple which corresponds to the average of the real gross domestic product (GDP) and the inflation rates for the countries in which the CGU operates or the GDP only in case the inflation exceeds it.

The discount rate applied to the expected cash flows is the weighted average cost of capital related to each CGU and has been derived from a capital asset pricing model using data from capital markets, including 15-year sovereign yields of the relevant currencies.

Below are the key components and assumptions used for the annual impairment test of goodwill and other intangibles with indefinite useful life and the intangible asset not available for use.

In M USD	Carrying amount				
	Goodwill	Intangible assets with indefinite useful life	Intangible asset not available for use	Terminal growth rate	Pre-tax discount rate
CGU as at December 31, 2021					
Aesthetics (Ax)	2,988.4	1,142.7	-	1.9%	8.3%
Consumer (Cx)	2,152.0	1,241.8	-	1.9%	7.5%
Prescription (Rx)	-	-	397.4	1.9%	7.1%
Galderma Brand	-	647.1	-	1.9%	7.9%
Total carrying amount	**5,140.5**	**3,031.6**	**397.4**		
CGU as at December 31, 2022					
Aesthetics (Ax)	2,976.6	1,142.7	-	2.0%	10.6%
Consumer (Cx)	2,152.0	1,241.8	-	2.0%	9.9%
Prescription (Rx)	-	-	397.4	2.0%	9.2%
Galderma Brand	-	647.1	-	2.0%	10.2%
Total carrying amount	**5,128.6**	**3,031.6**	**397.4**		
CGU as at December 31, 2023					
Aesthetics (Ax)	2,976.6	1,142.7	-	2.1%	11.2%
Consumer (Cx)	2,152.0	1,241.8	-	2.1%	9.3%
Prescription (Rx)	-	-	397.4	2.1%	8.8%
Galderma Brand	-	647.1	-	2.1%	10.9%
Total carrying amount	**5,128.6**	**3,031.6**	**397.4**		

Sensitivity

Management considers that no reasonably possible change in any of the key assumptions used in testing Goodwill and other intangible assets with indefinite useful life would cause their recoverable amount as of December 31, 2023, December 31, 2022 and December 31, 2021 to significantly fall below their carrying value.

10. Property, plant and equipment

Property, plant and equipment is comprised of owned and leased assets.

In M USD	Notes	December 31, 2023	December 31, 2022	December 31, 2021
Owned assets	**10.1**	425.8	322.5	280.7
Right of Use assets - leased	**10.2**	103.4	78.3	61.1
Total property, plant and equipment		**529.2**	**400.8**	**341.8**

10.1 Owned assets

In M USD	Land and buildings	Machinery and equipment	Information technology equipment	Tools, furniture and other equipment	Vehicles	Total
Net book value as at January 1, 2021	**137.6**	**130.1**	**7.4**	**9.9**	**0.4**	**285.5**
Capital expenditure	14.7	27.4	3.7	2.7	0.1	**48.6**
Disposals	(0.3)	(0.5)	-	(0.2)	-	**(1.0)**
Depreciation	(10.3)	(13.1)	(4.2)	(2.3)	(0.1)	**(30.1)**
Impairment	(2.7)	-	-	-	-	**(2.7)**
Currency retranslations	(8.7)	(9.1)	(0.3)	(0.4)	-	**(18.5)**
Reclassification to assets of disposal group held for sale	(0.2)	-	(0.2)	(0.7)	-	**(1.1)**
Net book value as at December 31, 2021	**130.1**	**134.8**	**6.4**	**9.0**	**0.4**	**280.7**
As at December 31, 2021						
Gross value	243.7	217.6	27.5	23.1	1.3	**513.2**
Accumulated depreciation and impairments	(113.6)	(82.8)	(21.1)	(14.1)	(0.9)	**(232.5)**
Net book value	**130.1**	**134.8**	**6.4**	**9.0**	**0.4**	**280.7**
Net book value as at January 1, 2022	**130.1**	**134.8**	**6.4**	**9.0**	**0.4**	**280.7**
Capital expenditure	60.7	27.7	7.5	5.8	0.1	**101.9**
Disposals	-	(0.6)	-	(0.2)	-	**(0.8)**
Depreciation	(11.6)	(12.5)	(3.7)	(2.4)	(0.1)	**(30.3)**
Impairment	-	(0.4)	-	-	-	**(0.4)**
Currency retranslations	(11.6)	(16.1)	(0.2)	(0.5)	(0.2)	**(28.6)**
Net book value as at December 31, 2022	**167.6**	**132.9**	**10.0**	**11.7**	**0.2**	**322.5**
As at December 31, 2022						
Gross value	265.0	219.5	27.8	26.8	1.2	**540.4**
Accumulated depreciation and impairments	(97.4)	(86.6)	(17.8)	(15.1)	(1.0)	**(217.9)**
Net book value	**167.6**	**132.9**	**10.0**	**11.7**	**0.2**	**322.5**
Net book value as at January 1, 2023	**167.6**	**132.9**	**10.0**	**11.7**	**0.2**	**322.5**
Capital expenditure	72.5	39.9	6.5	2.2	-	**121.1**
Disposals	(1.2)	(2.0)	(0.2)	-	-	**(3.4)**
Depreciation	(13.1)	(11.7)	(5.0)	(1.7)	(0.1)	**(31.6)**
Currency retranslations	9.3	8.1	0.9	(0.9)	-	**17.3**
Net book value as at December 31, 2023	**235.0**	**167.3**	**12.1**	**11.3**	**0.2**	**425.8**
As at December 31, 2023						
Gross value	347.4	262.0	32.1	29.4	1.1	**672.0**
Accumulated depreciation and impairments	(112.4)	(94.9)	(20.0)	(18.0)	(0.9)	**(246.3)**
Net book value	**235.0**	**167.1**	**12.1**	**11.3**	**0.2**	**425.8**

Property, plant and equipment under construction amounted to 184.5 M USD as at December 31, 2023 (109.3 M USD as at December 31, 2022, 68.0 M USD as at December 31, 2021). The Group had capital commitments not recognized on the balance sheet. Refer to Note 19.

10.2 Leases – Group as a lessee

Real estate leases

The Group leases land and buildings for its office and warehouse space. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Leases are typically made for a fixed period of 5–15 years and may include extension options which provide operational flexibility.

Other leases

The Group also leases Vehicles, Machinery and equipment and Tools, furniture, and other equipment which, in aggregate, are insignificant to the total leased asset portfolio.

Right-of-use assets

In M USD	**Real estate leases**	**Other leases**	**Total**
As at January 1, 2021	**55.6**	**12.1**	**67.6**
Additions	30.4	6.9	**37.3**
Currency retranslations	(1.5)	(0.6)	**(2.1)**
Acquired through business combination	0.8	-	**0.8**
Depreciation	(13.5)	(7.7)	**(21.2)**
Impairment	(16.1)	-	**(16.1)**
Other	(0.8)	(0.9)	**(1.7)**
Reclassification to assets of disposal group held for sale	(3.5)	-	**(3.5)**
As at December 31, 2021	**51.4**	**9.7**	**61.1**
As at January 1, 2022	**51.4**	**9.7**	**61.1**
Additions	38.1	5.7	**43.8**
Currency retranslations	(1.6)	(0.1)	**(1.7)**
Depreciation	(14.9)	(7.1)	**(22.0)**
Impairment	(0.6)	-	**(0.6)**
Other	(2.3)	-	**(2.3)**
As at December 31, 2022	**70.1**	**8.2**	**78.3**
As at January 1, 2023	**70.1**	**8.2**	**78.3**
Additions	29.7	16.9	**46.6**
Currency retranslations	2.5	0.5	**3.0**
Depreciation	(16.5)	(7.3)	**(23.8)**
Impairment	(1.0)	0.4	**(0.6)**
Other	1.2	(1.2)	**0.0**
As at December 31, 2023	**86.0**	**17.4**	**103.4**

Other lease disclosures

A maturity analysis of lease liabilities is shown in Note 15.2. The Group incurred interest expense on lease liabilities of 5.6 M USD as at December 31, 2023 (3.3 M USD as at December 31, 2022, 1.9 M USD as at December 31, 2021).

The expenses relating to short-term leases and variable lease payments not included in the measurement of lease liabilities was 0.7 M USD during the period (respectively 0.1 M USD in 2022 and 0.1 M USD in 2021). The total cash outflow for leases amounted to 24.6 M USD (22.3 M USD as at December 31, 2022, 21.4 M USD as at December 31, 2021).

11. Inventories

In M USD	December 31, 2023	December 31, 2022	December 31, 2021
Raw materials	118.8	132.3	103.7
Finished goods	334.8	336.7	269.6
Provision for inventories	(33.9)	(26.7)	(26.5)
Total Inventories	**419.7**	**442.3**	**346.8**

The following table shows the amount of inventory recognized as an expense in "Cost of goods sold" in the consolidated income statements from continuing operations:

In M USD	Year ended December 31, 2023	Year ended December 31, 2022	Year ended December 31, 2021
Cost of goods sold	**895.8**	**857.6**	**712.9**

During 2023, 2022 and 2021, no material inventory write-down was recognized.

12. Trade and other receivables and payables

12.1 Trade and other receivables

In M USD	December 31, 2023	December 31, 2022	December 31, 2021
Trade receivables gross carrying amount	640.1	694.2	659.7
Expected credit loss allowance	(8.5)	(6.8)	(13.2)
Trade receivables net amount	**631.6**	**687.4**	**646.5**
Doubtful receivables gross amount	13.9	11.8	12.0
Provision for doubtful receivables	(13.9)	(11.8)	(11.9)
Doubtful receivables net amount	**-**	**-**	**0.1**
Total Trade receivables	**631.6**	**687.4**	**646.6**
Other receivables	118.7	93.0	73.9
Total Trade and other receivables	**750.3**	**780.4**	**720.5**

12.2 Trade and other payables

In M USD	December 31, 2023	December 31, 2022	December 31, 2021
Trade payables	557.2	602.3	502.2
Other payables	95.8	87.9	84.4
Total Trade and other payables	**653.0**	**690.2**	**586.6**

Other payables include VAT payables of 37.3 M USD as at December 31, 2023 (respectively 34.8 M USD and 24.8 M USD as at December 31, 2022 and 2021) and royalties payables of 42.7 M USD as at December 31, 2023 (respectively 41.2 M USD and 38.9 M USD as at December 31, 2022 and 2021).

13. Accruals and deferred income

In M USD	December 31, 2023	December 31, 2022	December 31, 2021
Accruals for discounts, allowances and rebates	308.8	313.4	222.0
Accruals for marketing, R&D and other operating expenses	217.2	221.1	283.8
Deferred income	1.3	0.9	0.4
Total Accruals and deferred income	**527.3**	**535.4**	**506.2**

14. Provisions

In M USD	Restructuring	Legal and non-income tax	Onerous, returns and other	Total
As at January 1, 2021	**31.2**	**9.7**	**63.9**	**104.8**
Provisions made during the year	27.2	10.4	38.6	**76.2**
Amounts used	(15.0)	(1.2)	(11.4)	**(27.6)**
Reversal of unused amounts	(0.8)	(3.8)	(14.5)	**(19.1)**
Currency retranslations	(2.8)	(0.2)	0.2	**(2.8)**
Reclassification to liabilities directly associated with the assets held for sale	-	-	(3.3)	**(3.3)**
As at December 31, 2021	**39.8**	**14.9**	**73.5**	**128.2**
of which expected to be settled within 12 months	13.9	10.3	51.4	75.6
of which expected to be settled after 12 months	25.9	4.6	22.1	52.6
As at January 1, 2022	**39.8**	**14.9**	**73.5**	**128.2**
Provisions made during the year	16.9	1.0	29.0	**46.9**
Amounts used	(13.8)	(10.1)	(19.7)	**(43.6)**
Reversal of unused amounts	(1.5)	(0.5)	(27.2)	**(29.2)**
Currency retranslations	(1.7)	-	(4.1)	**(5.8)**
As at December 31, 2022	**39.7**	**5.3**	**51.5**	**96.5**
of which expected to be settled within 12 months	28.3	0.2	38.9	67.4
of which expected to be settled after 12 months	11.4	5.1	12.6	29.1
As at January 1, 2023	**39.7**	**5.3**	**51.5**	**96.5**
Provisions made during the year	13.7	3.6	37.2	**54.5**
Amounts used	(33.8)	(2.5)	(16.5)	**(52.7)**
Reversal of unused amounts	(1.1)	(0.2)	(23.5)	**(24.8)**
Currency retranslations	1.4	0.6	1.0	**3.0**
As at December 31, 2023	**19.9**	**6.8**	**49.7**	**76.4**
of which expected to be settled within 12 months	18.6	1.6	40.1	60.3
of which expected to be settled after 12 months	1.3	5.2	9.6	16.1

Restructuring

In 2020, Galderma initiated a global, multi-year transformation program, implemented in several waves by country groups. This includes information and/or consultation with works councils and employee representative bodies, as per applicable laws and regulations, some of which were completed during in 2021 for the first wave of countries in scope. Other waves have followed over the course of 2022 and 2023. For the twelve months ended December 31, 2023, Galderma recorded net pre-tax restructuring costs of 14.0 M USD (respectively 13.2 M USD and 25.1 M USD for twelve months ended December 31, 2022 and 2021), which includes an expected curtailment gain of 2.2 M USD (2022: 3.4 M USD, 2021: 3.8 M USD) on pension schemes.

Additionally, restructuring provisions arise from several other projects across the Group. These include plans to optimize production, sales, and administration structures. Restructuring provisions are expected to result in future cash outflows when implementing the plans, usually over the following one to three years.

Legal and non-income tax

Legal provisions have been set up to cover legal and administrative proceedings that arise in the ordinary course of the business. Tax provisions include disputes and uncertainties on non-income taxes and are mainly comprised of VAT and sales taxes. The Group does not believe that any of these cases will have a material adverse impact on its financial position. The timing of outflows is uncertain as it depends upon the outcome of the cases.

Onerous contracts, return reserves and other

Other provisions are mainly constituted by onerous contracts of 6.9 M USD as at December 31, 2023 (10.5 M USD as at December 31, 2022 and 21.5 M USD as at December 31, 2021) and sales returns of 36.5 M USD as at December 31, 2023 (38.6 M as at December 31, 2022 and 48.0 M USD as at December 31, 2021).

15. Financial instruments

15.1 Financial assets and liabilities by class and by category

In M USD	At amortized cost [1]			At fair value through profit or loss			**Total**		
	2023	**2022**	**2021**	**2023**	**2022**	**2021**	**2023**	**2022**	**2021**
Cash and cash equivalents	367.8	234.1	287.2	-	-	-	**367.8**	**234.1**	**287.2**
Trade receivables	631.6	687.4	646.6	-	-	-	**631.6**	**687.4**	**646.6**
Other financial assets [2]	10.3	8.8	7.3	-	-	-	**10.3**	**8.8**	**7.3**
Derivative assets designated as hedging instruments	-	-	-	9.6	19.8	3.9	**9.6**	**19.8**	**3.9**
Derivative assets not designated as hedging instruments	-	-	-	6.1	2.8	0.4	**6.1**	**2.8**	**0.4**
Total financial assets	**1,009.7**	**930.3**	**941.1**	**15.7**	**22.6**	**4.3**	**1,025.4**	**952.9**	**945.4**
Trade payables	557.2	602.3	502.2	-	-	-	**557.2**	**602.3**	**502.2**
Other payables [3]	58.3	41.2	38.9	-	-	-	**58.3**	**41.2**	**38.9**
Other financial liabilities	-	-	-	68.3	96.2	90.4	**68.3**	**96.2**	**90.4**
Financial debt	4,908.8	5,657.7	5,688.6	-	-	-	**4,908.8**	**5,657.7**	**5,688.6**
of which: Subordinated loan	-	*336.7*	*305.9*	-	-	-	-	*336.7*	*305.9*
Derivative liabilities designated as hedging instruments	-	-	-	7.2	10.6	3.3	**7.2**	**10.6**	**3.3**
Derivative liabilities not designated as hedging instruments	-	-	-	4.8	2.6	2.0	**4.8**	**2.6**	**2.0**
Total financial liabilities	**5,524.3**	**6,301.2**	**6,229.7**	**80.3**	**109.4**	**95.6**	**5,604.6**	**6,410.6**	**6,325.4**
Net financial position	**(4,514.6)**	**(5,370.9)**	**(5,288.6)**	**(64.6)**	**(86.8)**	**(91.4)**	**(4,579.2)**	**(5,457.7)**	**(5,380.0)**
of which at fair value	-	-	-	*(64.6)*	*(86.8)*	*(91.4)*	*(64.6)*	*(86.8)*	*(91.4)*

[1] If not otherwise stated (refer to Note 15.2), carrying amount of these instruments is a reasonable approximation of their fair value.

[2] Other financial assets include 8.8 M USD of cash held as collateral as at December 31, 2023 (8.8 M USD as at December 31, 2022, and 7.0 M USD as at December 31, 2021).

[3] Other payables that are not financial liabilities are not included.

Other financial liabilities include an earn-out for the Alastin acquisition of 50.0 M USD (refer to Note 3) as at December 31, 2023 (2022: 71.1 M USD and 2021: 72.0 M USD) and financial liabilities related to the premiums of the interest rate financial hedges of 17.0 M USD as at December 31, 2023 (2022: 22.4 M USD and 2021: 11.8 M USD).

Factoring

The Group has certain trade receivable factoring programs. Based on an analysis of the risks and rewards as defined by IFRS 9, the Group has derecognized 111.7 M USD of factored receivables (2022: 134.6 M USD and 2021: nil) and recognized 106.7 M USD of cash (2022: 134.1 M USD and 2021: nil).

Master netting agreements

Agreements with derivative counterparties are based on an ISDA Master Agreement. Under the terms of these arrangements, only where certain credit events occur (such as default), will the net position owing/ receivable to a single counterparty in the same currency be taken as owing and all the relevant arrangements terminated. As the Group does not presently have a legally enforceable right of set-off, these amounts have not been offset in the balance sheet but have been presented separately in the table above.

Fair value hierarchy of financial instruments

In M USD	**December 31, 2023**	**December 31, 2022**	**December 31, 2021**
Derivative assets	15.7	22.6	4.3
Derivative liabilities	(12.0)	(13.2)	(5.3)
Valuation techniques based on observable market data (level 2)	**3.7**	**9.4**	**(0.9)**
Other financial liabilities	(68.3)	(96.2)	(90.4)
Valuation techniques based on unobservable market data (level 3)[1]	**(68.3)**	**(96.2)**	**(90.4)**
Total financial instruments at fair value	**(64.6)**	**(86.8)**	**(91.3)**

[1] This amount mainly relates to Alastin's earn-outs for which no material changes have been made to assumptions and methods.

There have been no transfers between the different hierarchy levels in 2023, 2022 and 2021.

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with investment grade credit ratings. Interest rate options and foreign exchange forward contracts are valued using valuation techniques, which employ the use of market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies and interest rate curves. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognized at fair value.

15.2 Financial Debt

In M USD	**Interest rate[4]**	**IBOR Floor**	**Maturity**	**Dec 31, 2023**	**Dec 31, 2022**	**Dec 31, 2021**
Current financial debt						
Lease liabilities			≤ 1 year	24.4	17.8	18.0
Revolving credit facility	USD TERM SOFR +2.85%	0.00%	≤ 1 year	-	355.3	371.3
Senior Facility B3	USD TERM SOFR +3.60%	1.00%	≤ 1 year	31.3	31.9	31.3
Other financial debt			≤ 1 year	4.1	5.4	5.8
Accrued interest not paid			≤ 1 year	3.5	2.1	1.0
Total Current financial debt				**63.3**	**412.5**	**427.4**
Non-current financial debt						
Lease liabilities			Up to 2029	98.2	81.6	62.1
Senior Facility B3	USD TERM SOFR +3.60%	1.00%	2026	3,012.1	3,042.9	3,074.7
Senior Facility B4	EURIBOR +3.25%	0.00%	2026	520.3	500.4	531.7
Senior Facility B5	CHF SARON +6.00%	0.00%	2026	284.7	-	-
Second Lien B1	USD TERM SOFR +7.65%	1.00%	2027	706.5	977.6	977.5
Second Lien B2	EURIBOR +7.50%	0.00%	2027	292.7	389.5	413.9
Subordinated loan [1]	Blended rate		2028	-	336.7	305.9
Transaction cost related to the debt				(69.1)	(83.5)	(104.6)
Total non-current financial debt				**4,845.5**	**5,245.2**	**5,261.2**
Total financial debt				**4,908.8**	**5,657.7**	**5,688.6**

In M USD	**December 31, 2023**	**December 31, 2022**	**December 31, 2021**
Total financial debt	**4,908.8**	**5,657.7**	**5,688.6**
Transaction cost related to the debt	69.1	83.5	104.6
Accrued interest not paid	(3.5)	(2.1)	(1.0)
Secured trade payables [2]	26.3	29.9	21.6
Total Indebtedness	**5,000.7**	**5,769.0**	**5,813.8**
Cash and cash equivalent	(367.8)	(234.1)	(287.2)
Total Net Indebtedness [3]	**4,632.9**	**5,534.9**	**5,526.7**

[1] The subordinated loan was a loan with Sunshine Luxembourg VI SARL, the direct and sole shareholder of the Group, that mirrored a loan held by various third-party investors at the level of Sunshine Luxembourg V SARL. The loan has been fully repaid in June 2023 as part of the private placement transaction as further referenced in Note 2.2. The loan could only be paid after the claims of Senior facilities B3 and B4 and the Second Lien B1 and B2 would have been met. Interest expenses on the subordinated loan were compounded annually. The blended interest rate applied on the subordinated loan averaged 13.3% in 2023. (10.4% in 2022 and 10.3% in 2021).

[2] The Group has entered into a reverse factoring arrangement with one of its suppliers. The amount is recorded in Trade payables.

[3] The Group monitors its Net Indebtedness which refers to its financial indebtedness.

[4] The transition from LIBOR to TERM SOFR for all components was completed on June 30, 2023.

The Senior B3, B4 and B5 facilities, the Second Lien B1 and B2, the subordinated loan (before being repaid) and revolving credit facility, are fully secured against all assets of certain significant entities of the Group. The Group is therefore committed by covenants agreed with the lenders which have not been breached as of December 31, 2023.

The table below outlines the fair value of the debt facilities:

In M USD	December 31, 2023		December 31, 2022		December 31, 2021	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Senior Facility B3 in USD	3,043.4	3,060.5	3,074.8	2,949.9	3,106.0	3,115.7
Senior Facility B4 in EUR	520.3	520.6	500.4	481.3	531.7	531.7
Senior Facility B5 in CHF	284.7	289.6	-	-	-	-
Second Lien B1 in USD	706.5	710.5	977.6	937.9	977.5	980.6
Second Lien B2 in EUR	292.7	292.9	389.5	374.7	413.9	413.9
Subordinated loan	-	-	336.7	352.8	305.9	305.3
Total	**4,847.7**	**4,874.1**	**5,279.0**	**5,096.6**	**5,335.0**	**5,347.2**

Capital management

The Group's capital management aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. The Group monitors the Senior Facility B3, B4, B5 and revolving credit facility (3,848.4 M USD as of December 2023, 3,930.5 M USD as of December 2022 and 4,009.0 M USD as of December 2021). To monitor this capital, the Group uses an adjusted Senior Net Debt to EBITDA ratio (as defined in the financing arrangement) that is the metrics used by the lenders to ensure the Group adheres to its financial covenants. A breach of the covenants which results in an event of default, and if remediable, is not remedied within the applicable grace period, would permit the requisite majority of lenders to accelerate the debt (being the first lien facilities or second lien facilities) and seek additional remedies, including cancelling the total commitments under the first lien facilities or second lien facilities, declaring all utilizations thereunder immediately due and payable and/or directing the security agent to exercise any of its rights under the finance documents, including (subject to the terms of the intercreditor agreement), enforcing security. There have been no breaches of the financial covenants of any interest-bearing loans and borrowing in any of the periods presented. For the year ended December 31, 2023, the adjusted Senior Net Debt to EBITDA ratio totaled 4.9 (6.4 for December 2022 and 6.9 for December 2021).

The Group's objective when managing capital is to safeguard the ability to continue as a going concern and provide returns for shareholders and benefits for other stakeholders.

The Group manages its liquidity risk and settle its obligations as they fall due, by managing its working capital (including relying on its revolving credit facility) and utilizing the undrawn portion of its RCF facility (457.2 M USD as of December 2023, 95.0 M USD as of December 2022 and 73.7 M USD as of December 2021).

15.3 Financial risks

The Group's principal financial liabilities comprise trade and other payables, subordinated loans, financial debt, and other financial liabilities. The main purpose of the B3, B4 and B5 facilities, as well as the loan with Sunshine Luxembourg VI is to refinance the existing indebtedness of the Group as of October 1, 2019 while the Revolving Credit Facility and the other financial liabilities aim at financing the general corporate and working capital needs of the Group. The Group's principal financial assets include cash and cash equivalents, trade and other receivables and loans. The Group also enters into derivative transactions for hedging purposes.

In the course of its business, the Group is exposed to a number of financial risks associated with the financial instruments described above: credit risk, liquidity risk, and market risk (including foreign currency risk and interest rate risk). This note presents the Group's objectives, policies, and processes for managing its financial risk.

Financial risk management is an integral part of the way the Group is managed. The Board of Managers determines the financial control principles as well as the principles of financial planning. Treasury management guidelines designed and approved by the Group define and classify risks as well as determine, by category of transaction, specific approval, execution, and monitoring procedures.

Credit risk

(a) Credit risk management

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments. The Group's largest customer balance represents 11.9% as at December 31, 2023 (17.1% as at December 31, 2022 and 20.3% as at December 31, 2021) of trade and other receivables. No other individual customer individually exceeds 10.0%. The Group assesses its credit risk to be minimal.

The Group considers a financial asset to be in default when the counterparty is unlikely to pay its obligations to the Group in full. In assessing whether a counterparty is in default, the Group considers both qualitative and quantitative indicators (e.g. overdue status) that are based on data developed internally and for certain financial assets are also obtained from external sources. Part of the Group's receivables which are past due more than 90 days relate to public customers. Risk of default of public customers is considered low. The Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate for this particular customer segment.

Concentration risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Identified concentrations of credit risks are controlled and managed accordingly.

(b) Trade receivables

Customer credit risk is managed subject to the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of a customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. For more detail on the Group methodology for determining the expected credit losses for trade receivables, refer to Note 27. The Group believes that the below expected credit loss allowance sufficiently covers the risk of default. The table below provides a view of the Group's customer credit risk exposure based on trade receivables days overdue.

In M USD	**Current**	**Overdue 1 to 30 days**	**Overdue 31 to 90 days**	**Overdue by 90+ days**	**Doubtful receivables**	**Total**
As at December 31, 2023						
Gross carrying amount	580.0	28.4	14.3	17.5	13.9	**654.0**
Group's expected credit loss rate	0%	3%	11%	29%	100%	**3%**
Expected credit loss allowance	(1.1)	(0.8)	(1.6)	(5.0)	(13.9)	**(22.4)**
As at December 31, 2022						
Gross carrying amount	648.0	24.2	8.2	13.8	11.8	**706.0**
Group's expected credit loss rate	0%	4%	16%	33%	100%	**3%**
Expected credit loss allowance	(0.1)	(0.9)	(1.3)	(4.5)	(11.8)	**(18.6)**
As at December 31, 2021						
Gross carrying amount	604.1	24.0	14.0	17.6	12.0	**671.7**
Group's expected credit loss rate	0%	7%	17%	52%	99%	**4%**
Expected credit loss allowance	(0.1)	(1.5)	(2.4)	(9.2)	(11.9)	**(25.1)**

As at December 31, 2023, 89% of the trade receivables balances (92% as at December 31, 2022 and 90% as at December 31, 2021) are not overdue, supporting the Group's assessment of a limited customer credit risk. Outstanding customer receivables are monitored.

(c) Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Group's treasury department in accordance with the Group's policy. Counterparty credit limits are reviewed by the Group's Board of Managers on an annual basis and may be updated throughout the year subject to approval of the Group's CFO. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

(d) Other financial assets

Other financial assets include cash held as collateral for loans. These cash balances are managed by the Group's treasury department along with the other cash deposits mentioned above.

Liquidity risk

Liquidity risk is the risk that a company may encounter difficulties in meeting its obligations associated with financial liabilities that are settled by delivering cash or other financial assets. Such risk may result from inadequate market depth or disruption or refinancing problems. The Group has sufficient access to various sources of funding so that it meets its financial obligations when they become due such as a revolving credit facility on which the group can draw on. The amount of available revolving credit facility as of December 31, 2023 amount to 457.2 M USD (95.0 M USD as at December 31, 2022 and 73.7 M USD as at December 31, 2021).

Contractual maturities of financial liabilities and derivatives are summarized in the table below.

In M USD	**1st year**	**2nd year**	**3rd – 5th year**	**5th year+**	**Contractual amount**	**Carrying amount**
As at December 31, 2023						
Trade payables	557.2	-	-	-	557.2	**557.2**
Other payables	58.3	-	-	-	58.3	**58.3**
Other financial liabilities	57.9	9.3	1.7	-	69.0	**68.3**
Interest bearing loans and borrowings	483.0	480.3	4,959.4	-	5,922.7	**4,847.7**
Lease liabilities	30.6	26.5	52.1	29.8	139.0	**122.6**
Other financial debt	4.1	-	-	-	4.1	**4.1**
Derivative liabilities	4.8	5.0	2.1	-	12.0	**12.0**
As at December 31, 2022						
Trade payables	602.3	-	-	-	602.3	**602.3**
Other payables	41.2	-	-	-	41.2	**41.2**
Other financial liabilities	26.5	50.0	24.1	-	100.6	**96.2**
Interest bearing loans and borrowings	657.1	297.5	5,454.2	570.8	6,979.6	**5,633.9**
Lease liabilities	22.7	20.3	43.4	34.0	120.4	**99.4**
Other financial debt	5.4	-	-	-	5.4	**5.4**
Derivative liabilities	4.5	-	8.7	-	13.2	**13.2**
As at December 31, 2021						
Trade payables	461.0	-	-	-	461.0	**461.0**
Other payables	38.9	-	-	-	38.9	**38.9**
Other financial liabilities	-	42.7	47.7	-	90.4	**90.4**
Interest bearing loans and borrowings	677.6	301.9	4,746.6	1,610.6	7,336.5	**5,602.7**
Lease liabilities	19.5	37.0	25.4	2.7	84.6	**80.1**
Other financial debt	5.8	-	-	-	5.8	**5.8**
Derivative liabilities	5.3	-	-	-	5.3	**5.3**

Market risk

(a) Currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's debt denominated in EUR and CHF as well as the Group's exposure to the Euro and (when entities operate in a currency other than the functional currency of the entity) exchange rate operating activities. The Group's exposure to foreign currency changes for all other currencies is not material.

The Group manages its foreign currency risk by hedging transactions that are expected to occur within a maximum 18-month period for hedges of forecasted sales and purchases. When a derivative is entered into for the purpose of being a hedge, the Group negotiates the terms of the derivative to match the terms of the hedged exposure. For hedges of forecasted transactions, the derivative covers the period of exposure from the point the cash flows of the transactions are forecasted to settlement of the resulting receivable or payable that is denominated in the foreign currency.

The significant exchange rates that are applicable to these financial statements are listed in the table below:

	December 31, 2023		December 31, 2022		December 31, 2021	
	Average rate	**Year end spot rate**	**Average rate**	**Year end spot rate**	**Average rate**	**Year end spot rate**
CHF	1.1133	1.1864	1.0481	1.0824	1.0940	1.0935
EUR	1.0818	1.1071	1.0545	1.0646	1.1833	1.1314

The following table demonstrates the sensitivity to a reasonable possible change (assessed at 5%) in USD, EUR and CHF exchange rates, with all other variables held constant. The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities. The impact on the Group's pre-tax equity is due to changes in the fair value of forward exchange contracts designated as cash flow hedges. The Group's exposure to foreign currency changes for all other currencies is not material. The impact on the Group's pre-tax equity is not material.

In M USD		2023	2022	2021
Currency	**Change in rate**	**Effect on profit before income taxes**	**Effect on profit before income taxes**	**Effect on profit before income taxes**
USD	5%	6.8	(4.5)	(5.7)
EUR	5%	39.2	(44.5)	(47.3)
CHF	5%	(10.8)	(20.3)	(18.5)
USD	-5%	(6.8)	4.5	5.7
EUR	-5%	(39.2)	44.5	47.3
CHF	-5%	10.8	20.3	18.5

(b) Interest rate risk

The Group's principal interest-bearing liabilities comprise of the loans payable and financial debt in the form of bank borrowings and lease liabilities. As most of these borrowings bear variable interest rates that are based on inter-bank indices, the Group is exposed to cash flow interest rate risk.

The following tables demonstrate the sensitivity to a reasonably possible change in TERM SOFR, SARON and EURIBOR with all other variables held constant. The impact on equity is not material.

In M USD	2023		2022		2021	
Currency	**Change in basis point**	**Effect on profit before income taxes**	**Change in basis point**	**Effect on profit before income taxes**	**Change in basis point**	**Effect on profit before income taxes**
USD	+100	7.7	+100	16.6	+130	(22.7)
EUR	+100	8.2	+100	2.2	+110	(1.2)
CHF	+100	(2.2)	+100	-	+100	-
USD	-100	(15.9)	-100	(47.3)	-130	-
EUR	-100	(8.2)	-100	(8.9)	-110	-
CHF	-100	2.2	-100	-	-100	-

The Group manages its exposure to interest rate risk with interest rate caps and interest rate swaps. These derivative instruments hedge 75% of the Group's long-term borrowings (61% in 2022 and 58% in 2021).

The change in the intrinsic value of the hedging instrument is recognized in the statement of comprehensive income (and then in the cash flow hedge reserve in equity) and released to the statement of profit or loss over the life of the relationship as the interest payments on the underlying hedged loan occur.

The change in the time value of an option that hedges a time-period related hedged item, such as a floating rate debt, is recognized in a separate component of equity to the extent that it relates to the hedged item. The initial time value that exists at the inception of the hedging relationship is amortized to the statement of profit or loss on a systematic and rational basis over the same period over which any intrinsic value of the cap would affect the statement of profit or loss. As the cap and swap hedge interest risk on a time-period related item, the initial time value is amortized over the period for which the interest rate risk is hedged, i.e. here 3 years from the 31st of December 2023 for hedges entered into in 2023. Indeed, this is a forward starting interest rate option and therefore the time-value needs to be amortized over the interest periods that the option covers.

As of December 31, 2023, the fair value of the interest rate caps recorded in derivative assets totaled 8.0 M USD (2022: 19M USD, 2021: 1.1 M USD), attributed to an intrinsic value of 3.2 M USD (2022: 8.4 M USD, 2021: 0.0 M USD) and a time value of 4.4 M USD (2022: 10.6M USD, 2021: 1.4M USD). The change in fair value attributed to the change in intrinsic value amounted to -5.2M USD (2022: 1.7 M USD 2021: 0.0 M USD) and is reported in the cash flow hedge reserve. The change in fair value attributed to the change in time value amounted in -6.1 M USD (2022: -8.1, 2021: 0.7 M USD) and are reported in the cost of hedging reserve. At the inception of these options in 2022, the time value amounted to 18.7 M USD.

The caps and swaps have been designated as hedging instruments in cash flow hedges of variability in interests paid on the facilities that the group has contracted and that are TERM SOFR based. The Group hedged the cash flows related to the interest paid for the first three years in a leveraging strategy.

As the same interest rate basis is used and the timing for interest resets and payments match, there is a clear economic relationship between the hedging instrument and the hedged item. It is assumed that the economic relationship is present throughout the entire designated hedge period.

To comply with the risk management policy, the hedge ratio is based on a 5 B USD equivalent term loan and quarterly interest payments. This debt is offset with interest rate caps and interest rate swaps with the same critical terms. The hedge ratio is therefore 1:1 or 100% (i.e., the notional amount of the hedging instrument equals the designated nominal amount of the hedged transaction).

There are no material sources of ineffectiveness and therefore no ineffectiveness was recognized in the statement of profit or loss. The Group is closely following developments relating to the changeover of reference interest rates and will contact the counterparties in due course to ensure that the changeover can be completed on individual contracts.

(c) Commodity price risk

The Group has limited exposure to price risk related to anticipated purchases of certain commodities used as raw materials by the Group's businesses. A change in those prices may alter the gross margin of a specific business, but generally below the Group's risk management tolerance levels. Accordingly, the Group does not enter into significant commodity futures, forward or option contracts to manage fluctuations in prices of anticipated purchases.

Derivative assets and liabilities and hedge accounting

The Group is exposed to certain risks relating to its ongoing business operations. The primary risks managed using derivative instruments are foreign currency risk and interest rate risk.

The full fair value of hedging derivatives is classified as a non-current asset or liability when the remaining maturity of the hedging instrument is more than 12 months. It is classified as a current asset or liability when the remaining maturity of the hedging instrument is less than 12 months. Trading derivatives are classified as a current asset or liability.

The Group's risk management strategy and how it is applied to manage risk are explained above.

(a) Derivatives not designated as hedging instruments

The Group uses foreign exchange forward contracts to manage some of its transaction exposures. All foreign exchange forward contracts entered into during the year ended December 31, 2023 to hedge forecast sales in foreign currencies other than CHF and forecast purchases in foreign currencies other than CHF are not designated as cash flow hedges. The forward contracts are entered into for periods consistent with foreign currency exposure of the underlying transactions, generally from one to twelve months.

(b) Derivatives designated as hedging instruments

Galderma Holding SA and Sunshine VII have as functional currency USD. In 2019, Sunshine VII issued a debt in EUR and in 2023 a debt in CHF was issued.
Galderma's foreign currency exposure arises from highly probable forecast : when the interest rate in CHF or in EUR have been fixed for a period and that we know settlement denominated in foreign currencies.
Galderma's policy is to hedge most of its material foreign exchange risk associated with highly probable forecast transactions denominated in foreign currencies.

Cash flow hedge is a hedge of the foreign currency risk arising from a highly probable forecast settlement of interest denominated in a currency other than USD. The risk hedged arises when the interest rate has been fixed for EUR or CHF, settlement amount is known in currencies so the hedged risk would be the foreign currency forward risk due to changes in the CHF/USD or EUR/USD exchange rate.

(c) Derivatives by hedged risks:

In M USD	Notional amount < 1 year	Notional amount > 1 year	Total	Fair value asset	Fair value liability	Weighted average rate
Cash flow hedges as at December 31, 2023						
Risk hedged: foreign exchange rate fluctuations						
FX forward contracts - forecast EUR interest payments	29.6		29.6	0.2	-	0.9054
FX forward contracts - forecast CHF interest payments	5.0		5.0	0.1	-	0.8452
Risk hedged: interest rate fluctuations						
Cap to hedge USD variable interest rate @ 4.424%		550.0	550.0	4.0		N/A
Cap to hedge USD variable interest rate @ 4.674%		550.0	550.0	2.7		N/A
Cap to hedge USD variable interest rate @ 4.061%		250.0	250.0	0.9		N/A
Swap to hedge EUR 3.9155%	221.4		221.4	0.0		N/A
Swap to hedge USD 4.045	100.0		100.0	0.7		N/A
Swap to hedge USD 4.275%		625.0	625.0		(2.2)	N/A
Swap to hedge USD 4.3525%		475.0	475.0		(2.9)	N/A
Swap to hedge USD 3.4690%		200.0	200.0		(0.7)	N/A
Swap to hedge USD 3.6625%		300.0	300.0	0.9		N/A
Swap to hedge USD 3.5980%		350.0	350.0		(1.5)	N/A
Cash flow hedges as at December 31, 2022						
Risk hedged: foreign exchange rate fluctuations						
FX forward contracts - forecast sales in USD[1]	9.6	-	9.6	-	(0.2)	1.1040
FX forward contracts - forecast sales in other foreign currencies[1]	18.2	-	18.2	0.8	(0.2)	N/A
FX forward contracts - forecast purchase in EUR[1]	9.9	-	9.9	-	(0.6)	0.9506
FX forward contracts - forecast purchase in EUR	4.6	-	4.6	0.1	-	0.9332
FX forward contracts - forecast EUR interest payments	16.0	-	16.0	0.1	-	1.1040
Risk hedged: interest rate fluctuations						
Caps for USD variable interest rate @ 5.1%	250.0	-	250.0	0.6	-	N/A
Caps for USD variable interest rate @ 5.35%	250.0	-	250.0	0.3	-	N/A
Caps for USD variable interest rate @ 4.424%	-	550.0	550.0	10.0	-	N/A
Caps for USD variable interest rate @ 4.674%	-	550.0	550.0	8.1	-	N/A
Swaps for USD variable interest rate @ 5.1575%	500.0	-	500.0	-	(0.8)	N/A
Swaps for USD variable interest rate @ 4.505%	-	625.0	625.0	-	(4.1)	N/A
Swaps for USD variable interest rate @ 4.5725%	-	475.0	475.0	-	(4.6)	N/A
Cash flow hedges as at December 31, 2021						
Risk hedged: foreign exchange rate fluctuations						
FX forward contracts - forecast sales in USD[1]	128.3	9.7	138.0	0.6	-	1.0975
FX forward contracts – forecast sales in other foreign currencies[1]	137.8	12.6	150.4	2.3	(0.2)	N/A
FX forward contracts – forecast purchase in EUR[1]	59.6	9.3	68.8	-	(1.7)	0.9446
FX forward contracts – forecast purchase in SEK[1]	7.3	-	7.3	-	(0.4)	9.4491
FX forward contracts – forecast purchase in EUR	15.6	-	15.6	-	(0.3)	0.8600
FX forward contracts – forecast EUR interest payments	25.5	-	25.5	-	(0.6)	0.8593
Risk hedged: interest rate fluctuations						
Caps for USD variable interest rate @ 0.75%	-	425.0	425.0	0.3	-	N/A
Caps for USD variable interest rate @ 1%	-	1,600.0	1,600.0	0.7	-	N/A
Caps for USD variable interest rate @ 2%	-	1,050.0	1,050.0	0.1	-	N/A

[1] *These hedging instruments were purchased against CHF.*

The impact of the hedging instruments on the balance sheet is as follows:

In M USD		December 31, 2023		December 31, 2022		December 31, 2021	
		Carrying amount	Change in fair value used for measuring ineffectiveness	Carrying amount	Change in fair value used for measuring ineffectiveness	Carrying amount	Change in fair value used for measuring ineffectiveness
FX forwards	Derivative assets	0.3	0.3	0.8	0.8	2.9	2.9
FX forwards	Derivative liabilities	(0.0)	(0.0)	(1.1)	(1.1)	(3.3)	(3.3)
Caps	Derivative assets	7.7	7.7	19.0	19.0	1.1	1.1
Swaps	Derivative assets	1.6	1.6	-	-	-	-
Swaps	Derivative liabilities	(7.2)	(7.2)	(9.5)	(9.5)	-	-
Total		**2.4**	**2.4**	**9.2**	**9.2**	**0.7**	**0.7**

The impact of the hedged items on the balance sheet is as follows:

In M USD	December 31, 2023		December 31, 2022		December 31, 2021	
	Cash flow hedge reserve	Change in fair value used for measuring ineffectiveness	Cash flow hedge reserve	Change in fair value used for measuring ineffectiveness	Cash flow hedge reserve	Change in fair value used for measuring ineffectiveness
FX forwards	(0.3)	(0.3)	(0.2)	(0.2)	1.3	1.3
Caps	9.4	2.9	6.4	6.4	(25.9)	(25.9)
Swaps	5.6	(4.0)	9.5	9.5	-	-

Some derivatives have been rolled forward to match the related exposure and therefore were not materialized in a derivative asset or liability.

The effect of the cash flow hedge in the statement of profit or loss and comprehensive income (OCI) is as follows:

In M USD		December 31, 2023		December 31, 2022		December 31, 2021	
		Total hedging gain/(loss) recognized in OCI	*Of which: Reclassified from OCI to profit or loss*	Total hedging gain/(loss) recognized in OCI	*Of which: Reclassified from OCI to profit or loss*	Total hedging gain/(loss) recognized in OCI	*Of which: Reclassified from OCI to profit or loss*
FX forwards	Financial income / expense	(0.2)	1.5	1.5	11.6	0.3	4.0
Caps	Financial income / expense	2.9	7.2	19.5	27.1	4.8	4.0
Swaps	Financial income / expense	(4.0)	8.3	(9.5)	-	-	-
Total		**(1.2)**	**17.0**	**11.4**	**38.7**	**5.0**	**8.0**

16. Share based payment plans

Management implemented a value creation bonus plan (VCB) and an equity participation plan. Please see below the key features and accounting treatment for each plan.

16.1 Value creation bonus plan (VCB)

Overview

The VCB plan is a long-term plan open to selected management employees of the Group and aims to incentivize participants to maximize shareholder value. As such the scheme's primary value driver is the "Cash on cash" (the CoC) return realized by the EQT consortium. The CoC represents the total value of investments divided by total cost of investments for the EQT consortium. This plan is accounted for as cash settled share-based payment plan and will be paid in cash.

The Group measures the services rendered by the plan participants and the liability incurred at the fair value of the liability. The expense is straight lined over the service period.

The fair value of the liability is determined based on the present value of the payment in cash due to employees at the exit date (being defined as the sale or partial sale of the Group) and calculated using the following inputs:

- Cash on Cash between 2.0-2.6 (2.0-2.8 at the end of 2022, and 2.2-3.0 at the end of 2021)
- A 5-year service period from 1 January 2020
- All awards granted will vest

Expense recognized in the consolidated statement of profit or loss

During the year ended December 31, 2023 the Group recorded an expense within operating profit of 28.0 M USD and financial income of 32.0 M USD for the change in fair value and a corresponding liability of 99.6 M USD in relation to the VCB plan. The change in fair value is mainly driven by management's assumption to the range of the cash on cash ratio.

During the year ended December 31, 2022 the Group recorded an expense within operating profit of 25.0 M USD and financial income of 13.0 M USD for the change in fair value and a corresponding liability of 110.6 M USD in relation to the VCB plan. The change in fair value is mainly driven by management's assumption to the range of the cash on cash ratio.

During the year ended December 31, 2021 the Group recorded an expense within operating profit of 19.5 M USD and financial expenses of 73.0 M USD for the change in fair value and a corresponding liability of 102.3 M USD in relation to the VCB plan. The change in fair value is mainly driven by management's assumption to the range of the cash on cash ratio.

16.2 Management equity participation plan

The equity participation plan was put in place in order to enable the top management of the Galderma Group to be exposed to the long-term financial success of the company through a direct financial investment in Sunshine Luxembourg III S.a.r.l. (Sunshine III) who controls 100% of the equity of Sunshine Luxembourg VII SARL. The Management Participation Plan (MPP) is accounted for as an equity settled share-based payment plan terminating at the exit date (full or partial sale of the Group). The key features of the plan are as follows:

- There is no minimum period that a participant must remain in employment with the Group before benefiting from the shares under the plan, as a result the awards are considered fully vested immediately upon grant.
- After evaluation of the relevant factors this plan was not considered to be compensatory as participants pay a price for their award which is equal to or higher than the fair value of the instruments received. As a result, grant date fair value of the instruments is considered nil and no expense is required to be recognized in these financial statements.

The MPP includes 50,000,000 shares. As of December 2023, 42,972,952 (2022, 40,771,636 shares and 2021: 41,847,508 shares) have been allocated. The pool of unallocated shares will be warehoused. The shares in this pool will be available to be issued to future participants. In case a participant leaves the plan, his/her shares will be transferred back to this pool of unallocated shares.

17. Employee benefits

17.1 Employee remuneration and employee headcount

The Group's salaries of 677.3 M USD (676.3 M USD in 2022 and 644.5 M USD in 2021) and welfare expenses of 150.4 M USD (175.5 M USD in 2022 and 246.8 M USD in 2021) represent a total of 827.7 M USD (851.8 M USD in 2022 and 891.3 M USD in 2021). Employee remuneration is allocated to the appropriate headings of expenses by function.

At December 31, 2023, the Group had a total of 6,545 full-time equivalent employees (6.355 in 2022 and 5,675 in 2021), categorized as follows:

	December 31, 2023	December 31, 2022	December 31, 2021
Productions (cost of goods sold)	1,217	1,217	1,102
General and administrative	1,106	1,090	882
Sales and marketing	3,223	3,091	2,771
Distribution	390	370	374
Medical and regulatory	378	338	308
Research & development	231	249	238
Total full-time equivalent employees	**6,545**	**6,355**	**5,675**

17.2 Employee benefits

In M USD	December 31, 2023			December 31, 2022			December 31, 2021		
	Current	Non-current	Total	Current	Non-current	Total	Current	Non-current	Total
Short-term benefits	126.6	-	126.6	127.2	-	**127.2**	138.7	-	**138.7**
Defined benefit retirement plans, net	-	94.8	94.8	-	65.1	**65.1**	-	102.5	**102.5**
Post-employment medical benefits	-	25.9	25.9	-	22.8	**22.8**	-	29.0	**29.0**
Deferred compensation	-	100.1	100.1	-	110.6	**110.6**	-	105.4	**105.4**
Net employee benefit liabilities	**126.6**	**220.8**	**347.4**	**127.2**	**198.5**	**325.7**	**138.7**	**236.9**	**375.6**

17.3 Post-employment benefits

Pensions and retirement benefits

Apart from legally required social security arrangements, most of the Group employees are eligible for benefits through pension plans in case of retirement, death in service, disability and in case of resignation. Those plans are either defined contribution plans or defined benefit plans based on pensionable remuneration and length of service. All pension plans comply with local tax and legal restrictions in their respective country, including funding obligations.

The major plans, classified as defined benefit plans under IAS 19, are in Switzerland, Germany, the UK and USA. In accordance with applicable legal frameworks, these plans have Boards of Trustees or General Assemblies which are generally independent from the Group and are responsible for the management and governance of the plans.

Post-employment medical benefits and other employee benefits

The Group, principally in the USA, maintains medical benefit plans, which are classified as defined benefit plans under IAS 19 and cover eligible retired employees. Other employee benefit obligations consist mainly of long-term incentive plans.

Risks related to defined benefit plans

The main risks to which the Group is exposed in relation to operating defined benefit plans are:

Mortality risk: the assumptions adopted by the Group make allowance for future improvements in life expectancy. However, if life expectancy improves at a faster rate than assumed, this would result in greater payments from the plans and consequently increases in the plans' liabilities. In order to minimize this risk, mortality assumptions are reviewed on a regular basis.

Market and liquidity risks: these are the risks that the investments do not meet the expected returns. This also encompasses the mismatch between assets and liabilities. In order to minimize the risks, the structure of the portfolios is reviewed and asset-liability matching analyses are performed on a regular basis.

These risks are mitigated as certain of the Group's pension arrangements permit benefits to be adjusted in the case that downside risks emerge.

Plan amendments and restructuring events

Plans within the Group are regularly reviewed as to whether they are aligned with market practice in the local context. Should a review indicate that a plan needs to be changed, prior agreement with the local Board of Trustees or the General Assembly, the regulator and, if applicable, the members, is sought before implementing plan changes.

Asset-liability management and funding arrangement

Plan trustees or General Assemblies are responsible for determining the mix of asset classes and target allocations of the Group's plans with the support of investment advisors. Periodic reviews of the asset mix are made by mandating external consultants to perform asset liability matching analyses. Such analyses aim at comparing dynamically the fair value of assets and the liabilities in order to determine the most adequate strategic asset allocation.

The overall investment policy and strategy for the Group's funded defined benefit plans is guided by the objective of achieving an investment return which, together with the contributions paid, is sufficient to maintain reasonable control over the various funding risks of the plans. As those risks evolve with the development of capital markets and asset management activities, the Group addresses the assessment and control process of the major investment pension risks. In order to protect the Group's defined benefit plans funding ratio and to mitigate the financial risks, protective measures on the investment strategies are in force. To the extent possible, the risks are shared equally amongst the different stakeholders.

Reconciliation of assets and liabilities recognized in the balance sheet

In M USD	**December 31, 2023**	**December 31, 2022**	**December 31, 2021**
Present value of funded obligations	249.2	237.8	268.4
Fair value of plan assets	(210.2)	(226.0)	(230.6)
Excess of liabilities/(assets) over funded obligations	**39.0**	**11.8**	**37.8**
Present value of unfunded obligations	**81.7**	**76.1**	**93.7**
Present value of unfunded obligations – defined benefit retirement plans	55.8	53.3	64.7
Present value of unfunded obligations – post-employment medical	25.9	22.8	29.0
Net defined benefit liabilities/(assets)	**120.7**	**87.9**	**131.5**
Other employee benefit liabilities[1]	100.1	110.6	105.4
Net non-current liabilities	**220.8**	**198.5**	**236.9**
Reflected in the balance sheet as follows:			
Net non-current liabilities	**220.8**	**198.5**	**236.9**
Employee benefit assets	(0.3)	(0.5)	(7.3)
Employee benefit liabilities	221.1	199.0	244.2

[1] Other employee benefit liabilities are primarily comprised of the Value Creation Bonus. Refer to Note 16.1.

Funding situation of defined benefit plans by country

In M USD	**Switzerland**	**USA**	**Germany**	**UK**	**Other[1]**	**Total**
As at December 31, 2021						
Present value of funded obligations	226.3	-	-	30.8	11.3	268.4
Fair value of plan assets	(186.8)	-	-	(38.1)	(5.7)	(230.6)
Excess of liabilities/(assets) of funded obligations	**39.6**	**-**	**-**	**(7.3)**	**5.6**	**37.8**
Present value of unfunded obligations	**13.2**	**36.9**	**34.1**	**-**	**9.5**	**93.7**
As at December 31, 2022						
Present value of funded obligations	213.8	-	-	16.8	7.2	**237.8**
Fair value of plan assets	(203.8)	-	-	(17.3)	(4.9)	**(226.0)**
Excess of liabilities/(assets) of funded obligations	**10.0**	**-**	**-**	**(0.5)**	**2.3**	**11.8**
Present value of unfunded obligations	**10.9**	**29.2**	**26.6**	**-**	**9.4**	**76.1**
As at December 31, 2023						
Present value of funded obligations	224.7	-	-	17.5	7.0	**249.2**
Fair value of plan assets	(187.4)	-	-	(17.8)	(5.0)	**(210.2)**
Excess of liabilities/(assets) of funded obligations	**37.3**	**-**	**-**	**(0.3)**	**2.0**	**39.0**
Present value of unfunded obligations	**11.8**	**31.6**	**27.0**	**-**	**11.3**	**81.7**

[1] Consists of countries that have plans of which its net funded and unfunded obligations are individually below 5 M USD.

Movement in the present value of defined benefit obligations

In M USD	2023	2022	2021
As at January 1	**313.9**	**362.1**	**385.1**
of which funded defined benefit plans	*237.8*	*268.4*	*270.5*
of which unfunded defined benefit plans	*76.1*	*93.7*	*114.6*
Currency retranslations	25.2	(8.7)	(15.9)
Service cost	18.8	21.8	25.0
of which current service cost	*20.9*	*25.5*	*24.5*
of which past service cost	*(2.1)*	*(3.7)*	*0.5*
Actual plan participants' contributions	8.8	8.9	8.3
Interest expense	8.4	3.8	2.4
Actuarial (gains)/losses	17.7	(71.2)	(23.1)
Benefits paid on funded defined benefit plans	(56.1)	2.5	(12.6)
Benefits paid on unfunded defined benefit plans	(5.8)	(5.3)	(7.1)
As at December 31	**330.9**	**313.9**	**362.1**
of which funded defined benefit plans	*249.2*	*237.8*	*268.4*
of which unfunded defined benefit plans	*81.7*	*76.1*	*93.7*

Movement in fair value of defined benefit plan assets

In M USD	2023	2022	2021
As at January 1	**226.0**	**230.6**	**215.6**
Currency retranslations	18.5	(6.2)	(8.5)
Interest income	5.0	1.3	0.6
Return on plan assets, excluding interest income	(14.3)	(24.8)	8.5
Employer contributions	23.2	14.5	14.5
Employee contributions	8.7	8.9	8.3
Benefits paid on funded defined benefit plans	(56.9)	1.7	(13.4)
Other restructuring events	-	-	5.0
As at December 31	**210.2**	**226.0**	**230.6**

Plan asset allocation

The major categories of plan assets as a percentage of total plan assets of the Group's defined benefit plans are summarized in the table below.

In M USD	December 31, 2023	December 31, 2022	December 31, 2021
Equity securities	26%	30%	34%
Debt securities	12%	16%	20%
Real estate	29%	31%	24%
Cash and cash equivalents	8%	8%	9%
Alternative investments	17%	15%	13%
Buy-in policy	8%	-	-

Expenses recognized in the statement of profit or loss

In M USD	**Year ended December 31, 2023**	**Year ended December 31, 2022**	**Year ended December 31, 2021**
Service cost	(18.8)	(21.8)	(25.0)
Net interest expense	(3.4)	(2.5)	(1.8)
Other restructuring events	-	-	-
Defined benefit expenses from continuing operations	**(22.2)**	**(24.3)**	**(26.8)**
Defined contribution expenses from continuing operations	**(18.4)**	**(41.9)**	**(32.1)**
Total	**(40.6)**	**(66.2)**	**(58.9)**

The expenses for defined benefit and defined contribution plans are allocated to the appropriate headings of expense by function. The Group expects to pay 17.5 M USD in contributions to its defined benefit plans in the next reporting period.

Remeasurement of defined benefit plans reported in other comprehensive income

In M USD	**Year ended December 31, 2023**	**Year ended December 31, 2022**	**Year ended December 31, 2021**
Return on plan assets, excluding interest income	14.3	24.8	(8.5)
Experience adjustments on defined benefit liabilities	(5.7)	5.4	(3.9)
Change in demographic assumptions on defined benefit liabilities	(0.7)	10.6	(3.9)
Change in financial assumptions on defined benefit liabilities	24.1	(87.2)	(15.3)
Effects of movements in exchange rates	(6.7)	2.5	7.4
Net defined benefit (income) / loss	**25.3**	**(43.9)**	**(24.2)**

Principal financial actuarial assumptions

The following table shows the principal weighted average actuarial assumptions used for calculating defined pension plans.

In percentage	**December 31, 2023**	**December 31, 2022**	**December 31, 2021**
Discount rates	2.3%	2.9%	0.9%
Expected rates of salary increases	1.7%	1.7%	1.7%
Expected rates of pension adjustments	0.4%	0.4%	0.5%
Medical cost trend rates	5.0%	5.0%	5.0%

The following table gives the present value of the defined benefit obligations when major assumptions are changed. The sensitivity analyses are based on a change in one assumption while holding all other assumptions constant. In practice, this is unlikely to occur as changes in some of the assumptions may be correlated.

In M USD	**December 31, 2023**	**December 31, 2022**	**December 31, 2021**
Present value of the defined benefit obligations	**330.9**	**313.9**	**362.1**
Discount rates			
Increase of 50 basis points	309.0	296.0	338.3
Decrease of 50 basis points	355.7	333.8	389.2
Expected rates of salary increases			
Increase of 50 basis points	333.6	315.8	364.2
Decrease of 50 basis points	328.4	311.9	360.4
Expected rates of pension adjustments			
Increase of 50 basis points	343.9	323.5	375.4
Decrease of 50 basis points	327.6	311.1	357.4
Mortality assumption			
Increase by 1 year	325.0	308.9	354.5
Decrease by 1 year	337.5	318.7	369.8
Medical cost trend rates			
Increase of 50 basis points	331.3	314.2	362.7
Decrease of 50 basis points	330.3	313.2	361.3

The weighted average duration of the DBO is 13.3 years as of December 31, 2023 (2022: 13.9 years and 2021: 15.9 years). The mortality tables used and the life expectancies for the major defined benefit pension plans are summarized in the table below.

		Life expectancy expressed in years	
Country	**Mortality Table**	**At age 65 for a male currently aged 65**	**At age 65 for a female currently aged 65**
As at December 31, 2023			
Switzerland	BVG 2020 (CMI2019 LTR=1.25%)	21.8	23.5
Germany	Heubeck Richttafeln 2018	20.8	24.2
UK	101% S3PMA ”Middle” tables (CMI 2022) / 104% S3PFA “All lives ”	21.0	23.8
USA	MP-2021	20.7	22.7
As at December 31, 2022			
Switzerland	BVG 2020 (CMI2019 LTR=1.25%)	21.7	23.5
Germany	Heubeck Richttafeln 2018	21.1	24.5
UK	100% S3PMA “Middle” tables (CMI 2021) / 100% S3PFA “All lives”	21.0	24.1
USA	MP-2021	20.7	22.6
As at December 31, 2021			
Switzerland	BVG 2020 (CMI2019 LTR=1.25%)	21.7	23.4
Germany	Heubeck Richttafeln 2018	21.0	24.4
UK	100% S3PMA “Middle” tables (CMI 2020) / 100% S3PFA “All lives”	21.0	24.3
USA	MP-2021	20.6	22.6

Life expectancy is reflected in the defined benefit obligations by using the best estimate of the mortality of plan members. When appropriate, base mortality tables are adjusted to take into consideration expected changes in mortality by e.g., allowing for future longevity improvements.

18. Taxes

18.1 Taxes recognized in the statement of profit or loss

In M USD	**Year ended December 31, 2023**	**Year ended December 31, 2022**	**Year ended December 31, 2021**
Components of taxes			
Current taxes, current year	(77.5)	(93.5)	(63.9)
Current taxes, prior year	17.4	0.9	(6.5)
Deferred taxes	(3.2)	40.6	61.6
Taxes reclassified to other comprehensive income	(4.8)	7.0	4.2
Total income taxes from continuing operations	**(68.1)**	**(45.0)**	**(4.6)**

Reconciliation of taxes from continuing operations

In M USD, respectively in percentage	**Year ended December 31, 2023**		**Year ended December 31, 2022**		**Year ended December 31, 2021**	
Expected tax at statutory tax rate(1)	(1.4)	13.0%	6.7	13.0%	11.1	14.0%
Tax effect of non-deductible or non-taxable items	(130.3)	1,184.4%	(13.4)	(25.8%)	24.5	31.0%
Prior years' taxes	(1.2)	10.9%	4.8	9.2%	(2.5)	(3.2%)
Transfer from unrecognized deferred tax assets	93.7	(851.8%)	8.4	16.2%	23.5	29.7%
Transfer to unrecognized deferred tax assets	(1.2)	10.9%	(27.1)	(52.2%)	(53.9)	(68.2%)
Changes in tax rates	(6.4)	58.2%	(0.1)	(0.2%)	29.7	37.5%
Difference in tax rates	(15.5)	140.8%	(21.6)	(41.6%)	(35.5)	(44.8%)
Withholding taxes levied on transfers of income	(5.8)	52.7%	(2.7)	(5.2%)	(1.4)	(1.7%)
Total income taxes from continuing operations	**(68.1)**	**619.1%**	**(45.0)**	**(86.7%)**	**(4.6)**	**(5.8%)**

(1) The Group operates in several different tax jurisdictions and as a result, management has decided to use as the Group's statutory tax rate 13% in 2023 (13% in 2022, 14% in 2021), which reflects the rate applicable to the main Swiss-based operating companies.

The 2023 effective tax rate was negatively impacted by the permanent tax effect from the taxable reversal of an impairment of investments in subsidiaries following a merger of two Swiss entities, which was partially offset by the favorable impact from the recognition of deferred tax assets on previously unrecognized tax loss carryforwards while maintaining a similar level of deferred tax assets as in the prior period. The 2022 effective tax rate was negatively impacted by the non-recognition of tax losses carryforwards and the difference in tax rates. The 2021 effective tax rate was negatively impacted by the non-recognition of tax losses carryforwards and the difference in tax rates, which was partially offset by the benefit from impairment of investments in subsidiaries and a decrease of deferred tax rates.

18.2 Reconciliation of deferred taxes recognized on the balance sheet

In M USD	December 31, 2023	December 31, 2022	December 31, 2021
Deferred tax assets	235.3	235.2	266.8
Deferred tax liabilities	(430.9)	(432.0)	(518.5)
Net deferred tax liabilities	**(195.6)**	**(196.8)**	**(251.7)**

In M USD	Property, Plant and equipment	Intangible assets	Employee benefits	Inventories, receivables, payables and provisions	Unused tax losses and unused tax credits (2)	Other	Total
As at December 31, 2020	**(15.9)**	**(536.3)**	**29.0**	**99.6**	**181.7**	**(10.6)**	**(252.5)**
Currency retranslations	0.9	3.4	(1.1)	(1.2)	(4.4)	4.7	**2.3**
Deferred tax (expense)/income	2.6	43.2	(7.6)	21.5	(0.1)	6.2	**65.8**
Other movements	(0.8)	(56.5)	(0.3)	(6.4)	-	(3.3)	**(67.3)**
As at December 31, 2021	**(13.2)**	**(546.2)**	**20.0**	**113.5**	**177.2**	**(3.0)**	**(251.7)**
Currency retranslations	1.2	2.2	(0.5)	(1.1)	(1.3)	(4.0)	**(3.5)**
Deferred tax (expense)/income	1.9	9.6	(5.0)	34.3	(2.0)	8.8	**47.6**
Other movements	0.2	0.2	(0.7)	2.9	10.1	(1.9)	**10.8**
As at December 31, 2022	**(9.9)**	**(534.2)**	**13.8**	**149.6**	**184.0**	**(0.1)**	**(196.8)**
Currency retranslations	(0.8)	(1.0)	0.6	0.3	7.3	-	**6.4**
Deferred tax (expense)/income	(22.6)	8.2	0.9	10.3	(4.9)	0.1	**(8.0)**
Other movements	(0.3)	-	5.1	(3.8)	1.8	-	**2.8**
As at December 31, 2023	**(33.6)**	**(527.0)**	**20.4**	**156.4**	**188.2**	**-**	**(195.6)**

(2) Management has analyzed estimated future taxable profits and considers it probable that future taxable profit will be available in the next five years against which these losses can be recognized.

18.3 Unrecognized losses

The unused tax losses and tax credits for which no deferred tax assets are recognized expire as follows:

In M USD	December 31, 2023	December 31, 2022	December 31, 2021
Within one year	363.3	132.4	20.0
Between two and five years	890.2	1,337.2	365.4
More than five years[1]	74.0	395.0	742.0
Total unrecognized losses	**1,327.5**	**1,864.6**	**1,127.4**

[1]*Including unrecognized losses which expire within 14 years*

In 2023, the Group used previously unrecognized losses as a result of an intragroup corporate reorganization involving an Alchemee entity which had not been disposed.

Following the disposal event of certain Alchemee entities (refer to Note 4), the total unrecognized losses for the year ended December 31, 2022 include the unrecognized losses for one Alchemee entity which qualified as discontinued operations in 2021 but which has not been disposed. This had no material impact on the discontinued operation result.

The total unrecognized losses for the year ended December 31, 2021 do not include the unrecognized losses for discontinued operations, which amounted to 887.4 M USD.

18.4 Unremitted earnings

Deferred tax liabilities have not been recognized for withholding tax and other taxes that would be payable on the remittance of earnings of subsidiaries, where such amounts are currently regarded as permanently reinvested. The total unremitted earnings of the Group amounted to 1,991.5 M USD as at December 31, 2023 (1,931.8 M USD in 2022, 1,747.6 M USD in 2021).

18.5 Uncertain tax positions

Current income tax liabilities include provisions for uncertain tax positions in several tax jurisdictions which are individually not material.

18.6 Global minimum top-up tax

In October 2021, over 135 jurisdictions in the Organization for Economic Co-operation and Development (OECD)/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) reached a landmark agreement on international tax reform and agreed to a two-pillar solution to address the tax challenges arising from the digitization of the economy. Pillar Two of the solution contains rules aimed at reducing opportunities for base erosion and profit shifting by requiring that applicable multinational corporations pay a minimum effective corporation tax rate of 15%.

The Group has adopted International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12) upon their release on 23 May 2023. The amendments provide a temporary mandatory exception from deferred tax accounting for the top-up tax, which is effective immediately, and require new disclosures about Pillar Two exposure. Pillar Two legislation has been enacted or substantively enacted in certain jurisdictions the Group operates in, specifically in Switzerland, the jurisdiction of Galderma's headquarters, and came into effect from 1 January 2024. The Group ultimately expects to be subject to the top-up tax in relation to its operations in Ireland, Switzerland and the United Arab Emirates but does not anticipate that these will have a material impact on the Group's overall tax position.

The mandatory exception applies retrospectively. However, because no new legislation to implement the top-up tax was enacted or substantively enacted at 31 December 2022 in any jurisdiction in which the Group operates and no related deferred tax was recognized at that date, the retrospective application has no impact on the Group's consolidated financial statements. Since the Pillar Two legislation was not effective at the reporting date, the Group also has no related current income tax expenses for the year ended 31 December 2023.

19. Commitments and contingencies

19.1 Commitments

The Group's committed payments (undiscounted and not risk-adjusted) and their estimated timing are summarized in the following table.

In M USD	Less than one year	One to two years	Two to three years	Over three years	Total
Acquisition of intangible assets - conditional commitments	130.5	24.8	-	-	155.3
Other unconditional commitments	1.5	1.5	1.5	1.5	6.0
Capital commitments for property, plant and equipment	60.0	7.6	-	-	67.6
As at December 31, 2023	**192.0**	**33.9**	**1.5**	**1.5**	**228.9**
Acquisition of intangible assets - conditional commitments	57.6	71.8	23.1	6.5	159.1
Other unconditional commitments	6.8	-	-	-	6.8
Capital commitments for property, plant and equipment	76.8	32.8	-	-	109.6
As at December 31, 2022	**141.2**	**104.6**	**23.1**	**6.5**	**275.5**
Acquisition of intangible assets - conditional commitments	13.4	61.2	68.1	38.9	181.5
Other unconditional commitments	18.6	7.2	-	-	25.8
Capital commitments for property, plant and equipment	19.6	-	-	-	19.6
Lease commitments for leases not commenced at year-end	2.0	2.6	2.6	25.4	32.6
As at December 31, 2021	**53.6**	**71.0**	**70.7**	**64.3**	**259.6**

The Group entered into long-term agreements to in-license or acquire intellectual property or operating rights from some third parties or related parties, notably for Nemolizumab which accounted for the all the conditional commitments to acquire intangible assets as at December 31, 2023.

In 2018, the Group entered into a long-term agreement with a contract research organization guaranteeing a certain level of minimum spend until the end of 2023, that is notably supporting the Nemolizumab development.

The capital commitments for property, plant and equipment mainly relate to the expansion of its Injectable Aesthetics factory in Uppsala, Sweden announced in the final quarter of 2022.

In 2021, the Group entered future obligations under non-cancellable lease contracts for office rents which had not been recognized yet. There were no unrecognized lease commitments for the years ended 2023 and 2022.

The Group provides a parent guarantee from Sunshine Luxembourg VII SARL for certain bank facilities worldwide which is capped at USD 37.0 M USD (37.0 M USD in 2022 and 20.0 M USD in 2021) and other bank guarantees not recognized on the balance sheet of USD 46.0 M USD (40.7 million in 2022 and 30.8 M USD in 2021).

19.2 Contingencies

As at December 31, 2023, 2022 and 2021, the Group had no material contingent assets.

The group is exposed to certain commercial, other taxes and employee matters totaling approximately 90 M USD (72 M USD in 2022, 30 M USD in 2021) of contingent liabilities. Part of these contingent liabilities relate to tax authority assessments on non-income taxes totaling 72 M USD as at December 2023 (55 M USD for 2022 and without equivalent in 2021). The Group has assessed the merits of the tax assessments and determined that it has complied with applicable tax laws and regulations and is challenging the assessments.

There were no other material developments in legal, commercial and employee matters as of December 31, 2023, December 31, 2022 and December 31, 2021.

20. Hyperinflation economies

The 2023, 2022 and 2021 figures include Argentina, considered as hyperinflation economy. There was no material impact from hyperinflation in the presented periods.

21. Events after the balance sheet date

Filing of Nemolizumab

On February 14, 2024, the Group announced the successful filing approval for the regulatory submission of nemolizumab, a biologic for the treatment adult patients with moderate to severe prurigo nodularis and adolescent and adult patients with moderate to severe atopic dermatitis. Per the in-licensing agreement between the Group and Chugai, a milestone payment of 50.0 M CHF (59.3 M USD) has become payable. This milestone will be recorded as an intangible asset in 2024. As at December 31, 2023, this milestone was reported as off-balance sheet commitment.

22. Equity

22.1 Share capital and share premium

Following the capital increase in 2023, the corporate capital of the Company now totals 6,274,681.39 USD which is represented by 6,188,879,332 shares without nominal value. The shares have been fully paid. For 2022 and 2021 the corporate capital of the Company was fixed at 5,261,906.39 USD which was represented by 5,187,707,906 shares without nominal value.

As at December 31, 2023, the share premium of the Company amounted to 6,253.0 M USD (2022 5,242.6 M USD and 2021: 5,242.6 M USD).

22.2 Other reserves and legal reserve

Other reserves include accumulated actuarial gains and losses net of taxes.

In accordance with the company law applicable to its annual accounts, the Company is required to transfer a minimum of 5% of its net profit for each financial year to a legal reserve. This requirement ceases to be necessary once the balance on the legal reserve reaches 10% of the issued share capital. The legal reserve is not available for distribution to the shareholders.

22.3 Translation and Hedging reserves

The translation reserve includes all foreign currency differences arising from the translation of financial statements of foreign operations. The hedging reserve includes the cash flow hedge reserve and the costs of hedging reserve.

23. Non-controlling interests

The Group has no non-controlling interests as at December 31, 2023.

The Group had a non-controlling interest with respect to the Alchemee entities until March 12, 2021 when the Group acquired the remaining 25% of minority interest. On February 28, 2022, Galderma sold its interests in Alchemee. Refer to Note 4 Discontinued operations.

24. Companies of the Group

As of 31 December 2023, the primary subsidiaries within the group are detailed below. Unless indicated otherwise, these entities' share capital comprises exclusively ordinary shares, which are directly owned by the group. The percentage of ownership interests is directly proportional to the voting rights possessed by the group. Furthermore, the country of incorporation or registration for these subsidiaries also serves as their main place of business.

Country	**Entity name**	**Operating Purpose**	**Voting rights**		
			2023	**2022**	**2021**
Luxembourg	Sunshine Luxembourg VII SARL	Parent company	-	-	-
Argentina	Galderma Argentina SA	Operating company	100%	100%	100%
Australia	Galderma Australia Pty Ltd	Operating company	100%	100%	100%
Austria	Galderma Austria GmbH	Operating company	100%	100%	100%
Brazil	Galderma Brasil Ltda	Operating company	100%	100%	100%
	Galderma Distribuidora do Brasil Ltda.	Operating company	100%	100%	100%
Canada	G. Production Inc.	Operating company	100%	100%	100%
	Galderma Canada Inc.	Operating company	100%	100%	100%
Chile	Galderma Chile Laboratorios Ltda	Operating company	100%	100%	100%
China	Q-Med International Trading (Shanghai) Co Ltd	Operating company	100%	100%	100%
Colombia	Galderma de Colombia SA	Operating company	100%	100%	100%
France	Galderma International SAS	Operating company	100%	100%	100%
	Galderma R&D SNC	Operating company	100%	100%	100%
	Galderma SAS	Operating company	100%	100%	100%
	Laboratoires Galderma SAS	Operating company	100%	100%	100%
Germany	Galderma Laboratorium GmbH	Operating company	100%	100%	100%
Hong Kong	Galderma Hong Kong Ltd	Operating company	100%	100%	100%
India	Galderma India Private Ltd	Operating company	100%	100%	100%
Indonesia	PT Galderma Indonesia Healthcare	Operating company	100%	100%	100%
Italy	Galderma Italia Spa	Operating company	100%	100%	100%
Japan	Galderma K.K.	Operating company	100%	100%	100%
Malaysia	Galderma Malaysia Sdn. Bhd.	Operating company	100%	100%	100%
Mexico	Galderma Mexico SA de CV	Operating company	100%	100%	100%
Netherlands	Galderma Benelux B.V.	Operating company	100%	100%	100%
	Galderma Finance Europe BV	Financing company	100%	100%	N/A
Philippines	Galderma Philipines, Inc.	Operating company	100%	100%	100%
Poland	Galderma Polska Sp. ZOO	Operating company	100%	100%	100%
Russia	OOO Galderma	Operating company	100%	100%	100%
Singapore	Galderma Singapore Private Ltd	Operating company	100%	100%	100%
	Galderma Production Singapore Pte. Ltd	Operating company	100%	100%	N/A
South Africa	Galderma Laboratories South Africa (PTY) Ltd	Operating company	100%	100%	100%
South Korea	Galderma Korea Ltd	Operating company	100%	100%	100%
Spain	Laboratorios Galderma SA	Operating company	100%	100%	100%
	Galderma Services Spain	Operating company	100%	100%	N/A
Sweden	Galderma Nordic AB	Operating company	100%	100%	100%
	Q-MED AB	Operating company	100%	100%	100%
Switzerland	Galderma Group AG	Holding company	100%	100%	N/A
	Galderma Holding SA	Holding company	100%	100%	100%
	Galderma Pharma SA	Holding company	100%	100%	100%
	Galderma SA	Operating company	100%	100%	100%
	Sunshine SwissCo AG	Holding company	100%	100%	100%
	Galderma II Sàrl (fka The Proactiv Company Sàrl)	Operating company	-	100%	100%
Thailand	Galderma (Thailand) Limited	Operating company	100%	100%	100%
United Arab Emirates	Galderma Middle East FZ LLC	Operating company	100%	100%	100%
United Kingdom	Galderma (U.K.) Limited	Operating company	100%	100%	100%
United States	Galderma Laboratories LP	Operating company	100%	100%	100%
	Galderma Research & Development LLC	Operating company	100%	100%	100%
	SHDS, Inc.	Operating company	100%	100%	100%
	Galderma Services Inc.	Operating company	100%	100%	100%
	Alastin Skincare, Inc.	Operating company	100%	100%	100%
Vietnam	Galderma Vietnam Company Limited	Operating company	100%	100%	100%

Acquisitions, creations and liquidations

Year	Entity name	Country	Status
2023	Galderma II Sàrl (fka The Proactiv Company Sàrl)	Switzerland	Merged
2022	The Proactiv Company Corporation	Canada	Disposed
	Proactiv YK	Japan	Disposed
	The Proactiv Company KK	Japan	Disposed
	Galderma Holdings Inc	United States	Disposed
	Alchemee LLC	United States	Disposed
	Galderma Finance Europe BV	Netherlands	New incorporation
	Galderma Production Singapore Pte. Ltd	Singapore	New incorporation
	Galderma Services Spain	Spain	New incorporation
	Galderma Group AG	Switzerland	New incorporation
2021	Alastin Skincare, Inc.	United States	Acquisition
	Galderma Middle East FZ LLC	United Arab Emirates	New incorporation
	Galderma Uruguay S.A.	Uruguay	Liquidated
	Proactiv Skin Health GmbH	Germany	Liquidated
	Proactiv Skin Health Holding Europe AB	Sweden	Liquidated
	Proactiv Skin Health PTY LTD	Australia	Liquidated
	Lieberman Productions, LLC	United States	Merged
	Production Squared LLC	United States	Merged

25. Transactions with related parties

Sunshine Luxembourg VII SARL is the parent of the group and the ultimate controlling entities are EQT VIII SCSp and EQT VIII Co-Investment (D) SCSp, both managed by EQT Fund Management S.à r.l. ("EFMS"), a Luxembourg limited liability company, with its registered office at 51A, Boulevard Royal, L-2449 Luxembourg, registration number B 167.972 regulated by the Commission de Surveillance du Secteur Financier as an authorized Alternative Investment Fund Manager. Related parties include all subsidiaries of the Group as well as pension funds, members of the key management of Sunshine Luxembourg VII SARL and members of the key management of Galderma business.

Key management personnel of Sunshine Luxembourg VII SARL includes the managers of Sunshine Luxembourg VII SARL and the members of the Executive Committee and Leadership teams, which includes the CEO, CFO, and most of the direct reports to the CEO.

25.1 Key management compensation

In M USD	**Year ended December 31, 2023**	**Year ended December 31, 2022**	**Year ended December 31, 2021**
Short term employee benefits	22.5	21.8	21.0
Post-employment benefits	1.4	1.4	2.1
Long term benefits	1.9	2.8	3.6
Termination benefits	1.3	0.4	0.8
Total	**27.2**	**26.4**	**27.5**

Key management personnel have gained access to a share-based payment as further explained in Note 16.

25.2 Other related-party transactions

The Group has several transactions and relationships with related parties, as defined by IAS 24, Related Party Disclosures. Purchases for the year ended December 31, 2023 with other EQT portfolio companies were 8.5 M USD (6.1 M USD in 2022, 6.8 M USD in 2021).
The Group also had a loan with Sunshine Luxembourg VI SARL for 336.7 M USD at December 31, 2022 (305.9 M USD in 2021) including accrued interest of 20.8 M USD for the year ended December 31, 2023 (30.8 M USD in 2022, 29.5 M USD in 2021). The loan has been fully repaid in 2023 and therefore the outstanding balance is nil at December 31, 2023. Refer to Note 15.2.

26. Earnings per share

In USD cents	Year ended December 31, 2023	Year ended December 31, 2022	Year ended December 31, 2021
Basic loss per share			
From continuing operations attributable to the owners of the Group	(1.0)	(1.9)	(1.6)
From discontinued operations	-	-	(1.4)
Total basic loss per share attributable to the owners of the Group	**(1.0)**	**(1.9)**	**(3.0)**
Diluted loss per share			
From continuing operations attributable to the owners of the Group	(1.0)	(1.9)	(1.6)
From discontinued operations	-	-	(1.4)
Total diluted loss per share attributable to the owners of the Group	**(1.0)**	**(1.9)**	**(3.0)**

Reconciliation of earnings used in calculating earnings per share

In M USD	Year ended December 31, 2023	Year ended December 31, 2022	Year ended December 31, 2021
Basic loss per share			
Loss attributable to owners of the Group used in calculating basic earnings per share	(57.2)	(98.5)	(154.3)
From continuing operations	(57.2)	(96.9)	(84.2)
From discontinued operations	-	(1.6)	(70.1)
Diluted loss per share			
Loss attributable to owners of the Group used in calculating basic earnings per share	(57.2)	(98.5)	(154.3)
From continuing operations	(57.2)	(96.9)	(84.2)
From discontinued operations	-	(1.6)	(70.1)

Weighted average number of ordinary shares used in the denominator

In M	Year ended December 31, 2023	Year ended December 31, 2022	Year ended December 31, 2021
Basic loss per share	5,688.3	5,187.7	5,187.7
Diluted loss per share	5,688.3	5,187.7	5,187.7

27. Accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied, unless otherwise stated.

27.1 Material accounting policies

Assets held for sale

Non-current assets are classified as held for sale if it is highly probable that they will be sold rather than kept for continued use. These assets are measured at the lower of their carrying value or fair value less cost to sell. Once classified as held for sale, these assets are no longer amortized or depreciated. Impairment losses upon classification as held for sale are recognized in the statement of profit or loss, along with subsequent gains or losses on remeasurement.

Sales

Sales represent amounts received and receivable from third parties for goods supplied to the customers and for services rendered. Sales are recognized when a contractual promise to a customer has been fulfilled by transferring control over the promised goods and services to the customer, substantially all of which is at the point in time upon arrival to the customer. The large majority of the contracts have one performance obligation. If a contract contains more than one performance obligation, the consideration is allocated based on the standalone selling price of each performance obligation.

Sales are measured as the amount of consideration which the Group expects to receive, based on the list price applicable to a given distribution channel after deduction of returns, sales taxes, pricing allowances, other trade discounts and couponing and price promotions to consumers. The level of discounts, allowances, and promotional rebates is recognized as a deduction from revenue at the time that the related sales are recognized or when the rebate is offered to the customer (or consumer if applicable). The provisions and accruals relating to rebates are included in “Accruals and deferred income” on the balance sheet. They are estimated using judgements based on historical experience and the specific terms of the agreements with the customers. If actual future results vary, these estimates need to be adjusted with an effect on sales and earnings in the period of adjustments. Payments made to customers for commercial services received are expensed. The Group has a range of credit terms which are typically between 30 to 60 days, in line with market practice and without any financing component. Historical experience is used to estimate returns at the time of sale. No asset is recognized for products to be recoverable from these returns, as they are not anticipated to be resold.

Expenses

Cost of goods sold is determined on the basis of the cost of production or of purchase, adjusted for the variation of inventories. All other expenses, including those in respect of advertising and promotions, are recognized when the Group has control over the goods or when it receives the services. Government grants (mainly R&D credit) that are not related to assets are credited to the statement of profit or loss as a deduction of the related expenses when they are received, if there is reasonable assurance that the terms of the grant will be met.

Other operating expenses

These comprise impairment of goodwill, results on disposals of businesses, acquisition-related costs, restructuring costs, impairment of property, plant, and equipment and intangible assets (other than goodwill), litigations and onerous contracts, results on disposal of property, plant, and equipment, as well as specific other expenses.

Results on disposals of businesses include impairment and subsequent remeasurement of businesses classified as held for sale, as well as other directly related disposal costs like restructuring costs directly linked to businesses disposed of and legal, advisory and other professional fees. Restructuring costs are restricted to dismissal indemnities and employee benefits paid to terminated employees upon the reorganization of a business or function. It does not include dismissal indemnities paid for normal attrition, poor performance or professional misconduct.

Goodwill and intangible assets

Indefinite life intangible assets comprise of brands and trademarks. Brands and trademarks are protected and are deemed indefinite when the Group has a proven track record of successful life cycle management and there is no foreseeable limit on the period during which the asset is expected to generate positive cash flows. They are not amortized but tested for impairment annually or more frequently if an impairment indicator is triggered. The assessment of the classification of intangible assets as indefinite is reviewed annually.

Payments made to third parties to in-license or acquire intellectual property rights, compounds and products are capitalized, as they are separately identifiable, controllable, and are expected to generate future benefits using the cost accumulation method. These intangible assets are tested for impairment if not amortized. Any impairment charge is recorded in the Group statement of profit or loss under other operating expenses.

Finite life intangible assets are amortized over the shorter of their contractual or useful economic lives. They comprise mainly management information systems, manufacturing process, patents and rights to carry on an activity (e.g. exclusive rights to sell products or to perform a supply activity). Finite life intangible assets are amortized on a straight-line basis assuming a zero-residual value over the estimated useful life or the related contractual period depending on specific circumstances. The useful lives are as follows:

- Brands and intellectual property rights up to 30 years;
- Operating rights and others approximately 25 years;
- Management information systems 3 - 8 years;

Useful lives and residual values are reviewed annually. Amortization of finite life intangible assets starts when they are available for use and is allocated to the appropriate headings of expenses by function in the statement of profit or loss.

i. Research and development

Internal research costs are charged to the statement of profit or loss in the year in which they are incurred. Development costs are only recognized as assets on the balance sheet if all the recognition criteria set by IAS 38 – Intangible assets are met. Development costs are generally charged to the statement of profit or loss in the year in which they are incurred due to uncertainties inherent in the development of new products because the expected future economic benefits cannot be reliably determined.

Capitalized development costs are subsequently accounted for as described in the section Intangible assets.

ii. Impairment of goodwill and intangible assets

Goodwill and intangible assets with an indefinite life or not yet available for use are tested for impairment at least annually and when there is an indication of impairment. Finite life intangible assets are tested when there is an indication of impairment.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate. The discount rate reflects the current assessment of the time value of money and the country specific risk to the level at which the impairment test is performed. The business risk is included in the determination of the cash flows. Both the cash flows and the discount rates include inflation.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss on goodwill is not reversed. Impairment loss on other assets is reversed only to the extent that the assets carrying amount does not exceed the carrying amount had no impairment loss been recognized.

Property, plant, and equipment

Property, plant, and equipment comprise both owned assets and right-of-use assets that can be separated into the asset classes: Land and buildings; Machinery and equipment; Information technology equipment; and Tools, furniture and other equipment, and vehicles.

Property, plant, and equipment are shown on the balance sheet at their historical cost. Depreciation is assessed on components that have homogenous useful lives by using the straight-line method so as to depreciate the initial cost down to the residual value over the estimated useful lives. The useful lives are as follows:

- Buildings 20-40 years
- Machinery and equipment 10-25 years
- Information technology equipment 3-8 years
- Tools, furniture and other equipment 3-15 years
- Vehicles 3-8 years
- Land is not depreciated

Useful lives, components, and residual amounts are reviewed annually. Such a review takes into consideration the nature of the assets, their intended use including but not limited to the closure of facilities and the evolution of the technology and competitive pressures that may lead to technical obsolescence. Depreciation of property, plant, and equipment is allocated to the appropriate headings of expenses by function in the statement of profit or loss.

Reviews of the carrying amount of the Group's property, plant, and equipment are performed when there is an indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. An indicator could be unfavorable development of a business under competitive pressures or severe economic slowdown in a given market as well as reorganization of the operations to leverage their scale. In assessing the value in use, the estimated future cash flows are discounted to their present value, based on the time value of money and the risks specific to the country where the assets are located. The risks specific to the asset are included in the determination of the cash flows.

Leases – Group as a lessee

The Group recognizes a right-of-use (ROU) asset and a lease liability at the lease commencement date, except for short-term leases of 12 months or less which are expensed in the statement of profit or loss on a straight-line basis over the lease term.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the incremental borrowing rate (IBR) at the lease commencement date because the interest rate implicit in the lease is not readily determinable. At inception, the ROU asset comprises the initial lease liability, initial direct costs, and any obligations to refurbish the asset, less any incentives granted by the lessors. The ROU asset is depreciated over the shorter of the lease term and the useful life of the underlying asset. The ROU asset is subject to testing for impairment if there is an indicator for impairment, as for owned assets. ROU assets are included in the heading property, plant, and equipment, and the lease liability is included in the headings current and non-current financial debt.

The Group has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including IT equipment. The Group determined leases of low-value assets to have a value of less than USD 5,000. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Inventories

Raw materials and purchased finished goods are valued at the lower of purchase cost calculated using the FIFO (first-in, first-out) method and net realizable value. Work in progress, sundry supplies, and manufactured finished goods are valued at the lower of their weighted average cost and net realizable value.

Trade and other receivables

Trade and other receivables are recognized initially at their transaction price and then generally measured at amortized cost less loss allowances.

The receivables are considered to be held within a held-to-collect business model consistent with the Group's continuing recognition of the receivables.

The Group uses a provision matrix to calculate expected credit losses (ECLs) for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Provisions

Provisions comprise liabilities of uncertain timing or amount that arise from restructuring plans, environmental, litigation, and other risks. Provisions are recognized when a legal or constructive obligation stemming from a past event exists and when the future cash outflows can be reliably estimated. Provisions are measured at the present value of the expenditures unless the impact of discounting is immaterial. Obligations arising from restructuring plans are recognized when detailed formal plans have been established and when there is a valid expectation that such plans will be carried out by either starting to implement them or announcing their main features. Obligations under litigation reflect management's best estimate of the outcome based on the facts known at the balance sheet date.

Financial instruments

Trade receivables are initially recognized when they are originated. All other financial assets and financial liabilities are initially recognized when the Group becomes a party to the contractual provisions of the instrument.

(a) Financial assets – Classification and Subsequent measurement

iii. Financial assets measured at amortized cost

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost includes trade receivables and cash and cash equivalents.

iv. Financial assets measured at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the balance sheet at fair value with net changes in fair value recognized in the statement of profit or loss.

This category includes derivative instruments.

v. Financial assets – derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated balance sheet) when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.

vi. Financial assets – impairment

For cash, the Group use the Expected Credit Loss (ECL) approach. For trade receivable the Group uses the simplified approach in calculating Expected Credit Loss (ECL) and recognizes a loss allowance based on lifetime ECLs at each reporting date.

Refer to the ***Trade and other receivable*** section above for further discussion on the ECL approach.

(b) Financial liabilities – Classification and Subsequent Measurement

i. Financial Liabilities Classification

Financial liabilities are classified at initial recognition as financial liabilities measured at fair value through profit or loss or at amortized cost. The Group's financial liabilities include trade and other payables, loans and borrowings and derivative financial instruments.

ii. Financial liabilities measured at amortized cost

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss.
This category generally applies to interest-bearing loans, borrowings and trade payables.

iii. Financial liabilities – derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

(c) Derivative financial instruments and hedge accounting

i. Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts, interest rate caps, to hedge its foreign currency risks and interest rate risks respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. The changes in fair values are recognized in profit and loss.

For the purpose of hedge accounting, hedges are classified as cash flow hedges since they hedge the exposure to variability in cash flows that is either attributable to the interest risk associated with the group financial liability or a highly probable forecast transaction.

Hedges that meet all the qualifying criteria for hedge accounting are accounted for, as described below:

The effective portion of the gain or loss on the hedging instrument is recognized in OCI in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the statement of profit or loss.

The Group uses forward currency contracts as hedges of its exposure to foreign currency risk in forecast transactions and firm commitments.

The separate component of equity (i.e. the cash flow hedge reserve) is adjusted to the lower of the following (in absolute amounts):

- The cumulative gain or loss on the hedging instrument from inception of the hedge; and
- The cumulative change in fair value of the hedged item from inception of the hedge.

The Group also uses options (caps and swaps) to hedge its interest rate risk coming from its financial liabilities towards external banks.
The accounting entries during the duration of the hedge are as follows:

- The change in the intrinsic value of the hedging instrument is recognized in other comprehensive income (and then in the cash flow hedge reserve in equity) and released to the statement of profit or loss over the life of the hedging relationship, which is shorter than the life of the hedged item in this case, as the interest payments on the underlying hedged loan occur.
- The change in fair value of the time value of an option that hedges a time-period related hedged item such as a floating rate debt is recognized in a separate component of equity to the extent that it relates to the hedged item. The initial time value that exists at the inception of the hedging relationship is amortized to profit or loss on a systematic and rational basis over the same period over which any intrinsic value of the cap would affect profit or loss.

Foreign currencies

The functional currency of the Group's entities is the currency of their primary economic environment in which the entities operate. The Group Financial Statements are presented in US dollars (USD) which is Sunshine Luxembourg VII SARL functional currency. The individual Galderma entities also have other functional currencies.

Cash settled share-based payment plans

The Group measures the services rendered by the plan participants and the liability incurred at the fair value of the liability. At each reporting date the fair value of the liability is remeasured. Changes in the fair value is recognized in the statement of profit or loss. Management elects to recognize the effect of remeasurement as finance income or finance costs as appropriate.

Employee benefits

The costs of the employee defined benefit plans and other long-term employee benefits are determined using actuarial valuations. These valuations involve making assumptions about the discount rate, inflation future salary and pension developments, mortality, and the employee turnover rate.

The liabilities of the Group arising from defined benefit obligations, and the related current service cost, are determined using the projected unit credit method. Actuarial advice is provided both by external consultants and by actuaries employed by the Group. The actuarial assumptions used to calculate the defined benefit obligations vary according to the economic conditions of the country in which the plan is located. Such plans are either externally funded (in the form of independently administered funds) or unfunded. The deficit or excess of the fair value of plan assets over the present value of the defined benefit obligation is recognized as a liability or an asset on the balance sheet.

Taxes

The Group is subject to taxes in different countries all over the world. Taxes and related fiscal assets and liabilities recognized in the Group Financial Statements reflect management's best estimate of the outcome based on the facts known at the balance sheet date in each individual country. These facts may include but are not limited to change in tax laws and interpretation thereof in the various jurisdictions where the Group operates. They may have an impact on the income tax as well as the resulting income tax assets and liabilities. Any differences between tax estimates and final tax assessments are charged to the statement of profit or loss in the period in which they are incurred, unless anticipated. Taxes include current and deferred taxes on income as well as actual or potential withholding taxes on current and expected transfers of income from subsidiaries and tax adjustments relating to prior years. Income tax is recognized in the statement of profit or loss, except to the extent that it relates to an item directly taken to other comprehensive income or equity, in which case it is recognized against other comprehensive income or equity, respectively.

Current income tax liabilities refer to the portion of the tax on the current year taxable profit (as determined according to the rules of the taxation authorities) and includes uncertain tax liabilities. The Group determines the taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates consistently with the tax treatment used or planned to be used in its income tax filings if the Group concludes it is probable that the taxation authority will accept an uncertain tax treatment. Otherwise, the Group reflects the effect of uncertainty using either the most likely outcome or the expected value outcome, depending on which method the entity expects to better predict the resolution of the uncertainty.

Deferred taxes are based on the temporary differences that arise when taxation authorities recognize and measure assets and liabilities with rules that differ from the accounting policies of the Group Financial Statements. They also arise on temporary differences stemming from tax losses carried forward. Deferred taxes are measured at the rates of tax expected to prevail when the temporary differences reverse subject to such rates being substantively enacted at the balance sheet date. Any changes of the tax rates are recognized in the statement of profit or loss unless related to items directly recognized against equity or in Other comprehensive income. Deferred tax liabilities are recognized on all taxable temporary differences excluding non-deductible goodwill.

Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves.

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REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Sunshine Luxembourg VII S.à r.l. and its subsidiaries (the "Group"), which comprise the consolidated balance sheets as at 31 December 2023, 2022 and 2021, and consolidated statements of profit or loss, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended 31 December 2023, 2022 and 2021 and notes to the consolidated financial statements, including material accounting policy information and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, 2022 and 2021, and of its consolidated financial performance and its consolidated cash flows for the years then ended 31 December 2023, 2022 and 2021 in accordance with IFRS Accounting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession ("Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the « Responsibilities of "réviseur d'entreprises agréé" for the audit of the consolidated financial statements » section of our report. We are also independent of the Group in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 1.3 Basis of preparation of the consolidated financial statements which describes the basis of accounting. The consolidated financial statements for the years 2023, 2022 and 2021 have been prepared for the purpose of the Initial Public Offering.

Responsibilities of the Board of Managers for the consolidated financial statements

The Board of Managers is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards as adopted by the European Union, and for such internal control as the Board of Managers determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Responsibilities of the réviseur d'entreprises agréé for the audit of the consolidated financial statements

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "réviseur d'entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

— Obtain an understanding of internal control relevant to the audit 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.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Managers.

— Conclude on the appropriateness of Board of Managers'use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "réviseur d'entreprises agréé" to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "réviseur d'entreprises agréé". However, future events or conditions may cause the Group to cease to continue as a going concern.

KPMG

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Luxembourg, 28 February 2024

KPMG Audit S.à r.l.
Cabinet de révision agréé

Thierry Ravasio