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Annual Report 2008/09

Ypsomed Holding AG



YPSOMED HOLDING AG
ANNUAL REPORT 2008/09

YPSOMED
SELF-CARE SOLUTIONS

Recognizing the essence of the individual

Once again this year we are delighted to present to you an art supplement with the Ypsomed Annual Report. As with our everyday work at Ypsomed, Gabriele Kulstrunk's creative work is all about human beings. In her oeuvre, the artist sets the individual's story at the center and portrays it in a new, unusual context.

In the works selected for this year's art supplement, Kulstrunk gives expression to profound human experiences. The route takes us via both familiar and less common objects from the world of medicine. The artist uses her sculptures and paintings to interpret the personal stories and experiences of individual people making moments of their journeys through life visible to the viewer.

In a subtle play on the significance of the utensils, new and exciting relationships are created in her works. The possibilities of presentation and form are endless: spanning materials and dimensions, brightly colored or restrained, uniquely designed and highly expressive.

Parallels can be found between Kulstrunk's artistic creations and Ypsomed's commercial activities. In the field of medical technology, it is also important to recognize the precise meaning of objects and processes, to consider them in detail under specific criteria, to analyze them and become involved in an innovative way so as to create something new. And always keeping an eye on what is essential, what is human. On the one hand, people are the basis of the company as employees and, on the other, as patients, they are always at the forefront of all our commercial activities and considerations. In terms of the future continuing or new development of products, in particular, it is the individual human characters and their everyday lives that are crucial. Among other things, this is reflected in the individually adapted design variants of Ypsomed products. As well as being functional, they are intended to give the individual using them a sense of optimism and *joie de vivre*.

Recognition and consideration of the unique nature of different experiences and stories are decisive if progress is to be made in the field of medical technology. By remaining open and incorporating newly discovered potential, Ypsomed will be able to maintain the momentum of development, so that, in the future, it will continue to create innovations to improve the quality of life of the people concerned.

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KEY FIGURES AND SHARE PRICE DEVELOPMENT

Key figures at a glance 1 April – 31 March

in thousand CHF	1 April 2008 – 31 March 2009	1 April 2007 – 31 March 2008	Change	in %
Sales of goods and services	272 580	287 468	-14 888	-5.2
<i>thereof Delivery Devices</i>	209 007	228 423	-19 416	-8.5
<i>thereof Diabetes Direct Business</i>	63 573	59 045	4 528	7.7
Gross profit	84 001	90 197	-6 196	-6.9
Gross profit in %	30.8%	31.4%		
Operating profit	30 426	30 976	-550	-1.8
Operating profit in %	11.2%	10.8%		
Net profit	26 166	26 583	-417	-1.6
Net profit in %	9.6%	9.2%		
Earnings per share (in CHF)	2.33	2.37	-0.04	-1.6
Research and development expenditures total	33 399	31 241	2 158	6.9
Investments in fixed assets	43 698	42 741	957	2.2
Equity ratio in %	69.1%	65.4%		
Employee headcount (year-end)	1 209	1 210	-1	-0.1
Employees fulltime equivalents (year-end)	1 153	1 150	3	0.2

Share Price Development (22 September 2004 to 31 March 2009)



LETTER TO YPSOMED'S SHAREHOLDERS, CUSTOMERS, EMPLOYEES AND PARTNERS

Dear Ypsomed Shareholders, Customers, Employees and Partners

Ypsomed is in a strong position in growth markets

Against the background of the present financial and economic crisis, we are all the more aware of the strong position that Ypsomed currently enjoys, with good prospects for continued future success. With a clear strategy, Ypsomed is not only active in the attractive growth markets of self-medication and diabetes, but is also a world leader in these fields. Ypsomed benefits from a high level of growing demand for pen systems, pen needles and diabetes care products, and is therefore not directly affected by the current economic crisis. On the contrary: patients' needs for self-injection systems for liquid drugs and other diabetes care products are not dependent on the state of the economy and are, predominantly, fully reimbursed by health insurance providers.

Ypsomed benefits from high entry barriers and strong customer loyalty

As a listed company with a strong corporate structure, Ypsomed has been making massive investments in new product developments and additional production capacity for many years. These considerable investments act as high entry barriers for possible competitors, as do the ever-increasing limitations imposed by issued patent. Ypsomed constantly protects its developments and currently has more than 290 patent families that are being actively defended or that lead to additional revenue thanks to agreements to non-exclusive license rights. The Ypsomed disposable injection systems constitute part of the drugs' secondary packaging and are therefore subject to the pharma regulatory authorities' strict and prolonged licensing procedures. Ypsomed benefits from long-term and very long-lasting relationships between customer and supplier. The quality of the products delivered therefore plays an important role and lowers price sensitivity. This is also attributable to the fact that the cost proportion of the injection systems, when measured against the sales price of the drugs, represents a very low, single-digit percentage range, and the demand for injection systems among manufacturers of generic drugs is rising further still.



Richard Fritschi, CEO

Dr. h. c. Willy Michel, Chairman of the Board of Directors

"Ypsomed is in a strong and promising position. We benefit from increasing demand independent from economical cycles and from high barriers of market entry making it difficult for peers to compete in our field. Our clear strategy makes us the global leader in the attractive growth markets of self-medication and diabetes care."

LETTER TO YPSOMED'S SHAREHOLDERS, CUSTOMERS, EMPLOYEES AND PARTNERS

Ypsomed is a secure and attractive employer

Thanks to this potential for growth and solid financing, Ypsomed is a secure and attractive employer, offering many exciting activities, interesting development opportunities and a corporate culture that promotes innovation. The Ypsomed employees, who number in excess of 1 200, value these benefits. This is reflected in the high level of employee satisfaction, tireless commitment and strong loyalty. The dynamic market and technological environment, numerous product innovations, new requirements on the part of our customers as well as the commitment to long-term investments in new developments and to Switzerland as a production site will continue to offer our employees interesting challenges and scope for personal development in the new business year. We would like to take this opportunity to thank our employees for their commitment and for their excellent performance in 2008/09.

Ypsomed offers pharma customers rapid access to the market and the potential to make their products unique thanks to a comprehensive technology platform

Our strategic decision to invest at our own risk in new technology platforms for self-injection systems means that Ypsomed now has the most comprehensive product range in the world. We can offer our pharma customers numerous injection systems with different functionality: auto-injectors for disposable syringes, reusable pens and disposable pens for single and dual-chamber cartridges, combined with mechanisms for a fixed or variable delivery volume, mono- or multidose and automatic or manual administration. Pharma and generic drug companies can make their products stand out by means of innovative, safe and user-friendly injection systems and, thanks to Ypsomed's assistance, can bring their liquid drugs to the market quickly. Handling studies have shown that patients also prefer the new Ypsomed pen systems and auto-injectors. You will find an overview of the available technology platforms on page 16.

Ypsomed won important accounts from pharma customers for new injection systems

The extended product range is welcomed with great interest and it is leading to an increasing number of new proposals which, thanks to the new technology platforms, are extremely attractive to our customers in terms of both implementation time and project costs. Over the past business year, Ypsomed has won a total of 4 customer projects for new injection systems and is currently in the evaluation phase for over a dozen potential projects. In the last business year, the company has therefore already started setting up production for many new products and will continue with this preparatory work in the new business year. Accordingly, Ypsomed is making significant preliminary investments and initial efforts that will start to pay off from fiscal year 2010/11. That will result in growing sales figures and revenue.

"The long-term investments we made in our technology platforms are beginning to pay off. Our range of products is welcomed with great interest and is thus leading to an increasing number of new proposal requests."

Ypsomed to start the production of components for the Sanofi-Aventis SoloStar® pen at the end of 2009

Preparation for Sanofi-Aventis production is currently in full swing. Thanks to excellent collaboration with Sanofi-Aventis it will be possible to start the stage-by-stage manufacture of components for the SoloStar®, a disposable pen system from Sanofi-Aventis, by the end of 2009 as scheduled. In the future Ypsomed will benefit from the growth potential in the insulin market both with the SoloStar® components and also with its own insulin pens systems.

Ypsomed optimizes production and increases quality

In the last business year, Ypsomed has further optimized production processes, shortened cycle times, reduced waste, improved quality and ensured a high level of reliability for customers. Particularly gratifying is the fact that Ypsomed has successfully passed all customer audits and has received a very good response from customers with regard to its quality system. This was also demonstrated by a recent survey that generally revealed a very high level of satisfaction among our pharma customers. In the last year, Ypsomed has made notable improvements in both speed and efficiency. However, we see further potential for optimization through the consistent implementation of lean production principles. This will ultimately improve profitability.

Ypsomed expands production capacity and creates new jobs in Switzerland

As is evident from investments totaling CHF 43.7 million, that Ypsomed has significantly expanded production capacity in the fiscal year 2008/09; firstly, for the production of the new injection systems mentioned above and, secondly, for the new pen needles and safety pen needles. In order to ensure that there is also adequate production infrastructure in the medium to long term, the new logistics and production center in Buchmatt in Burgdorf has been commissioned, while planning is already underway for an extension within the Ziegel matt site in Solothurn. We plan to create approximately 100 new jobs in the next 18 months, thereby making a clear commitment to Switzerland as a production location.

"Over the past year Ypsomed as a company has become significantly faster and more efficient. We have optimized our production processes, reduced cycle times and waste, improved quality and ensured a high level of delivery reliability for our customers. It is our intention to consistently improve on this path."

Ypsomed experiences further growth with pen needles and will launch new safety pen needle

Thanks to the gradually increasing pen needle production capacities, we also aim once again to record double-digit growth in the coming business year with the patented "click-on" pen needles and to secure additional market share. This should be achieved by further expanding the US market and by opening up additional markets, primarily in the Middle and Far East, by introducing the new pen needle design and by launching the safety pen needle towards the end of the 2009/10 business year. We are also seeing synergies in the distribution of pen needles, thanks to collaboration with Bionime and its distributors, especially in Asia and Eastern Europe.

Ypsomed strengthens the diabetes business through distribution of blood glucose monitoring systems

In the diabetes direct business, we have once again experienced strong growth and have succeeded in improving profitability. We want to continue to strengthen and expand the diabetes business by taking over the distribution of Bionime blood glucose monitoring systems in selected European countries from May 2009. In 2008, the world market for blood glucose monitoring systems was estimated to be worth more than CHF 9 billion; for the year 2010, it is estimated that this figure will rise to above CHF 12 billion. Annual market growth is in excess of 10% worldwide. The distribution of blood glucose monitoring systems is an ideal addition to the Ypsomed product range, given Ypsomed's expertise in the field of diabetes. We can see synergies in sales of our pen needles and the planned continuous injection device. The distribution of the new Bionime blood glucose monitoring system is therefore attractive to Ypsomed and will have a noticeable positive effect on both sales growth and profitability in the future. In the short term, however, the market launch will require extensive investment in marketing and in the expansion of the sales organization. In an interview with company founder Roy Huang starting on page 25 we share more information on Bionime, a company in which Ypsomed has taken a 10% equity stake.

LETTER TO YPSOMED'S SHAREHOLDERS, CUSTOMERS, EMPLOYEES AND PARTNERS

Ypsomed strengthens equity ratio through capital increase

Thanks to the net profit of CHF 26.2 million, Ypsomed's consolidated equity has increased to CHF 437.0 million. As of March 31, 2009, the equity ratio was 69.1%. Ypsomed has extremely solid financing and has no bank debts. Ypsomed has so far benefited from a shareholder loan with an interest rate of just 0.5%. As of March 31, 2009, the value of this loan stood at CHF 140 million. In view of a possible increase in the stake in Bionime, the imminent market development for the new blood glucose monitoring system and high upfront investments in setting up production for new injection systems, the Board of Directors is submitting to the General Meeting of Shareholders a proposal for an capital increase of around CHF 100 million. This will involve converting a part of the existing shareholder loan into shares. For the shares in free float, existing shareholders can subscribe for new shares. The subscription rights of all shareholders are thereby protected and Dr. h. c. Willy Michel is already today making the commitment of taking over all non-subscribed shares himself. The shareholder loan outstanding after this process has been extended on a long-term basis. Full information concerning the capital increase will be published in due time.

Ypsomed increases profitability margin

Over the course of the last business year, Ypsomed has worked very well in an increasingly difficult economic climate. Although Ypsomed has experienced growth with pen needles and in the diabetes direct business, it has only been possible in part to absorb the decreasing volume in the pen business with Sanofi-Aventis as planned and communicated. As a result, sales at CHF 272.6 million as of March 31, 2009, were approximately 5% below the previous year's figures. Despite this, however, Ypsomed improved its profitability margin, both in terms of the EBITDA margin, which increased from 19.2% to 20.7%, and in terms of the EBIT margin, which rose from 10.8% to 11.2%. Not taking into account the cost of setting up the production of new injection systems (for SoloStar, among others) and of the preparation for the launch of the new blood glucose monitoring system amounting to CHF 2.6 million as well as excluding non-recurring bad debt losses of CHF 1.8 million from the pen needle business, the profitability of Ypsomed would have been significantly higher in the 2008/09 business year, with an EBITDA margin of 22.3% and an EBIT margin of 12.8%.

"We want to benefit from excellent growth opportunities that the market presents. We are aiming for a significant jump in sales and a substantial increase in profitability from the business year 2010/11 onwards."

Ypsomed has very good prospects for growth

It is our expectation that Ypsomed will have very bright future prospects for growth as the demand for insulin and other liquid drug injection systems will continue to rise sharply, not least due to demographic developments and a worldwide change in our way of living. We therefore expect to see a significant jump in sales and a substantial increase in profitability, especially in the 2010/11 and 2011/12 business years. Our high level of confidence is based on the start of production of components for the Sanofi-Aventis SoloStar® pen at the end of 2009 and the planned launch of several injection systems based on our own technology platforms by new pharma customers as from 2010. Moreover, we are expecting higher sales of pen needles as well as increasing sales resulting from the distribution of blood glucose monitoring systems in selected European countries starting 2009/10. In the medium term, we anticipate additional growth potential, thanks to the Ypsomed continuous injection device.

Ypsomed has excellent opportunities for growth and we wish to exploit these fully. At present, we are in a challenging set-up phase. This requires again an exceptional performance and a particular degree of commitment, not only from our employees, but also from our partners and customers. However you, as our valued shareholders, also have the possibility to make an important contribution towards turning these opportunities into reality, by participating in the capital increase at the end of June. We would like to take this opportunity to express our sincere thanks for your trust and your support.



Dr. h. c. Willy Michel
Chairman of the
Board of Directors

Richard Fritschi
CEO

VISION, MISSION AND STRATEGY

As part of the annual strategy workshop Ypsomed has reviewed its existing strategy and confirms the Vision and Mission as follows:

Vision

- Ypsomed will continue to expand its position as the world's leading independent developer and manufacturer of injection systems for self-administration.
- Ypsomed will continue to expand its position and enter new markets with the universal compatible click-on needles and the newly developed safety pen needles.
- Ypsomed will continue to expand its position as an important supplier for diabetes care products.
- Ypsomed, drawing on existing competencies, will develop a new business area as provider of therapies based on drug-device combination products.

Mission

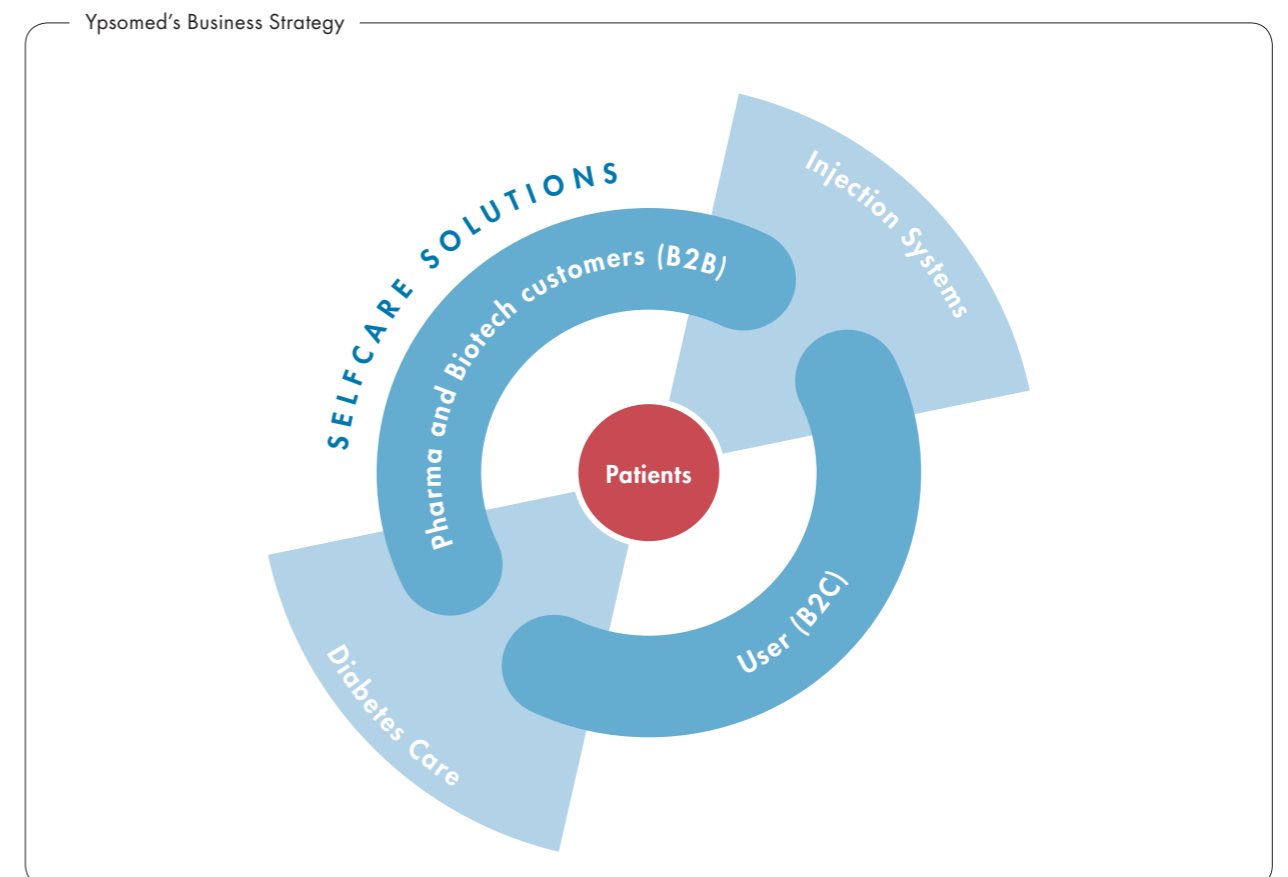
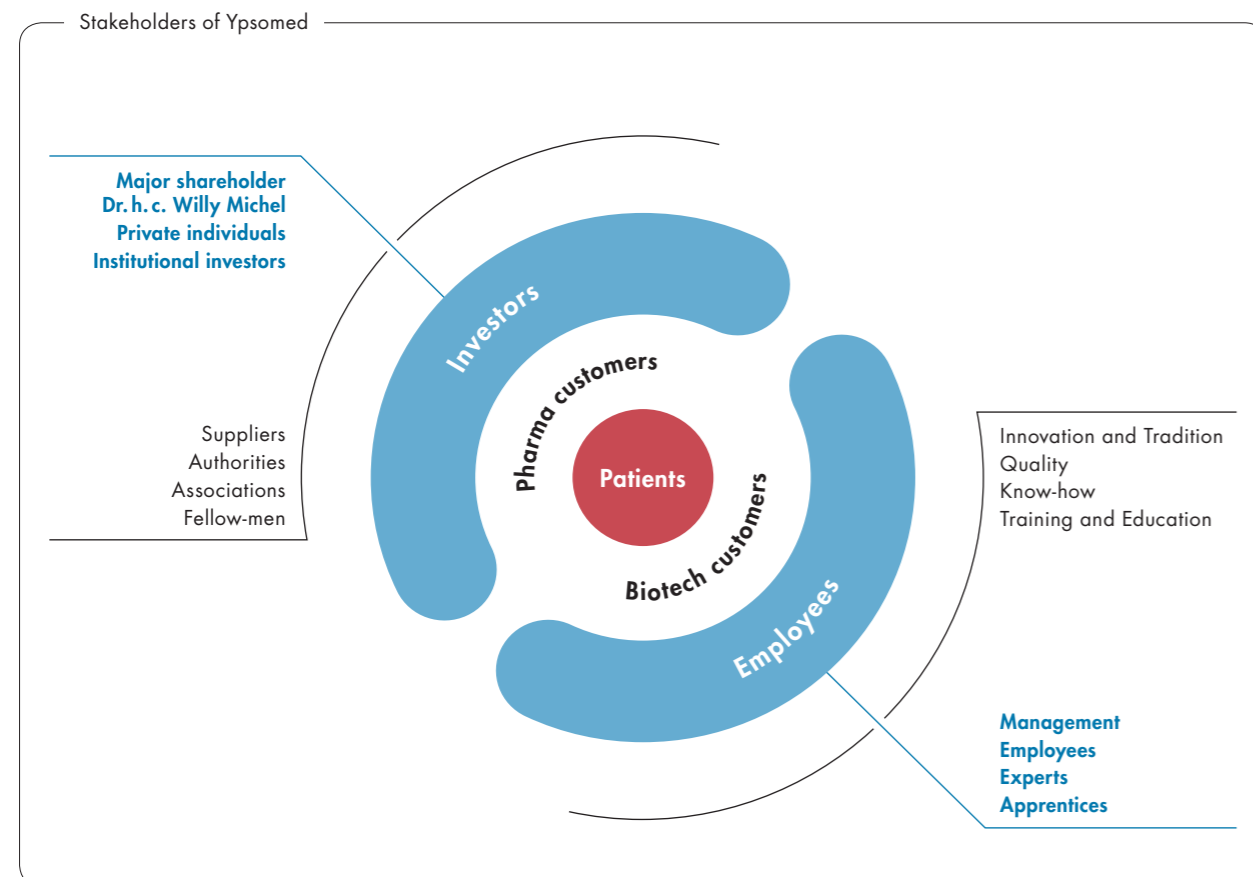
- Our business success is based on the Spirit of Excellence, the high commitment of every employee at every level, and our focus on our core competences.
- With our innovative, high-quality and reliable products we contribute significantly to the success of a therapy and thereby enable people to enjoy the best possible quality of life.
- We strive for long-term and trusting relationships with our business partners that are characterized by openness and reliability.
- To our employees we offer an attractive and challenging workplace and interesting possibilities for personal development.
- For our shareholders we want to create sustainable value.
- As a company we take our ethical, social and ecological responsibilities seriously.

Strategy

Profitable growth with diabetes expertise and innovation in self-medication

On the basis of its clear vision and mission, Ypsomed has been pursuing its strategy consistently for many years, with a clear focus on its core skills: self-medication and diabetes mellitus. Ypsomed is therefore active in markets of pronounced growth, as the worldwide demographic development and transformation with regard to lifestyle are resulting in an increasing number of diabetes patients. Patients' quality of life can today be improved substantially thanks to technological progress in the pharma industry and innovative injection systems. The trend towards self-medication further benefits from the increasing pressure on costs within healthcare systems.

For Ypsomed, there are considerable opportunities for growth, since the demand in the self-medication and diabetes mellitus sector is not dependent upon the state of the economy and the costs involved are largely or completely covered by primary health care plans. The requirement for user-friendly injection systems is also experiencing strong growth, as new drug substances are manufactured using biotechnology and, as a rule, these must be administered as liquid drugs. Ypsomed has the necessary prerequisites to exploit these opportunities: employee know-how, innovations protected by patents, a wide range of products and services and a strong and diverse customer base. Ypsomed will therefore be able to increase sales and profitability significantly in the years ahead.



INNOVATIVE INJECTION SYSTEMS WELCOMED WITH ENTHUSIASM BY PATIENTS AND PHARMA CUSTOMERS

Well-known pharma companies attracted as new customers for injection systems

In the 2008/09 business year, Ypsomed received several major orders for various injection systems from world-leading pharma customers. This demonstrates that the strategic decision taken four years ago to develop the Ypsomed technology platforms at our own risk and costs was right, and it is now gradually paying off. A total of four new projects were acquired. Ypsomed is currently in the pharma customers' evaluation phase for over a dozen potential projects. In addition to this, various contracts with existing customers have been extended. For reasons of confidentiality, Ypsomed is unable to disclose any details of these contracts and, prior to the launch, is further unable to name the new customers or specify the relevant areas of application, but the new injection systems will be used both for drugs that are already available on the market and for drugs that are still currently in the registration process. The production volumes that can be expected could be very substantial in the future; however, this depends on the registration and the precise market launch of the drugs by the relevant pharma customers.

Insulin and liquid drugs are growth markets

Self-medication by means of innovative injection systems is a growth market worldwide, because insulin and other new drugs are biological that are manufactured using biotechnology and that can, as a rule, only be administered subcutaneously as liquid drugs. Oral treatment by means of tablets is generally not possible as high-molecular weight drugs cannot be absorbed in the gastro-intestinal tract. The greatest potential for Ypsomed continues to lie in the treatment of diabetes mellitus; in addition to insulin, insulin analogs and incretin mimetics, i.e. substances that imitate GLP-1, are used to treat patients. The insulin market volume worldwide is currently worth some USD 14.5 billion and has been growing continuously for several years. The distribution of pen systems for the administration of insulin in the USA has a coverage of just under 20%, a figure that is still well below the 85–95% figures for Europe and Japan. There is therefore enormous growth potential for pen systems in the USA in particular. In the medium to long term, both China and India will develop into major markets and will thus become of corresponding importance to Ypsomed.

Patients prefer Ypsomed pen systems in handling studies

Today's patients are no longer satisfied with simple disposable syringes and vials before painstakingly filling a syringe with the drug by themselves. Patients' expectations are now much higher. Pharma companies must meet these expectations by offering innovative, safe and user-friendly injection systems for the administration of their drugs. Ypsomed therefore offers pen systems or auto-injectors for patient trials that are based on Ypsomed's own technology platforms. Ypsomed has developed these prototypes in line with customer requirements and has carried out trials on these in the form of handling studies. Thanks to excellent results in these handling studies with patients, Ypsomed has been able to win over and acquire new, well-known pharma customers.

Additional indication areas for pen systems and auto-injectors

Further indication areas for pen systems and auto-injectors are thrombosis prophylaxis, osteoporosis, infertility treatment, Hepatitis C treatment with alpha interferon as well as, of course, the treatment of anemia in the case of renal disease with erythropoietin (EPO) and growth disorders with growth hormones, together with the treatment of various auto-immune diseases, such as arthritis, multiple sclerosis, psoriasis and Crohn's disease, with monoclonal antibodies. The monoclonal antibodies market segment is the fastest growing segment worldwide with a current value of approximately USD 20 billion.

Pharma customers make their products unique through innovative and safe injection systems

Pharma and biotech companies are using injection systems not only for their innovative liquid biotech drugs but also increasingly for biosimilar and generic drug products. Since the patent protection for important drugs has already expired or is due to expire in the near future, there is a strong increase in the level of competition in the pharma industry. If the effect of drugs remains more or less the same in the future, then pharma and generic drug companies will have to make their products stand out through innovative, user-friendly injection systems if they do not want to lose market share. Ypsomed is the world's leading developer and manufacturer of innovative injection systems. Therefore it is Ypsomed that pharma companies are turning to when they consider the use of injection systems for a user-friendly, precise and safe administration of their liquid drugs. Ypsomed has further expanded its leading position in this important growth market. No other manufacturer has such a strong track record stretching back for more than 25 years, or such a wide product range.

Product Roadmap











Year	2009	2010	2011	2012	2013
Reusable Pens	2	1	2		
Disposable Pens	1	2	1	1	
Auto-Injectors				1	1
Pen Needles	1	1			
Total Product Launches	4	4	3	2	1

INNOVATIVE INJECTION SYSTEMS WELCOMED WITH ENTHUSIASM BY PATIENTS AND PHARMA CUSTOMERS

Ypsomed in a leading position thanks to technology platforms

Thanks to the technology platforms developed by Ypsomed, pharma customers are offered a wide range of injection systems with different functionalities. Auto-injectors for disposable syringes, reusable pens and disposable pens for single or dual-chamber cartridges, combined with mechanisms for a fixed or variable delivery volume, with mono- or multidose respectively. The extended product range is arousing great interest among pharma companies and is leading to an increased number of proposal requests. The technology platforms have played a major role in enabling Ypsomed to submit very attractive offers, particularly in terms of time and project costs. The adjoining diagram provides an overview of the available technology platforms.

Innovative Technology Platforms

		Multidose	Single dose	Variable dose	Fixed dose	Automatic administration
Reusable Pens for Insulin						
YpsoPen		●		●		
ServoPen		●		●		●
UnoPen		●		●		
Disposable Pens						
Trio			●		●	
Lynx			●	●		
Leda			●		●	●
Leo			●	●		●
Ganymed		●		●		
Tian		●			●	
Auto-Injector						
YpsoJect			●		●	●

Complete product range for insulin suppliers

In the past business year, Ypsomed has completed the development of the ServoPen® (see box below) and has started work on the industrialization project. Still currently at the development stage is a new disposable insulin pen that – thanks to its very simple design – consists of just a few component parts, and therefore is simple to assemble. The new disposable insulin pen is targeted at new insulin suppliers who are experiencing strong growth, enabling them to strengthen their competitive position vis-à-vis the major and well-established insulin suppliers Novo Nordisk, Eli Lilly and Sanofi-Aventis. In future, Ypsomed will be able to offer the full range of products for the administration of insulin: reusable insulin pens (YpsoPen® and ServoPen®), disposable insulin pens (UnoPen) as well as the tried-and-tested “click-on” pen needles and new safety pen needles. Ypsomed is therefore the pen manufacturer of choice for emerging insulin suppliers, as Ypsomed injection systems allow Ypsomed’s partners to achieve strong positioning and differentiation of their products within the insulin market. Ypsomed has already been collaborating successfully with Dongbao in China for years. Recently, the insulin supplier Polfa Tarchomin in Poland also opted for the YpsoPen®.

New dual-chamber injection systems

The new biotech drugs are today not only administered in liquid form in cartridges and syringes, but are also offered in freeze-dried/diluent form in dual-chamber cartridges. Ypsomed has therefore expanded its technology platforms accordingly. The development of the platform portfolio for the simplest disposable pens has been completed and includes dual-chamber pen systems with fixed or variable dose, combined with manual or automatic administration. There are also concepts for single and dual-chamber pens with fixed dosing and multiple manual or automatic administration.

ServoPen® by Ypsomed – latest-generation reusable insulin pen

In the last business year, Ypsomed has completed the development stage of the new reusable insulin pen. The new “ServoPen®” is currently in the industrialization phase and is expected to be ready for market launch starting 2010/11. With the ServoPen®, Ypsomed is setting a new standard in insulin therapy in terms of patient comfort and user-friendliness. In comparison studies with competitors’ products, the ServoPen® was judged to be the leading product by patients and medical staff alike. The ServoPen® is a high-quality reusable insulin pen with a spring-assisted injection mechanism and a robust yet lightweight metal casing. The administration of insulin takes place automatically and is simplified by the very short injection stroke distance, even in the case of large administration doses. The time required to change the carpule is also reduced considerably, thanks to an integral and retractable piston rod and a bayonet connecting cartridge holder. The display is easy to read, thanks to very large numbers, thus making the choice of dose a simple and safe process.



INNOVATIVE INJECTION SYSTEMS WELCOMED WITH ENTHUSIASM BY PATIENTS AND PHARMA CUSTOMERS

New auto-injector from Ypsomed

Unlike the classic self-injected drugs such as insulin, growth and fertility hormones, many innovative biological substances, for example monoclonal antibodies against inflammation, are injected considerably less frequently; these are sometimes injected just once a week or even less regularly. Moreover, the dosage of these drugs is often unrelated to the patient's weight or to the severity of the illness. The primary packaging device for such drugs is generally a prefilled ready-to-use syringe. The market for ready-to-use syringes has been growing continuously for years and now represents a figure in excess of 2 billion units per year. Since patients sometimes have handling difficulties as a result of their illness or do not feel confident about administering an injection themselves, pharma companies are increasingly turning their attention to disposable auto-injectors. The auto-injector contains a prefilled disposable syringe that is hidden from the patient's view and that triggers the administration of the drug completely automatically and safely. Ypsomed wants to gain a stronger foothold in this new and extremely fast-growing market segment in the future and has therefore invested heavily in the development of relevant technology platforms over the past three years. According to comparison studies, Ypsomed is currently offering the most patient-friendly device on the market with its "Ypsoject®" device. Moreover, Ypsomed is working on two further auto-injector platforms that are designed to meet customer and patient needs that have not been covered so far.



Further expansion of technology platforms for auto-injectors

Thanks to productive collaboration between development and marketing, Ypsomed has strongly expanded the technology platforms for pens over recent years. The technology platform will be extended in the future, especially in the field of auto-injectors. Ypsomed has many years of experience in this field, together with a substantial patent portfolio that has already resulted in a number of license agreements.

Reduction of time-to-market thanks to Ypsomed technology platforms

When pharma companies decide in favor of an injection system, it is not only the functionality, safety or user-friendliness that are the decisive factors. Other relevant aspects are the supplier's ability to adapt the selected products to the customer's specific needs, to set up production as quickly as possible and to guarantee the delivery of high-quality products on time. Thanks to the operational improvements made to its business processes, Ypsomed has considerably reduced cycle times for development and industrialization, and has increased productivity. Further significant improvements will also be possible in future, thanks to the consistent standardization of processes, so that new projects will not result in any major increase in employee numbers. Ypsomed offers targeted further development and specific training in order to respond to the growing demands being placed on employees.

Numerous projects in the industrialization phase

Ypsomed is currently setting up production capacity for numerous products. As a part of the various industrialization projects, the necessary building infrastructure, together with all required production installations, production tooling, injection molding machines, assembly robots and much more must be procured, installed, validated and certified for fully developed products. Depending on the complexity and the planned production volumes, a period of between 12 and 18 months must be scheduled for the industrialization phase of a product. Together with its pharma customers, Ypsomed is making considerable investments and efforts in this phase, but without yet generating any sales. In addition to setting up production for Ypsomed's own products such as pen needles and the new safety pen needles in Solothurn (see page 22), there are a further five new injection systems in the industrialization phase. So far the simultaneous industrialization is progressing according to schedule, but it nevertheless constitutes a huge challenge for everyone involved. Ypsomed is striving to cut costs significantly and to reduce project running times by means of a modified validation process, based on the latest standards set by the FDA (Food and Drug Administration). Customers can therefore make a faster transition from the development phase to industrial production and ultimately bring their products to market more quickly. The pharma customers are planning for the market launch of the new products between 2010 and 2013.

High investments in development and patents are the key to success

One key to Ypsomed's success is the continual high investment in innovation and new product developments. In the fiscal year 2008/09, the total expenditure for research and development was CHF 33.4 million, representing 6.9% of sales. This resulted not only in innovative products and future generators of revenue, but also in numerous patents. In the last business year, Ypsomed again submitted over 20 new patents and currently has a patent portfolio in excess of 290 patent families. Thanks to successful negotiations, Ypsomed has in the past been able to enter into various agreements concerning non-exclusive license rights for the use of Ypsomed patent rights. A new agreement was once again signed in autumn 2008.

From customer request to thousands of pens for clinical trials within nine months

A concrete example can be used to demonstrate Ypsomed's efficiency. A global pharma company decided in favor of a pen system from the Ypsomed technology platform. Once the individual customer specifications had been agreed in writing, the requirements were implemented immediately. Prototype tools were manufactured and plastic parts were produced and assembled by hand. Within just nine months, Ypsomed had delivered several tens of thousands of pens for a clinical trial to the pharma customer's great satisfaction. Thanks to this rapid implementation and short cycle time, Ypsomed was able to secure a significant time advantage for its customer.

INNOVATIVE INJECTION SYSTEMS WELCOMED WITH ENTHUSIASM BY PATIENTS AND PHARMA CUSTOMERS

Survey of pharma customers shows high level of satisfaction with Ypsomed

Over the past business year, Ypsomed has considerably simplified, standardized and streamlined its business processes. This has resulted in improvements to the quality of the delivered products and the reliability of delivery. The statistical data assessed internally demonstrates a positive trend, and further evidence of this is provided by the good results of a survey carried out among Ypsomed pharma customers. In this customer satisfaction analysis, existing pharma customers ascribed the following strengths to Ypsomed: innovative products, excellent product quality, a good quality system in all regards, efficient collaboration and good communication, together with flexibility in planning and logistics. Overall, pharma customers have a very positive impression of Ypsomed and they are extremely satisfied with Ypsomed's performance. Particular appreciation was expressed of Ypsomed's efforts to steadily evolve and to implement proposals for the improvement and optimization of processes.

Generating and implementing new ideas with 150 engineers

Ypsomed employs over 150 engineers in both product development and process engineering. The high number of professional and experienced employees enables Ypsomed to initiate and implement new projects for customers very quickly. The customer is allocated a Senior Project Manager as a central point of contact who coordinates the complex project tasks between the customer and the various departments. Customers value not only the solid competence at Ypsomed, but also the close collaboration with various specialists from the outset. The Project Review Board regularly reviews and critically examines every project before signing it off, thereby ensuring that each new project benefits from the full weight of Ypsomed's experience.

Start of production for components of the Sanofi-Aventis SoloStar® pen at the end of 2009

Preparation for the production of the SoloStar® disposable pen for Sanofi-Aventis offers an example of a successful industrialization project. Once Sanofi-Aventis had set its specifications and agreed these with Ypsomed, an entire storey of a building at the Solothurn site was converted and all necessary production installations were ordered, installed in stages and commissioned. The industrialization project is currently running on schedule and in close collaboration with Sanofi-Aventis, with the result that Ypsomed expects to be able to start the manufacture of components for the SoloStar® at the end of 2009.

PEN NEEDLES BRING GROWTH

Sales of pen needles grew once again

Ypsomed's pen needle business developed very successfully yet again in the 2008/09 business year. Sales of the patented "click-on" pen needles increased by over 20% for the fifth time in a row, thereby outperforming the growth rate of the entire market once more. The US market, our subsidiaries in Germany, France, the Netherlands and Scandinavia, together with the Swiss domestic market, have all made a major contribution to this gratifying growth rate. Among the distributors, Great Britain and Israel have had a particularly positive effect on the good overall result.

New distribution partners for pen needles in the USA

Ypsomed has held a successful market position in the USA for years, supplying pharmacy chains (retailers) across the country with the patented "click-on" pen needles. Ypsomed pen needles are promoted and distributed as "private label" products by the various retailers as their own brands. In addition to its existing customers, Ypsomed successfully won three new key accounts during the last business year. The Clickfine® pen needle is now listed with the four largest drug wholesalers which collectively servicing over 90% of retail pharmacies in the USA. The US market is of particular interest to Ypsomed, as the penetration of pen systems for the administration of insulin in the USA is still under 20%, in contrast to Europe and Japan where the pen penetration rate is in excess of 90%. The growth potential for pen needles in the USA is therefore correspondingly large.

Distribution of pen needles in additional countries

However, it is not only through its own European subsidiaries and in the USA that Ypsomed has experienced strong growth in the pen needle business: once again, Ypsomed has expanded geographically its sales activities. During the last business year, distribution agreements have been signed with partners in Canada and Egypt for the distribution of Ypsomed pen needles. Equally gratifying is the business development with existing distribution partners in Israel, Great Britain and the Czech Republic. In India, where Ypsomed founded its own subsidiary in 2007, Ypsomed has recently received authorization for the distribution of pen needles. Ypsomed will further expand distribution worldwide and is anticipating positive momentum. The expansion of the European distribution organization of the Ypsomed subsidiaries for the market launch of the new Ypsomed blood glucose monitoring system will also have a positive effect on the sales development of the pen needles, as will the intensified collaboration with Bionime and its existing distribution network.

The pen needle market experiences stronger growth than the insulin market

For several years now, the insulin market has been growing at an average rate of around 10%. According to industry experts, growth will continue at roughly the same rate over the next 10 years. The increasing distribution of pen systems for the administration of insulin, as well as for other liquid drugs, is resulting in stronger growth in the pen needle market. An additional consideration is that patients are currently still using the same pen needle several times, sometimes more than ten times, despite the fact that these pen needles are designed to be used only once for reasons of hygiene and safety. Ypsomed is therefore working together with leading manufacturers of pen needles to educate patients and to inform them of the risks of multiple use. In Germany, for example, Ypsomed is cooperating with the Verband der Deutschen DiabetesberaterInnen (Association of German Diabetes Educators), using the motto "Only once – because it gets under your skin" in various campaigns, in order to communicate to patients the necessity of using a pen needle only once.

PEN NEEDLES BRING GROWTH

Increased production capacity for pen needles

Important projects in the pen needle sector were the commissioning of the new, fully-automatic packaging plant in the Burgdorf logistics center and the expansion of the production capacity for pen needles and safety pen needles at the new location in Solothurn. Ypsomed has invested a total of around CHF 35 million in the production expansion. This work involved converting existing buildings on the Ziegelmatte site and providing the necessary infrastructure for clean room production. Ypsomed has redesigned the production, assembly and packaging of the pen needle components and will be able to expand the production capacity gradually and significantly over the coming years. This will simultaneously result in improvements to the quality of the pen needles and an optimization of the manufacturing costs. In the future, therefore, Ypsomed will continue to be able to offer high-quality pen needles at competitive prices.

Pen needles with a new design

Over the course of the past business year the design of the pen needles has been revised also in conjunction with the new production capacities. The new pen needle features an attractive, transparent-blue design with clear color coding of the peel-off film to allow for better differentiation between the various needle lengths. The packaging is attractive and designed for easy initial opening. The new needle design will be promoted with an advertising campaign in the 2009/10 business year. The needle remover developed by Ypsomed is a real success and is very popular with nursing staff. The needle remover makes changing the needle a safer and easier process, protecting both nursing staff and patients from accidental needle-stick injuries.

Safety pen needles offer attractive opportunities for growth

The existing pen needle product range in four different sizes under the brand names Penfine® universal click™, Clickfine® universal and Optifine® will be extended in the new business year through the addition of the new Clickfine® AutoProtect™. The introduction of this safety pen needle, featuring a special locking mechanism that prevents a second injection, is expected to take place in Europe and in the USA towards the end of the 2009/10 business year. The safety pen needle, which also features the Ypsomed patented "click-on" mechanism, is an important new product for Ypsomed, since it meets new regulatory requirements and thereby enables the pen to be used in clinics, nursing homes and hospitals. The new safety pen needle prevents accidental needle-stick injuries, infections and the transmission of life-threatening diseases, thus improving safety for doctors and nursing staff. Ypsomed will be able to take advantage of existing customer relations for the distribution of the safety pen needle.

Clickfine® Pen needles



EXPANSION OF DIABETES BUSINESS WITH NEW BLOOD GLUCOSE MONITORING SYSTEM

The spread of diabetes mellitus rapidly increasing worldwide

According to World Health Organization (WHO) estimates, there are currently more than 250 million people in the world with diabetes, with many of them believed not yet to have been diagnosed. The WHO estimates that the number of people with diabetes will rise to more than 380 million by the year 2025. Diabetes is therefore assuming epidemic proportions and it represents a grave and serious global problem. Diabetes not only affects people in more affluent countries, but increasingly also in newly industrializing countries. According to WHO forecasts, the number of people with diabetes in India is set to almost double by the year 2025, rising from its current figure of approximately 40 million to 70 million. An increase is also expected in China, from the current figure of 40 million to 60 million in 2025, representing a 50% rise. In order to give an idea of the extent of this problem: The number of diabetics in India will top Germany's total population in approximately 15 years. The costs associated with the treatment of diabetes are already extremely high today and are estimated to be an almost unimaginable 422 billion US dollars. The WHO is also anticipating a rapid increase in these costs, forecasting a rise of around 30% to a figure approaching 560 billion US dollars by the year 2025. More than 50% of these costs will accrue in the USA alone.

Blood glucose monitoring prevents costly secondary complications of diabetes mellitus

Blood glucose monitoring involves the application of a small drop of blood on to a test strip in order to determine the glucose content in the blood. The glucose value is then displayed by a compact device within a matter of seconds. Thanks to this simple and fast process, a blood glucose level that is either too high or too low can be measured and monitored. The most common symptoms of low blood glucose (hypoglycemia) are outbreaks of sweating, palpitations, extreme hunger, visual disturbances, loss of concentration and loss of balance, and these can be triggered for example by sport, alcohol, drugs or if not enough food is eaten. High blood glucose (hyperglycemia), on the other hand, can be triggered for example by an inappropriate diet, illness, medication or stress, and the symptoms can include fatigue, loss of appetite, strong thirst and frequent urination. However, the blood glucose level can also be affected by fever, illness or gastro-intestinal infections. If blood glucose levels fluctuate frequently and substantially, there is an increased risk of serious secondary complications, such as blindness, amputation, heart attack or renal failure. In order to prevent this, diabetes is now increasingly treated with insulin at an early stage, since clinical studies have shown that such early intervention can reduce the serious and cost-intensive secondary complications. This goes hand in hand with early and more intensive self-monitoring of the blood glucose level.

Diabetes in India – Ypsomed helps local people in need

Ypsomed helps millions of people every day, most of whom are affected by diabetes mellitus, by supplying modern and reliable self-injection systems and a comprehensive diabetes care service. Since the formation of its own subsidiary in India in the last business year, Ypsomed has been active in the fourth-largest economic market in the world. Ypsomed has gained recognition among local insulin suppliers and pharma and biotech companies as a leading, independent partner supplying pen systems and pen needles, and as an expert in the field of diabetes. Ypsomed will distribute its patented, Swiss-manufactured pen needles not only in India, but also in China and in other Asian countries. However, there are many people in India in particular who cannot afford insulin therapy. Ypsomed has therefore shown its commitment in India for several years, providing support for the charitable organization Dream Trust (www.dreamtrust.org) in Nagpur, which helps socially disadvantaged people with diabetes.

EXPANSION OF DIABETES BUSINESS WITH NEW BLOOD GLUCOSE MONITORING SYSTEM

Why regular blood glucose monitoring is important

The answer is simple: people who regularly measure and monitor their blood glucose level live longer! Broad-based studies have shown that people with type 2 diabetes who monitor their blood glucose level regularly have a much better long-term prognosis. The study results show that patients who monitor their own blood glucose levels cut their mortality risk by around half. All leading specialists therefore recommend the self-monitoring of blood glucose levels as an essential part of modern diabetes therapy.

Ypsomed distributes Bionime blood glucose monitoring systems in European countries

Distribution of blood glucose monitoring systems strengthens diabetes business

Ypsomed will substantially strengthen its diabetes business with the distribution of blood glucose monitoring systems in Europe from Spring 2009. The Bionime systems for the self-monitoring of blood glucose expand the existing range of diabetes care products offered by Ypsomed's European subsidiaries. Ypsomed therefore started planning for the launch of the new blood glucose monitoring system in Europe in collaboration with Bionime at the end of 2008. The market launch in European countries is scheduled to begin in spring 2009. Ypsomed will start selling the new blood glucose monitoring system step by step in Germany, France, the Netherlands and Scandinavia through its own subsidiaries, as well as in other countries through new distributors or existing Bionime partners. Ypsomed has acquired the distribution rights for the following countries: Germany, France, the Netherlands, Sweden, Finland, Norway, Denmark, Switzerland, England, Ireland, Spain, Portugal, Belgium, Austria, Estonia, Lithuania, Slovenia, Luxembourg, Iceland and Liechtenstein.

Blood Glucose Monitoring System PURA™



The subsidiaries expand the external sales force

In conjunction with the preparations for the market launch of the Bionime blood glucose monitoring system, Ypsomed is itself substantially expanding its own external sales force that has so far focused on the sales of pen needles. Ypsomed also sees opportunities for sustainable cooperation with health insurance providers and wants to offer innovative and all-encompassing concepts for professional groups and patients. The expansion of the product range through the addition of a high-margin product, such as the blood glucose monitoring system, will also result in a significant increase in the profitability of the sales organization in the medium term. Ypsomed has plans for the formation of additional subsidiaries in Europe, but, for reasons of cost, will set priorities and proceed gradually in terms of the geographical market launch.

Bionime blood glucose monitoring system proves its high measurement accuracy

The new Bionime blood glucose monitoring system that will be distributed by Ypsomed in selected European countries is very competitive and offers all of the important performance features associated with modern devices, such as auto-coding, low blood quantity, a large illuminated display, numerous memory functions, user-friendly operation and compact design. The most important feature, however, is an accurate blood glucose measurement and it is here that the Bionime device really stands out. In a study carried out recently in accordance with ISO criteria, the measuring accuracy of the latest Bionime system is as high as that of the global leader in blood glucose monitoring systems.

Bionime equity stake strengthens partnership

Bionime was founded in 2003 in Taiwan and has achieved a great deal in a short period of time, in particular compared to its competitors that Ypsomed had also evaluated. Ypsomed chose to cooperate with Bionime for three reasons: The high quality of their blood glucose monitoring systems, the low production cost base for devices and consumables as well as the highly talented and motivated work force. In addition, Ypsomed and Bionime pursue a similar philosophy and culture putting quality and innovation at the heart of their work. That is why Ypsomed took a 10% equity stake in Bionime Corp., Taichung (Taiwan), last year, valued at approximately CHF 6.4 million. For Ypsomed this is a relevant strategic step towards strengthening the partnership with Bionime.

Bionime – An entrepreneurial success story

Bionime develops and produces blood glucose measuring systems, and it successfully combines patented technologies, Swiss design and Taiwanese trading and manufacturing competencies. The company was established in 2003, is headquartered in Taiwan, and has branches in Switzerland, the People's Republic of China and the USA, employing a total of around 380 staff. The company successfully launched its first blood glucose measuring system in 2005, is already profitable, and is currently privately held.



Roy Huang, Chairman of Bionime with Richard Fritsch, CEO Ypsomed

"Ypsomed Goes East" – team up and benefit from synergies

In partnering with Bionime Ypsomed sees a great number of synergies: On the one hand the partnership underlines the importance regarding European distribution of Bionime devices through Ypsomed. On the other hand Ypsomed sees great opportunities for additional pen needle distribution by teaming up with Bionime's distribution network in Asia and Eastern Europe. A third synergy may arise in the future by exploiting industrial collaboration with Bionime in Asia.

EXPANSION OF DIABETES BUSINESS WITH NEW BLOOD GLUCOSE MONITORING SYSTEM



Bionime's founder and chairman, Roy Huang

Interview with Bionime's founder and chairman, Roy Huang

Roy Huang, the founder and chairman of Bionime, is still actively involved in the research and development of products. Roy Huang is 53 years old and has over 31 years of experience in the industry as well as a degree in Electrical Engineering from the Taipei Institute of Technology (TIT).

Ypsomed: You're the founder of Bionime and were fundamentally involved in the innovative development of blood glucose measurement systems.

How did the founding of Bionime come about?

Roy Huang: Up until that point in my career, I had been active in the area of health care because this is a market with a promising future. Health and quality of life mean a great deal to people. In our specialized area of diabetes, regular measurements of blood glucose levels are critical for preserving life and avoiding life-threatening consequential damage. The requirements of home users these days are similar to those of doctors and nursing staff in hospitals. The motivation was to develop instruments and equipment that fulfill these demanding requirements. That's how Bionime came to be founded.

How has Bionime developed since it was founded?

Bionime was only established in 2003, and by March 2005 the first devices had already been introduced onto the market in Europe. Since then, Bionime has grown rapidly and vigorously; it has achieved a broad market presence and is already profitable. In all, we have developed three generations of devices and launched them on the market. During this time, there's also been a strong growth in the number of employees.

Who is behind Bionime and has made this rapid development possible?

The company is privately held and is owned by the founders and managers. Initially we invested our own money and also received support from our friends and families. Later, we were joined by further private investors and some venture capitalists became involved.

How many people does Bionime employ today?

Bionime now has about 380 employees in total, 270 of whom work in production. Bionime has its headquarters in Taichung in Taiwan, its European base in Berneck (Switzerland), and subsidiaries in the USA and China for distribution.

In which countries does Bionime already maintain an active presence?

Bionime has a strong distribution network with partners in 56 countries (76 distributors) and we are particularly strong in China as well as some Eastern European countries. Ypsomed can also benefit from this in the marketing of pen needles.

What makes Bionime successful?

No doubt there are various factors involved, but the combination of innovative Swiss design, a high level of user-friendliness and Taiwanese technical expertise with precise functionality at a low cost are certainly particularly important. Intelligent design reduces operating complexity and at the same time enables economical manufacturing, which is gaining increasing importance in the health sector. In addition, within the management team at Bionime we have an excellent partner network from our previous business activities, and thanks to them we were able to accelerate development and secure rapid worldwide distribution.

Why has Bionime chosen Ypsomed as its distribution partner in Europe?

Ypsomed is independent, and in the field of diabetes it has a strong market presence in Europe, direct access to customers as well as a high level of specialized expertise and years of experience. In the past, Ypsomed has proven that they can market blood glucose measuring devices very successfully. We at Bionime also see opportunities for industrial collaboration with Ypsomed in the future.

How do you foresee future industrial collaboration?

Well, I can foresee several possibilities here. As a Taiwanese company, we have traditionally always aimed to develop very economical and innovative solutions. Conversely, Ypsomed has many years of experience, expertise in automation along with numerous patents and innovative technology platforms. Depending on how the market develops, it is, for example, conceivable that in the future we will manufacture injection systems for Ypsomed in Asia. Or we could jointly develop new products, and due to the time difference between Switzerland and Taiwan we could cut development time.

How important is product design for you as an engineer?

It's not engineers who will be buying Bionime blood glucose measurement systems but instead people who are taking responsibility for themselves and want, as far as possible, to promote their health through self-monitoring. And while our devices are technically superior and clinically validated, they are geared towards a sporty "wellness design" to support a high quality of life for people with diabetes.

In order to grow you need capital.

Does Bionime have any plans to go public?

Bionime's committed and broad-based shareholders have so far ensured solid financing. The company is profitable and in principle does not need any additional capital. However, Bionime could grow more rapidly on a global basis with additional financial resources. For this reason, Bionime has made the necessary preparations in order to fulfill the requirements for an initial public offering. Depending on the underlying conditions, an IPO in Taiwan or Hong Kong would be conceivable, but at present no decision has been made.

EXPANSION OF DIABETES BUSINESS WITH NEW BLOOD GLUCOSE MONITORING SYSTEM

German Diabetes Direct Market Leadership Thanks to DiaExpert

DiaExpert – responsibility, expertise and service in providing diabetes care

In the last business year, Ypsomed's diabetes direct business through its subsidiary DiaExpert in Germany has once again undergone very positive development. Sales increased by 7.7% to CHF 63.5 million and an EBIT of 4% was achieved. The product range includes blood glucose test strips, insulin pumps and accessories, (safety) lancets and needles as well as additional diabetes care products, which diabetics can either have delivered directly to their door through the direct mail order service or purchase in specialist diabetes shops. The extensive range of distribution, expertise and experience, together with the comprehensive scope of services, make DiaExpert an attractive partner for health insurance providers. Particularly worth mentioning are the new agreements that have been reached with leading funding agencies in the last year; this is also in line with health policy. These agreements provide a good basis for the medium-term growth of DiaExpert.

Acquisition of Medizinservice Flemming and Sanitavital strengthens market position

Based on acquisitions DiaExpert became Germany's largest mail order business for diabetes care products in the 2008/09 business year. The former Florian Müller GmbH was integrated into DiaExpert GmbH at the beginning of April 2008. This move was accompanied by a new visual identity for DiaExpert and a new logo. The patient base was further broadened through the acquisition and integration of two additional regional suppliers. Revenue from customers acquired from Medizinservice Flemming and Sanitavital was consolidated in DiaExpert as of January 1, 2009. Through these acquisitions, DiaExpert has significantly expanded its leading market position in the German market. In Germany, DiaExpert has become the clear front-runner in the mail order business caring for patients using insulin pump therapy or on intensive insulin therapy. The internal structures and resources have been expanded, especially with regard to the Germany-wide diabetes sales service for professional groups and funding agencies, in customer services and in order processing.

From order placement to delivery to the patient's door within 24 hours

DiaExpert is the largest independent diabetes sales organization in the whole of Germany, offering an integrated range of products and services, including telephone advice, customer service, an online shop, a customer magazine and a health insurance service. Customers contact DiaExpert employees by phone, email, mail or fax and order their diabetes care products from a range of some 1 100 products. The orders and prescriptions are instantly logged in an IT system. The goods are then immediately packaged in the logistics department, collected by external delivery service contractors, and are generally delivered to the customer's chosen address within 24 hours. Every day, up to 1 000 parcels are dispatched from the DiaExpert storage and logistics center in Liederbach. DiaExpert supplies approximately two-thirds of all diabetics in Germany who wear an insulin pump. In addition to the extensive range of products, customers also particularly appreciate the expert advice given by the employees, some of whom are themselves diabetics, and who also support customers face-to-face, e.g. in a special "pump café" in the DiaExpert branch in Hamburg.

CONTINUOUS INJECTION DEVICE – NEW WAYS FOR TREATING DIABETES

Advantages of continuous insulin administration

The continuous injection device, which Ypsomed has been developing for a number of years, guarantees the continuous administration of insulin. The aim of this continuous administration is to prevent serious long-term damage, such as blindness, kidney damage or heart disease. Ypsomed's new continuous injection device is worn on the body and continuously administers human insulin. The therapeutic advantage of a continuous administration of insulin has been proven by numerous studies. Ypsomed is working on a very cost-effective and user-friendly system in order to enable as many diabetics as possible to benefit from the advantages of improved metabolic control in the future.

Status of development activities

In the last business year, Ypsomed has substantially strengthened its Infusion Business unit, which comprises a dedicated development team, as well as experts from the marketing, distribution, product management and regulatory sectors, through the appointment of additional staff. These employees have been focusing on the further development of the "semi-disposable" concept. This involves patients connecting the disposable module to the reusable control and drive element in a simple process. In order to introduce the continuous injection device on the market successfully, Ypsomed needs partnerships with insulin suppliers. Therefore, in addition to the technical development, negotiations with several insulin suppliers have also taken place in the last business year.

Continuous Injection Device



Optimization of production and logistics

One of Ypsomed's key goals is to increase efficiency, speed and flexibility, and thereby also to further improve quality at the highest level. The implementation of this strategic target set by the Board of Directors has been a major priority for the operating management of Ypsomed over the last business year. Ypsomed has optimized its business processes in production and logistics thanks to a whole range of measures and projects and, through these, has achieved significant cost savings and faster processing times. Competitiveness starts where added value is created: in the production halls, on the assembly lines and at the workstations. In order to ensure a continued high level of competitiveness within production over the coming years, Ypsomed is applying two simple principles: 1: Quality through safe, stable manufacturing processes and, 2: Production at the right time. By adhering to these principles consistently, Ypsomed can manufacture top-quality products at low cost and with a high level of reliability.

Business processes substantially improved through lean management

In its implementation of optimization measures, Ypsomed applies concepts from lean manufacturing and lean management. At Ypsomed, there are three priorities: firstly, production that saves resources, secondly, a sharp increase in productivity and, thirdly, improved ergonomics in the workplace. At the end of 2007, practical proposals for possible optimization measures and cost savings were collected from all employees, and these were discussed and prioritized. This resulted in around 90 projects and sub-projects that have been predominantly implemented in the last business year. By the end of March 2009, more than 70 specific measures were implemented with strict project controlling and thereby significant cost savings were achieved. Above all, Ypsomed has standardized and simplified specific processes in manufacturing and logistics as well as optimized production stages. For example, Ypsomed no longer outsources some activities, e.g. the injection molding of certain component parts or transport activities, meaning that Ypsomed has been able to reduce costs and speed up its response times. A further important optimization measure has been the improved definition and coordination of test methods and test criteria with our customers and suppliers. Moreover, processes that were largely superfluous or overlapping were identified, eliminated and redefined. The result of this was a simplification of documentation and processes as well as a significant reduction in paper consumption and the time spent on administration.

"Ypsomed goes lean" – simpler and faster pen production

The introduction of lean manufacturing for the YpsoPen®, Ypsomed's own reusable insulin pen, was one of these specific measures. In a pilot project, the assembly process for the YpsoPen® was reorganized and optimized into a continuous production flow, with the help of one-piece-flow workstations. This means that there is no intermediate storage between the individual assembly stages, and that each YpsoPen® is assembled, tested and packaged in a continuous work flow from beginning to end. This change in procedure not only resulted in a reduction of the amount of material in the line, but also allowed any quality problems or faults to be discovered immediately and rectified. Thanks to the resource-saving production method, the size of the assembly area was reduced and process safety was increased. By applying lean production principles to the production of the YpsoPen®, the assembly time was cut by 35%, the volume of paper by 70%, and the overall manufacturing costs were also reduced significantly. In light of these positive experiences, Ypsomed aims to extend the lean production philosophy to the manufacture of additional products in the 2009/10 business year.

Increased efficiency thanks to the new logistics and production center in Burgdorf

The new logistics and production center in Burgdorf, commissioned in summer 2008, has played an important role in increasing efficiency. At the Buchmatt site, it was not only logistics, storage and packaging that were centralized. The production of the reusable pen systems was also consolidated on one floor, thereby significantly simplifying and optimizing material flow and the deployment of staff. In order to benefit from additional synergies and to use production know-how in a focused way, Ypsomed has consolidated the production of the plastic parts for the OptiSet® disposable insulin pen, together with their fully-automatic assembly, at the Burgdorf site. Thanks to this measure, manufacturing efficiency has been increased significantly. One of the reasons for this is that it has been possible to decommission old production facilities that required a high level of maintenance.

Transfer and expansion of pen needle production

In order to meet the increased demand for pen needles, the existing production facilities in Burgdorf have been running 24 hours a day, seven days a week. It has been possible to further optimize and constantly increase the existing production capacities without stopping normal operations, a fact that was largely attributable to the exceptional commitment of our motivated and experienced employees. Simultaneously, Ypsomed has transferred the packaging of the pen needles to the new logistics center. Since September 2008, the pen needles have been packaged at this center, using a new packaging method and a new, high-performance packaging plant. At the same time, a committed project team at the Solothurn site also set up the new and expanded production infrastructure for pen needles and safety pen needles. This included the construction of a clean room as well as the validation and commissioning of the new production facilities. The implementation of the expansion projects was a complex and major challenge.

Production in Switzerland is of strategic importance and will be further expanded

For Ypsomed, Switzerland is a production location of strategic importance. Following investment in Burgdorf and Solothurn in excess of CHF 200 million over the past five years, Ypsomed has decided to continue with the necessary future expansion of production at the existing sites. Ypsomed's injection system business will keep growing in the future and will therefore require additional production space in the medium to long term. Over the next two years, Ypsomed must set up production for five new pen systems for the newly attracted pharma clients. At the same time, the production of the safety pen needle and the new pen needles is being started and gradually expanded in Solothurn, as outlined above. There is also an additional space requirement due to the planned production start for Ypsomed's own ServoPen®, a reusable insulin pen, as well as in the future for the continuous injection device. Ypsomed has therefore devised a site strategy for the next five to ten years, which ensures that the growing needs can be met cost-effectively and on time. The site strategy further takes account of requirements arising from the implementation of lean production, such as an optimum material flow, the greater automation of volume production and the efficient use of space, as well as more extensive safety requirements on the part of customers regarding fire protection, safe storage and delivery reliability, together with increasing regulatory requirements, such as more stringent clean room standards for new buildings.

Winning new customers thanks to top quality

In the past business year, Ypsomed has undergone a total of eight audits by pharma companies and has achieved very good results and a high level of customer satisfaction. Such audits involve the customers and their auditors spending several days on-site, checking every last detail of the quality management system and its implementation. Thanks to its excellent quality and its extremely good performance in these audits, Ypsomed has convinced its existing customers and is today regarded as a world leader. Potential customers have also been impressed by our high-quality working practices that are in line with GMP (Good Manufacturing Practice) and our very high level of competence in regulatory issues. This has played a major part in our acquisition of new customers in the last year. For example, Ypsomed has been able to advise newly-acquired pharma customers on strategies to pursue when making submissions to the authorities and drawn up product-specific submission documentation for customers.

Planned production expansion for injection systems in Solothurn

As part of the new site planning, Ypsomed has decided to start planning a new extension to serve the production and assembly of pen systems and auto-injectors in Solothurn. Investments of around CHF 20 million over the next two years has been earmarked for the expansion at the Solothurn site. This is in addition to the investment of several million Swiss francs for production facilities and installations. Thanks to these investments in infrastructure and buildings, Ypsomed will not only fulfill the more stringent regulatory and customer requirements, but will also substantially increase sales per square meter. Although the total number of employees in production and logistics on a full-time-equivalent basis has declined slightly in the 2008/09 business year, approximately 100 new jobs will be created over the next 18 months in order to guarantee production of the additional products. Thanks to targeted internal and external training for our employees, it has been possible to fill almost all managerial vacancies or new managerial positions through the internal promotion of competent employees.

High quality as a priority

Quality, safety and reliability are of key importance to patients and pharma customers, and are therefore also crucial to Ypsomed. In order to guarantee that our products consistently offer an excellent standard of quality, all of Ypsomed's business processes are certified in accordance with the guidelines for medical products as well as in accordance with ISO 9001 and ISO 13485. Ypsomed's comprehensive and professional quality management system is an important factor to our success. Quality management starts in the head of each and every one of our employees, and ranges from product development right through to the delivery of the finished products to the customers.

Satisfied customers – quality improvements pay off

As part of our efforts to introduce constant improvements, general aspects of the quality assurance system have been further optimized over the past business year. In particular, practices relating to discrepancies and modifications have been redesigned to enhance efficiency by transferring responsibilities to “on-the-spot” product care teams. The decision-making process has been speeded up considerably and the GMP-compliant documentation has been optimized. Product risk management has also been improved and today functions with uniform processes in accordance with the latest regulatory requirements. Ypsomed has made further improvements through the commissioning of the new logistics and production center at Buchmattstrasse in Burgdorf. These have involved redesigning both employee and material flow to be more efficient, thereby meeting current GMP standards. The new site has been successfully audited by both customers and authorities. Following the optimization of Ypsomed's higher-level quality systems – e.g. the handling of discrepancies or modifications – the focus will now be on the more efficient design of systems in use locally and in adapting these to new standards. Thanks to the increased efficiency in various areas, it will be possible to implement the forthcoming projects with existing employees.

Increasing demands on quality

In the medical technology and pharma industry, requirements with regard to the quality of products and business processes are growing constantly, not only on the part of customers, but also increasingly on the part of national and international approvals authorities. Ypsomed meets these high requirements with a professional and committed quality management team, and is already working on projects to generate further innovations. Recently published guidelines by the relevant authorities indicate fundamental changes in their ways of thinking as well as in their expectations. Considerable simplification could be achieved through adopting scientific procedures, particularly in terms of validation activities. For this reason, Ypsomed has begun to standardize and simplify all validation and qualification rules. An additional and important project to improve quality is the future introduction of Statistical Process Control (SPC). In many cases, instead of carrying out complex measurements on measuring machines, immediate feedback concerning the quality of the materials and products produced can be obtained through simpler measurements on the spot. This allows possible problems to be identified during production and rectified immediately.

Progress in quality management pays off

Modified processes in the handling of discrepancies, in modifications, manufacturing documentation and re-qualification have significantly reduced processing times and simplified the documentation process. Thanks to improved coordination with customers and new specifications, savings have been made and waste has been reduced. Particularly gratifying and worthy of mention is the production quality of the OptiSet® disposable insulin pen. Over a period of 18 months, several million pens were delivered to Sanofi-Aventis which all passed batch acceptance testing.

Ypsomed: a secure employer thanks to good growth prospects

Ypsomed is active in two markets of pronounced growth – self-medication and diabetes – and is therefore constantly seeking new employees. On the one hand, production capacity in Switzerland is being expanded and the development team strengthened. On the other hand, preparations are being made in Europe for the launch of the new blood glucose monitor, by strengthening its sales force. In the last business year, Ypsomed recorded an increase in the response rate to job advertisements and also received an above-average number of unsolicited applications. In the recruitment of new employees, it is clear that Ypsomed is an attractive and secure employer. Particularly valued are the corporate culture that promotes innovation, the varied nature of the job and the associated opportunities for further career development. Thanks to the established culture of human resource development, it has again been possible to fill many vacancies internally, thereby significantly increasing stability. In the last business year, the number of employees at Ypsomed essentially remained the same at 1 209 (previous year 1 210).

High employee satisfaction and motivation

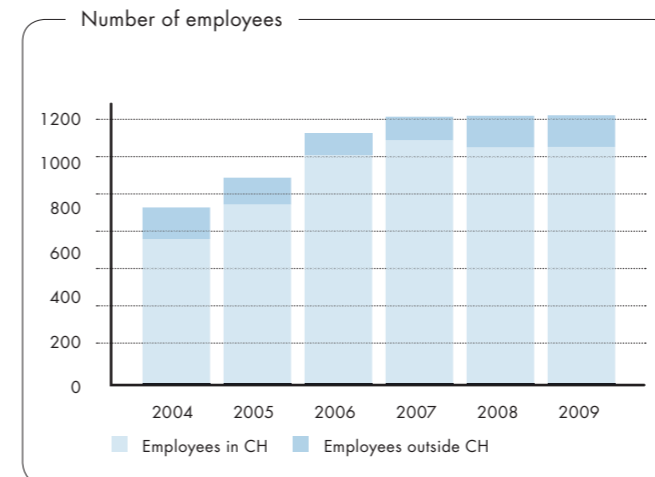
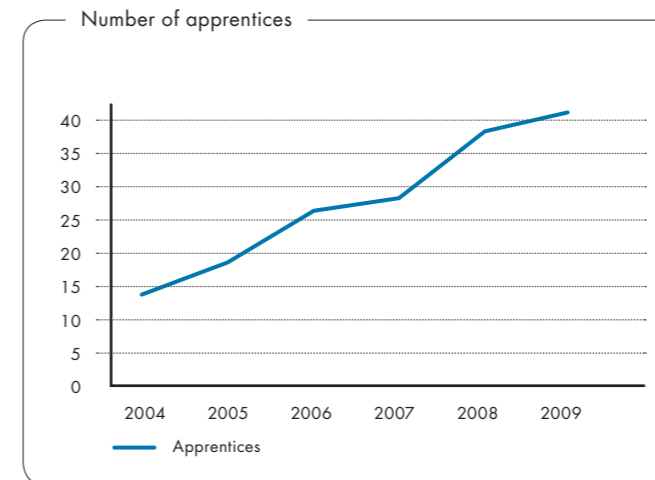
Ypsomed has been carrying out regular surveys among its employees since 2004 and regards this as an important way of assessing the status quo as well as initiating changes and improvements. The results help Ypsomed to introduce and implement measures, and to become even more successful. In the last survey, 81% of all employees were able to express their opinions on the workplace, team, team spirit, senior staff and satisfaction. A particularly gratifying result is the increased number of employees expressing themselves as “highly satisfied”, the highest share since surveys have been conducted. The percentage of management staff expressing themselves as “highly satisfied” has also risen to a very high level. The next employee survey will take place in autumn 2009.

Human resource development combined with ongoing training

In the past business year, around 80 employees were able to take concrete steps in their personal development in accordance with internal career planning. This success clearly shows that our human resource development system with its three possible career paths – specialist, project-based and managerial – is being actively implemented by employees, line managers and the human resources department. Education and training measures are an important prerequisite for successful human resource development. At Ypsomed, employees equip themselves for the challenges of the future through targeted training programs and additional support measures. At Ypsomed, training in management skills remains a key focus and is delivered through both in-house seminars on leadership and tailored programs to strengthen individual management skills.

Training and continued employment for apprentices

Training apprentices is a critical factor in Ypsomed’s future success. The number of apprentices has therefore risen continuously at Ypsomed. There were 14 apprentices in 2004; today there are more than 40, who can now be found in seven different occupational areas. As the employer, we at Ypsomed specify the occupational areas offered for apprenticeships ourselves, such as polymechanics, design engineers, plastics technologists, logistics assistants, computer scientists and management assistants. These occupational areas constitute an important basis at Ypsomed for ensuring future skills and know-how. It is therefore not surprising that almost all apprentices are retained for continued employment at Ypsomed. As of 31 March 2009 the Ypsomed Group employed a total of 1 209 employees.



Ypsomed offers great perspectives

Our employees consistently confirm that Ypsomed offers good prospects, particularly for apprentices. In July 2008, five apprentices successfully completed their basic vocational training. Once again, some were at the top of the cantonal graduating class, and two apprenticeship graduates successfully completed their basic vocational training with the accompanying professional diploma. In August 2008, 14 new apprentices started their basic vocational training. These apprentices include, for the first time, an IT practitioner (professional certification apprenticeship), a new occupational area at Ypsomed that will strengthen the support sector within IT. The number of apprentices at Ypsomed in August 2008 thereby reached a total of 38, spread, for the first time, across seven different occupational areas.

New improvement program resulted in a tenfold increase in new suggestions

In autumn 2008, Ypsomed introduced a new company-wide improvement program to replace the previous in-house continuous improvement system. The main changes are the decentralized organization of the assessment of suggestions, the quick response and processing times for suggestions, and the new reward system that no longer automatically rewards each suggestion implemented. The new system focuses on the continuous and systematic reduction of waste of all kinds, a policy that is also in keeping with the principles of lean management and lean production. Waste is understood to mean any human and/or technical activity that uses resources but that does not produce any value. The start of the new improvement program has been extremely successful. In the first six months following the introduction of the improvement program, the number of suggestions submitted and implemented increased tenfold. The suggestions relate to measures for increasing efficiency, safety, process optimization, energy saving, quality improvements and employee satisfaction. Exchange within middle management has also been enhanced thanks to the decentralized organization. As a result of the new improvement program, employee initiative and the active support provided by senior employees, Ypsomed is gradually approaching its goal of excellence.



Employees with families are welcome at Ypsomed

Ypsomed endeavors to offer its employees an attractive working environment. This includes, among other things, a family-friendly corporate policy and it covers aspects such as flexible working hours, part-time work, parental leave and contributions to child-care costs. These are the current needs of our employees, whose average age is 38. Many of them have a family or are planning to start a family in the near future. Family-friendly policies at Ypsomed are therefore not just a social concession; they are also a competitive advantage. An important milestone was the opening of a day care center (Kita) in Burgdorf on August 4, 2008. Thanks to the initiative by Ypsomed and Roche, and under the management of LeoLea, the center provides employees with a full day-care service for children from the age of three months to school age. The day care center places are subsidized by Ypsomed, and employees also contribute to the costs, depending on their income. Within just a few months, all places had been taken. This clearly shows the importance and value of Ypsomed's commitment to establishing and operating an additional day care center in Burgdorf.

Ypsomed's decisions always include ecological and social considerations alongside economic ones. At Ypsomed, one of the management tasks is to exercise the company's responsibility towards the environment, employees and society every single day. In 2007, Ypsomed appointed a full-time Safety, Health and Environment Officer, whose duty is to raise awareness of these important subjects throughout the company and to implement appropriate improvement measures in cooperation with line managers.

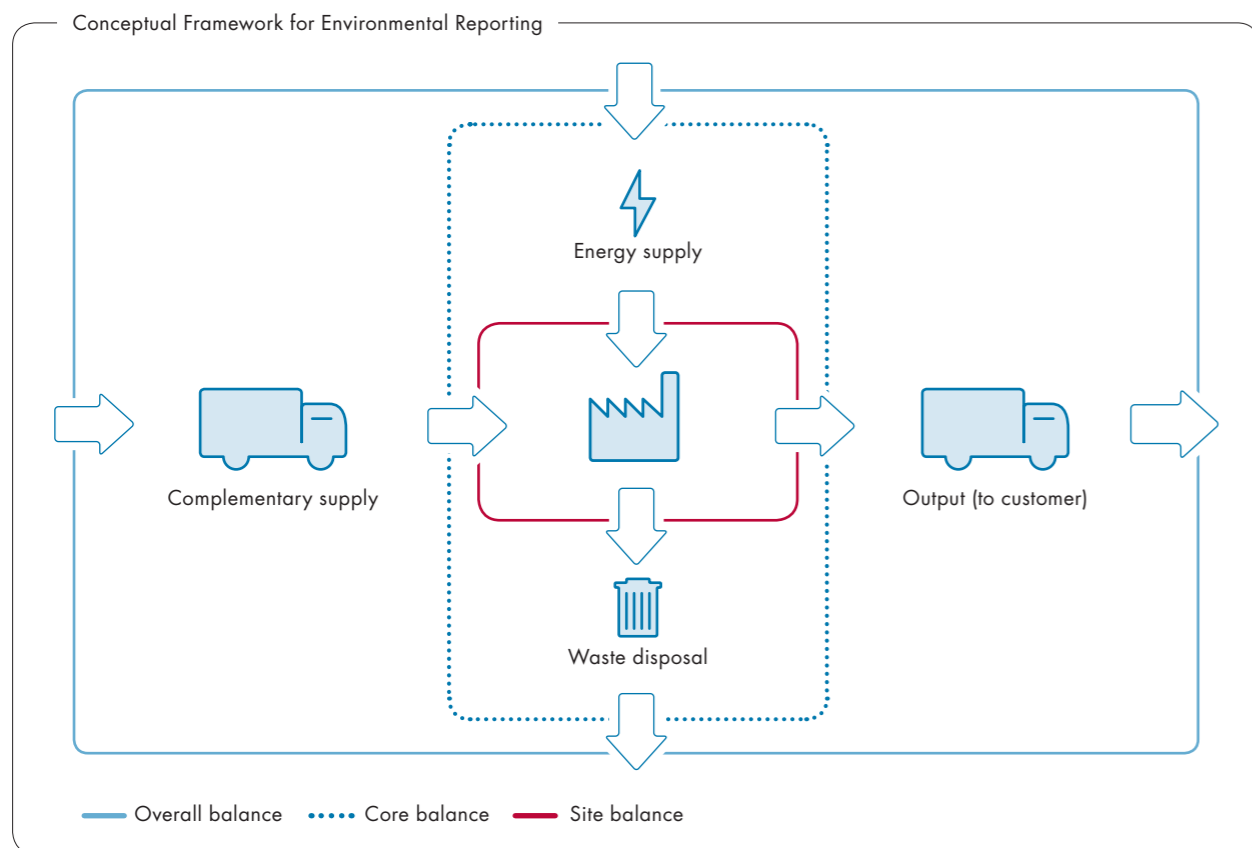
Ypsomed lives up to its social responsibility

At Ypsomed, social responsibility is not a fashionable catchphrase, but is instead an important component of corporate policy and corporate culture. In the last business year, Ypsomed has again exercised this social responsibility through a whole range of measures. These initiatives form part of our day-to-day activities and are related to many different areas. They have already been mentioned and described at various points of this Annual Report:

- Ypsomed supports the training initiative for diabetes advisors (more on page 21)
- Ypsomed is committed to Dream Trust in India (more on page 23)
- Ypsomed improves ergonomics in the workplace with lean-production (more on page 30)
- Ypsomed promotes education and training (more on page 34)
- Ypsomed is strongly committed to apprentices (more on page 35)
- Ypsomed establishes a new day care center (more on page 36)
- Ypsomed offsets CO₂ emissions produced by business travel through "myclimate" (more on page 39)
- Ypsomed invests in energy-saving programs (more on page 41)

Moreover, in the last business year, Ypsomed has committed to the following activities as part of its Corporate Social Responsibility:

- Active health promotion in the company through lectures and free access to fitness facilities
- Participation in blood donor campaigns and preventive flu vaccines
- Sponsorship of projects in social, cultural, educational and public sports initiatives, by contributing approximately 1% of consolidated net profit to such activities
- Commitment to the promotion of art through the Franz Gertsch Museum and the art supplement to the Annual Report
- Financial contribution to the Ypsomed innovation fund for the promotion of innovative enterprises in the Mittelland region
- Promotion of the science and technology transfer of the University of Bern and the Bern University of Applied Sciences through the YPSOMED INNOVATION PRIZE worth CHF 50 000



Ypsomed performs an environmental audit

At Ypsomed, ecological issues are a key concern and continuous improvements in this area are a central focus. Although Ypsomed uses very few resources in its production in comparison to other sectors or industries, it sets a high priority on optimizing production processes and raising employee awareness with regard to energy and material consumption and the emission of greenhouse gases. By performing a corporate environmental audit using the method devised by the öbu (ökologisch bewusste Unternehmensführung – Swiss Association for Environmentally Conscious Management), it was possible to generate improved base values for the key environmental figures. This allows for the clear communication of environmental performance and will also improve future awareness among employees of the need for environmentally responsible conduct that protects resources. This also provides an additional important element for decision-making processes.

An overview of Ypsomed’s main environmental key data for calendar years 2008 and 2007 is shown on the next page. The technical terms used are also explained in the glossary that starts on page 105.

Ypsomed AG environmental key data (1 January – 31 December)

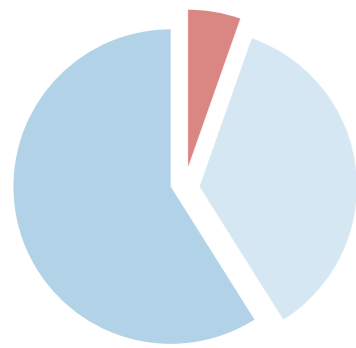
	Unit	Total quantity		Quantity per full-time position	
		2008	2007	2008	2007
Energy					
Total energy consumption	kWh	26 537 258	23 297 800	29 066	24 576
Electricity	kWh	18 235 349	17 350 800	19 973	18 303
Heating oil	l	39 010	45 600	43	48
Natural gas	kWh	7 904 754	5 479 600	8 658	5 780
Materials (excerpt)					
Natural granulate	kg	1 649 791	1 603 600	1 807	1 692
Disposable trays	kg	472 021	423 700	517	447
General packaging	kg	296 725	340 100	325	359
Printed materials	kg	30 129	38 000	33	40
Copying paper	kg	19 270	22 240	21	23
Waste water	m ³	8 217	11 400	9	12
Refuse/domestic waste	kg	196 295	142 500	215	150
Transportation					
Business travel	km	1 607 793	1 578 950	1 761	1 666
Company vehicles	km	200 860	236 550	220	250
Employees’ vehicles (incl. management)	km	496 672	437 050	544	461
Air travel	km	910 261	905 350	997	955
VOC (core balance)	kg	14 334	13 490	16	14
CO ₂ equivalent core balance	kg	4 266 449	3 751 550	4 673	3 957
CO ₂ equivalent overall balance	kg	15 593 127	16 625 000	17 079	17 537
Environmental impact core balance	kEIP	7 854 539	7 504 050	8 603	7 916
Environmental impact overall balance	kEIP	19 108 177	20 599 800	20 929	21 730

Ypsomed supports CO₂ offsetting with “bike-to-work” and “myclimate”

In addition to energy consumption, an important influential factor on greenhouse gas emissions is the amount of traffic caused by commuter traffic and business travel. In the last business year, Ypsomed has once again taken numerous steps in order to keep its environmental impact as low as possible. Ypsomed raises employee awareness through training, issues free Reka travel checks each year for a sum equivalent to the price of a half-fare travelcard, and operates a car parking scheme for which employees must pay. Ypsomed has taken part in the national “bike-to-work” campaign that aims to reduce commuter traffic and business travel by car in favor of public transportation. For the first time, Ypsomed fully offset the CO₂ emissions caused by necessary business travel by our employees by car and by plane for the 2007 calendar year; to this end, support was provided for climate protection projects in collaboration with “myclimate”.

SOCIAL RESPONSIBILITY AND THE ENVIRONMENT

Environmental impact 2008: total 19 900 million EIP (-3%)



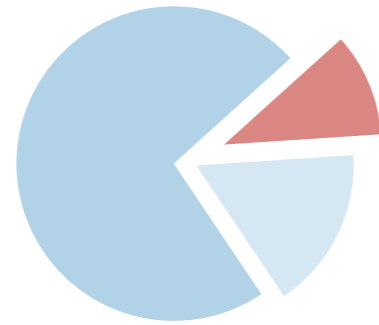
- 4% site balance (3%)
- 37% energy supply and waste disposal (30%)
- 59% purchased environmental impact (complementary balance) (67%)

Complementary balance	11 800 million UBP	-11%
Core balance	8 200 million UBP	+9%

Development of environmental impact and greenhouse gas emissions

The total impact on the environment by Ypsomed fell slightly in the 2008 calendar year, compared to 2007, to under 20 million kEIP. In terms of the complementary balance, Ypsomed achieved an improvement of 11% in 2008. However, as a result of the commissioning of the Buchmatt site in Burgdorf and the new clean rooms in Solothurn, energy consumption increased, causing the environmental impact of the core balance to do so too, rising as it did by a few percentage points to 8.2 million kEIP. The core balance includes the environmental impact at the sites as presented in the table above alongside energy consumption and waste disposal.

Emissions 2008: total 16 200 t CO₂ equiv. (-2%)



- 11% site balance (8%)
- 17% energy supply and waste disposal (15%)
- 72% complementary balance (77%)

Complementary balance	11 800 t CO ₂ equiv.	-8%
Core balance	4 400 t CO ₂ equiv.	+18%

In terms of greenhouse gas emissions, similar changes were recorded as those relating to environmental impact. Total emissions declined slightly in 2008 to around 16 200 t CO₂ equivalent. The emissions of the core balance that can be directly influenced increased to 4 400 t CO₂ equivalent due to increased energy and fuel consumption. Ypsomed sees future potential for improvement in the reduction of waste disposal volumes.

Ypsomed invests in energy efficiency

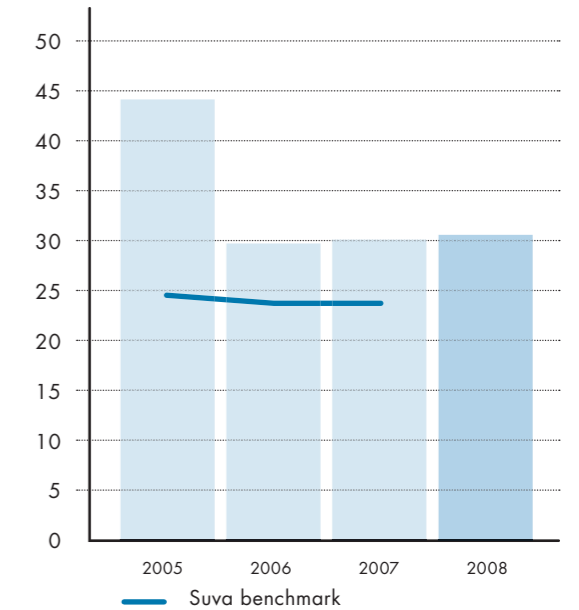
In the last business year, Ypsomed has once again taken steps to improve energy efficiency and has invested in excess of CHF 3.2 million in modernizing building services and insulation. In addition, new electronic injection molding machines have been purchased, which have an energy consumption rate that is up to 50% lower and a cooling water requirement that is almost 20% lower.

Fewer accidents at Ypsomed – achieving success with Suva (Swiss National Accident Insurance Fund)

Ypsomed is actively committed to improving the occupational and leisure-time safety of employees. In addition to an awareness-raising campaign, senior employees have received specific training and a total of more than 100 internal audits on the subject of safety have been performed by line managers. The in-house winter sports campaign was awarded 4th place in the national “greater safety in winter sports” competition run by the bfu (Swiss Council for Accident Prevention). It is gratifying that, in the last business year as in previous years, there have been no serious accidents. A total of 36 occupational accidents have been recorded; 20 of these were so-called minor accidents. Although the number of occupational accidents was kept at the same level as the previous year, there was unfortunately an increase in the number of days lost per full-time employee compared to 2007, with the figure rising from 0.35 to 0.55. An extremely positive development, on the other hand, is the reduction in the number of non-occupational accidents by almost 30% compared to the previous year. The number of non-occupational accidents continues to be several times higher than the number of occupational accidents, but the Ypsomed leisure-time accident figures are nevertheless well below those of previous years and are also below the Suva benchmark.

Occupational accidents

Cases per 1 000 full-time employees



Non-occupational accidents

Cases per 1 000 full-time employees

