



YPSOMED HOLDING AG
ANNUAL REPORT 2006/07

YPSOMED
SELFCARE SOLUTIONS

Success through Creativity and Innovation

For the first time we are proud to present, along with the Ypsomed 2006/2007 annual report, an art supplement. Various reasons prompted the Board of Directors as well as the management to make this decision. On the one hand there are numerous exciting parallels between successful corporate activity and top tier art. On the other hand relaxing moments likely add some color to the facts and figures.

In future annual reports we will continue to illustrate the intersection of business and art. This year the internationally renown artist Balthasar Burkhard will commence our series.

The illustrated works of the Berne-based photographer were developed in 2005 in the context of the joint Japanese-Swiss project "Two Mountains". He travelled the mountain region of Kumano and Mount Koya along significant pilgrimage routes where he photographed among other things temple complexes and waterfalls - Not only because of nature's overwhelming beauty but also because his travels intended to reflect on spiritual places that play an important role in Japanese culture and history.

Six waterfalls within this project are portrayed in the enclosed art section. The photographs show water cascading and flowing in such unusual precision that every detail of the powerful element of water - even an individual drop in reference to the surrounding nature - becomes visible to the human eye. When waterfalls thunder down a valley, we are usually taken by the perspective. These precise photographic illustrations allow a detailed observation of the flowing, propulsive elixir of water. Surprising details of a natural phenomenon become noticeable, where things normally are only fleetingly perceptible: remarkable light and shadow plays, an energy-laden instant when water touches stones or the vitality and aesthetics of the overall theme.

The same enquiring, critical and analytical view with which observers discover the photographs and which the artist requires for perfection of his work is also essential in Ypsomed's corporate activities. Our company can only develop superior products, which ultimately offer numerous people a better quality of life, if we pursue the highest standards of quality and precision and take a critical look at our own actions.

And the same applies in art as in business: only those who are always striving for creative and innovative solutions can create added value for the company and be successful on the market.

From 11 November 2007 to 16 March 2008, the Museum Franz Gertsch in Burgdorf will be presenting an exhibition with new works by Balthasar Burkhard.

We would like to thank Balthasar Burkhard for the selection of his photographs and the right to publish.

CONTENT

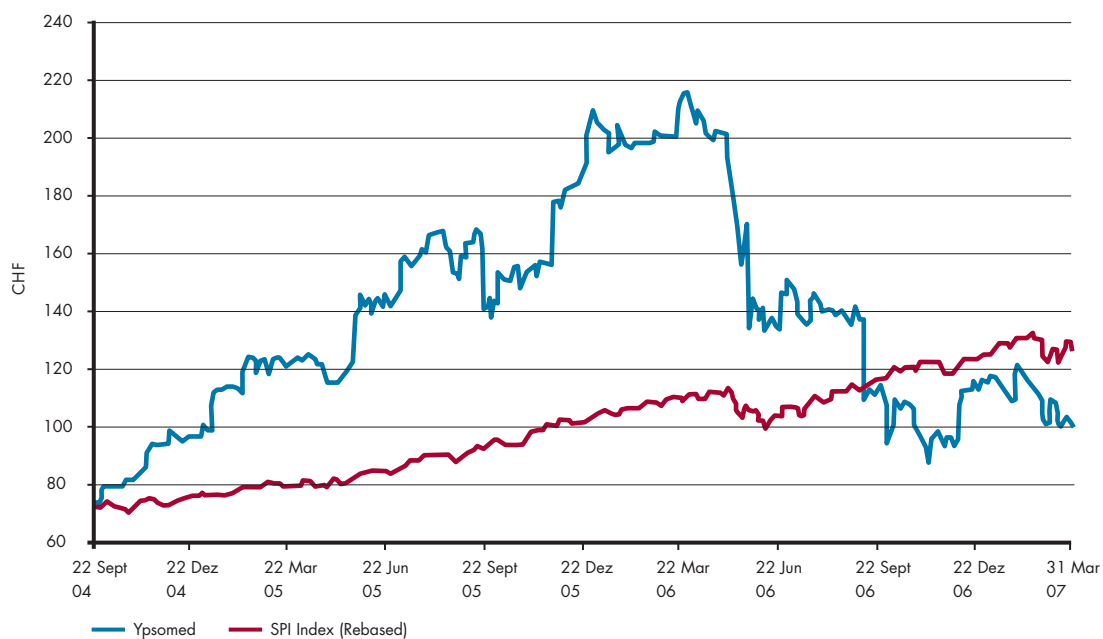
Key Figures and Share Price Development	2
Letter to our Shareholders	3
Vision and Mission	7
Ypsomed in the Business Year 2006/07	
• Strategy and Development	8
• Marketing and Sales	11
• Operations	16
• Technology and Innovation	19
• Production and Logistics	21
• Quality Management	23
• Personnel and Organization	26
• Legal and Intellectual Property	30
• Finances	32
Consolidated Financial Statement 2006/07	36
Five-Year Overview	60
Financial Statement Ypsomed Holding AG 2006/07	62
Corporate Governance	66
Information for Investors	78
Glossary	79

KEY FIGURES AND SHARE PRICE DEVELOPMENT

Key figures at a glance April 1 – March 31

in thousand CHF	April 1, 2006 – March 31, 2007	April 1, 2005 – March 31, 2006	Change	in %
Sales of goods and services	277 450	310 588	–33 138	–10.7
Gross profit	64 239	119 213	–54 974	–46.1
Gross profit in %	23.2%	38.4%		–15.2
Research and development expenses (gross)	25 446	22 834	2 612	11.4
Operating profit	2 338	62 342	–60 004	–96.2
Operating profit in %	0.8%	20.1%		–19.3
Net profit	2 742	55 648	–52 906	–95.1
Net profit in %	1.0%	17.9%		–16.9
Earnings per share (in CHF)	0.24	4.95	–4.71	–95.1
Capital expenditures	36 808	30 766	6 042	19.6
Equity ratio in %	62.6%	60.7%		1.9
Employees headcount (year-end)	1 211	1 139	72	6.3
Employees fulltime equivalent (year-end)	1 166	1 090	76	7.0

Share Price Development (22 September 2004 – 31 March 2007)



LETTER TO OUR SHAREHOLDERS



Richard Fritschi, CEO

“Ypsomed has everything required for sustained success: a clear strategy, well-qualified employees, know-how and patents, innovative products, longstanding customers, sound financing and an entrepreneurial owner.”

Dear Shareholders

Ypsomed's 2006/07 business year was exceptional in many respects and will go down in the company's history as a year of consolidation. Following the 2004/05 and 2005/06 business years, in which core business sales increased by approximately 43% and 45%, respectively, and profits increased disproportionately, in the 2006/07 business year Ypsomed achieved sales of just CHF 277.5 million, 10.7% less than in the prior year. The projected operating earnings announced with the half-yearly figures were achieved, but, at CHF 2.3 million, these earnings were much lower than our target profitability. The lower sales figures are a result of the halt in the production of the OptiClik® pen reusable module and the order volumes from Sanofi-Aventis being lower than originally planned. The disappointing profitability was predominantly caused by significant additional expenses in connection with production problems at the beginning of the business year and the subsequent inevitable adjustment costs.



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

Ypsomed has everything required for success

These problems have indeed been a heavy burden for Ypsomed, both operationally and financially, in the past business year, but Ypsomed has everything required for sustained success: a clear strategy, well-qualified employees, know-how and patents, innovative products, long-standing customers, sound financing and an entrepreneurial owner.

Ypsomed has a clear vision and strategy

Ypsomed aims to further develop its position as the world's leading independent developer and manufacturer of injection systems for the self-injection of liquid medicines. The company's market share is to be strengthened in its existing markets with the universally compatible click-on needles and expanded in new pen needle markets. Ypsomed also aims to further strengthen its market position in Germany as a major supplier of diabetes equipment. In addition, Ypsomed intends to move forward, using its existing expertise, as a supplier of forms of therapy using injection systems in combination with medicines.

New pen system platforms have been developed

In the last four years Ypsomed has invested over CHF 85 million in research and development, primarily in developing its own technology platforms. These have been brought to the market in a comprehensive manner, and today Ypsomed has eight new pen system platforms, ranging from the simplest fixed-dose disposable systems to more complex reusable multi-dose pen systems. Ypsomed is currently negotiating with various major pharmaceutical groups while simultaneously developing new pen systems for existing customers. In this way, the last business year saw the development and launch of the new generation of OptiSet® disposable pens for Sanofi-Aventis and the new reusable pen for Eli Lilly's growth hormone within the framework of product life-cycle management.

Development of a continuous injection device for human insulin

As already announced in the interim report for 2006/07, Ypsomed plans to launch its own injection system in combination with insulin onto the market in the medium term. The corresponding development work is proceeding with high priority. Ypsomed will launch a new type of continuous injection device for human insulin as its first system. Clinical tests are planned beginning in mid-2008. You can learn more about the continuous injection device for human insulin on page 10 of the annual report. The combination of innovative injection systems with insulin and other medicines, and their distribution through distribution partners as well as Ypsomed's own marketing capacities, seems promising and is a central element of Ypsomed's broader strategy.

Sales growth in pen needles and diabetes direct business

In the last business year, Ypsomed was able to increase sales of pen needles and diabetes direct business at a faster rate than overall market growth and expects both of these business areas to constitute an ever more significant portion of sales in the future. As the existing production capacity for pen needles in Burgdorf reached its limit last year, a new clean room for click-on pen needles is currently being built in Solothurn. Commissioning of this cost-effective production facility is planned for spring 2008. This will enable more aggressive future expansion into new countries, as well as a stronger presence in the United States. The diabetes direct business demonstrated very satisfactory growth in the last business year and

strengthened Ypsomed's diabetes competence. In November 2006 a specific acquisition opportunity in this field was not finalized due to the parties' inability to reach agreement on price just before closing, but Ypsomed is investigating other possible targeted acquisitions and partnerships in the diabetes business.

Ypsomed is active in rapidly growing markets

Demographic developments and increasing cost pressure in health care are strengthening the trend toward self-medication with simple, high-precision injection systems. Ypsomed's years of experience, solid expertise, numerous significant patents and innovative technologies are unique. Ypsomed is active in rapidly growing markets: annual global growth in the diabetes and insulin markets is over 3% and 10%, respectively, and sales of the long-acting insulin Lantus, produced by our major customer Sanofi-Aventis, grew by approximately 37% in the last year.

Significant partnership with Sanofi-Aventis – sales share decreasing

The partnership with Sanofi-Aventis (previously Hoechst), which has existed for more than twenty years, was placed on a new footing and significantly optimized after the operational difficulties at the beginning of the business year. The sales share represented by Sanofi-Aventis was about 55% in the 2006/07 business year, which was below the previous year's level. Sanofi-Aventis will continue to market Ypsomed's OptiClik®, OptiSet® and OptiPen®Pro pen systems for its Lantus, Apidra and Insuman insulins and will at the same time also launch its new SoloStar® disposable pen onto the market. Due to high stocks of the OptiSet® pen and slower than anticipated market penetration of the OptiClik® pen in the United States, the required quantities of OptiSet® and OptiClik® in the next one to two years will be lower than originally estimated. In view of this change in demand, Ypsomed must optimize production and logistics and adjust to the new conditions. Ypsomed still considers the situation to be volatile at the moment, since the precise order quantities from Sanofi-Aventis will also depend on the market success of SoloStar® and possible reactions from competitors.

Ypsomed has the potential for further sales growth

Ypsomed expects the sales share of Sanofi-Aventis to decline in the future, especially considering that overall sales are anticipated to increase in the next few years. These increased sales will arise from new pen systems in attractive application areas for other pharmaceutical customers, from the company's developed pen needle capacities, from organic and/or acquisition-based growth in the diabetes direct business, and, mid to long term, from the combination of injection systems with insulin and other medicines, such as the long-term injector for human insulin.

Ypsomed protects its technology

In the areas of self-medication, pen needles, pen systems and auto-injection technology, Ypsomed owns a total of 219 patent families, with patents granted and pending in numerous countries. In the area of auto-injectors, Ypsomed owns 40 patent families. Ypsomed invested up to CHF 25 million every year into the research and development of new products and technologies.

New organization and leadership

In mid-September 2006, the board of directors appointed Richard Fritschi as the new chief executive officer (CEO) of the Ypsomed Group. Richard Fritschi has worked for over fifteen years in managerial positions in medical technology, most recently as president for Europe and Australasia at Zimmer, where he was responsible for sales of CHF 1.3 billion and 2000 employees. Since November 2006, Maurice Meytre has strengthened Ypsomed's management team as the new chief operating officer (COO). Maurice Meytre has over seventeen years of operational management experience in medical technology, at Zimmer, Sulzer Medica and Protek France, among others. The management team was completed on 1 January 2007 with the addition of Dr. Manfred Mäder as director of quality management and regulatory affairs. Mr. Mäder has many years' experience in the pharmaceutical industry, most recently as director of quality assurance for proprietary medicinal products at Sanofi-Aventis Frankfurt site.

Improved communication and clear areas of responsibility

The organization and management of Ypsomed were analyzed in detail as a first step by the newly formed management team. In doing so, structures and processes were reassessed and challenged. Interviews with employees elicited suggestions for potential improvements and identified existing strengths. The board of directors and the management places particular value on open communication, both internally with employees and externally with customers and suppliers. The new leadership has defined clear areas of responsibility, competence and targets. Since the end of January 2007, a new organization has existed, with simple but well-defined levels of management and expertise. In order to be able to develop new products more quickly in the future, research and development were combined with process engineering and project management in the newly created department of technology and placed under the direct control of the COO. This will ensure simple and efficient production and logistics. All in all, the primary aim of the new organization and management structure was not to make radical changes but rather to focus on continuity and to build on existing strengths.

Market presence and customer proximity are important factors for success

Even more important than the change to internal structures and processes is keeping the company close to the market and to customers. The specific requirements of all pharmaceutical customers are regularly reviewed in discussions with them and during on-site visits. Along with this, direct visits to hospitals and patients are also made with sales representatives from pharmaceutical customers, as, for instance, in the United States with Sanofi-Aventis. It is the aim of Ypsomed's management and board of directors to create lasting trust among customers with reliable products and services.

Motivated employees with know-how

The implementation of many of the various measures will require additional time, but Ypsomed has made clear progress in the last six months. It is especially gratifying to see how Ypsomed's experienced and motivated employees have supported the company and its customers during this difficult period. The board of directors and the management would like to take this opportunity to thank all employees for their exceptional commitment, which is in no way taken for granted.

Ypsomed created 72 new jobs and invested CHF 37 million

Despite the decline in sales of particular pens, in the 2006/07 business year Ypsomed invested a total of CHF 37 million in production facilities, systems, machines and tools and CHF 25.4 million in research and development, and created 72 new jobs. In the new business year, Ypsomed is planning capital expenditures of around CHF 60 million.

Dr. Dieter Schäfer is no longer standing for election to the Board of Directors

Dr. Dieter Schäfer, former vice president of the board of directors and a member of the board of directors of Disetronic and Ypsomed for fifteen years, wishes to reduce his workload for age and health reasons and therefore will no longer be standing for election at the next General Meeting of Shareholders. Dr. Schäfer has been a member of Disetronic Holding AG's board of directors since 1992 and, as director of the then German subsidiary of Disetronic, played a significant role in the successful marketing of insulin pumps and pen needles in Germany from 1992 to 2001. We would like to take this opportunity to thank him for his many years of service and his valuable contributions as a recognized diabetes expert.

Confidence in the future

Even though Ypsomed in the last year went through a phase of consolidation, following phenomenal growth, we are nevertheless confident in the future of Ypsomed. Ypsomed is financially very healthy, has no bank debts and has a high equity ratio. Ypsomed has dedicated employees with a great deal of expertise, and an innovative product line that is superbly positioned in attractive growth markets. Profitability will improve in the future, because the one-off additional costs have been paid and Ypsomed has patented, profit-able products. Ypsomed is confident that the company can put earnings on a stronger footing in the next three years through the acquisition of additional pharmaceutical customers for pen systems, the strengthening of the pen needle and diabetes direct business, and the combination of injection systems with insulin and other medicines. Ypsomed's strategy is supported by an entrepreneurial major shareholder, who is committed to the long term, and implemented by an experienced management team together with dedicated employees. The aim is to create more added value for our customers and for you, our valued shareholders. We thank you for your continued trust in us, particularly during this phase.



Dr. h.c. Willy Michel

Chairman of the Board
of Directors



Richard Fritschi

CEO

VISION AND MISSION

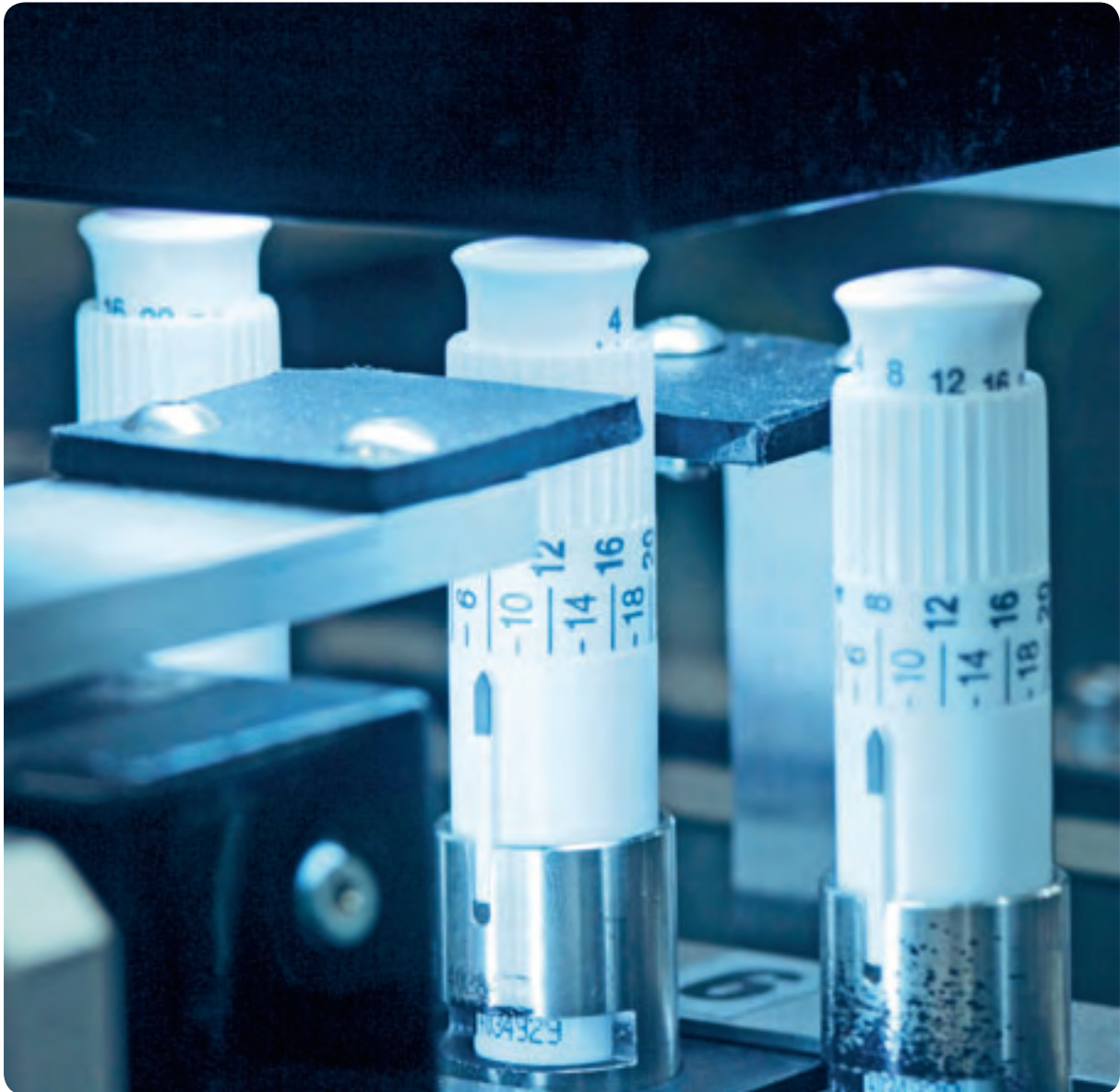
Ypsomed has reviewed its current strategy in the course of its annual strategy workshop and set the following vision and mission:

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.



“Ypsomed has a clear and focused strategy that is based on technology and diabetes expertise. This combination is unique and provides attractive opportunities for growth.”



Dr. Christoph Rindlisbacher, Senior Vice President Corporate Development

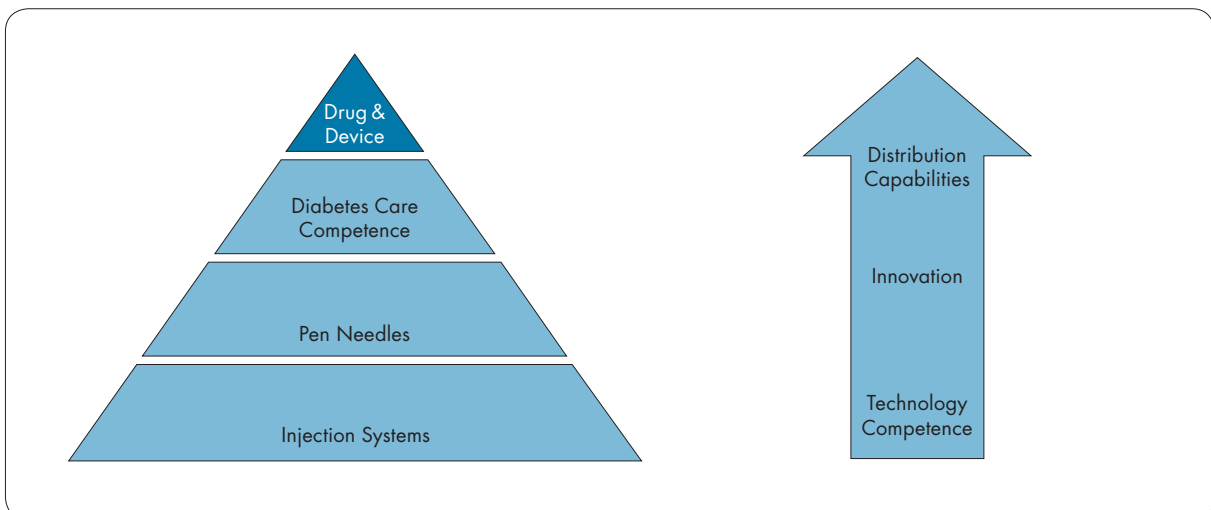
To this end, in the area of diabetes, Ypsomed is combining its innovative technology expertise, acquired in its core business of injection systems, with its existing distribution capacity in the most important European markets. Ypsomed is thus already present with a specialized sales force in Germany, France, the Netherlands, the Nordic countries and Switzerland.

The strategic plan to develop a continuous injection device for human insulin is the first step in Ypsomed's expanded strategic orientation in the "drug and device" area (see next page). Ypsomed will work with established distribution partners for the purposes of distribution and sales, and will only build or buy its own distribution capacity if that is deemed financially advantageous. Ypsomed will not, however, establish its own drug manufacturing, but will collaborate with existing partners in this domain.

STRATEGY AND CORPORATE DEVELOPMENT

Ypsomed's strategy has not changed significantly since its inception, and it was simply expanded last year, in that alongside the core business of injection systems, pen needles and diabetes care, proprietary injection systems will be sold in combination with insulin and other drugs in the future.

Ypsomed's extended strategy



Strategic Program "continuous injection device"

In its "continuous injection device" program, Ypsomed is developing a novel technology platform. A host of new patents has been registered in the course of the development, driven by a team of specialists.

The continuous injection device is a semi-disposable injection system for the intermittent administration of a specific amount of insulin over a longer period of time. By means of the continuous administration of "physiological" short-acting insulin at constant intervals, a more even absorption of the drug, and therefore better metabolic regulation, can be achieved.

The device consists of the following parts:

- Reusable module: reusable power unit, including motor, control and energy source
- Disposable module: an integrated standard 3-ml insulin cartridge, which will be exchanged on average every one to two weeks, depending on the required insulin dosage
- Replaceable infusion set

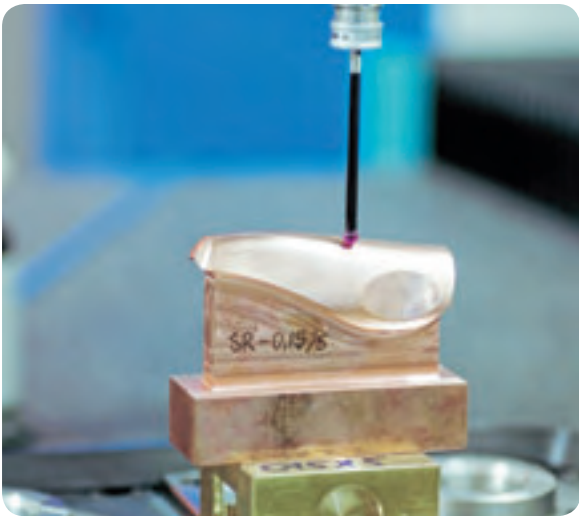
The innovative continuous injection device is light and ergonomically shaped and offers patients a high degree of safety as well as being extremely easy to use without extensive training. Because the whole system can be produced at low cost, continuous injection device therapy will be significantly less expensive than traditional pump therapy. Thus, the long-term injector combines the therapeutic advantages of pump therapy with the ease of use and the cost advantages of pen therapy.

The primary target segment for the continuous injection device is type 2 diabetics, with the advantages of the new system being possibly most significant for elderly, less mobile diabetes patients and those in need of care. With the help of the continuous injection device,

total therapy costs for diabetes patients in need of care should be reduced, as professional support will be required only for the replacement of the infusion set of the disposable module, meaning on average every three days at most.

Diabetes mellitus has grown to epidemic proportions worldwide. The number of patients suffering from diabetes globally will rise from 200 million today to more than 360 million in 2030. Ypsomed will initially focus on the core markets of Western Europe and North America.

"Ypsomed's continuous injection device combines the advantages of pen and pump therapies: it is cost-efficient and easy to use, and it provides peoples with diabetes better metabolic adjustment."



"Ypsomed is active in sustainably and strongly growing markets: diabetes is growing by around 3% annually worldwide, insulin by 10% and needles by 20%."



Detlef Jantos, Senior Vice President Marketing & Sales

MARKETING AND SALES

Pen systems

Pen systems for a large number of global pharma companies are the most important source of revenue in Ypsomed's core business. Ypsomed develops, independently or commissioned by pharma customers, individual pen systems, manufactures them in modern and, depending on the volume, fully automated production sites in Burgdorf and Solothurn, and then delivers the component groups or finished pen systems for filling or further distribution to pharma customers' logistics centers.

Sanofi-Aventis remains an important customer

The long-standing partnership with Sanofi-Aventis (formerly Hoechst), which has existed for over twenty years, was placed on a new footing and has been significantly optimized after the operational difficulties at the beginning of the business year. The revenue share represented by Sanofi-Aventis in business year 2006/07 was around 55%, which was below the value of the previous year. Sanofi-Aventis will continue to market the OptiClik®, OptiSet® und OptiPen®Pro pen systems by Ypsomed for Lantus, Apidra and Insuman but will simultaneously market its new SoloStar® disposable pen. Faced with the new demand situation, Ypsomed must optimize production and logistics and adapt to the new circumstances. Ypsomed at this point still considers the demand situation volatile, since the

precise order volumes of Sanofi-Aventis will also depend on the market success of SoloStar® and potential competitor responses.

Strong sales growth for Lantus

It is certainly positive for Ypsomed that key customer Sanofi-Aventis achieved sales of EUR 1.67 billion (CHF 2.7 billion) with its Lantus insulin, and that sales growth was still very high, at 36.9%. The penetration rate of insulin pen systems in the United States is at a very low level of 15% (estimated), and therefore still holds potential for Ypsomed's OptiClik® pen. Seven years after its launch in Europe, Lantus has become the leading and most widespread insulin worldwide. Lantus is the Sanofi-Aventis drug with the highest growth rate, and it has become the sixth most important source of revenue for the pharmaceutical company.

Diabetes is the core market – new opportunities due to biotechnology

Diabetes, and therefore insulin, remains the core application area for Ypsomed in the medium to long term. User-friendly and highly precise injection systems have already gained or will in the future gain acceptance in other areas, such as, for example, anemia, hepatitis, hormone therapy, infertility, osteoporosis, psoriasis, rheumatoid arthritis, thrombosis and growth disorders. More than half the substances in pharma and biotech companies' pipelines are biotechnologically produced peptides, which generally require injection. The demand for custom-made injection systems should therefore continue to grow in the future.

Growth with other pen systems

The total sales of pen systems for Pfizer, Eli Lilly, Genentech, Serono, NPS, Roche and other pharma customers grew again in business year 2006/07, even though the market entry of NPS's pen parathyroid hormone in the United States did not take place as planned due to delays in the registration of the drug. With some customers, Ypsomed worked on line extensions and new product generations that will be launched in the current business year. The pen system for the Symlin® (pramlintide acetate) injection diabetes drug by Amylin Pharmaceuticals is also planned to be introduced into the market in the current business year.

Pen needles



The pen needles from Ypsomed are available in different lengths

Dr. Jörg-M. Paul, responsible for Ypsomed's European subsidiaries and the DiaExpert unit, oversees a total of 105 employees in pen needles and diabetes care business.

DiaExpert – diabetes direct business growing faster than planned

Ypsomed is pleased that the DiaExpert diabetes direct business demonstrated exceptional growth in business year 2006/07. Sales growth compared to the previous year amounted to 12.6% (10% in local currency) and thus exceeded the original plan. This growth is gratifying, as DiaExpert faces rising cost pressure from the health insurance industry. The success of DiaExpert is due to its focus on insulin pump carriers and intensively treated patients, who value not only DiaExpert's comprehensive product range but also the personal advice and the innovative information and service materials. In business year 2006/07, the distribution channels were also enhanced, through DiaExpert specialized diabetes stores, and will be further developed in the coming years. In Germany, there were wide-ranging changes in the health policy framework beginning in April 2007, to which DiaExpert will have to adjust. Pricing pressure is expected to grow, but DiaExpert has identified opportunities for further partnerships.

Sales for pen needles grew by 22.6%

Sales of the Penfine® universal click™, Clickfine™ universal and Optifine™ pen needles in Germany grew strongly in business year 2006/07. Sales growth of Ypsomed pen needles was 22.6% and thus exceeded the overall market growth rate. The positive results in the United States, France, the Netherlands and Germany, as well as in Ypsomed's home market, Switzerland, are particularly pleasing, and are due in part to a

close working relationship with Sanofi-Aventis's marketing and sales organization. The universal application of the patented click-on pen needles with all current pen systems was advertised in Europe by means of an eye-catching campaign under the slogan "click & go", which was well accepted not only in expert circles but also by people with diabetes. Ypsomed's pen needle business was also expanded by distributors. Existing distributors could be further strengthened; the positive developments in the UK, Greece and Turkey serve as examples. New distribution partners were won in Iceland, Israel, Serbia and Spain.

Market expansion due to more frequent replacement of pen needles

Because the frequency of needle replacement is far lower in Germany than in other European countries, at about nine injections per needle, the necessity of one-time use of pen needles was the central theme of a public campaign with the slogan "Because it goes under your skin", presented jointly by the leading pen needle manufacturers and the Association of Diabetes Educators in Germany. The campaign included diverse publications and events with experts and patients. To achieve a sustainable, significant change in injection habits, this issue will require consistent follow-up over the next few years.

Growing market opportunities for pen needles in the United States

Ypsomed has been present with pen needles in the United States since 1998. Ypsomed pen needles have been sold by various retailers, including Wal-Mart, where they are offered under Wal-Mart's private-label store brand Reli-on. There is a large potential market for pen needles in the United States, especially if the penetration rate of insulin pens meets expected future growth projections.

New production capacity for pen needles in Solothurn

Ypsomed considers the pen needle business to be strategically important and aims to achieve further growth in this area in the future. To provide the necessary production volume, Ypsomed is currently building a new clean room facility in Solothurn.

The production capacity is to be more than doubled, from around 200 million pen needles per year to approximately 500 million pen needles per year. During the plant expansion, process improvements will be implemented to reduce production costs. In total, 3300 square meters are available, which will allow additional space for the production of other sterile products as well.

The planned investments in the building infrastructure, clean room, injection-moulding equipment, tools, automated assembly and packaging equipment total approximately CHF 20 million and will mostly take place in the current business year. According to the schedule, the building work will be concluded by autumn 2007, and production can begin after a testing and qualification phase in spring 2008.

Our partners with their pen systems



OptiClick® pen for Lantus and Apidra insulin



OptiSet® pen for Insuman, Lantus and Apidra insulin



OptiPen®Pro for Insuman and Lantus insulin





Dongbao® pen for the treatment of diabetes



Genotropin® pen for growth hormone therapy



HumatroPen™ MG and HumatroPen™ 3 for growth hormone therapy



Nutropin AQ pen® for growth hormone therapy



Roferon® pen for the treatment of hepatitis C and Reco® pen for the treatment of renale anemia



GONAL-f® pen for the treatment of infertility



Preatact® pen for the treatment of osteoporosis



... and other partners



"Ypsomed maintains long-standing relations with global pharma companies such as Sanofi-Aventis, Eli Lilly, Pfizer, Roche, Genentech, Merck Serono, Amylin, NPS and others."



Maurice Meytre, Chief Operating Officer (COO)

OPERATIONS

New chief operating officer (COO)

In November 2006, Maurice Meytre assumed the newly created position of COO at the Ypsomed Group. Meytre has over seventeen years of operational leadership experience in the medical technology industry, including positions at Zimmer, Sulzer Medica and Protek France. As COO, he oversees production and logistics, strategic purchasing, the newly formed technology department, and product and customer management.

Key goals of the new organization

The key goals for the COO and the new organizational structure are as follows:

Faster product development

In early 2007, the process engineering and industrial development departments from the production area, as well as research and development, were transferred to the new technology department. This was to ensure that process engineering is involved at the onset of development, which is intended to result in faster and more cost-effective production. Additionally, strategic suppliers, such as tool makers and electronics companies, are now also involved in Ypsomed projects from the start.

Stronger customer orientation

Product and customer management were transferred from the marketing and sales department to the operations department. Product and customer management are the central interface with our customers and, together with the technology department, are responsible for the successful implementation of projects and continuous product maintenance, as well as, together with production and logistics, for the timely delivery of the quality and volumes required by our customers.

Greater efficiency and productivity

The most important goal for production and logistics is to increase productivity. Production and logistics can now focus better on their core tasks, thanks to the transfer of strategic purchasing, process engineering and commercialization. Strategic purchasing is now overseen directly by the COO. Similar activities have also been physically grouped together to increase efficiency. The manual pen assembly, packaging and logistics, for example, are now housed in a central building (Ypsomed North).

Ypsotec AG in Grenchen – Specialist in precision swivels

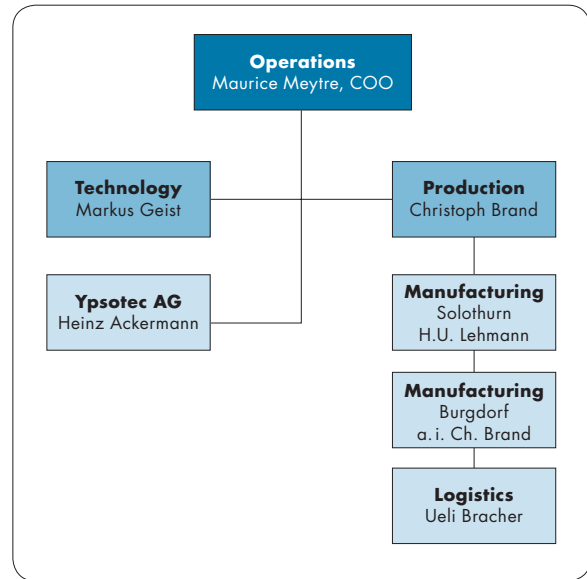
Ypsotec AG, headquartered in Grenchen, is a subsidiary of Ypsomed Holding AG and one of the leading Swiss suppliers of high-quality precision swivels. Décoltage AG – as Ypsotec was previously called – was founded in 1916 and celebrated its 90th anniversary last year. Ypsotec has a great deal of experience and expertise and a modern machining facility for the production of precision swivels with diameters of 1 to 65 millimeters. Under the leadership of managing director Heinz Ackermann, Ypsotec employs 115 staff members. The company specializes in custom-made production with high quality requirements and is certified with all relevant ISO norms, including ISO 13485 for medical technology. Ypsotec supplies well-known customers domestically and abroad in the areas of medical technology, sensor technology, hydraulics, pneumatics, building technology, electrical technology, communication technology, machine production, optics, and measurement and control technology, as well as security technology. Ypsotec offers services from conception to implementation and finishing, including laser treatment. Thanks to a flexible model for annual work time and state-of-the-art tool preparation, Ypsotec has managed to build up and sustain 168-hour operations. In addition, 13 employees work at Ypsotec's second site in the Czech Republic.

Environmental compatibility and sustainability

Environmental compatibility and sustainability are important goals for Ypsomed Group and important factors in every decision-making process. The company is purposefully advancing and professionalizing its activities in the areas of energy efficiency, emissions reduction, disposal, safety and security. To ensure the achievement of these goals, current resources will be expanded with the addition of new personnel. The Ypsomed Group's production processes are, however, already regarded as low-emission and environmentally sustainable.

In injection moulding, synthetic granulates are melted over heat and pressed into shapes by high pressure. Plastic and metal waste is recycled as much as possible or delivered to public garbage incineration facilities as a high-quality substitute combustible. The cooling machinery used in the synthetics industry is state-of-the-art. The machines operate without ozone-damaging substances and function mostly as closed systems or obtain the necessary cooling water from the ground-water without polluting it. No water is taken from the drinking-water supply. Assembly is mostly emission-free and generally produces no pollutants. At the Solothurn plant, approximately CHF 5 million is currently being invested in the building infrastructure to increase heating efficiency, among other goals. Ypsomed recognizes room for improvement in the optimization of heat recycling from the injection-moulding machinery and the cooling water.

Operations





Markus Geist, Senior Vice President Technology

“Innovation is a key success factor for Ypsomed. Our innovatively thinking employees develop new products and protect them through a multitude of patents.”

TECHNOLOGY AND INNOVATION

Innovation as a success factor for Ypsomed

Both Ypsomed and its predecessor, Disetronic, have emerged from the effort to create innovative and customer-oriented products. Accordingly, research and development are critical, as these areas are responsible for the development of new products and the continuous improvement of existing ones. Ypsomed's recent past has also shown, however, that efficient, high-quality production is only possible if the proper foundation has already been laid in the development phase and if the commercialization and production and logistics teams work together early on.

New technology department with new leadership

To meet these challenging requirements more effectively, the former research and development department was combined with process engineering, project management and product care in the newly created technology department, overseen directly by the COO. The new organizational structure achieves concurrent

rather than sequential development of the design and production processes. This results in greater process stability and shortened development times.

Markus Geist, head of the research and development department since June 2006, leads the new technology department. Markus Geist has many years of development experience in the diesel engine industry, most recently as head of the research and development department at RUAG Land System AG. In 2007, a cross-departmental project review board was established, which, as part of project reporting, regularly reviews all current development and commercialization projects at Ypsomed, with a special focus on functionality, feasibility, and manufacturing costs. The project review board consists of a number of department heads as well as long-standing expert staff, also including the founder and chairman of the board of directors, Willy Michel.

Conclusion of important projects in 2006

The past business year saw the conclusion of several important development projects, including the revised OptiClik® pen and the new generation of OptiSet® pen for Sanofi-Aventis, the Preotact® pen for NPS Pharmaceuticals / Nycomed, the new generation of the Humatro Pen III for Eli Lilly, and the Penfine® Needle Remover. The remover is an optimal safety device used to unscrew pen needles. It reduces the risk of needle-stick injuries, providing increased safety for hospital and clinic staff due to its single-handed usability and its large shield.

New Preotact® reusable pen for NPS Pharmaceuticals/Nycomed

In 2006, development of the Preotact® reusable pen for NPS Pharmaceuticals/Nycomed was successfully concluded. The Preotact® pen is specially designed with a side activation mechanism that is easy for osteoporosis patients to use. The pen has an integrated needle cover. Nycomed launched the Preotact® in June 2006 in Europe. The US launch has been delayed due to the drug approval process.

New Humatro Pen III

Ypsomed introduced the new Humatro Pen III which is the new generation and succeeds the Humatro Pen MG, for administration of human growth hormone. Since cartridges with different concentrations of the drug can be administered in the same pen, the electronic module was enhanced, so that it is possible for doctor or patient to set the concentration of the drug on the pen. A potentially error-prone conversions of mass and injection units is thereby made redundant and increases the ease of use and safety for the patient. Humatro Pen III is manufactured for administration of Humatrope, the human growth hormone manufactured and marketed by Eli Lilly and Company.

Attractive range of new pen system platforms

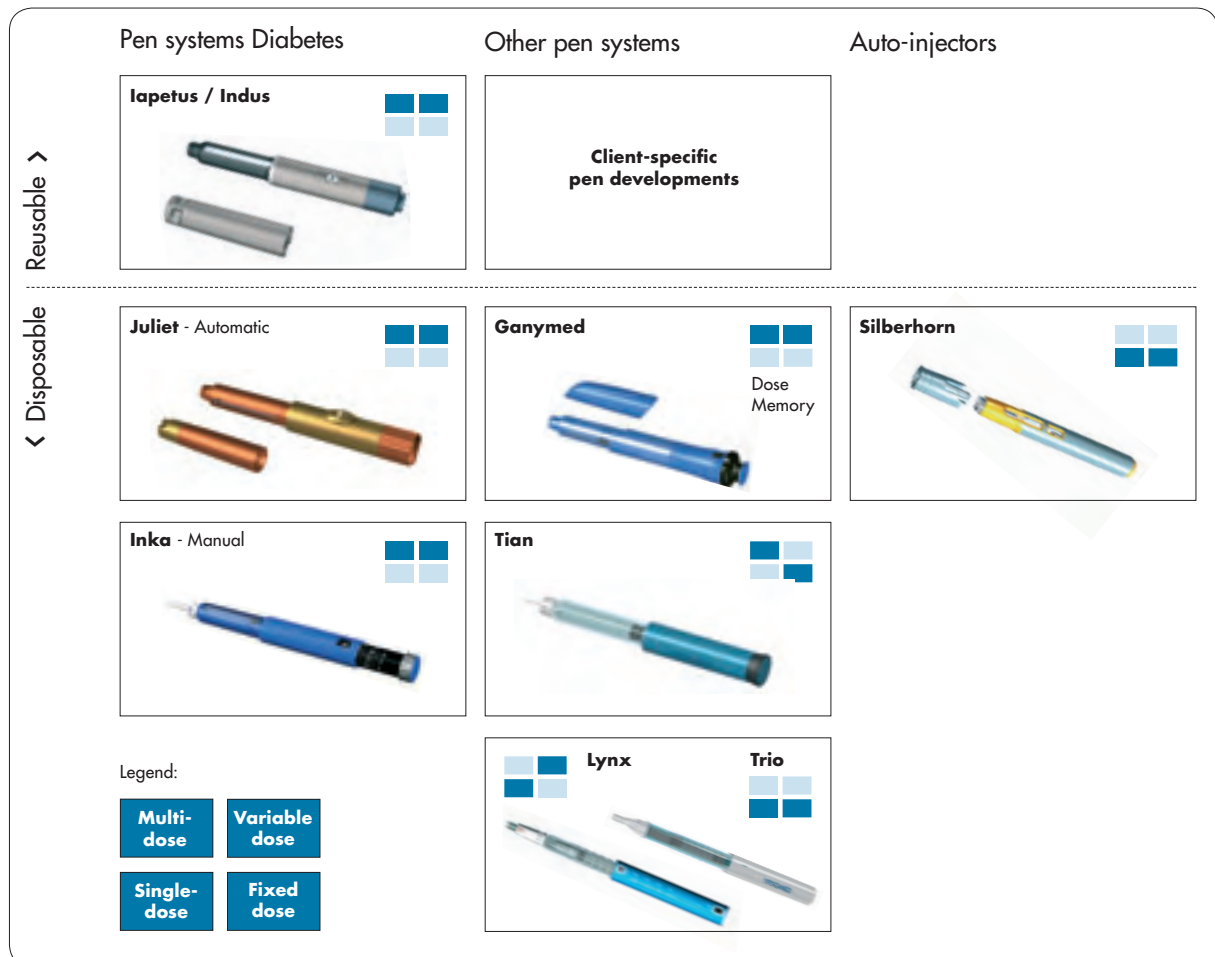
The past business year has seen a significant increase in development efforts relating to both reusable and disposable proprietary pen systems, which will serve as platforms for subsequent customer projects. The advantage of platform development lies in the signifi-

cantly reduced development time for custom-made pens. Components such as dosing mechanisms, display mechanisms and electronic modules are developed separately, enabling both disposable and reusable pens to be assembled from pre-developed components in subsequent customer projects. With regard to auto-injectors, Ypsomed focuses on the development of disposable systems. The illustration shows Ypsomed's wide range of platforms.

Promising new customer projects

The new disposable pen for Amylin's Symlin® diabetes drug will be launched soon. Symlin® is used by diabetics for self-administering insulin and for glucose adjustments after meals. The disposable pen will be available in two dosage variants (high and low dose).

Ypsomed is also developing a new reusable pen for insulin based on the metal pen that has been successful for decades. This new pen will be particularly suitable for the Asian market.





Christoph Brand, Senior Vice President Production & Logistics

“Ypsomed has at its disposal state-of-the-art automated production capacity for the precise manufacturing of millions of pen systems and pen needles.”

PRODUCTION AND LOGISTICS

Ypsomed production in numbers

The capacity expansion at the Solothurn plant was concluded in the first quarter of the past business year. The total employee head count in the production and logistics department on 31 March 2007 was 688, of which 12 were in temporary positions. In production, the wide variety of plastic components for Ypsomed's pens and pen needles are produced by approximately 110 injection-moulding machines with the associated operating equipment, 8 automated assemblers, 27 printers and 8 manual assemblers, as well as around 350 plastic-injection tools of various sizes.

Interruption in the production of OptiClik®

Production of the semi-disposable OptiClik® pen for Sanofi-Aventis did not proceed as planned – as was already communicated in May of last year – due to quality problems caused by design and process technology factors. These problems led to an interruption in the production of the reusable control module at the Solothurn facility. The technical revision of the OptiClik® product and numerous manual testing and reworking procedures enabled production to resume at the beginning of July 2006. OptiClik® production is since then again running smoothly.

Production changeover for the new generation of OptiSet® pens

Production of the disposable OptiSet® pen is the largest in terms of volume and, to minimize risk, is carried out in both the Burgdorf and Solothurn facilities. Ypsomed was able to achieve the target OptiSet® production volumes in the first two quarters of 2006/07 with six- or seven-day operation. In line with the product life cycle, Sanofi-Aventis launched the new generation of the OptiSet® pen in the second two quarters, which, in addition to a few functional improvements, also features new labels. Though these changes might appear minor to an outsider, the implications for Ypsomed were significant. Not only did critical injection-moulding parts have to be redeveloped and necessary tools manufactured, but the printing machines and automated assembly equipment had to be changed as well, and the necessary qualification and validation work had to be carried out. These changes led to a partial production interruption, first in Burgdorf and currently in Solothurn. Due to Ypsomed's flexible employment model, however, a reduction in qualified staff was avoided. The transition to the new OptiSet® version is moving forward according to plan and is set to be completed in the fall of 2007.

Integration of the production of the Gonal-f® disposable pen for Serono

Component manufacturing for the Gonal-f® disposable pen for Serono, which in the past was partially outsourced to external contractors for space and capacity reasons, is now being integrated into Ypsomed's own production. This move allows production efficiency, quality and production safety to be improved.

New logistics center in Burgdorf (Ypsomed North)

Ypsomed signed a long-term lease for a four-story logistics and storage building in the Buchmatt industrial district in the north of Burgdorf last year, and adapted it to Ypsomed's technical construction requirements for around CHF 5 million. Our plan is to centralize logistics and storage in this building by the end of 2007 and, in addition, to combine manual pen assembly with product packaging in order to achieve cost savings in the coming years.

Strategic real estate reserves in Solothurn

In mid-2006, Ypsomed acquired the entire Ziegel matt area lot (42 361 m²) at the Solothurn facility after long negotiations, thereby securing strategic buildings for manufacturing in Switzerland for the medium and long term. The future use of the available area is currently being addressed in a comprehensive Ypsomed site plan.

Strategic partnerships in tool manufacturing

Injection-moulding tools are critical in the efficient and high-quality manufacturing of highly precise synthetic parts. Instead of involving several tool makers in the commercialization of new products as we used to, Ypsomed has selected Adval Tech Group as our strategic partner in this area. The goal of this strategic partnership is to improve quality and reduce lead time, as well as achieve greater standardization in terms of the tools we use. In the future, Ypsomed's internal tool shop will focus on single-cavity tooling, rapid prototype production and tool maintenance.



“In the past year Ypsomed committed above average investments to quality management. In addition Ypsomed strengthened its know-how and personnel.”



Dr. Manfred Mäder, Senior Vice President Quality Management & Regulatory Affairs

QUALITY MANAGEMENT

Quality management as a priority

The launch of new products and Ypsomed's rapid sales growth in the last three years have not only increased the number of parts, components and sub-assemblies manufactured, but also the diversity and complexity of the production processes. The enorm increase in production volumes and the extremely tight time line for the expansion of production capacity constituted a great challenge for Ypsomed.

Expansion of quality management

This situation led to a fundamental analysis of the existing quality management process, with the goal of better ensuring quality earlier in the development and production process. In the future, any potential production problems should be recognized earlier, and not only at the end-product stage. During the past eighteen months, external specialists have been called in to help Ypsomed strengthen quality management, both in terms of expertise and personnel. The quality department has been expanded from 55 to 77 staff members, and will be further increased to 85 in the current business year. The analysis of the quality management process also included the review and definition of work flows and instructions. In order to ensure high quality throughout the value-added process, we conducted more than eighteen supplier audits. Furthermore, the recertification audits conducted by SQS in March 2007 were successfully concluded.

Strengthening employees' commitment to quality

In parallel to the above activities, Ypsomed defined explicit cross-firm quality targets which guide all employees. To support this process, information and training were provided. Ypsomed's goal is to increase all employees' awareness of quality and their understanding of its importance. The training is especially important since many new employees have been added in the last few years due to our strong growth, around half of all employees have been with Ypsomed for less than two years.

Supplier audits provide affirmation

The initial success of our improved quality system is already visible in supplier and regulatory agency audits. These audit reports show that the departments and processes examined either have no more observations or the number of observations decreased significantly and could be resolved immediately. Ypsomed will continue to expand its quality management program. In particular, quality control measures are to be implemented to improve the overall efficiency of quality management.

Quality management under new leadership

Replacing the senior quality management leadership was an important milestone in the past business year. Following a professional search and selection procedure, Manfred Mäder was hired as the new head of quality management and regulatory affairs on January first 2007; he is also a member of management. Mäder completed training as a pharmacist, holds a PhD, and has many years of experience in the pharmaceutical industry. Before his move to Ypsomed, he was head of quality assurance for finished drugs products at Sanofi-Aventis in Frankfurt. Prior to serving in this position, he was quality and regulatory product manager for one

of Aventis's global products, which allowed him to gain experience with the most important regulators around the world. Before that, Dr. Mäder worked in various quality management positions during a lengthy stay in the United States, and is therefore very familiar with the expectations of US authorities.





“Ypsomed employs well-qualified and motivated staff members, who contribute fully to the firm even during difficult times.”



Yvonne Müller, Senior Vice President Human Resources

PERSONNEL AND ORGANIZATION

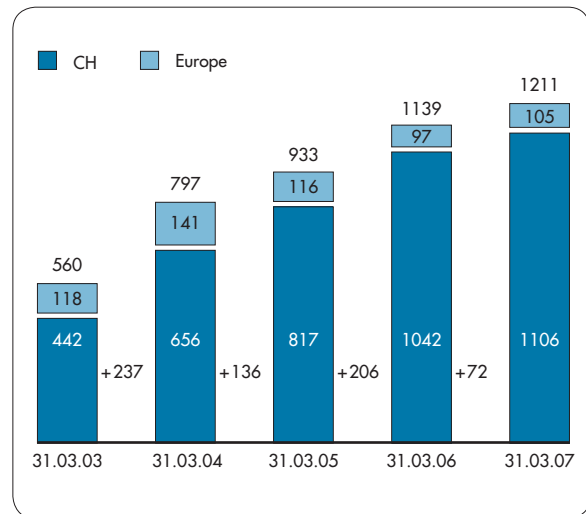
Change in Ypsomed leadership

As has been mentioned in other sections of this annual report, Ypsomed's management team was newly appointed in business year 2006/07. In mid-September, the board of directors appointed Richard Fritschi as the new CEO of Ypsomed Group. In November 2006, Maurice Meytre took up the newly created position of COO. The management team was completed on 1 January with the addition of Dr. Manfred Mäder as head of quality management and regulatory affairs. Further information about the management and individual members' biographies are available in the corporate governance section, starting on page 73.

Staff changes

Operational developments in business year 2006/07 also affected the employment situation. Due to the interruption in the production of the OptiClik® control module and the reduced order volume by Sanofi-Aventis, we had to briefly reduce the number of temporary employees. However, the number of permanent employees rose during the past business year, from 1139 at the beginning of the year to 1211 as of 31 March 2007. The addition of permanent employees most affected the quality management and technology departments, where the largest increases in staff were recorded. The following graph outlines the changes in permanent staff.

Employees figures since 2003



Employees very committed

Business year 2006/07 was characterized by many changes for our employees, which required yet again strong commitment and great flexibility from everyone. With its employee-friendly employment conditions and an achievement-based salary system, Ypsomed strives to harmonize the company's and the employees' needs, and to honor the staff's dedication.

New organizational structure

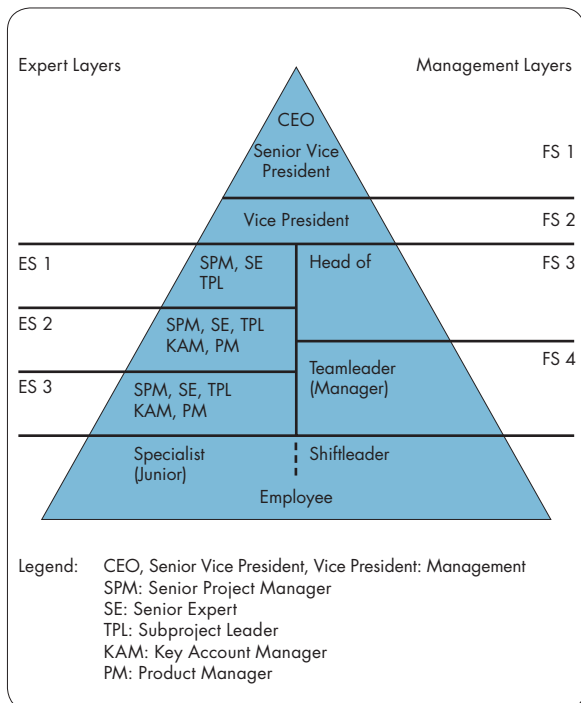
Ypsomed's new organizational structure was approved in January 2007 and implemented accordingly (see the new organizational chart on page 73). Ypsomed's organization is designed to meet the following requirements in particular:

- Focus on Ypsomed's strategy
- Improve customer orientation
- Establish clear competencies and responsibilities
- Facilitate rapid decision making
- Define local responsibilities and presence
- Reduce costs and increase efficiency

Clear management and expert ranks

Simultaneously with the introduction of the new organizational structure, management levels were redefined and three expert ranks newly created. This is to signify that Ypsomed not only relies on the strong leadership skills of its area, department and group heads, but also aims to incorporate and make use of the available know-how and extensive experience of its internal experts and specialists. The graph below details the new management and expert ranks.

Management Layers



Ypsomed employee survey

In fall 2006, an Ypsomed employee survey was carried out for the third consecutive year. The participation rate was particularly high, at 84%. The results show what areas Ypsomed has already worked on – areas in which it performed as well as or even better than other companies (the benchmark). Ypsomed’s strong points, among others, are education, development opportunities, teams and direct superiors. The employee survey suggested that there is room for improvement in the areas of structure and organization, as well as communication of company strategy. The management will focus on these areas that are important to the staff by means of the new organizational structure and internal communication activities in order to further increase employee satisfaction in the future.

Training

Employee training is one of Ypsomed’s key success factors. In business year 2006/07, a total of 7760 staff members participated in 548 internal training sessions. Of these participants, 3541 took part in 83 GMP (Good Manufacturing Practice) trainings, and 118 managers (shift supervisors, group heads, department managers, project managers and product managers, etc.) took part in internal leadership seminars. With regard to team-building, 9 workshops with a combined total of 131 participants took place. In addition, 63 employees took part in external seminars, and 71 staff members are currently attending in-service further education.

Staff development

We want to target and support high-potential employees. The scheduled “comprehensive potential” assessment was conducted, resulting in the identification of high-potential employees. In 2007, Ypsomed will introduce several new career pathways. In addition to the conventional management career, we will offer the possibilities of specialized and project management careers. In parallel to the introduction of these career pathways, Ypsomed will place particular emphasis on the potential assessment and succession policy. Ypsomed will also strengthen the leadership culture with the help of special leadership seminars and YES activities.

Expansion of apprenticeships

When apprenticeships begin in August 2007, another 10 apprentices will start their basic vocational training in the existing vocational fields at Ypsomed. The high number of applications indicates that Ypsomed is still very attractive as a trainee employer. As in previous years, the computer technician and business posts have proven most popular, while there is much less enthusiasm for the technical apprenticeships. The total number of apprentices has risen from 19 in 2005 to 28, which represents 2.8% of the staff and is still short of Ypsomed’s medium-term goal of around 5%.

Special focus 2006: health promotion and accident prevention

Together with SUVA, Ypsomed initiated a health promotion and accident prevention program in early 2006. The program's goals were prevention and awareness, aimed at health promotion and accident prevention among all staff. In the course of this project, more than 160 supervisors received training relating to health promotion and accident prevention. Thanks to clear responsibilities, increased awareness, and systematic collection, analysis and communication of key data, Ypsomed believes it will be able to reduce the number of accidents in the short and medium term. The program is being continued this year.

Ypsomed is convinced that healthy employees are more loyal to their company and enhance customer satisfaction due to better performance. The introduction of absence management is intended to reduce the disability rate. We are tackling this issue in the new business year with a systematic early warning system, individual care and coordination of ill and injured employees.

YES – quality and excellence as strategic priority

Quality and the effort to achieve excellence are of great strategic importance to Ypsomed, and a necessary condition for the realization of our vision and strategy. The commitment to quality and excellence refers not only to our relations with our customers and suppliers, but also to relations within our own organization, between the various departments. In November 2005 the board of directors and the management initiated a change management project with the slogan YES (Ypsomed = Excellence*Spirit), with the goal of instilling a spirit of excellence within Ypsomed.

Changes and measures to achieve excellence

With YES, Ypsomed aims to effect changes in leadership, strategy realization, structures, and culture and commitment on all management levels and among all employees in order to achieve the desired excellence. Seven larger sets of measures were designed and launched in the past year. Five initiatives have already been completed and two are still being implemented. In Ypsomed's view, the spirit of excellence must not be restricted to the duration of a project but must become a fixed asset of our company culture. For this reason, these continuous improvements are now being institutionalized. A YES committee accepts input and develops and implements solutions.



“Ypsomed owns 219 patent families and aims to continuously expand this know-how and to enforce its intellectual property rights.”



Dr. Beat Maurer, Senior Vice President Legal and Intellectual Property

LEGAL AND INTELLECTUAL PROPERTY

Ypsomed owns 219 patent families

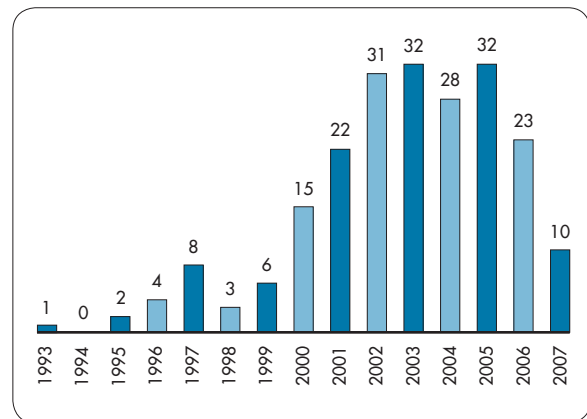
The legal and intellectual property department, led by Dr. Beat Maurer, is responsible for all legal activities, contracts and the representation of Ypsomed's interests with the authorities, as well as all affairs relating to patents.

In the areas of self-medication, pen needles, pen systems and auto-injection technology, Ypsomed today owns a total of 219 patent families, with patents granted and pending in numerous countries. In the area of auto-injectors, Ypsomed owns 40 patent families. Ypsomed invests more than CHF 25 million every year in the research and development of new products and technologies.

Active patent strategy

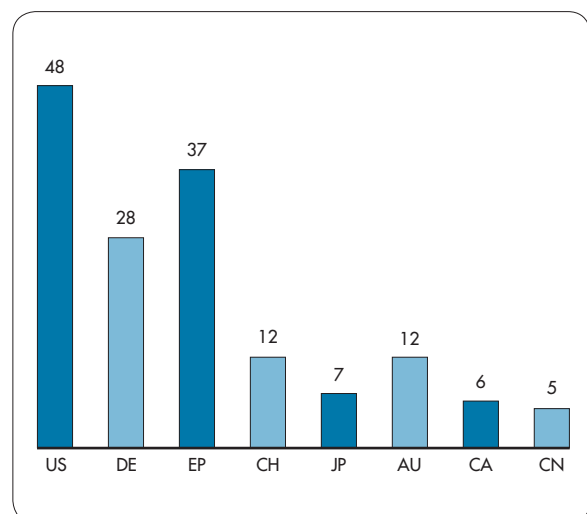
Ypsomed actively protects its developments and its know-how by means of patent applications and observes competitor activity in relevant sectors. A patent committee regularly conducts patent reviews, develops patent strategies and forwards to the management and the board of directors recommendations about protection measures for patents and other intellectual property. The representation of its interests and the active enforcement of patent rights has become a strategic priority for Ypsomed and helps safeguard profitability in the medium to long term.

Priority applications per Annum

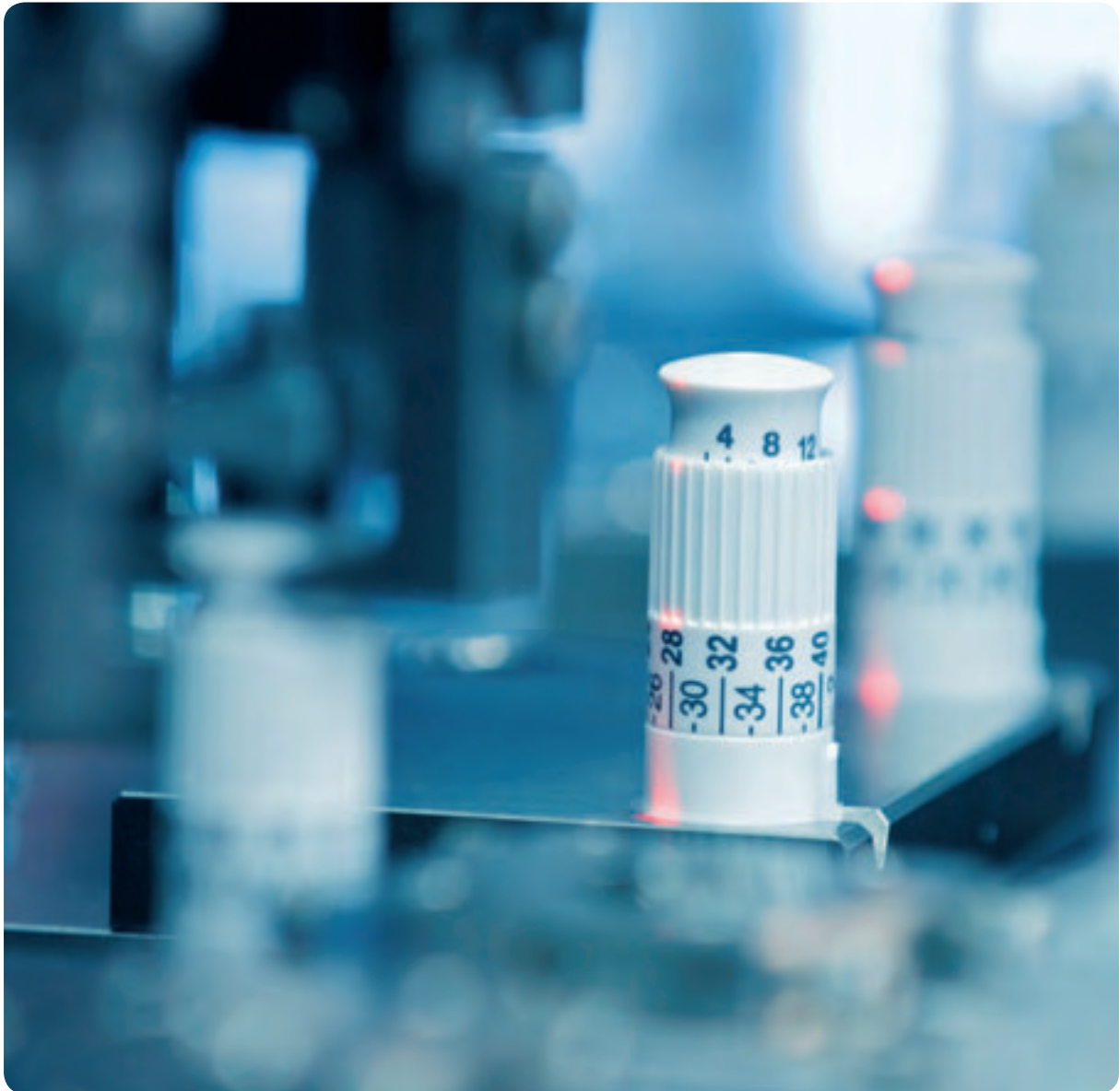


As of March 31, 2007

Granted patents by region



As of March 31, 2007



“The high equity ratio and an entrepreneurial owner allow Ypsomed to make significant investments in innovation and technologies that will enable us to achieve sustained profitability.”



Niklaus Ramseier, CFO

Profitability lower due to additional costs

In business year 2006/07, gross profit was CHF 64.2 million, which corresponds to a gross margin of just 23.2% (prior year 38.4%). The gross profit was reduced by about CHF 13.0 million because of lower sales. In the first half of the year, additional costs of CHF 14.2 million resulted from the halt in the OptiClik® production because of accelerated depreciation of defective goods and manual testing and reworking operations, as well as higher scrap rates when production was again restarted. An additional CHF 14.0 million was expended for specific modifications in production, in particular in the field of process optimization, for the construction of the new logistics center in Burgdorf as well as for optimization in the field of quality systems and organization. Ypsomed's profitability was further burdened by CHF 10.1 million from ongoing commercialization projects and the introduction of new products, and by one-off costs for guarantee claims of CHF 3.7 million.

In business year 2006/07, this resulted in an operating profit for Ypsomed before interest, taxes, depreciation and amortization (EBITDA) of CHF 27.4 million (EBITDA margin of 9.9%), or earnings before interest and taxes (EBIT) of CHF 2.3 million (EBIT margin of 0.8%). Ypsomed was able to reverse the trend in the second half of the year despite higher overhead costs. Following an EBIT loss of CHF 5.3 million in the first six months, EBIT improved in the second half of business year 2006/07 to CHF 7.7 million.

FINANCES

Ypsomed achieved sales of CHF 277.5 million

In business year 2006/07, the Ypsomed Group achieved consolidated sales of CHF 277.5 million. Sales in the second half of the year, of CHF 148.4 million, represented an increase of 15% compared to the first half of the year, but total sales in business year 2006/07 were 10.7% lower than those of the prior year. This was because production of the OptiClik® pen reusable module had to be halted at the beginning of the business year, and, as a result, order volumes by Sanofi-Aventis turned out to be less than originally planned. In the last business year, Sanofi-Aventis share of overall sales was about 55% (prior year about 60%). The growth in pen needle sales (22.6%), in diabetes-related commercial transactions (12.6%) and in Ypsotec sales (22%) are positive developments.

Net sales April 1 – March 31

in thousand CHF	2006/07	in %	2005/06	in %	Change in %
Own finished products	234 614	84.6	269 638	86.8	-13.0
Direct trades business and other products	42 836	15.4	40 950	13.2	4.6
Total sales	277 450	100.0	310 588	100.0	-10.7

Ypsomed continued to invest in infrastructure, capital equipment and technology

In business year 2006/07, Ypsomed invested a total of CHF 36.8 million (CHF 30.8 in the prior year), CHF 12.5 million of which was for the purchase of the Zieglmattareal property in Solothurn. As a result, Ypsomed has sufficient strategic infrastructure reserves in Switzerland for the mid to long-term. Part of the production area in Solothurn has already been claimed for the construction of the new pen needle production facility (including the corresponding clean room) and for the production of the new Symlin[®] pen.

Increased expenditures for research and development

Expenditures for research and development increased in business year 2006/07, both absolutely and relative to sales. Ypsomed invested CHF 25.4 million in research and development, which is 11.4% more than in the prior year (when it invested CHF 22.8 million) and represents 9.2% of sales (prior year 7.4%). Expenditures for research and development increased in particular because employee head count rose by 25%, to a total of 109. Within its strategy, Ypsomed made increased investments in the development of its own technology platforms (see page 19 of the annual report). As a result, income from custom-made development projects decreased from CHF 5.6 million to CHF 3.5 million.

Increased marketing efforts and lower administration costs

In the last business year, Ypsomed increased its marketing activities, both in the pen business and in the field of pen needles and diabetes care business. Costs for marketing and sales increased from the prior year, from CHF 19.4 million to CHF 21.4 million (corresponding to 7.7% of sales, compared to 6.2% in the prior year). Costs for administration decreased from CHF 20.3 million to CHF 18.6 million.

Profitable capital structure

Financing costs were very low, due to the profitable capital structure, and decreased slightly compared to the prior year, from CHF 2.1 million to CHF 2.0 million. Income from cash and marketable securities was CHF 2.7 million; this income turned out to be less than in the prior year because of the lower basis, but was still higher than the financing costs and resulted in net finance income of CHF 0.7 million. Due to the lower operating profit, tax expenditures were only CHF 0.4 million (prior year CHF 8.8 million).

Earnings of CHF 0.24 per Ypsomed share

In business year 2006/07, the Ypsomed Group realized a consolidated net operating profit of CHF 2.7 million, as indicated in November 2006. Based on an average outstanding number of shares of 11 229 318, this results in earnings of CHF 0.24 per Ypsomed Holding share. In view of upcoming capital expenditures of around CHF 60 million, the board of directors of the Ypsomed Group is not proposing to distribute any dividends or repayment of the par value at the General Meeting of Shareholders this year.

Operational activities reflected in cash flow

In business year 2006/07, Ypsomed achieved a cash flow from operating activities of CHF 32.2 million, 32% less than in the prior year, when it was CHF 47.4 million. Depreciation of CHF 25.1 million was only slightly lower than that reported in the preceding period, of CHF 26.7 million. In comparison to the prior year, net working capital decreased by CHF 47.5 million due to lower sales. In business year 2006/07, pharmaceutical partners' capital expenditures for custom-made production machinery were about CHF 0.7 million, significantly less than in the prior year, when they were CHF 16.9 million. The tools, product-specific machines and equipment purchased and operated by Ypsomed were partially sold back to the pharmaceutical partners but remain in Ypsomed's possession.

As of this business year, advance payments for custom-made machines and deposits from pharmaceutical partners are accounted for separately (see page 43 of the accounting policies and the restatement on pages 41/42). Capital expenditures for fixed assets increased from CHF 30.8 million to CHF 36.8 million. Cash flow from investing activities, a total of CHF -19.1 million, was higher than in the prior year, when it was CHF -9.4 million (see pages 41/42 regarding the reclassification of transactions with marketable securities and financial assets). Cash flow from financing activity was CHF -38.1 million (prior year CHF -28.3 million) and resulted from the repayment of the par value of CHF 14.0 million, which was decided on by the General Meeting of Shareholders instead of a distribution of dividends for business year 2005/06, and from a reduction in the shareholder loan by CHF 20.0 million.

Solid financing with 62.8% equity ratio

The Ypsomed Group is very soundly financed, has no bank debts and is supported by an entrepreneurial majority shareholder who has loaned the company CHF 180.0 million at an interest rate of just 0.5% per year. By 31 March 2007 the consolidated equity was CHF 390.0 million, which corresponds to an equity ratio of 62.8% (prior year 60.7%). By the end of the business year, Ypsomed had cash and cash equivalents of CHF 40.7 million, securing long-term financing for business operations and capital expenditures.