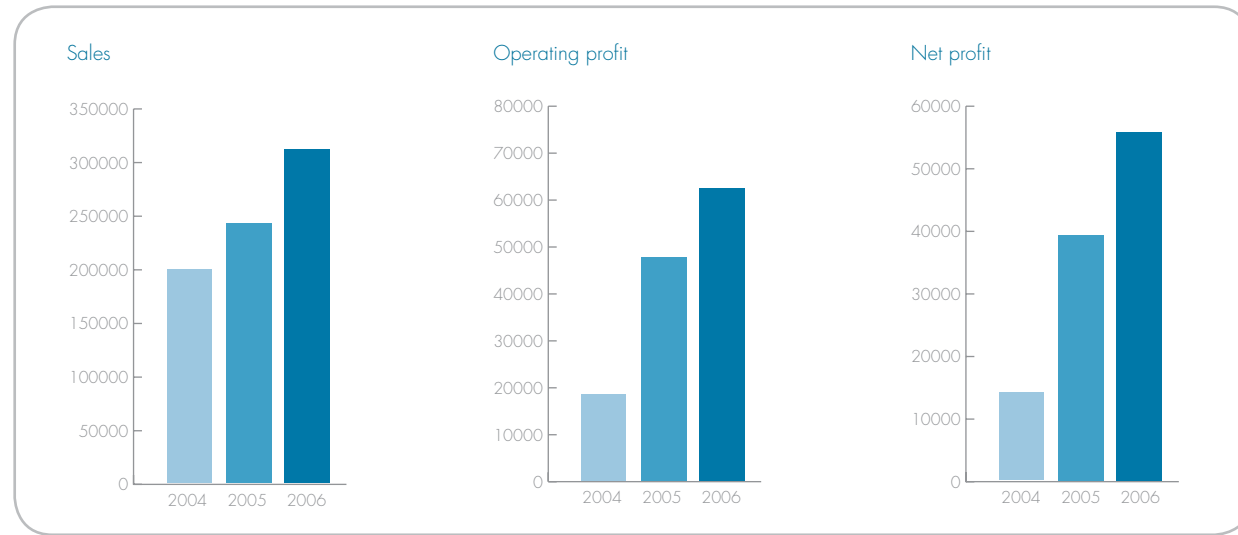




KEY FIGURES AT A GLANCE APRIL 1–MARCH 31



in thousand CHF	April 1, 2005 –March 31, 2006	April 1, 2004 –March 31, 2005	Change	in %
Sales of goods and services	310 588	241 823	68 765	28.4
Gross profit	119 213	96 888	22 325	23.0
Gross profit in %	38.4%	40.1%		-1.7
Research and development expenses (gross)	22 834	20 290	2 544	12.5
Operating profit	62 342	47 548	14 794	31.1
Operating profit in %	20.1%	19.7%		0.4
Net profit	55 648	39 195	16 453	42.0
Net profit in %	17.9%	16.2%		1.7
Earnings per share (in CHF) ¹⁾	4.95	3.49	1.46	41.8
Capital expenditures	40 110	71 459	-31 349	-43.9
Equity ratio in %	60.7%	54.2%		6.5
Employees headcount (year-end)	1 139	933	206	22.1
Employees fulltime equivalent (year-end)	1 090	894	196	21.9

¹⁾ Earnings per share of the previous year are calculated with total number of shares after IPO

HIGHLIGHTS

Sales up 28.4% from CHF 241.8 million to CHF 310.6 million

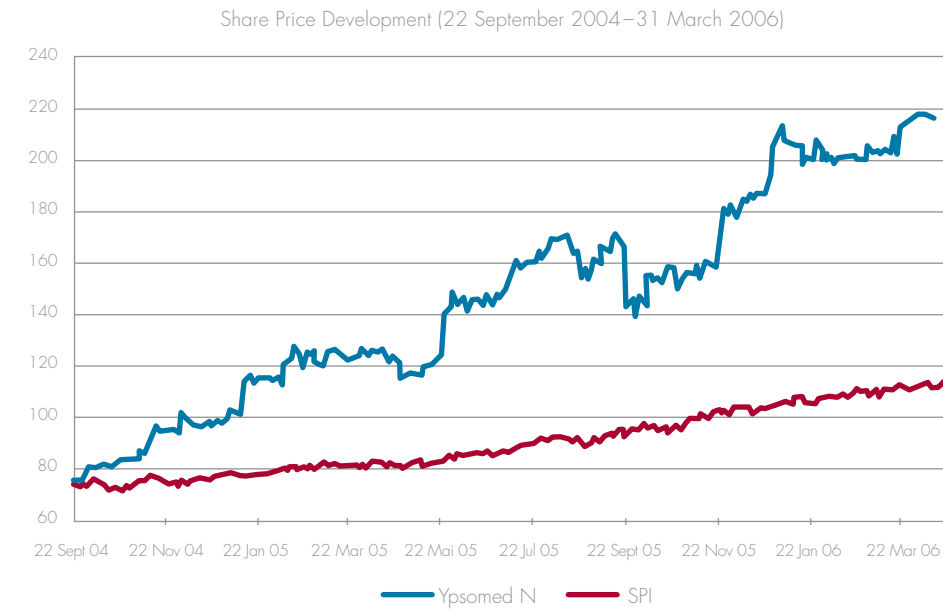
Operating profit margin increased to 20.1%

Earnings per share CHF 4.95

Dividend as nominal value reduction of CHF 1.25 per share

Successful launch of OptiClik® Pen for Lantus and Apidra

206 jobs created during business year 2005/06



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LETTER TO SHAREHOLDERS

Dear Shareholders,

The Ypsomed Group is continuing on its successful course, having attained and, in some cases, surpassed its set targets during the year under review. We can report strong sales growth of 28.4% in the business year 2005/06, with sales in the core business of pen systems and pen needles up steeply at 44.7%. Factors contributing to this success included a rise in demand for the disposable pen OptiSet® and the semi-disposable pen OptiClik® from sanofi-aventis for use with the insulin product Lantus and, more recently, with the new product Apidra. A gross margin of 38.4% was achieved and the operating profit margin increased to 20.1%. Net profit totalled CHF 55.6 million, equivalent to earnings of CHF 4.95 per share. The Ypsomed Group created 206 jobs during the 2005/06 business year and now has a total of 1 139 employees. During that period it consolidated and expanded its leading global position as an independent developer and manufacturer of injection systems for self-medication.

Ypsomed benefiting from success of Lantus

Ypsomed's established strategy of seeking cooperations with pharmaceutical partners looking for a reliable partner of high-tech injection systems is now yielding unexpectedly strong growth. In particular, it is reaping benefits from its 20-year partnership with sanofi-aventis (formerly Aventis and Hoechst) and the enormous success of that company's product Lantus, the leading long-acting insulin. Sales of Lantus in 2005 increased by 46% to EUR 1.2 billion, 60% of which was attributable to the US market alone. Sanofi-aventis has stated that one in every three diabetes patients switching from oral therapy to insulin in the USA now uses the long-acting insulin Lantus. The main advantages of Lantus are a once daily dosage regimen and its release of insulin at a steady rate over the course of the day. Patients perceive Lantus as an extremely safe and reliable product, and this helps to facilitate an early change to insulin medication which significantly reduces the risk of severe and expensive long-term consequences diabetes.

Low penetration rate of pens in US market offers growth opportunities

Although OptiClik® was launched in the USA in January 2005, normal syringes are still the preferred form of administration for Lantus in that market. It is anticipated that the very low market penetration rate achieved there by insulin pen systems (only 15%) will gradually rise to somewhere nearer the rates of approximately 90% prevailing in Europe. The latest example of this is the US launch of Apidra using Ypsomed's OptiClik® pen system. Apidra, a product developed and marketed by sanofi-aventis, is a rapid-acting insulin analogue offering flexibility of use because of its quick onset of action. It is ideal for combination with long-acting Lantus. OptiClik® is a patented pen system developed by Ypsomed combining the advantages of disposable and reusable pens. Ypsomed's OptiClik® semi-disposable pen system simplifies changing of insulin cartridges designed for use with the same high-precision dosage module.

Segmentation of market for injection systems

There is now a distinct and steadily rising trend towards self-medication. Pharmaceutical partners are becoming increasingly ready to use innovative devices and systems for injection by the patients themselves, because they increase a therapy's chances of success, whilst also improving the patients' quality of life. A medicine's success in the market depends not only on its therapeutic activity, but also on the availability of simple, painless and psychologically more acceptable injection systems for its administration. It is becoming more and more widely recognized that correct use of these forms of administration by the patients yields higher therapeutic success rates. Consequently, our pharmaceutical partners are now starting to provide individual groups of patients with injection systems specifically designed to cater for their needs and preferences, and patients themselves are increasingly tending to demand these. The result is that the self-medication market is now starting to segment into specific customer groups, just as the consumer goods market has developed over the years. For example, one competitor is already offering its range of insulins in six different pen systems, some of which have already been on the market more than 10 years.

Strategic cooperation between Ypsomed and sanofi-aventis

The developments outlined above have now persuaded sanofi-aventis, our main customer, to offer its insulins in a wider variety of pen systems. For strategic reasons, sanofi-aventis is planning to develop and manufacture a pen of its own in addition to those supplied to it by Ypsomed. This will be launched in selected markets and will complement the pen systems supplied by Ypsomed. The longstanding, close cooperation between Ypsomed and sanofi-aventis will continue. Ypsomed is, and will remain, an important strategic partner and supplier to sanofi-aventis.

LETTER TO SHAREHOLDERS

Strengthening customer loyalty

Ypsomed's successful pen systems OptiClik®, OptiSet® und OptiPen® Pro will continue to form a significant proportion of the pens supplied with sanofi-aventis products over the years to come. Wider use of the semi-disposable pen system OptiClik® in the USA and other countries will create an increasingly broader customer base, regularly and repeatedly obtaining its insulin in Ypsomed's disposable modules. In this way, Ypsomed's semi-disposable OptiClik® pen will forge a strong, durable link with the end user. Our production capacity for sanofi-aventis has been further expanded on the basis of their forecast with financial contributions from the client.

Seizing opportunities and avoiding risks

We are convinced that Ypsomed is pursuing the right strategy and that we have correctly assessed our strengths. We see an abundance of market opportunities which can be successfully exploited with innovative products and reliable, high-quality production facilities. Whilst it is obviously impossible to completely exclude risks, they can nevertheless be identified pro-actively and avoided or reduced wherever possible. The responsibility for risk identification and avoidance lies primarily with the Board of Directors and the management, but also with every single Ypsomed employee. Realization of these opportunities will require the will of all involved to contribute outstanding performance and total commitment.

Quality and excellence are strategic priorities

The group's strong growth is a great challenge for management, employees, procedures and organization. New employees have to be integrated and trained, new technologies and processes defined, and existing procedures and structures regularly optimized. Quality and the achievement of excellence are of great importance strategically and essential for implementation of strategy and growth plans. Our commitment to quality and excellence applies not only in our dealings with customers and suppliers, but also in all areas of our own organization in their dealings with each other. In order to cope with the problems arising from strong growth, the Board of Directors and the management have designed and launched a project named YES (Ypsomed = Excellence x Spirit). The objective of YES is to ensure that the group's strategic objectives are correctly understood and followed at all levels within the organization. It is adapted to individual levels and aims to encourage suggestions for genuine improvements which support our quest for excellence. Excellent financial results can all too easily make the enormous efforts behind their achievement to be forgotten.

Diversification within core business fields over the coming years

Ypsomed will continue to pursue the strategy which has made it technological leader in the self-medication market, in which diabetes will remain the main segment for two main reasons. Firstly, diabetes is increasing globally at a rate of over 3% per annum and is now assuming almost epidemic proportions. Secondly, with diabetics tending to switch to insulin therapy earlier and more frequently, insulin consumption is expected to grow at a rate of well over 10% in the next few years. In addition to its main customer sanofi-aventis, Ypsomed is now supplying innovative pen systems to other manufacturers of insulin products in various countries including China, an important market of the future with a high level of domestic demand. Ypsomed is also planning to diversify for strategic reasons. Although the enormous success of Lantus from sanofi-aventis has brought Ypsomed a current sales of over 60%, a figure which will probably rise even higher in the future, Ypsomed is planning to acquire some other key customers to broaden its sales base. This diversification process will be pursued with great care and take place within the group's core areas of competence, because the ultimate objective remains the fulfilment of high sales and profitability targets. It is as yet too early to make any definite statements on these plans, but the Board of Directors and the management are already actively examining some relevant options and taking appropriate action.

LETTER TO SHAREHOLDERS

Innovative self-medication with growth potential

The Ypsomed Group's innovative capabilities and its high investment in research & development are an important strategic factor behind its success. During the last business year alone, it invested CHF 22.8 million (equivalent to 7.4% of sales) in research & development and now employs 87 highly-qualified staff. Ypsomed shuns short-term goals aimed at optimizing immediate results in favour of policies promising long-term, durable success. This is why it decided several years ago to invest significant funds in the creation of its own development platforms. The group's patent-protected prototypes of innovative pen systems, auto-injectors and pen needles are attracting great interest from pharmaceutical partners, which is increasingly tending to look beyond innovative therapeutic substances to reap the benefits provided by customer-specific injection systems for administration of these substances. For reasons of confidentiality it is not always possible to disclose details of the projects in our pipeline.

Success for all involved

Ypsomed's growth and success also mean growth and success for all other stakeholders involved. Our innovative injection systems enable our customers to position their pharmaceutical products more clearly in the market and sell them more successfully. One particularly gratifying feature is that the Ypsomed Group is one of the leading creators of jobs in Switzerland. Since becoming independent in April 2003, it has expanded its workforce from 537 to 1139, an increase of 112%. This represents a significant contribution to both the regional and the national Swiss economy and is creating growth for Switzerland in the pioneering sector of medical technology. Our suppliers and customers benefit from Ypsomed's high investments in fixed assets, machinery and tools, which in turn enable them to create new jobs.

Over the past business year Ypsomed's share price rose by 73% from CHF 125.50 to CHF 218.20. Since the start of trading on 22 September 2004 at the opening price of CHF 73.–, the share has risen steadily to close on 31 March 2006 at CHF 218.20.

In view of the profit of CHF 55.6 million for the year under review, the Board of Directors will ask the Annual General Meeting of Shareholders to approve a dividend distribution of CHF 1.25 per share in the form of a repayment of the par value.

The group's success was not achieved without considerable efforts from all involved, and we take this opportunity to thank our shareholders, customers, suppliers, and employees for their contributions towards it. We will do everything in our power to ensure that you will continue to benefit from this very satisfactory progress in the years to come.



Willy Michel
Chairman of the Board of Directors



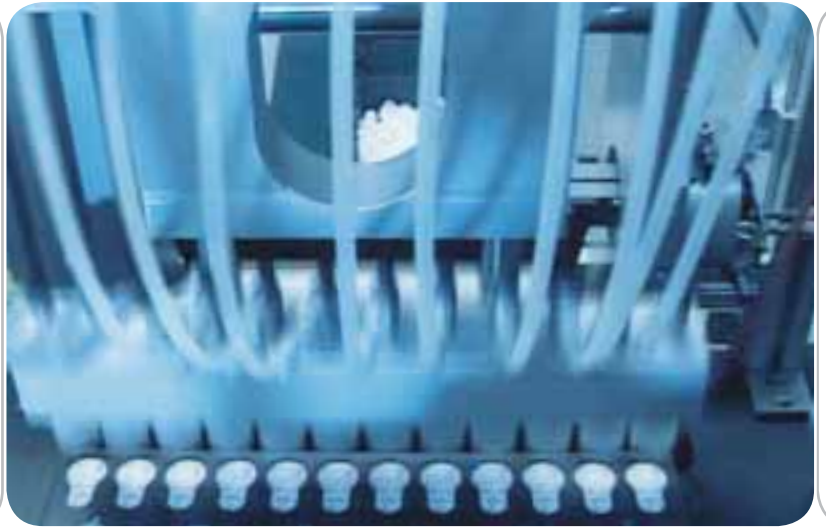
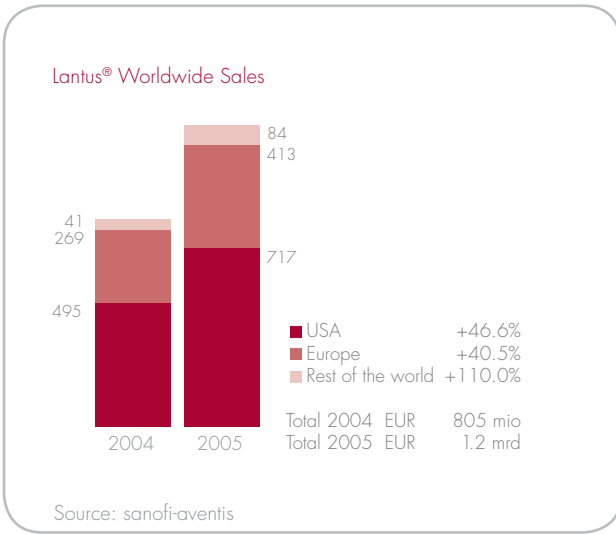
Matthew Robin
CEO



GROWTH



**CLOSE STRATEGIC RELATIONSHIPS WITH CUSTOMERS,
TOGETHER WITH HIGH INNOVATIVE ABILITY, FORM THE
BASIS FOR YPSOMED'S SUSTAINABLE SUCCESS.**



THE LAUNCH OF OPTICLIK®, REPRESENTING A SHIFT FROM THE DISPOSABLE SYRINGE TO THE INTELLIGENT INJECTION SYSTEM, AND THE SHARP INCREASE IN DEMAND FOR PEN NEEDLES WILL INFLUENCE YPSOMED'S GROWTH OVER THE YEARS TO COME.

Core business sales grow 44.7%

Ypsomed's consolidated sales in the 2005/06 business year totalled CHF 310.6 million, an increase of 28.4% which lay within the increased forecast range of 25% to 30% indicated in November 2005. Sales growth in our core business with injection systems, pen needles and products supplied by Ypsotec was especially satisfactory.

Ypsomed's business model, based on technological leadership and long-term cooperation arrangements with pharmaceutical partners, is the foundation on which our success is built. Cooperation with pharma partners begins at the time when the drug substance is still being developed, includes the technical development stage and market launch and continues during the full lifecycle of the pharmaceutical product. The injection systems developed and manufactured by Ypsomed are sold exclusively through our pharma partners.

Ypsomed's strong sales growth over the last few years is thus the result of cooperation arrangements negotiated and renewed over the last 20 years. These arrangements are naturally covered by agreements extending over several years. Equally important is our constructive cooperation with these customers at



operational level, plus the mutual confidence which has built up over the period. The key components of the success shared with these customers are our innovative capability, customized products, high quality and the reliability of production & logistics.

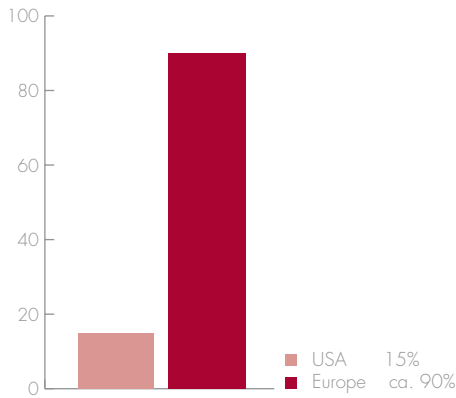
Success in the market of Lantus, OptiSet® and OptiKlik®

The longstanding cooperation with sanofi-aventis is a major factor behind Ypsomed's growth. The actual extent of the enormous success of Lantus in world markets came unexpectedly, both to us and also to sanofi-aventis itself. Lantus was launched in 2000 in Germany, followed by the USA in 2001, England in 2002, and France in 2003. It has since been launched successfully in more than 70 countries and is now globally the top-selling insulin product for patients starting insulin therapy. It also has the fastest-growing market share. 2005 sales of Lantus increased 46% to EUR 1.2 billion, of which 60% are attributable to the US market alone. According to sanofi-aventis, one diabetes patient in every three switching from oral therapy to insulin in the USA now uses long-acting Lantus (see graph on page 12). Lantus is now one of the fastest-growing pharmaceutical products in the

sanofi-aventis portfolio and has become one of the company's blockbuster products only five years after initial launch. Experts estimate Lantus future annual sales potential at between three and four billion euro.

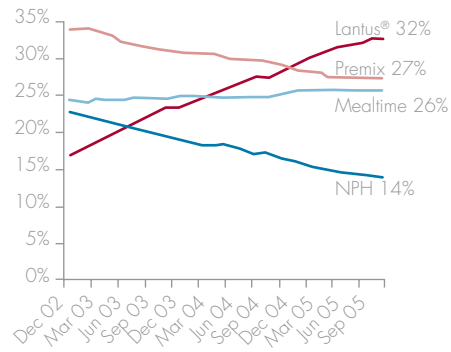
Because Lantus is marketed not only in the newly developed OptiKlik® system, but also in the older Ypsomed products OptiSet® and OptiPen® Pro, rapid expansion of production capacity of all three of these products became urgently necessary.

Pen penetration rates in the year 2005



Source: Pharmaceutical partners and Ypsomed

Number of new patients by Insulin type (USA)



Source: sanofi-aventis

Successful launch of OptiClik®

As announced in the last annual report, the successful launch of OptiClik® for the long-acting insulin product Lantus from sanofi-aventis is one of the most important milestones in Ypsomed’s corporate history and has made a significant contribution to Ypsomed’s strong growth.

OptiClik® is a semi-disposable pen system patented by Ypsomed offering the advantages of reusable pen systems combined with those of disposable pens. OptiClik®’s reusable dialling module has a high level of functionality, a large, easily readable electronic display, and an extended dosage range stretching from 1 to 80 insulin units. The disposable module containing the insulin cartridge is inserted into the dialling module with a simple click, thereby greatly simplifying user operation of the injection system.

Apidra launched with OptiClik®

This simplicity of operation makes OptiClik® ideal not only for the administration of Lantus, but also for combined therapy with a rapid-acting insulin. The new rapid-acting insulin analogue Apidra developed by sanofi-aventis has been launched in the USA with Ypsomed’s OptiClik® pen system. Available information show that sanofi-aventis has succeeded in further increasing its share of the US diabetes market with its leading, long-acting product Lantus.

OptiClik® in the USA and Japan

Since its launch in the US market at the end of January 2005 OptiClik® – the only pen system of its kind anywhere in the world – has achieved a high level of user acceptance across a broad customer base. Some technical problems which arose last year in four batches in Japan temporarily stopped production of one OptiClik® component. The technical problem was solved and the component is now being produced again. Some hundreds of thousands of OptiClik® pens have already been sold in the USA and Japan, and the product is now scheduled for launch in other markets.



In connection with alleged patent infringement by the OptiClik® pen in the USA, Ypsomed commissioned internal and external expert opinions which came to the conclusion that Ypsomed's pen does not infringe patents held by Novo Nordisk. Ypsomed regards the Novo Nordisk claims as unfounded. The patent infringement suit will not influence the production of the OptiClik® pen.

More pen systems in US market

Market penetration of injection pens in the USA is extremely low at less than 15%. There are historical reasons for this resulting from Eli Lilly's former dominant market position. It is confidently expected that this situation will change over the next few years and that use of pens will rise to a European level of approximately 90%. As expected, Eli Lilly and Amylin are marketing the diabetes product Byetta (Exenatide) launched last year in pens only. Novo Nordisk has also announced that its long-acting insulin Levemir will be sold in the USA in pen systems only. Together with the success of Lantus, the present low penetration of pens in the US market offers growth potential for innovative pen systems, as US users switch from administering their insulin with nor-

mal syringes and needles to modern-day pen systems and pen needles.

Diabetes still Ypsomed's main market

Diabetes and consequently insulin will remain Ypsomed's main market over the medium and long term. Ypsomed will benefit not only from the current success of its existing core products OptiClik®, OptiSet®, and OptiPen® Pro. It is also actively pursuing a policy of developing new products for use with insulin in the treatment of diabetes. In view of the high strategic importance of diabetes and insulin therapy to Ypsomed, we will revert to this subject in greater detail later in the report from page 22 onwards.

Biotechnology requires injection systems

In addition to their use in diabetes, injection systems can be applied in, for example, the treatment of anaemia, hepatitis, infertility, osteoporosis, psoriasis, rheumatoid arthritis, thrombosis, and growth disorders, as well as for the administration of hormone therapy. Many substances now in the pipelines of pharmaceutical and biotech companies are manufactured biotechnically and consequently have to be administered in most cases by injection. This means that the need for customer-specific injection systems should increase in the future.

Innovative disposable pen systems and auto-injectors

Ypsomed's current pipeline consists of disposable and reusable pen systems, auto-injectors, pen needles as well as other technologies. This corresponds to the market trend for injection systems. Disposable pen systems give the pharma partners competitive advantages in the form of clearer product differentiation and accurate dosage, plus simpler logistics and less need for customer support services compared with reusable pen systems. Our disposable pen platforms cover the main spectrum of insulin and non-insulin therapies requiring regular injections and are designed to improve patient convenience and compliance.

Disposable auto-injectors are ideal for drug products requiring less regular injections and for new sustained-release presentations which are becoming increasingly frequent for biotechnically manufactured medicines. Disposable auto-injectors are particularly important for regular treatment of chronic autoimmune diseases where the majority of injections are administered at the patient's home and the patient's safety, system reliability and ultimately patient compliance are of prime importance.

The platforms created by Ypsomed are attracting great interest from pharmaceutical industry customers. Questions of safety of use are of ever increasing importance. This is the rationale behind Ypsomed's joint project for development of reusable auto-injectors with Safety Syringes Inc., the leading manufacturer of passive safety, pre-filled syringe systems for hospital and home use.

Growth from other pen systems

Although growth in other fields of application was naturally less spectacular than with the insulin pens, it was nevertheless satisfactory and came up to our expectations. The general trend towards disposable pen systems and, consequently, stronger user links to Ypsomed is on going.

Pen needles strategically important

Ypsomed perceives its pen needle business as strategically important. In the 2005/2006 business year Ypsomed further strengthened its position as the world's third largest manufacturer of pen needles. Its patented click-on pen needles, which eliminate the need to screw on the needle, are compatible with all commonly used pen models. They are marketed under the names Penfine®, Clickfine®, and Optifine®. Ypsomed has gained larger market shares in Germany, France, the Netherlands, and Switzerland, and has signed agreements with distributors in other countries including Greece, Turkey, Slovenia, and Austria. Particularly rapid growth can be reported from England, where an agreement has been signed with a new distributor. Also extremely satisfactory was the doubling of sales through Wal-Mart in the USA, where Ypsomed pen needles are sold under Wal-Mart's private label store brand "ReliOn". Now that pen needles can be sold directly from the shelf instead of over the pharmacy counter, the number of points of sale has increased and purchase of the needles simplified. A study conducted in the USA among patients and diabetes counsellors revealed high acceptance levels for Penfine® pen needles. Respondents described Ypsomed's pen needles as unique and simpler to use than conventional screw-on needles.

Enlargement of pen needle production capacity

Ypsomed recognized the importance of pen needles at an early date and set up its own needle production at Disetronic back in 1990. This has been steadily expanded during subsequent years. The clean room for needle manufacture in Burgdorf was commissioned in 1991 and is still being used today. The company's original pen needles could only be used on Disetronic pens, but these were followed in 1995 by the Penfine® needle which is compatible with all commonly used pen systems and incorporates the patented click-on mechanism. Both types of pen needle have been further developed and the production facilities expanded. Ypsomed now produces in the hundreds of millions of pen needles annually and will reach the limits of the present clean room's capacity within the near future.

A team currently consisting of more than 10 specialists has been set up to supervise completion of the planned expansion of the needle manufacturing facilities.

As the necessary space was not available at the Solothurn site, the new clean room will be installed in the new Ypsomed Nord building at Buchmattstrasse in Burgdorf. The project team is responsible for the planning, construction, and commissioning of the facility. Existing pen needles are being further developed and improved in order to cut production costs.

Direct diabetes business enhances customer proximity

There is an increasing tendency in Germany for diabetes accessories like blood-sugar strips, pen needles, and disposable parts for insulin pumps to be sold either directly or through mail-order firms instead of exclusively through pharmacies as in the past. The Ypsomed subsidiary DiaExpert has gained a strong position in this market with sales of well over ten million euro in the business year 2005/06. This makes it one of the leading diabetes mail-order companies in Germany. Direct business in diabetes products helps to increase Ypsomed's overall strategic competence in the diabetes market and creates a direct point of access to that market. Ypsomed benefits from greater customer proximity and obtains valuable feedback for its research and development activities. Please refer to page 27 for further details of Ypsomed's direct business.

Ongoing expansion of production facilities

The rise in demand from our customers – headed by sanofi-aventis – has necessitated massive expansion of our production facilities for pen systems over the last 24 months. In order to have adequate space for the expansion, Ypsomed has rented new production and warehousing space at the Ypsomed Nord site in Burgdorf. In addition to housing pen needle production, the building will be used for pen system assembly and for the creation of an efficient warehousing and logistics operation.

Towards the end of the year under review, Ypsomed created an industrial development department which is now responsible for coordination of industrialization projects, in particular, management and improvement of interfaces between research & development, process engineering, and production.

Commitment to Switzerland

Ypsomed has continued to mainly expand its production facilities in Switzerland. Ypsomed's products are complex, of top quality and designed to perform demanding functions. Their highly technical nature makes them ideal for production in Switzerland. Installation of capital-intensive, automated production facilities is paying off for Ypsomed, because its customer-specific pen systems are being manufactured on a large scale.

Expansion of production in Solothurn

As in the previous business year, our attention was once again focused during the 2005/06 business year on expansion at the Solothurn site. The plants at Burgdorf and Solothurn each produce the OptiSet® disposable pen, which is assembled in a fully automated process. Production facilities at the Solothurn site for the OptiClik® semi-disposable pen have been expanded. Whilst assembly of the disposable module is like OptiSet® fully automated, the reusable dialling module is assembled semi-automatically. The Gonal-f® disposable pen for Serono is also manufactured in Solothurn.

Installation of production facilities for the Symlin disposable pen

Ypsomed started preparations for the production of the disposable pen for the new diabetes product Symlin from the biotech company Amylin. According to Amylin the pen is scheduled for launch during the first half of the calendar year 2007.

Around 170 new jobs in Solothurn

The major expansion of our production capacity has brought the sharpest increases in the numbers of jobs in our production & logistics operations. The number of production & logistics employees (not including temporary staff) rose steadily. Solothurn led the field with around 170 new jobs. Solothurn now has over 290 employees, as compared with only 15 at the beginning of 2004. Over 40 new jobs were created during the 2005/06 business year at the Burgdorf site. Ypsomed also employed quite a large number of temporary staff at both Solothurn and Burgdorf during the year under review.

Ypsomed workforce tops over 1000 for the first time

Ypsomed's personnel expansion during the year under review also extended to the company's other divisions and brought total numbers employed to the record level of 1139 at the end of March 2006. This expansion included the quality management and research & development divisions. Ypsomed's good public image and its good reputation as an employer offering good working conditions enabled it to recruit most of the necessary specialist personnel.

High level of staff commitment

The company's employees have had to work very hard to manage past growth levels. Introduction of the annual working hours system in January 2005 was welcomed because it met the staff's personal needs whilst giving the company more flexibility. The high degree of commitment shown by our staff is remarkable and is being rewarded accordingly.

Management training and development

Rapid growth inevitably brings with it a need for strong management and leadership qualities. Ypsomed prefers, wherever possible, to promote from within the company and has taken the following steps to develop management potential in talented personnel:

- Introduction of personality development seminars with emphasis on leadership, time management, self-management, training the trainer, and work-life balance. Some 235 employees have so far attended a total of 18 seminars.
- Introduction of a management development programme for the career advancement of talented young personnel. The aim of this junior management programme is to bind the acquired know-how of this group of employees to Ypsomed over the long term. The programme was initiated last year and suitable training personnel was appointed. A total of 11 employees are now included in the programme.
- Human resources development was established as an integral component of our corporate culture. The introduction of a new instrument for the development of human resources potential will improve our ability to identify and develop talented young personnel during the current and future business years.

The key subject of other training courses organized by Ypsomed was GMP (good manufacturing practice). The full training programme comprised some 65 modules which were attended by a total of around 2750 persons. This figure illustrates the great importance attached by us to quality management. We also offer English courses which are very popular with staff. Over 100 employees are currently using these to improve their fluency in English. Ypsomed also financed advanced training courses for individual employees.

Expansion of apprenticeship programmes

The company's plans for increasing its number of apprentices are also running to schedule. From a total of just under 300 applications – this figure indicates the high degree of interest in an apprenticeship with our company – nine apprentices have been selected and will start their apprenticeships on 1 August 2006. They will bring Ypsomed's total number of apprentices in all the relevant trades to 34. The company is seeking to increase the number of apprentices in the trades already offered, as well as opening up further apprenticeship opportunities in new trades. The medium-term objective is to have a total number of apprentices equivalent to 5% of the full workforce.

Safety and accident prevention

Ypsomed has introduced a work safety programme developed jointly with SUVA. Its objective is to prevent accidents and to make all employees aware of the importance of this objective. The programme is scheduled to run over the next two years.

Environmental compatibility

Environmental compatibility and preservation are, and have always been, of key importance to the Ypsomed Group and take a prominent place in decision processes. Ypsomed has appointed an Environment Officer responsible for monitoring these aspects. All the manufacturing processes used by the Ypsomed Group are basically environment-compatible.

Injection moulding involves the injection of plastic granules into moulds and their compression under heat. The best available methods for recycling waste plastic and metal are used. Alternatively, this waste is used as a high-grade fuel substitute in public waste incineration plants. The cooling plants used in the manufacture of plastic products are state-of-the-art. They use no ozone-degrading substances and use cooling water either from the groundwater without causing any contamination (in Burgdorf) or function as closed systems (in Solothurn). They do not draw water from the drinking water supply. None of the assembly processes causes environmental pollution.

YPSOTEC AG – A SPECIALIST IN PRECISION TURNED METAL PARTS

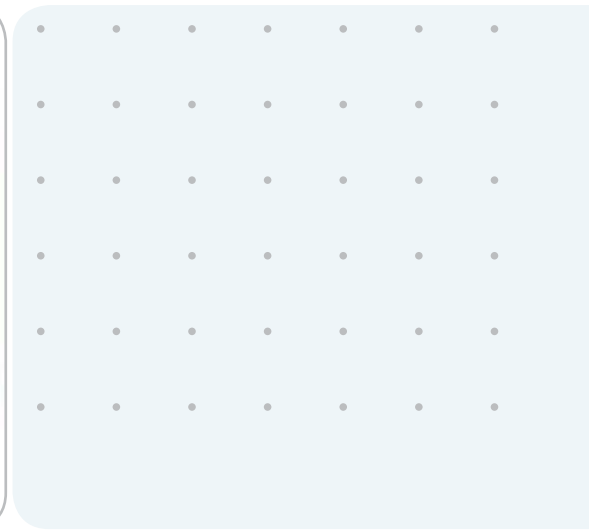


Ypsotec AG in Grenchen – a specialist in precision turned metal parts

Ypsotec AG is a subsidiary of Ypsomed Holding AG located in Grenchen and is one of the leading Swiss manufacturers of high-quality precision turned metal parts. Formerly trading under the name Décolletage AG, it was founded in 1916 and has subsequently amassed an abundance of know-how on high-precision processing of machinable materials and alloys to diameters of between 1 and 65 mm on its ultra-modern machines. Under its General Manager Heinz Ackermann, Ypsotec AG currently employs a workforce of 120 employees. It is certified for all the important ISO norms and specializes in high-quality, custom-made products. Ypsotec supplies many well-known Swiss and foreign manufacturers of technical medical devices, sensors, hydraulic and pneumatic devices, and technical equipment for the construction, electrical, communications, and optical industries, and manufacturers of measuring, regulating, security, and other apparatus. Sales have increased continually over recent years. Ypsotec's services cover the full spectrum from initial product conception and planning to production and finish. In order to facilitate creation of long-term customer relationships, Ypsotec is in certain cases prepared to make specific investments.

Expansion of Ypsotec production facilities in the Czech Republic

Work started on the new factory in the Czech Republic in October 2005 on completion of extensive planning and preparation. After detailed evaluation of various locations Ypsotec decided in favour of Tabor, a town close to the Austrian and German borders. The rented building had first to be converted before machines and other production equipment could be transferred from Grenchen. Six workers went to Grenchen for training during the conversion work. The next important step will be certification of the Tabor factory, scheduled to take place before the end of 2006, and preparation for the start of assembly work.



Ypsotec expands production of technical medical equipment

During the year under review Ypsotec commissioned a special medical products cell at its Grenchen factory, which will be reserved for the processing of special steels and titanium under the controlled conditions stipulated in ISO Norm 13485 for medical products. It is now being used mainly for the production of parts for implants, i.e. screws, clips, nuts and special eccentrics, and also for certain types of surgical instruments.

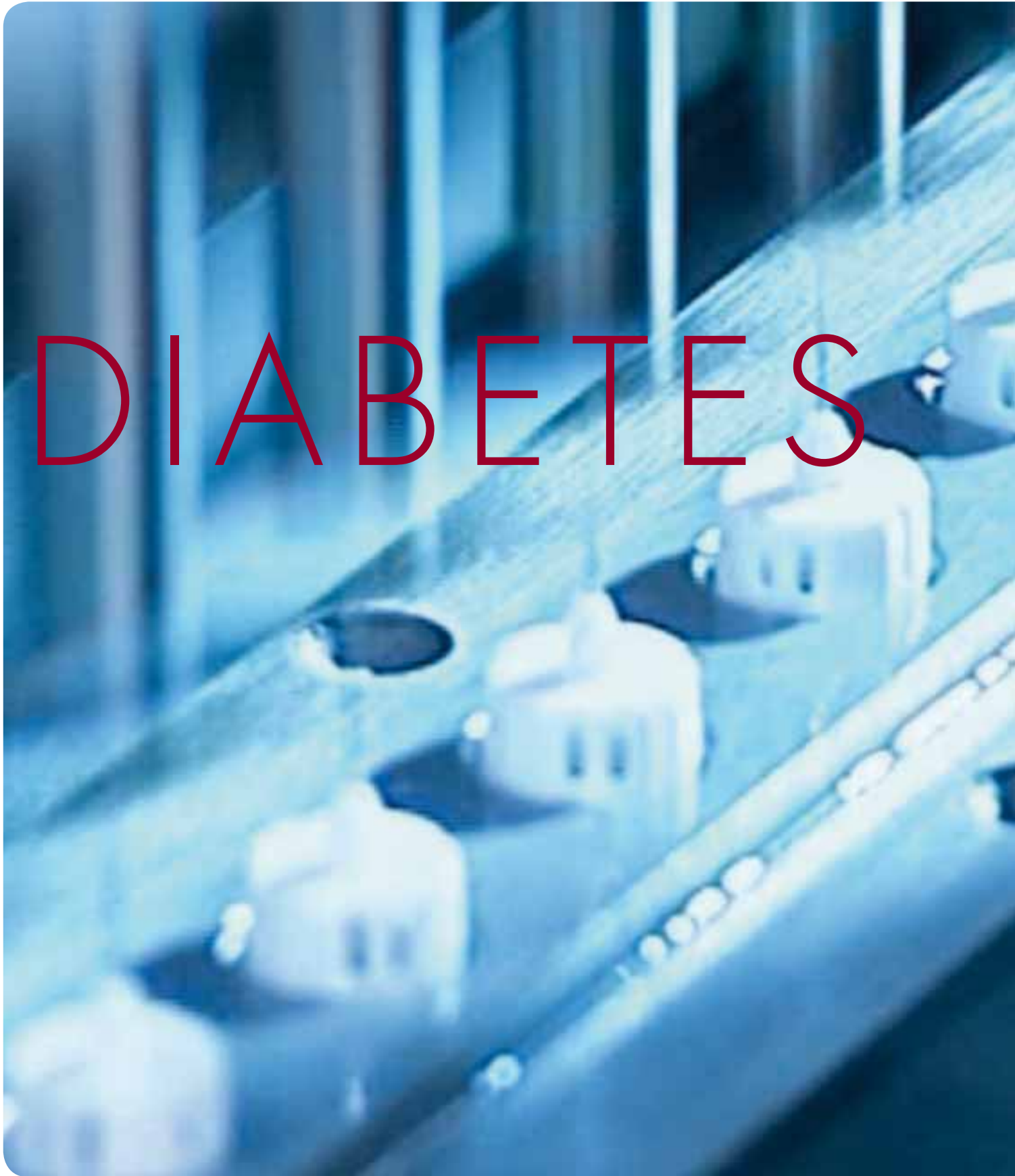
Laser technology

Ypsotec is actively investing in laser technology, a field holding great promise for the future. Laser welding and engraving are two fields offering interesting possibilities for new products and a wider range of services.

High productivity from carefully planned capital expenditure

Ypsotec has succeeded in making great improvements to its productivity over recent years and this has helped it stay competitive at the international level. Ypsotec's machining facilities in Grenchen have been working three shifts since April 2005. Investments in

intelligent and flexible handling systems now make it possible to operate the long-turning lathes for longer periods without stopping. Investments are also being made in new quality management software and in modern equipment for computerized testing and measuring systems. The resulting gains in productivity and flexibility are essential for Ypsotec to maintain its position in the international market. The only alternative would be to export skilled jobs to other countries.

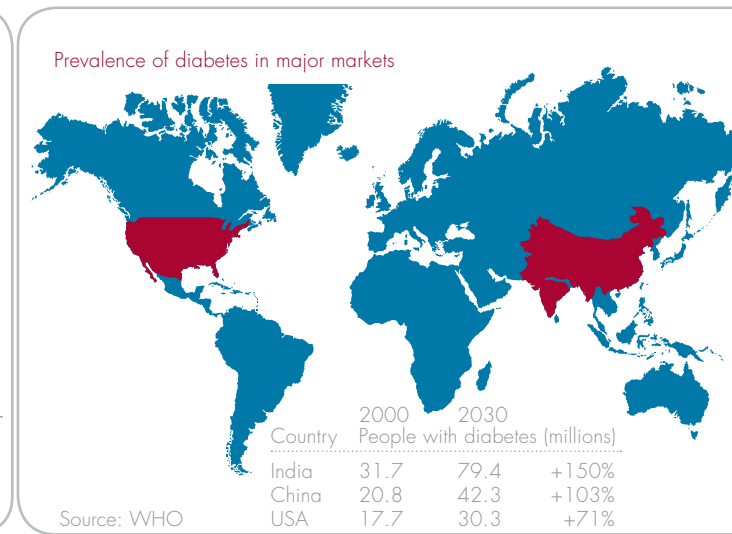
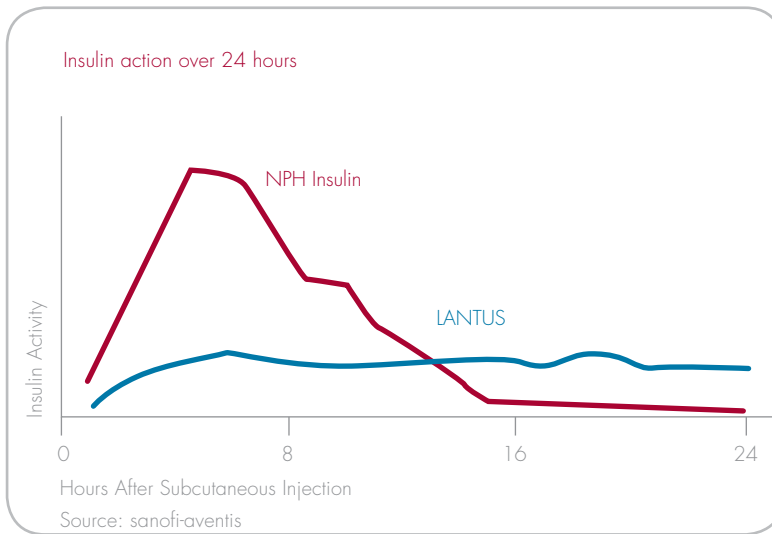


DIABETES



THE NUMBER OF DIABETICS IS INCREASING AT AN ALARMING RATE. MORE AND MORE DOCTORS AND PATIENTS ARE COMING TO RELY ON YPSOMED'S EASY-TO-USE INSULIN INJECTION PENS.

DIABETES – A GROWTH MARKET



IN THE 21ST CENTURY DIABETES IS THE DISEASE OF THE CIVILIZED WORLD. IT IS YPSOMED'S DECLARED INTENTION TO ENABLE DIABETES PATIENTS EVERYWHERE IN THE WORLD TO ENJOY THE HIGHEST POSSIBLE QUALITY OF LIFE WITH THE HELP OF ITS INNOVATIVE INJECTION SYSTEMS.

Dramatic rise in number of diabetics

Diabetes is the 21st. century's disease of civilization and such a serious threat to world health that the World Health Organization has made the following dramatic forecast: the number of diabetics will double to a world-wide total of 336 million people by 2030. Over 170 million people already suffer from this metabolic disease, by far the largest proportion from Type 2 diabetes. Overweight and lack of exercise are the main causes of this form of the disease, in which the pancreas usually still produces insulin but the high level of body fat impedes or totally prevents it from performing its metabolic function. Type 2 diabetes has long since ceased to be synonymous with maturity-onset diabetes. Increasing numbers of young people and overweight children are affected. The number of new cases of Type 1 diabetes, which is of genetic origin and (unlike Type 2 diabetes) is not preventable, in children and young people is also rising globally at a rate of 10% per annum for reasons which are not yet known.



Developing countries worst hit

The WHO forecast shows differences in the upward trend in various parts of the world. Whereas it seems possible that the rise in Europe could be slowed down, a doubling of the figures for the USA and the Asia-Pacific region is predicted. The predictions are even more dramatic for the world's poorer regions. Africa and Southeast Asia will have around two and a half times more diabetics by 2030 and the estimated increase will be threefold in the Middle East. Threshold countries like India are not only catching up economically. The WHO is forecasting an increase in the number of Indian diabetics from the present figure of 32 million to 79 million.

Overweight and lack of exercise the main cause

What is traditionally denounced as the main cause of Type 2 diabetes in the richer countries is still regarded as a desirable goal in the poorer countries – the so-called Western lifestyle. There, a rich, fatty diet, fast food, television and computers are symbols of affluence which one should try to acquire. The result is that people, including children and adolescents, in more and more of the poorer countries are getting caught in the spiral of obesity and lack of exercise. This is aggravated by the fact that some sections of the world's population have an ethnic predisposition to diabetes. This applies particularly to races in Africa and Asia, but also to the Australian aborigines. In contrast, other races appear to be relatively immune to diabetes. It is, for example, practically unknown on the Japanese island of Okinawa, where the world's oldest inhabitants are to be found. The people there live on a diet of home-grown fruit and vegetables and spend a large part of their lives in direct contact with nature.

DIABETES – A GROWTH MARKET

Unexpected success of long-acting insulin Lantus

Considerable progress has been made over the last 20 years in the treatment of diabetes mellitus. The new therapies are now more or less standard, at least in the Western world. Type 1 diabetics, who need complete insulin substitution, either wear insulin pumps or give themselves between 4 and 6 insulin injections daily and frequently check their own blood-sugar levels. In the case of Type 2 diabetics, a trend towards insulin therapy has been discernible for several years and this has been accelerated by the introduction of the long-acting insulin Lantus by sanofi-aventis. Lantus (insulin glargine) is the first and only insulin analogue capable of controlling the blood-sugar level over a 24-hour period with a once-daily injection. Lantus thus makes an early change to insulin therapy more attractive and significantly reduces the risk of the serious and expensive long-term consequences caused by diabetes.

Strong growth expected for insulin pens

Although many patients still inject their insulin with conventional syringes, the market share taken by injection pens is growing at a rapid rate because of the many user benefits they offer. Greater accuracy of insulin dosage, greater convenience and safety in use, painless with their incredibly fine, silicone-coated needles. More and more patients are switching from syringes to pens for injection of their insulin. The sort of market potential that is opening up for Ypsomed as the world's leading independent source of injection pens is shown by looking at the US market.

The number of diabetics there will nearly double from 17.7 million to 30.3 million between now and 2030. But some 85% of US diabetics are still using conventional insulin syringes. Although OptiClik® was launched there in January 2005, normal syringes are still being widely used to inject Lantus in the USA. It is generally expected that the current low penetration rate of pen systems in the USA will rise to somewhere near the European levels of approximately 90%.

Increasing pen penetration in the USA

The changeover to pens is now advancing rapidly. Eli Lilly, Amylin and Novo Nordisk have now launched their new insulin and diabetes treatments in the USA in pen systems. Towards the end of February 2006 sanofi-aventis marketed its new rapid-acting insulin analogue Apidra in the USA with Ypsomed's OptiClik® pen system.

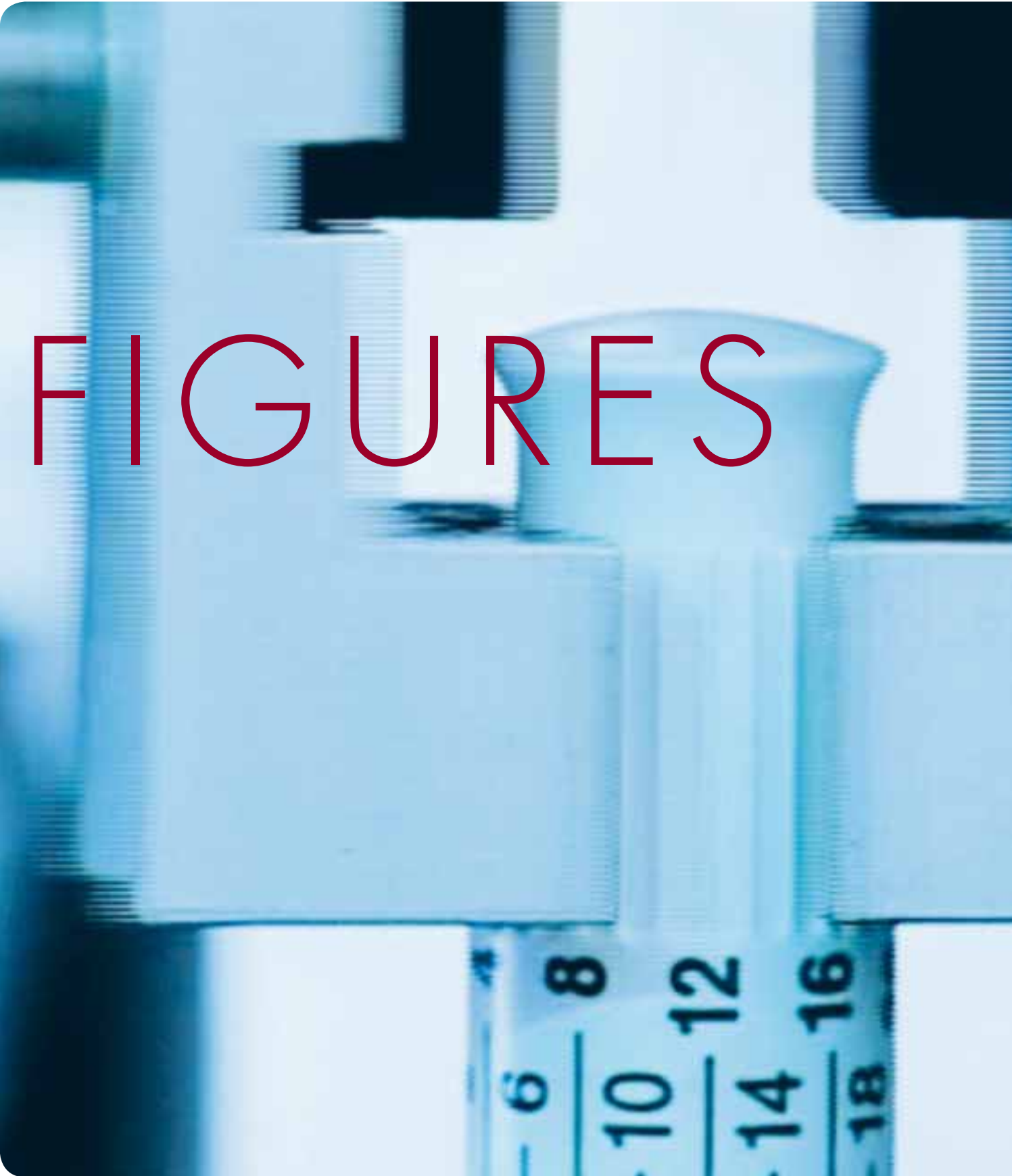
Ypsomed offers competence and customer service through DiaExpert

DiaExpert was founded at the time of Ypsomed's reorganisation in 2003 to replace the former Disetronic-Direct mail-order service in Germany. Ypsomed took over the customer base that had been built up over many years and has subsequently expanded it considerably. Insulin pump therapy is DiaExpert's core competence and its concentration on insulin pump users has some significant advantages. Firstly, these patients have the highest rate of consumption of diabetes products in the group receiving insulin therapy.

Secondly, it strengthens the demarcation to retail pharmacies, most of which hold no stocks of the pumps and have little experience of their use. Some 1.4 million people in Germany take insulin and the figure is rising annually. Roughly 40000 of them use insulin pumps and generally obtain their diabetes supplies by mail order. In addition, DiaExpert has customers who take insulin and order articles such as blood-glucose test strips, pen needles, and blood-glucose measuring kits.

DiaExpert is service- and user-oriented in its direct business with diabetes supplies. Customers expect quick delivery of their orders and a comprehensive advisory service. A customer placing an order – by telephone, letter, fax or online at the Internet shop www.diaexpert.de – on or before 14.00 hours receives it on the following day by mail to the given address. The members of the DiaExpert team have years of experience in the field of diabetes and this is greatly appreciated by the customers. DiaExpert settles payment directly with the health insurance funds in cases where the patient sends in the prescription. As an additional service, the customers receive quarterly the diabetes magazine Feelfree free of charge. These are just a few examples of the sort of service offered by DiaExpert to help its diabetic customers lead an active life.

With a view to further improving its market position, DiaExpert started developing new sales channels in 2005. It now has specialist shops in 5 cities, where customers can obtain their diabetes supplies over the counter on presentation of their prescriptions. These shops are opening up new market potential which is being developed by relevant marketing activities.



FIGURES



**IN THE BUSINESS YEAR 2005/06 YPSOMED
CAN REPORT FURTHER INCREASES IN SALES
AND PROFIT. THIS CREATES A SOLID BASIS
FOR FUTURE GROWTH.**

COMMENTS TO THE FINANCIAL STATEMENTS

Net sales April 1–March 31

in thousand CHF	2005/06	in %	2004/05	in %	Change in %
Own finished products	269 638	86.8	186 403	77.1	44.7
FreeStyle	3 487	1.1	20 656	8.5	-83.1
Other products	37 463	12.1	34 764	14.4	7.8
Total sales	310 588	100.0	241 823	100.0	28.4

Previous-year figures adjusted taking account of FreeStyle	310 588		224 880		38.1
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Ypsomed once again reports record results

In its business year 2005/06 Ypsomed has once again succeeded in significantly surpassing its previous year's results, setting new records for sales growth and at the same time substantially increasing profitability. Consolidated sales of the Ypsomed Group rose from CHF 241.8 million to CHF 310.6 million. This represents sales growth of 28.4%, a considerable advance on last year's figure of 21.7%. Operating profit rose from last year's figure of CHF 47.5 million to CHF 62.3 million. This pushed up earnings before interest and taxes (EBIT) by 40 percentage points from 19.7% to 20.1%. Consolidated net profit rose by 42% from last year's CHF 39.2 million to CHF 55.6 million. Ypsomed's capital expenditure totalled CHF 40.1 million in the 2005/06 business year.

44.7% sales growth in core business

Ypsomed's sales in its core business with its own products, which include pen systems, pen needles and goods and services sold to third parties by Ypsotec, rose from CHF 186.4 million to CHF 269.6 million in the 2005/06 business year. This sales increase of 44.7% in its core business was even higher than the already impressive figure of 42.8% reported for the previous year. Taking into account adjusted figures for FreeStyle for last year, total sales increased by 38.1%. This level of growth, which is remarkably high even for the medical device sector, is

mainly attributable to higher sales of existing pen systems, in particular of the OptiClik®, OptiSet®, and OptiPen® Pro insulin pens produced for sanofi-aventis. The strong demand for these pens results from unexpectedly high sales of Lantus, the leading long-acting insulin product marketed by sanofi-aventis. Also very gratifying for Ypsomed was the very successful launch of its semi-disposable OptiClik® pen for Lantus and the subsequent US launch of the OptiClik® pen for Apidra at the end of February 2006.

Increases in sales of the other pen systems and of pen needles were also satisfactory and in line with expectations. Listed separately for the last time in this year's figures are the sales of the blood-glucose monitoring device FreeStyle, which this year relate solely to direct business in Germany and are consequently not comparable with last year's figures. The segment "Other products" includes direct diabetes business in Germany and also medical devices and components manufactured for third parties, and yielded sales of CHF 37.5 million in the 2005/06 business year.

Low exchange risk

Ypsomed has clauses in its contracts stipulating invoicing of its pen systems in Swiss Francs. This largely eliminates the exchange risk.

Gross profit higher than at half-year mark

Gross profit rose from last year's figure of CHF 96.9 million to CHF 119.2 million and was equivalent to 38.4% of sales (previous year 40.1%). Although the gross margin was slightly down on the previous year because of extraordinary expenses, it proved possible to achieve the objective of topping the first half-year's gross profit level of 37.8% announced last November.

EBIT-margin increased to 20.1%

Ypsomed can also report an improvement in operating profit for the 2005/06 business year. An operating profit of CHF 62.3 million pushed up earnings before interest and taxes (EBIT) from 19.7% to 20.1%. Research & development expenses once again showed a sharp increase from last year's CHF 20.3 million to a total of CHF 22.8 million. As Ypsomed itself has made investments in its own development projects for technology and pen system platforms, whilst payments received for customer-specific projects have remained constant, net expenditure on research & development has risen from CHF 14.3 million to CHF 17.2 million, and consequently represents 5.5% of sales (previous year 5.9%). Marketing & sales costs at CHF 19.4 million remained constant at the previous year's level of CHF 19.1 million in absolute terms, but declined sharply as a percentage of sales from 7.9% to 6.2%. A similar trend is observed with administrative expenses. These totalled in the previous year CHF 15.9 million, down to 6.5% from last year's 6.6%.

Net profit improved by 42%

Ypsomed's earnings before interest, taxes, depreciation and amortisation (EBITDA) totalled CHF 89.0 million, up 28.4% on last year's figure of CHF 69.4 million. Percentage EBITDA remained roughly constant at last year's level of around 28.7%. Depreciation of fixed assets went up 22% from CHF 21.0 million to 25.7 million. Capital expenditure on tangible fixed assets at CHF 40.1 million was slightly down on last year's figure of CHF 71.5 million. The main reasons for the shortfall of capital expenditure against budget were due to a shift in timing and savings on procurement. The total amount contributed by pharmaceutical companies with which we have cooperation arrangements to expenditure on production installations was around CHF 14.5 million. Tools acquired and used by Ypsomed, and also product-specific machines and equipment are in some cases resold to the relevant pharmaceutical company (at cost), but remain in Ypsomed's possession.

COMMENTS TO THE FINANCIAL STATEMENTS

The group's favourable capital structure helped to keep interest and similar charges very low during the 2005/06 business year and these were more than balanced by interest income from cash and securities to yield net interest and similar income of CHF 2.1 million. Aided by low taxes at a rate of 13.6%, the Ypsomed Group's consolidated net profit for the 2005/06 business year rose by 42% from CHF 39.2 million to CHF 55.6 million, the net percentage profit margin thereby rising from last year's 16.2% to 17.9%. Earnings per share were CHF 4.95.

Cash flow

Ypsomed realised a cash flow from business operations of CHF 57.2 million in the 2005/06 business year. The cash flow from capital expenditure and investments totalled CHF 41.3 million and was in comparison CHF 66.4 million lower than the previous year. In view of Ypsomed's solid financial situation the Board of Directors decided to reduce the loan granted to the company by Willy Michel, the major shareholder, by CHF 18.1 million to CHF 200 million.

At the beginning of September 2005 Ypsomed did a financial investment in the Precimed Group for CHF 9.1 million under the lead of BVgroup Private Equity. The Precimed Group has its registered office in Orvin in the Canton of Bern, and has subsidiaries in the USA, Great Britain, and Japan. With a global workforce of around 270, it is a recognized technological leader in the market for orthopaedic instruments and reported sales of CHF 59.0 million in 2005. Precimed specializes in the manufacture of innovative instruments for use in orthopaedic surgery on hip, knee, spine and trauma. The global orthopaedic market, in which Ypsotec is also becoming more active, is growing annually at the rate of around 15% and offers some attractive development opportunities.

Equity ratio of 60.7%

Consolidated equity capital totalled CHF 404.0 million as of 31 March 2006, which represents an equity ratio of 60.7%, up from 54.2% on the same date in the previous business year and also from the equity ratio of 57.6% as of 30 September 2005. The balance sheet total increased only slightly (1%) during the course of the business year from CHF 658.5 million at opening date to CHF 665.7 million at closing date. The Ypsomed Group's net cash stood at around CHF 65.7 million on 31 March 2006. Additionally, CHF 41.2 million were invested in conservative, low-risk securities. The value of current assets remained very stable over the 12 months to finish the year at CHF 207.3 million, although inventories rose during this period by 27.6% from CHF 34.6 million to CHF 44.1 million. Trade receivables at CHF 45.4 million were in percentage of sales lower than last year at 14.6%. Ypsomed can thus report a return on average equity (ROE) of 14.6% for the business year 2005/06.

Dividend distribution as repayment of par value

In view of the very satisfactory consolidated net profit once again achieved by the Ypsomed Group, the Board of Directors proposes to the Annual General Meeting to allocate a dividend of CHF 1.25 per share. This is equivalent to a dividend distribution ratio of 25% and lies within the range of between 15% and 30% announced at the time of the IPO. As in the previous year, the total payout of CHF 14.1 million will be executed as a tax-preferred repayment of the par value of CHF 1.25 per share.

CONSOLIDATED INCOME STATEMENT

(Audited IFRS figures) in thousand CHF	Notes	April 1 2005 –March 31 2006	in %	April 1 2004 –March 31 2005	in %
Sales of goods and services	25	310 588	100.0	241 823	100.0
Cost of goods and services sold	19	–191 375	–61.6	–144 936	–59.9
Gross profit		119 213	38.4	96 888	40.1
Research and development reimbursed		5 628	1.8	5 996	2.5
Research and development expenses		–22 834	–7.4	–20 290	–8.4
Research and development – expenses net	19	–17 206	–5.5	–14 295	–5.9
Marketing and sales expenses	19	–19 389	–6.2	–19 119	–7.9
Administration expenses	19	–20 276	–6.5	–15 926	–6.6
Operating profit		62 342	20.1	47 548	19.7
Financial income	21	4 283	1.4	2 131	0.9
Financial expense	22	–2 137	–0.7	–4 051	–1.7
Other income/(expense)	23	–56	–0.0	36	0.0
Profit before taxes		64 432	20.7	45 665	18.9
Income tax expenses	24	–8 784	–2.8	–6 470	–2.7
Net profit		55 648	17.9	39 195	16.2
Earnings per share (basic and diluted) ¹⁾	27	4.95		6.42	
Operating profit		62 342		47 548	
Amortization of intangible assets		1 016		778	
Depreciation of fixed assets		25 674		21 033	
EBITDA (earnings before interest, taxes, depreciation, amortization)		89 032	28.7	69 359	28.7

¹⁾ Calculated on a comparative basis, earnings per share in the previous year were CHF 3.49. This was calculated for 11 244 213 shares, the number of shares outstanding following the IPO of 22 September 2004.

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

(Audited IFRS figures) in thousand CHF	Notes	31.03.06	in %	31.03.05	in %
Assets					
Cash and cash equivalents	3	65 668	9.9	55 985	8.5
Marketable securities	4	41 238	6.2	69 608	10.6
Trade receivables	5	45 421	6.8	39 629	6.0
Other current assets	6	10 874	1.6	7 252	1.1
Inventory	7	44 140	6.6	34 602	5.3
Total current assets		207 341	31.1	207 076	31.4
Financial assets	8	9 072	1.4	20	0.0
Deferred income tax assets	24	2 348	0.4	4 466	0.7
Other non-current assets		125	0.0	211	0.0
Fixed assets	9, 11	145 074	21.8	145 899	22.2
Intangible assets	10	301 739	45.3	300 810	45.7
Total non-current assets		458 358	68.9	451 406	68.6
Total assets		665 698	100.0	658 482	100.0
Liabilities and equity					
Trade payables	11	23 749	3.6	41 634	6.3
Current income taxes payable	24	5 704	0.9	5 389	0.8
Other payables and accrued expenses	12	18 352	2.8	18 445	2.8
Total current liabilities		47 805	7.2	65 468	9.9
Non-current financial liabilities to major shareholder	13	200 000	30.0	218 121	33.1
Provisions	14	9 768	1.5	13 869	2.1
Deferred income tax liabilities	24	4 112	0.6	3 851	0.6
Total non-current liabilities		213 880	32.1	235 842	35.8
Share capital	16	130 433	19.6	140 553	21.3
Group reserves		217 932	32.7	177 424	26.9
Net profit		55 648	8.4	39 195	6.0
Equity		404 013	60.7	357 172	54.2
Total liabilities and equity		665 698	100.0	658 482	100.0

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

(Audited IFRS figures) in thousand CHF	Notes	April 1 2005 –March 31 2006	April 1 2004 –March 31 2005
Net profit		55 648	39 195
Depreciation of fixed assets	9	25 674	21 033
Amortization of intangible assets	10	1 016	778
Change in provisions, net	14	–4 101	1 313
Unrealized gains (–)/losses (+) from marketable securities	4	–1 503	441
Income tax expenses	24	8 784	6 470
Cash flow from operating activities before changes in net working capital		85 518	69 230
Increase (–)/decrease (+) in trade receivables	5	–5 792	–9 643
Increase (–)/decrease (+) in other current and non-current assets	6	–3 425	5 667
Increase (–)/decrease (+) in inventories	7	–9 538	3 101
Increase (+)/decrease (–) in trade payables	11	–3 401	24 794
Increase (+)/decrease (–) in other payables and accrued expenses	12	–93	5 954
Income tax paid	24	–6 090	–4 328
Cash flow from operating activities		57 179	94 775
Purchases of fixed assets	9	–40 110	–71 459
Disposals of fixed assets	9, 11	777	6 101
Purchases of intangible assets	10	–1 952	–1 013
Disposals of intangible assets	10	7	1
Cash flow from investing activities		–41 278	–66 370
Increase (–)/decrease (+) in marketable securities	4	29 873	–70 049
Increase (–)/decrease (+) in financial assets	8	–9 052	0
Increase (+)/decrease (–) in non-current financial liabilities to major shareholder	13	–18 121	–121 374
Increase (+)/decrease (–) in equity		–10 120	206 387
Trade in own shares		1 202	0
Cash flow from financing activities		–6 218	14 964
Total cash flow		9 683	43 369
Cash and cash equivalents as of April 1	3	55 985	12 616
Cash and cash equivalents as of March 31	3	65 668	55 985
Net increase (+)/decrease (–) in cash and cash equivalents		9 683	43 369
Interest received		735	321
Interest paid		1 066	1 152

Cash flow irrelevant transactions:

In the period under review, CHF 14.5 million of sold machinery were netted against advance payments by biotech and pharma partners. These items are not included under the changes of "trade payables" nor under "disposals of fixed assets" (see note 11). In the previous year, CHF 99.8 million of the loan from the major shareholder was netted against an equity capital increase.

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Audited IFRS figures) in thousand CHF	Share capital	Group reserves and share premium	Cumulative translation reserve	Retained earnings	Total
Balance as of April 1, 2004	250	0	0	11 590	11 840
Net profit 1.4.04–31.3.05				39 195	39 195
Capital increase	140 303	177 639			317 942
Transaction costs related to capital increase		-11 958			-11 958
Reserves from reverse merger		166			166
Currency translation differences			-13		-13
Gains and losses recognized directly in equity			-13		-13
Balance as of March 31, 2005	140 553	165 847	-13	50 785	357 172
Balance as of April 1, 2005	140 553	165 847	-13	50 785	357 172
Net profit 1.4.05–31.3.06				55 648	55 648
Par value repayment	-10 120				-10 120
Trade in own shares (net of tax)				1 202	1 202
Currency translation differences			111		111
Gains and losses recognized directly in equity			111	1 202	1 313
Balance as of March 31, 2006	130 433	165 847	98	107 635	404 013

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED FINANCIAL STATEMENTS ACCOUNTING POLICIES

1. General information

Ypsomed Holding AG is a limited company (Aktiengesellschaft) established on 29 December 2003 under the Swiss law with registered office in Burgdorf (Canton of Berne, Switzerland).

The Company was created as a result of the split-up of the Disetronic group in 2003. Disetronic had been founded in 1984 to develop, manufacture and sell infusion pumps and had started the injection systems business in 1986.

On 30 April 2003 Roche Holding AG purchased shares in Willy Michel's Disetronic Holding AG as part of a public take-over proposal.

Parallel to the sale of Disetronic, Willy Michel purchased Disetronic's injection business, while its firm Finox Beteiligungen AG took over all the shares of Ypsomed AG (formerly Disetronic Injection Systems AG), TecPharma Licensing AG (formerly Disetronic Services AG) and Ypsotec AG (formerly Décolletage AG). This was carried out on 30 April 2003.

Ypsomed Holding AG acquired the shares in its three direct subsidiaries Ypsomed AG, Ypsotec AG and TecPharma Licensing AG from Finox Beteiligungen AG pursuant to a share purchase agreement dated 23 March 2004. Further, the Company acquired various claims (loans) from Finox Beteiligungen AG under a loan agreement. On 28 July 2004, Finox Beteiligungen AG was merged with Ypsomed Holding AG.

In 2004, Ypsomed was listed on the SWX Swiss Exchange. Trading started on 22 September 2004.

Operating in the field of medical technology, Ypsomed is an independent manufacturer of injection pens for pharmaceutical and biotech companies, as well as a supplier of pen needles. Ypsomed's core business consists of developing and marketing products and services allowing patients to administer their own medication. The Group operates production sites in Burgdorf, Solothurn, Grenchen (all CH) and Tabor (CZ) and a sales and distribution network across Europe.

The consolidated financial statements have been approved for issue by the Board of Directors on 18 May 2006.

2. Summary of significant accounting policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). They are based on the financial statements of the individual Ypsomed Companies prepared for the same reporting period using consistent accounting policies.

All figures included in these financial statements and notes to the financial statements are rounded to the nearest CHF 1 000 except where otherwise indicated.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit and loss.

Changes in accounting policies

In the period under review the following new and revised standards were applied:

IAS 1	Presentation of financial statements
IAS 2	Inventories
IAS 8	Accounting policies, changes in accounting estimates and errors
IAS 10	Events after the balance sheet date
IAS 16	Property, plant and equipment
IAS 17	Leases
IAS 19	Employee benefits
IAS 21	The effects of changes in foreign exchange rates
IAS 24	Related party disclosures
IAS 27	Consolidated and separate financial statements
IAS 32	Financial instruments: disclosure and presentation
IAS 33	Earnings per share
IAS 39	Financial instruments: recognition and measurement

Standards already applied since 1 April 2004:

IAS 36	Impairment of assets
IAS 38	Intangible assets
IFRS 3	Business combinations

The effects of the application of the new or revised IFRS standards are irrelevant for the Ypsomed group as a whole.

Consolidation

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible determine whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the costs of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Foreign currency translation

Foreign currency transactions are translated to the reporting currency using the exchange rate prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement as financial income or expense.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, demand deposits and time deposits maturing within three months.

Marketable securities

Marketable securities consist of debts, bonds, equity funds, hedge funds, options and similar investment products traded in active markets and are evaluated on the balance sheet rate of exchange. Management determines the classification of marketable securities the first time they are entered and checks the classification every effective day. Marketable securities are classified in principle as "at fair value through profit and loss". This category has two sub-categories: marketable securities that from the start were listed as held for trading and those that from the start were classified as "at fair value through profit and loss".

CONSOLIDATED FINANCIAL STATEMENTS ACCOUNTING POLICIES

Marketable securities are put in this category, if they were purchased principally with a view to quick sale or if designated by management. Derivatives also belong to this category, so long as they do not qualify as hedges. Quoted shares are calculated according to the current offer price. Exchange rate changes are counted as financial income or financial expense. All purchases and sales of financial assets are made on the trading day – the day on which the group is obliged to purchase or buy assets.

Trade receivables

The balance sheet carrying value corresponds to the nominal value less appropriate value adjustments for claims when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. An evaluation of dubious debts is made on an individual basis, if it is no longer possible to demand the full sum.

Other current assets

The balance sheet carrying value corresponds to the nominal value less appropriate value adjustments. Valuation adjustments are made when there is objective evidence that the Group will not be able to realize the recorded value of the assets.

Inventories

FIFO method is applied to inventory, which is valued at the lower of cost and net realizable value. Goods in process and finished products produced by the Company are stated at the cost of manufacturing the goods and include the associated general production costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Thus, adjustments are made to inventory with a lower net realizable value than cost. Inventory that cannot be sold is written off in full.

Financial assets

Financial assets are valued according to the type of investment, either at fair value or amortized cost.

Fixed assets

Fixed assets are valued at historical acquisition or production cost less depreciation. Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

– Buildings	25 to 40 years
– Plant, machinery and equipment	3 to 10 years
– Office equipment and vehicles	3 to 8 years
– Other fixed assets	2 to 10 years

Long-term leasing agreements, which are equivalent to the purchase of assets with long-term financing (finance leases), are recognized at the beginning of the lease as an asset and valued at market or, if lower, the present value of minimum lease payments and depreciated over the duration of the lease according to the straight-line method of depreciation.

Intangible assets

Goodwill on acquisitions

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses.

Other intangible assets

Patents are shown at historical cost. Patents have a definite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of patents over their estimated useful lives of 15–20 years. EDP software is capitalized on the basis of the costs incurred to acquire the software and bring the software to use. These costs are amortized over the estimated useful lives of three to four years.

Impairment of assets

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

Non current financial liabilities to shareholders

The carrying amount of shareholder loans is determined based on the nominal amount, taking into consideration interest rate, repayment terms and other relevant contractual agreements.

Provisions

The Group has a present legal or constructive obligation as a result of a past event, if it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

Retirement benefits

Group companies operate defined contribution plans abroad and defined benefit plans in Switzerland for retirement benefits along with the state social insurance schemes. The costs of retirement benefits are generally borne equally by the employees and the companies and are transferred to the companies' retirement benefit plans. For defined benefit plans, if the 10% corridor according to IAS 19.95 is exceeded, the actuarial gains or losses are charged to the income statement on a straight-line basis over the employees' expected average remaining working lives.

In conformity with IAS 19 (revised), pension liabilities in schemes with defined benefit characteristics (Switzerland) have been presented based on the Projected Unit Credit Method. The last actuarial valuation was made by 31.03.2006.

Contributions made by the Group to defined contribution pension plans are recognized as an expense in the year in which they occur.

Taxes

Tax provisions are made on the basis of reported profits and include taxes on capital as well as non-reclaimable withholding taxes on dividends, licenses and management fees. They are calculated in conformity with the tax laws prevailing in the individual countries.

Deferred income tax is provided for in full, using the comprehensive liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Tax provisions are adjusted continuously to allow for changes in local tax legislation.

Revenue recognition

Revenue from sale of goods is recognized when risk and benefit of ownership have been transferred to the buyer. Appropriate provisions are made for all costs arising in connection with the sale including the costs of return of goods.

Reimbursement for product development

Reimbursement from third parties, for the development of new products on order, are recognized in the period during which the development costs are incurred.

Research & development

Research & development costs are recognized as an expense in the period in which they are incurred. The criteria for capitalizing development costs according to IAS 38, Intangible Assets, are currently not fulfilled. Ypsomed does not take into consideration to activate development costs because of unforeseeable regulatory risks. Research and development costs would be activated, as soon as authorization from the US Food & Drug Administration or a comparable authority were given, as it is only then that it would be likely that the costs would lead to future economic use. As the product is already developed when authorization has been given, the development costs are not activated retrospectively.

Fixed assets used for research & development are capitalized and written off over their useful lives according to the straight-line method of depreciation.

CONSOLIDATED FINANCIAL STATEMENTS ACCOUNTING POLICIES

Critical accounting estimates and assumptions

The preparation of financial statements assumes that management makes certain estimates and meets expectations that have consequences for assets and liabilities shown in the balance sheet and income and expenses accounted for in the period under review. These estimates and assumptions are based on future expectations and are held reasonable at the time of preparation of the financial statements. The actual amounts can deviate from these valuations. The most important influential factors on positions based on estimates and assumptions are expressed as follows:

Goodwill

Ypsomed tests goodwill for impairment on an annual basis. The impairment tests are based on the financial plans prepared by management. The calculated values are based primarily on future expected cash flows. A sensitivity analysis shows that a negative deviation of 10% of these expected cash flows does not result in an impairment of goodwill.

Provisions for guarantees

In setting the provisions for guarantees management considers the company's own products on the market and sets the provisions according to the lifetime and relevant characteristics of each product and the past experience of the cover necessary for any guarantee claims.

Pension obligations

The calculation of pension obligations is carried out in agreement with IAS 19 according to the Projected Unit Credit Method. The calculation takes into account various actuarial probabilities as well as expectations for future developments of capital markets and salary increases. The most important parameters are in the notes to the group accounts.

Income taxes

When provisions for income taxes are made for a period, uncertainties regarding final tax payments remain. Deviations in estimates as compared with final tax evaluations may affect income taxes and provisions for deferred taxes. In particular, with the activation of deferred tax assets from losses carried forward, the value of these tax loss carryforwards and the tax rates to be applied must be estimated.

3. Financial risk management

Foreign exchange risk

The Group is exposed to the effects of fluctuations in exchange rates of foreign currencies. Foreign exchange contracts (forward transactions and option contracts) are concluded from time to time with recognized financial institutions to hedge against material exchange-rate exposure. The outstanding contracts at the end of the business year are stated at market values. Any gains or losses are reported in the income statement.

Interest rate risk

The credit instruments utilized by the Group are fixed rate in nature in order to lessen the impact of interest rate fluctuations on Group earnings.

Credit risk

Credit risk associated with financial assets is controlled by the Group's policy of dealing solely with first-class counterparties, by ongoing credit reviews and by limiting aggregated individual risks.

Other risks

The use of financial instruments and securities is made with the intention to optimize profits within the framework of the company's risk policy. Options are bought and sold, options only being sold, in principle, if the relevant position is covered.

Legal risks

The Ypsomed group develops, manufactures and sells innovative medical devices, based on technical expertise and technologies protected by intellectual property rights. The Ypsomed group is either owner of the required rights or licence holder of the property rights of a third party. In the medical devices market disputes over patent rights and patent infringements occur fairly frequently and can involve costly and time-intensive patent infringement suits.

The development, manufacture and sale of medical products involve product liability risks and can lead to product recall. There is no guarantee that the present liability insurance is sufficient to cover all damage cases connected with the development, manufacture and sale of medical products and that the insurance companies will still be prepared in future to insure Ypsomed group business activities against liability risks.

State-prescribed cost saving measures in the area of healthcare as well as the practice of health insurance schemes to reimburse the costs of Ypsomed products and the policies of authorities regarding the authorization of drugs used together with Ypsomed products are largely decisive for the success of the Ypsomed group.

The risk of patent infringement or product liability claims by a third party, risks in connection with the recall of products and negative developments in the reimbursement of costs of Ypsomed products through state-prescribed cost saving measures in the area of healthcare or by health insurance schemes as well as problems with authorization and upholding of authorization of drugs used together with Ypsomed products can also result in lasting detrimental effects not only on the business performance of the Ypsomed group but also on its financial situation and competitive position in the marketplace.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

in thousand CHF, unless otherwise stated

1. Consolidation scope

	Interest held	Share capital	Research & Development	Production	Marketing & Sales	Financing & Services
Ypsomed Holding AG, CH-Burgdorf		CHF 1 30 432 871				X
Ypsomed AG, CH-Burgdorf	100%	CHF 500 000	X	X	X	X
TecPharma Licensing AG, CH-Burgdorf	100%	CHF 100 000				X
Ypsotec AG, CH-Grenchen	100%	CHF 1 000 000		X	X	
Ypsotec s.r.o., CZ-Tabor	100%	CZK 200 000		X		X
Ypsomed GmbH, DE-Sulzbach	100%	EUR 100 000			X	
DiaExpert GmbH, DE-Sulzbach	100%	EUR 50 000			X	
Feelfree GmbH, DE-Sulzbach	100%	EUR 25 000			X	
Ypsomed AB, SE-Helsingborg	100%	SEK 100 000			X	
Ypsomed S.A.S., FR-Paris	100%	EUR 50 000			X	
Ypsomed BV, NL-Vianen	100%	EUR 50 000			X	
Ypsomed Srl, IT-Verona (in liquidation)	100%	EUR 50 000			X	

In the 2005/06 business year, the newly-founded Ypsotec s.r.o., in Tabor, Czech Republic, was consolidated for the first time. Ypsotec s.r.o. is a manufacturing company and is fully owned by Ypsotec AG in Grenchen. Ypsotec s.r.o. took up operations in the 2nd half of 2005/06, supplying mainly companies within the group. Ypsomed Srl in Italy is in liquidation.

2. Foreign currencies

	Balance sheet Year-end rates		Income statement Average rates	
	31.03.06	31.03.05	2005/06	2004/05
Euro (EUR)	1.58	1.55	1.55	1.54
US Dollar (USD)	1.31	1.20	1.27	1.22
Swedish Krona (100 SEK)	16.75	16.93	16.61	16.92
Norwegian Kroner (100 NOK)	19.89	18.87	19.50	18.60
Danish Krone (100 DKK)	21.17	20.81	20.81	20.70
British Pound (GBP)	2.27	2.26	2.27	2.26
Czech Koruna (CZK)	5.53		5.28	

3. Cash and cash equivalents

	31.03.06	31.03.05
Cash	51	15
Postal accounts	628	2 348
Banks	64 989	53 622
Total	65 668	55 985

4. Marketable securities

Marketable securities consist of debts, bonds, equity funds, hedge funds, options and similar investment products traded in active markets. Evaluation is based on fair value, changes in value are recognized through profit or loss.

Currency exposure	31.03.06	31.03.05
CHF	38 620	52 150
EUR (translated in CHF)	2 618	17 458
Total	41 238	69 608

Investment groups

Bonds	24 848	64 031
Equity funds	2 571	2 532
Hedge funds	2 785	2 493
Options	1 034	552
Other	10 000	0
Total	41 238	69 608

5. Trade receivables

	31.03.06	31.03.05
Trade receivables	45 957	40 086
Provision for bad and doubtful debts	-536	-457
Total	45 421	39 629

6. Other current assets

	31.03.06	31.03.05
Accrued income and prepaid expenses	3 680	1 705
Other receivables	7 194	5 547
Total	10 874	7 252

7. Inventory

	31.03.06	31.03.05
Raw materials and supplies	4 332	3 594
Goods in process	27 562	19 585
Finished products	15 268	15 957
Gross inventory	47 162	39 136
Valuation adjustment	-3 022	-4 534
Total	44 140	34 602

8. Financial assets

Financial assets held at fair value through profit or loss:	31.03.06	31.03.05
Investment in P Medical Holding SA, Orvin, CH	9 052	0
Investment in Cooperative Energy Burgdorf, CH	20	20
Total	9 072	20

P Medical Holding SA

BV Holding AG, with head offices in Bern, holds in its own name 12.75% of P Medical SA, but to the cost and for the benefit

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

of Ypsomed Holding AG. The purchase of this fiduciary title is financed by a loan of Ypsomed Holding AG to BV Holding AG of CHF 9.1 million (which under certain circumstances can be increased by a maximum of CHF 0.6 million) and can be settled by the transfer and cession of the title of P Medical Holding SA to Ypsomed Holding AG. Ypsomed Holding AG bears the economic risk of the share in P Medical Holding SA financed by this loan.

Valuation of the investment is based on the DCF method, whereby future expected cash flows are discounted on the valuation date. The cash flows are based on the financial plans prepared by the company.

9. Fixed assets

	Land and buildings	Machinery and equipment	Other fixed assets	Assets under construction	Total
Cost					
At 01.04.04	52 921	94 709	5 434	5 959	159 023
Additions	16 171	46 074	702	8 512	71 459
Disposals		-8 123	-104		-8 227
Transfers	891	2 645	100	-3 636	0
Currency translation differences	-1	-1	-2		-4
At 31.03.05	69 982	135 304	6 130	10 835	222 251
Accumulated depreciation					
At 01.04.04	-10 156	-44 424	-2 873	0	-57 453
Depreciation	-2 025	-17 853	-1 151		-21 029
Disposals		2 082	48		2 130
At 31.03.05	-12 181	-60 195	-3 976	0	-76 352
Net book value at 01.04.04	42 765	50 285	2 561	5 959	101 570
Net book value at 31.03.05	57 801	75 109	2 154	10 835	145 899
Cost					
At 01.04.05	69 982	135 304	6 130	10 835	222 251
Additions	2 150	26 858	1 749	9 422	40 179
Disposals	-230	-16 418	-384		-17 032
Transfers	64	9 339	514	-10 027	-110
Currency translation differences		25	16		41
At 31.03.06	71 966	155 108	8 025	10 230	245 329
Accumulated depreciation					
At 01.04.05	-12 181	-60 195	-3 976	0	-76 352
Depreciation	-2 152	-22 324	-1 182		-25 658
Disposals		1 435	336		1 771
Currency translation differences		-5	-11		-16
At 31.03.06	-14 333	-81 089	-4 833	0	-100 255
Net book value at 01.04.05	57 801	75 109	2 154	10 835	145 899
Net book value at 31.03.06	57 633	74 019	3 192	10 230	145 074

There are no fixed assets pledged to secure loans and there are no long-term leasing agreements (financial leasing). The fire-insurance value of fixed assets at 31 March 2006 amounted to CHF 369.4 million (previous year: CHF 260.2 million).

10. Intangible assets

	Goodwill	Other intangible assets	Total
Cost			
At 01.04.04	313 719	7 059	320 778
Additions		1 013	1 013
Disposals		-28	-28
Currency translation differences	-4	1	-3
At 31.03.05	313 715	8 045	321 760
Accumulated depreciation			
At 01.04.04	-14 691	-5 508	-20 199
Amortization		-777	-777
Disposals		28	28
Currency translation differences		-2	-2
At 31.03.05	-14 691	-6 259	-20 950
Net book value at 01.04.04	299 028	1 551	300 579
Net book value at 31.03.05	299 024	1 786	300 810

Cost

At 01.04.05	313 715	8 045	321 760
Additions		1 816	1 816
Disposals		-96	-96
Transfers		110	110
Currency translation differences	16	10	26
At 31.03.06	313 731	9 885	323 616

Accumulated depreciation

At 01.04.05	-14 691	-6 259	-20 950
Amortization		-1 010	-1 010
Disposals		89	89
Currency translation differences		-6	-6
At 31.03.06	-14 691	-7 186	-21 877
Net book value at 01.04.05	299 024	1 786	300 810
Net book value at 31.03.06	299 040	2 699	301 739

Impairment test for goodwill

Goodwill from acquisitions is allocated to individual identifiable units called "cash-generating units" (CGU) and subjected to annual impairment tests. The Ypsomed group consists of only one business segment – "injection systems and accessories" – which is defined as a CGU.

Impairment tests are carried out using utilization value calculations, based on strategic financial planning embracing the next 5 years. The future expected cash flows are discounted down to the cash value. The discount rate is 9% (previous year: 9%); projected sales growth is derived from experience and future growth in the diabetes market according to WHO (World Health Organization) estimates.

On the basis of these calculations there was no impairment of goodwill.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. Advance payments of biotech and pharma partners

Our biotech and pharma partners settle payments for selected production machinery that are tailored specifically to their products. The production machinery are transferred to the partner's property after completion and are therefore no longer considered as fixed assets. In the year under review, further advance payments of CHF 2.5 million (previous year: CHF 33.4 million) were added to the existing balance of CHF 27.1 million. In the year under review, it was possible to settle completed production machinery to the value of CHF 19.4 million (previous year: CHF 6.3 million) with existing advance payments. The amounts charged to biotech and pharma partners are included in the disposals in the fixed assets analysis. The remaining advance payments of CHF 10.2 million are included in trade payables. With the sound financial basis provided by the IPO Ypsomed is again increasing its own investments in customer specific equipments. The return on specific investments is guaranteed by minimum purchasing quantities.

12. Other payables and accrued expenses

	31.03.06	31.03.05
Accrued expenses	16 163	15 845
Other payables	2 189	2 600
Total	18 352	18 445

13. Non-current financial liabilities to major shareholder

	Interest rate	Maturity	Carrying amount	
			31.03.06	31.03.05
Loan Techpharma Management AG, Burgdorf	0.50%	31.03.10	200 000	218 121

Ypsomed Holding AG is entitled to repay the loan at any time in part or in full, full repayment is due on 31.03.2010 at the latest. As of 1 April 2005, the loan from Willy Michel has been assigned to his company Techpharma Management AG.

In the 2005/06 business year interest amounting to CHF 1.0 million (previous year: CHF 1.0 million) was paid on the loan.

14. Provisions

	Guarantees	Pensions	Restructuring	Other	Total
At 01.04.04	3 089	9 467	0	0	12 556
Additions	1 912		1 658	295	3 865
Unused amounts reversed				-939	-939
Utilization		-1 615			-1 615
Transfers		-959		959	0
Currency translation differences		-6	8		2
At 31.03.05	5 001	6 887	1 666	315	13 869
At 01.04.05	5 001	6 887	1 666	315	13 869
Additions				778	778
Unused amounts reversed		-890	-172	-315	-1 377
Utilization	-2 051		-1 451		-3 502
At 31.03.06	2 950	5 997	43	778	9 768

Guarantees

There is the risk that medical products developed and produced by Ypsomed could have material defects or product faults, resulting in legal liability and product liability in particular, as well as other liabilities, such as the withdrawal or recall of products. Provisions are put in place according to business principles and relate to guarantees and also to replacement costs for withdrawn products. The company's management base these provisions on the estimated potential guarantee claim for each product.

Ypsomed holds insurance policies with third parties to cover material damages, interruption of operation, product liability and other risks, with worldwide cover. Ypsomed believes that its insurance cover and provisions with regard to business activities and the associated operative risks involved with this are appropriate and sensible. However, events can arise that are not covered, or only partly covered by insurance policies or provisions made by Ypsomed. This applies, in particular, to product liability claims as it is perceptibly more difficult to secure appropriate insurance cover due to large damage claims from other pharmaceutical companies. Although no such losses are presently expected at Ypsomed, there is no guarantee that the company might not be subjected to damage claims in the future that are in excess of the cover available.

Expected cash outflows

Provisions for guarantees cover any guarantee claims that may occur for products on the market. The provisions extend for the average life of the products, which is between 1 and 4 years, depending on the product. Provisions for pension obligations are based on a valuation in accordance with IAS 19, from which no direct cash outflow arises. For the remaining provision for restructuring and other provisions in the next 1–2 years a cash outflow corresponding to the existing provisions is expected.

15. Pension obligation

Most employees are insured under various private and/or state provision schemes. The service-oriented obligations and the assets of the most important provision plans associated with them (2 provision plans of the Swiss companies in total) are evaluated on a bi-annual basis by independent insurance experts. The last actuarial valuation was dated 31.03.2006.

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

	31.03.06	31.03.05
Present value of benefit obligation	86 812	57 455
Market value of plan assets	69 231	52 029
Underfunding	17 581	5 426
Provision (note 14)	-5 997	-6 887
Unrecognized asset due to IAS 19.58	0	-14
Unrecognized actuarial (gain)/loss	11 584	-1 475

The amounts recognized in the income statement are as follows:

	2005/06	2004/05
Current service cost	6 844	4 991
Interest cost	2 572	1 799
Expected return on plan assets	-2 341	-1 679
Past service cost/plan amendments	-202	0
Net actuarial (gains)/losses recognized in year	14	0
Adjustment due to IAS 19.58	-14	14
Employee contributions	-3 490	-2 469
Expense recognized in the income statement	3 383	2 656

The actual return on plan assets was CHF 4.6 million (previous year: CHF 1.9 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Changes in liability recognized in the balance sheet:

	2005/06	2004/05
Provision as of 01.04.	6 887	9 467
Total expenses – as shown above	3 383	2 656
Employer contributions	-4 273	-5 236
Provision as per 31.03. (note 14)	5 997	6 887

The principal actuarial assumptions used are as follows:

Discount rate	3.0%	4.0%
Expected rate of return on assets	4.0%	4.5%
Expected rate of salary increase	2.5%	2.5%
Rate of pension increase	1.0%	1.0%

16. Share capital

Share capital (in thousand CHF)	2005/06	2004/05
At 01.04.	140 553	250
Capital increase/IPO		140 303
Par value repayment of CHF 0.90 per share	-10 120	
At 31.03.	130 433	140 553

Number of shares	2005/06	2004/05
At 01.04.	11 244 213	2 500
Capital increase/IPO		11 241 713
At 31.03.	11 244 213	11 244 213

Ypsomed Holding AG was founded on 29 December 2003 with original share capital of CHF 250 000, consisting of 2500 shares with a nominal value of CHF 100 each. Since the initial public offer in September 2004 there are a total of 11 244 213 shares with a nominal value of CHF 12.50 each. Effective 29.08.2005 the nominal value was reduced by CHF 0.90 to CHF 11.60.

Conditional share capital (in thousand CHF)	2005/06	2004/05
At 01.04.	2 000	0
Capital increase/IPO		2 000
Par value repayment of CHF 0.90 per share	-144	
At 31.03.	1 856	2 000

Number of conditional shares	2005/06	2004/05
At 01.04.	160 000	0
Capital increase/IPO		160 000
At 31.03.	160 000	160 000

17. Contingent liabilities

The Group has contingent liabilities in respect of 3rd party sureties arising in the ordinary course of business. It is not anticipated that any material liabilities will arise from the contingent liabilities.

Expiry schedule:	31.03.06	31.03.05
2005		109
2006		
2007		
2008		300
unlimited in time	406	402
Total	406	811

18. Commitments

	31.03.06	31.03.05
Contractual obligations from consultancy and research and development projects until 31.12.08	2 036	2 731
Contractual obligations from rental contracts with Techpharma Management AG bis 31.12.15	9 287	0
Maturity up to 1 year	953	0
Maturity longer than 1 year and up to 5 years	3 810	0
Maturity longer than 5 years	4 524	0

The rental contract (see note 26) between Ypsomed AG and Techpharma Management AG, a company controlled by Willy Michel, was signed at arm-length. Rental interest is based on an independent rental value estimate and amounts to CHF 952 500 annually plus VAT; it is linked to the consumer price index.

Contractual obligations for the purchase of fixed assets as at 31.03.2006 amount to CHF 5.4 million (previous year: CHF 3.7 million).

19. Operating expenses

	2005/06		2004/05	
Cost of goods and services sold	191 375	77.1%	144 936	74.6%
Research and development expenses	17 206	6.9%	14 295	7.4%
Marketing and sales expenses	19 389	7.8%	19 119	9.8%
Administration expenses	20 276	8.2%	15 926	8.2%
Total	248 246	100.0%	194 276	100.0%
Cost of materials	79 340	32.0%	66 994	34.5%
Personnel expenses	94 885	38.2%	70 903	36.5%
Depreciation/amortization	26 690	10.8%	21 811	11.2%
Other operating expenses	47 331	19.1%	34 568	17.8%
Total	248 246	100.0%	194 276	100.0%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. Distribution of staff by country and function

Personnel at 31 March (full-time equivalents)	Production & Logistics	R&D	Marketing & Sales	Admin- istration	Total 31.03.06	Total 31.03.05
Switzerland	783	84	28	105	999	786
Germany	14		47	10	71	81
Netherlands			3	1	3	5
France			3	1	4	15
Scandinavia			7	1	8	8
Czech Republic	5			1	6	0
Total	802	84	88	118	1 090	894
Headcount					1 139	933

21. Financial income

	2005/06	2004/05
Interest income	735	321
Gains from securities	2 817	683
Foreign exchange gains	730	890
Other financial income	1	237
Total	4 283	2 131

22. Financial expense

	2005/06	2004/05
Interest expense	1 066	1 152
Losses from securities	508	728
Foreign exchange losses	445	2 063
Other financial expense	118	108
Total	2 137	4 051

23. Other income/(expense)

	2005/06	2004/05
Real estate income (rental income)	309	338
Real estate expense	-243	-292
Other non-operating expense	-122	-10
Total	-56	36

24. Taxes

	2005/06	2004/05
Income taxes	6 389	5 799
Deferred taxes	2 395	671
Total	8 784	6 470

The tax charge on the Group's profit before taxes differs from the theoretical amount that would arise using the expected long-term tax rate for the Ypsomed Group as follows:

Profit before income tax	64 432	45 665
Tax calculated at a tax rate of 22% (expected)	14 175	10 046
Effect of reduced tax rates	-7 066	-4 442
Effect from realisation and resolution of tax-loss carryforwards	1 189	0
Effect from non-activated loss carryforwards	486	866
Total income tax	8 784	6 470

The company benefits from reduced tax rates that are subject to change from year to year. Changes in reduced tax rate impact the company's effective tax rate.

The amounts stated in the consolidated balance sheet comprise the following positions:

	31.03.06	31.03.05
Current income taxes:		
Income taxes payable	-5 704	-5 389
Net current income taxes	-5 704	-5 389
Deferred income taxes:		
Deferred income tax assets	2 348	4 466
Deferred income tax liabilities	-4 112	-3 851
Net deferred income taxes	-1 764	615

The amounts for deferred income taxes stated in the consolidated balance sheet are reported under long-term assets and long-term liabilities.

Under deferred tax assets, tax-loss carryforwards are only taken into account if the associated tax credits can be realized. As per the balance sheet date the company has unrecognized tax-loss carryforwards of CHF 3.1 million (previous year: CHF 1.3 million), which can be offset without limit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The assets and liabilities as well as credits and debits from deferred taxes are made up of the following positions:

	31.03.06	31.03.05
Deferred income tax assets:		
Tax-losses carried forward	1 982	4 120
Impact from intercompany profits	366	346
Total	2 348	4 466
Deferred income tax liabilities:		
Trade receivables	238	254
Inventory	1 216	1 017
Long-term assets	-169	0
Provisions	151	-72
Tax valuation differences	1 436	1 199
Fixed assets	1 898	2 333
Intangible assets	778	319
Accelerated tax depreciation	2 676	2 652
Total	4 112	3 851

25. Segment information

The primary reporting format is by business segments and the secondary reporting format by geographical area because the group is affected predominantly by its products and services. The Ypsomed Group has one business segment "injection systems and accessories". The disclosures below represent the secondary reporting segment.

Breakdown by geographical location:

	Sales		Assets		Net capital expenditure	
	2005/06	2004/05	31.03.06	31.03.05	2005/06	2004/05
Switzerland	20 352	19 705	646 501	639 092	26 050	66 078
Europe excl. Switzerland	282 536	218 944	19 197	19 390	744	288
North America	7 591	2 985	0	0	0	0
Rest of world	109	189	0	0	0	0
Total	310 588	241 823	665 698	658 482	26 794	66 366

Sales are allocated to the country in which the customer is located. Sales of pen systems to biotech and pharma partners are mainly billed to European subsidiaries of these partners. These sales are, in the geographical segmentation, shown as European sales. Biotech and pharma partners sell the pen systems worldwide. Assets and capital expenditure are indicated where the subsidiaries are located.

26. Transactions with related parties

Related parties are Techpharma Management AG, which is controlled by majority shareholder Willy Michel, and the pension fund. In the year under review the following transactions were made with members of the Board of Directors, management and parties related with them:

	2005/06	2004/05
Board of Directors	575	565
Management	2 398	2 264
Former members of the management	201	322
Techpharma Management AG (Interest according to note 13)	1 038	1 005
Techpharma Management AG (Rent according to note 18)	238	0
Pension fund (employer's contributions)	3 810	4 279
Total	8 260	8 435

In the previous year, the transactions with the pension fund contained a one-off contribution of CHF 1.6 million from the employer.

Since 1 January 2006, Ypsomed AG has rented business premises from Techpharma Management AG, which belongs to majority shareholder Willy Michel. The rental contract was signed at arm-length (see note 18) and can be terminated at the earliest and with 24 months notice as from 31 December 2015. The tenant has unlimited first right of refusal for the whole rental period, to a maximum of 25 years. Rental payments had not commenced in the year under review. Ypsomed AG reported accrued expenses amounting to CHF 0.2 million.

27. Earnings per share

Earnings per share is calculated by dividing net profit through the weighted monthly number of shares outstanding during the period. The average number of shares held by the group's companies is deducted from the number of shares issued.

	2005/06	2004/05
Net profit in thousand CHF	55 648	39 195
Number of outstanding shares weighted on a monthly basis	11 238 259	6 105 865
Earnings per share in CHF (basic and diluted)	4.95	6.42

Calculated on a comparative basis, earnings per share in the previous year was CHF 3.49. This was calculated for 11 244 213 shares, the number of shares outstanding following the IPO of 22 September 2004.



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Report of the group auditors
to the general meeting of
Ypsomed Holding AG
Burgdorf

As auditors of the group, we have audited the consolidated financial statements (balance sheet, income statement, statement of cash flows, statement of changes in equity and notes; pages 34 to 55) of Ypsomed Holding AG for the year ended March 31, 2006.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Hanspeter Gerber

Rolf Johner

Bern, May 2, 2006

FIVE-YEAR OVERVIEW April 1–March 31

in thousand CHF	2005/06	2004/05	2003/04	2002/03	2001/02
Own finished products ¹⁾	269 638	186 403	130 573	90 773	73 014
FreeStyle	3 487	20 656	46 324	36 201	17 432
Other products ²⁾	37 463	34 764	21 837	10 213	10 168
Total Sales	310 588	241 823	198 734	137 187	100 614
Gross profit	119 213	96 888	75 857	42 270	25 659
Gross profit in %	38.4%	40.1%	38.2%	30.8%	25.5%
Operating profit	62 342	47 548	18 442	14 204	6 689
Operating profit in %	20.1%	19.7%	9.3%	10.4%	6.6%
Net profit	55 648	39 195	14 044	12 061	5 776
Net profit in %	17.9%	16.2%	7.1%	8.8%	5.7%
Depreciation of fixed assets	25 674	21 033	15 747	12 913	11 485
Amortization	1 016	778	15 376	531	488
EBITDA ³⁾	89 032	69 359	49 564	27 648	18 662
EBITDA in %	28.7%	28.7%	24.9%	20.2%	18.5%
Total current assets	207 341	207 076	93 313	61 078	44 790
Total non-current assets	458 358	451 406	407 470	81 884	72 327
Total current liabilities	47 805	65 468	33 254	23 229	16 517
Total non-current liabilities	213 880	235 842	455 689	8 050	5 022
Balance sheet total	665 698	658 482	500 783	142 962	117 117
Capital expenditures	-40 110	-71 459	-37 960	-22 330	-18 219
Cash flow from operating activities	57 179	94 775	33 540	20 398	6 496
Cash flow from investing activities	-41 278	-66 370	-39 676	-22 481	-18 468
Cash flow from financing activities	-6 218	14 964	14 859	4 044	12 864
Issued shares as of March 31	11 244 213	11 244 213			
Average shares outstanding	11 238 259	6 105 865			
Earnings per share (basic and diluted) in CHF ⁴⁾	4.95	3.49	1.25	1.07	0.51
Dividend per share (in CHF) ⁵⁾	0.00	0.00	n/a	n/a	n/a
Par value repayment per share (in CHF)	1.25	0.90	n/a	n/a	n/a
Book value per issued share (in CHF)	35.93	31.76			
Stock prices (in CHF): year's highest	221.80	126.50	n/a	n/a	n/a
Stock prices (in CHF): year's lowest	109.00	70.65	n/a	n/a	n/a
Stock prices (in CHF): year-end	218.20	124.00	n/a	n/a	n/a
Market capitalization (in million CHF)	2 453	1 394	n/a	n/a	n/a
Average headcount	1 052	891	761	535	420
Average fulltime equivalent	1 009	845	722	508	399
Year-end headcount	1 139	933	797	560	440
Year-end fulltime equivalent	1 090	894	764	537	422
Sales per average fulltime equivalent	307 818	286 037	275 130	270 208	252 177

¹⁾ Sales of injection moulding products for 3rd parties included in "Other products"

²⁾ Direct trade business of DiaExpert GmbH in Germany included since 1 October 2003

³⁾ Operating profit before interest, taxes, depreciation and amortization

⁴⁾ Years prior to 2005/06 are calculated with total number of registered shares after IPO

⁵⁾ The Board of Directors will recommend to the 2006 General Meeting of Shareholders that, instead of a dividend payment, the nominal value of the Ypsomed share be reduced by CHF 1.25 and this amount be repaid to shareholders.

BALANCE SHEET YPSOMED HOLDING AG

INDIVIDUAL FINANCIAL STATEMENTS

in thousand CHF	31.03.06	31.03.05
Assets		
Cash and cash equivalents	58 049	40 288
Marketable securities	41 238	69 608
Accrual of dividends from Group companies	14 400	21 200
Accrued income and prepaid expenses	65	63
Other current assets	350	218
Total current assets	114 101	131 377
Loans to Group companies	111 307	107 266
Investments	308 538	315 468
Intangible assets	8 170	10 562
Total non-current assets	428 015	433 296
Total assets	542 116	564 673
Liabilities and equity		
Trade payables	45	221
Accrued expenses and deferred income	791	824
Current income taxes payable	436	45
Current payables to Group companies	13 422	9 182
Other current liabilities	74	0
Total current liabilities	14 768	10 272
Non-current financial liabilities to major shareholder	200 000	218 121
Total non-current liabilities	200 000	218 121
Share capital	130 433	140 553
Reserves	177 539	177 538
Retained earnings	18 189	17 363
Net profit	1 187	826
Equity	327 348	336 280
Total liabilities and equity	542 116	564 673

INCOME STATEMENT YPSOMED HOLDING AG

INDIVIDUAL FINANCIAL STATEMENTS

in thousand CHF	2005/06	2004/05
Income		
Financial income	23 482	27 560
Total income	23 482	27 560
Expense		
Amortization and depreciation	18 373	23 181
Financial expenses	1 845	2 049
Administration expenses	1 461	1 458
Income taxes	615	46
Total Expense	22 295	26 734
Net profit	1 187	826

PROPOSAL FOR THE APPROPRIATION OF RETAINED EARNINGS

The Board of Directors proposes to the General Meeting of Shareholders that the retained earnings be appropriated as follows:

in thousand CHF	31.03.06	31.03.05
Retained earnings	18 189	11 047
Retained earnings Finox Beteiligungen AG	0	6 316
Net profit for business year	1 187	826
Retained earnings at disposal of the General Meeting	19 376	18 189
Allocation to free reserves	0	0
Dividends ¹⁾	0	0
To be carried forward	19 376	18 189

¹⁾ The Board of Directors will recommend to the General Meeting of Shareholders that, instead of a dividend payment, the nominal value of the Ypsomed share be reduced by CHF 1.25 (previous year: CHF 0.90) and this amount be repaid to shareholders.

NOTES TO THE FINANCIAL STATEMENTS 2005/06 OF YPSOMED HOLDING AG

Income

Financial income mainly consists of dividends and interest income.

Assets

Dividends of CHF 14 400 000 (previous year: CHF 21 200 000) of the fully consolidated subsidiaries of Ypsomed Holding AG were prematurely posted to the income statement.

Share capital

The share capital of CHF 130 432 871 (previous year: CHF 140 552 663) consists of 11 244 213 (previous year: 11 244 213) registered shares with a nominal value of CHF 11.60 (previous year: CHF 12.50) each.

Conditional share capital

The company has a conditional share capital totalling of CHF 1.9 million (previous year: CHF 2.0 million). The company may issue a maximum of 160 000 (previous year: 160 000) fully paid up registered shares of nominal value CHF 11.60 (previous year: CHF 12.50) each to selected employees and members of the Board of Directors.

Important shareholders

	31.03.06		31.03.05	
	Registered shares	Capital- and vote share	Registered shares	Capital- and vote share
Willy Michel	7 700 330	68.5%	8 000 000	71.1%

Investments

in CHF	31.03.06		31.03.05	
	Interest held	Share capital	Interest held	Share capital
Ypsomed AG, CH-Burgdorf	100.0%	500 000	100.0%	500 000
Ypsotec AG, CH-Grenchen	100.0%	1 000 000	100.0%	1 000 000
TecPharma Licensing AG, CH-Burgdorf	100.0%	100 000	100.0%	100 000
P Medical Holding SA, CH-Orvin	12.75%	863 017		

P Medical Holding SA

BV Holding AG, with head office in Bern, holds in its own name 12.75% of P Medical SA, but to the cost and for the benefit of Ypsomed Holding AG. The purchase of this fiduciary title is financed by a loan of Ypsomed Holding AG to BV Holding AG of CHF 9.1 million (which under certain circumstances can be increased by a maximum of CHF 0.6 million) and can be settled by the transfer and cession of the title of P Medical Holding SA to Ypsomed Holding AG. Ypsomed Holding AG bears the economic risk of the share in P Medical Holding SA financed by this loan.

Securities, reserve for guarantees and collateral order in favour of third parties

	31.03.06	31.03.05
Credit Suisse, CH-Zurich		
Guarantee in the context of credit business for Ypsomed AG	15 000 000	15 000 000

REPORT OF THE STATUTORY AUDITORS



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Report of the statutory auditors
to the general meeting of
Ypsomed Holding AG
Burgdorf

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes; pages 58 to 60) of Ypsomed Holding AG for the year ended March 31, 2006.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

A handwritten signature in blue ink, appearing to be 'H Gerber'.

Hanspeter Gerber

A handwritten signature in blue ink, appearing to be 'R Johner'.

Rolf Johner

Berne, May 2, 2006

CORPORATE GOVERNANCE



Stairs f.l.t.r. Beat Maurer, Christoph Brand

Front row f.l.t.r. Christoph Rindlisbacher, Detlef Jantos, Matthew Robin, Jürg Clavadetscher, Yvonne Müller, Niklaus Ramseier



**THE YPSOMED MANAGEMENT TEAM COMBINES
MANY YEARS OF EXPERIENCE WITH A PROVEN
TRACK RECORD – IN ALL AREAS WHICH ARE
STRATEGICALLY RELEVANT FOR OUR FUTURE.**

CORPORATE GOVERNANCE



THE CORPORATE GOVERNANCE REPORT DESCRIBES THE MANAGEMENT AND CONTROL PRINCIPLES AT THE HIGHEST LEVEL OF THE COMPANY AND ITS SUBSIDIARIES, IN LINE WITH THE SWX SWISS EXCHANGE GUIDELINES ON CORPORATE GOVERNANCE INFORMATION.

Ypsomed, which is headquartered in Burgdorf, Switzerland, is the world leader in the field of injection systems for self-administering pharmaceutical substances. Ypsomed develops and produces its products primarily in Switzerland. Ypsomed products are marketed by biotech and pharmaceutical partners around the world, as well as through the company's own distribution network and by independent distributors. The Group also includes Ypsotec, a supplier of precision rotary parts and subassemblies.

The Ypsomed Group's rules and regulations on Corporate Governance are defined in the Articles of Association (Statuten) and in the Organisation Policy of the Board of Directors (Organisationsreglement) of Ypsomed Holding AG and correspond to the Corporate Governance Directive of 1 July 2002 issued by the SWX Swiss Exchange. A copy of Ypsomed Holding AG's Articles of Association can be ordered (in the German version) from the company or can be viewed on the company's website at www.ypsomed.com (under Media/Investors/Corporate Governance).



Prof. Dr. Norbert Thom



Dr. Dieter Schäfer

Group structure

Ypsomed Holding AG is organized as a holding company pursuant to Swiss law and directly or indirectly owns or controls all companies that are part of the Ypsomed Group worldwide. None of Ypsomed Holding AG's subsidiaries are listed companies.

History of Ypsomed's development

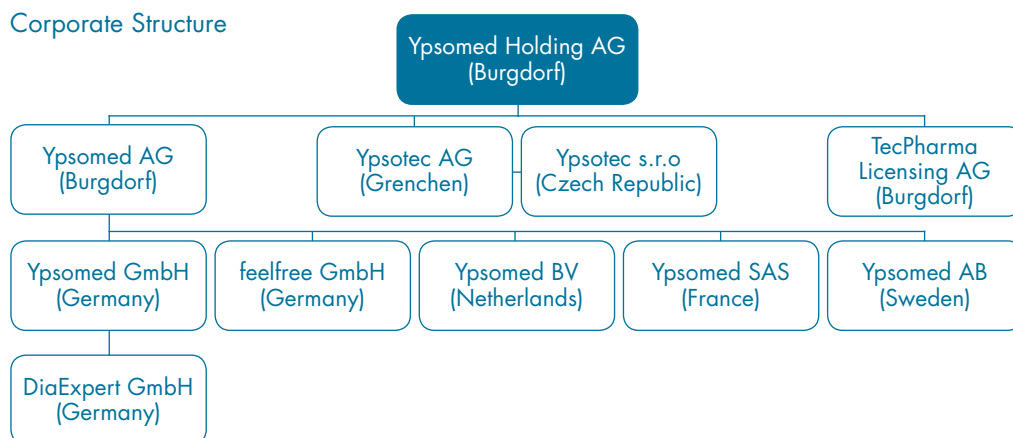
Disetronic was founded in 1984. It developed and produced infusion systems and, from 1986, injection systems. On 30 April 2003, Roche Holding AG acquired all of the shares in Disetronic Holding AG held directly and indirectly by Willy Michel, which amounted to approximately 33% of the shares in the company, and, through a public tender offer to the other shareholders, all remaining shares in the company. At the same time, Willy Michel acquired the injection business of Disetronic indirectly through Finox Beteiligungen AG, whose sole shareholder was Willy Michel and which acquired all of the shares in Ypsomed AG (formerly known as Disetronic Injection Systems AG), in TecPharma Licensing AG (formerly known as Disetronic Services AG) and in Ypsotec AG (formerly known as Décolletage AG).

On 23 March 2004, Ypsomed Holding AG, a subsidiary of Finox Beteiligungen AG, acquired all of the shares in Ypsomed AG, TecPharma Licensing AG and Ypsotec AG from Finox Beteiligungen AG, with retroactive effect from 30 November 2003. With effect from 1 July 2004, the subsidiary Ypsomed Holding AG took over its parent company, Finox Beteiligungen AG, by way of a reverse merger. As a result of this merger, Finox Beteiligungen AG was wound up.

The offering circular (which is only available in English) contains further information and can be viewed on the company's website at www.ypsomed.com (under Media/Investors/Corporate Governance).

CORPORATE GOVERNANCE

Corporate Structure



Listed holding company

Ypsomed Holding AG, which has its registered office in Burgdorf, is the holding company of the Ypsomed Group. It has a share capital of CHF 130 432 870, divided into 11 244 213 registered shares with a par value of CHF 11.60 each. Shares in Ypsomed Holding AG have been traded on the principal market of the Swiss Exchange SWX since 22 September 2004 under Security Number 1 939 699 and Symbol YPSN. The stock market capitalisation on 31 March 2006 was CHF 2 453 487 276 (previous year: CHF 1 394 282 412).

Operating organisation

The Ypsomed Group's operating organisation is based on a parent company structure. It is divided into the following departments: Research & Development, Marketing, Sales & Corporate Development, Production & Logistics, Human Resources, Quality and Regulatory Affairs, Finance & IT and Legal & Intellectual Property. The Group management has put in place operative management teams for the foreign distribution companies, as well as for Ypsotec AG. As a rule, two members of the management of the Ypsomed Group managers sit on the Board of Directors of each subsidiary.

Shareholder structure

Registered shareholders

There were 5622 shareholders registered in the Share Register on 31 March 2006 (previous year: 4947 shareholders). The distribution of shareholdings is divided as follows:

Number of shares	Number of shareholders on 31 March 2006 (Change from previous year)
1 bis 100	3 651 (+704)
101 bis 1000	1 805 (-20)
1001 bis 10 000	136 (-3)
10 001 bis 100 000	26 (-7)
more than 100 000	4 (+1)

The shareholder body on 31 March 2006 was constituted as follows:

Shareholder structure according to category of investor (number of shares)	
Private persons	9.7%
Institutional shareholders	13.3%
Principal shareholder	68.5%
Not registered	8.5%

Shareholder structure by nationality (number of shareholders)	
Switzerland	95.5%
Germany	1.9%
United Kingdom	0.2%
USA	0.2%
Rest of the world	2.2%

Significant shareholders

The principal shareholder is Willy Michel, Chairman of the Board of Directors of Ypsomed Holding AG, who held 7 700 330 registered shares on 31 March 2006.

Mr Michel and affiliated persons together hold total 7 700 330 shares in the company.

The company is not aware of any shareholder agreements or other significant agreements between shareholders.

Cross participations

There are no cross participations.

Capital structure

Capital

Ypsomed Holding AG has a share capital of CHF 130 432 870.80, divided into 11 244 213 fully paid up registered shares, each with a par value of CHF 11.60. All shares entitle the holders to receive dividends.

Ypsomed Holding AG does not have an authorised share capital amount. The company has not issued profit certificates nor participation certificates. There are no convertible bonds outstanding, and no options have been issued for participation rights in Ypsomed Holding AG or any Group companies.

Contingent share capital

Ypsomed Holding AG has conditional share capital totalling CHF 1 856 000. The company may issue to selected employees and members of the Board of Directors up to 160 000 registered shares, to be paid up in full, with a par value of CHF 11.60 each. Shareholders' purchase and advance subscription rights are excluded. Pursuant to the Articles of Association, shares and option rights may be issued at a price below the stock market value. The company has not issued any shares or option rights to date.

Changes in capital to 31.03.2006 pursuant to the accounts of Ypsomed Holding AG produced in accordance with company law

in thousand CHF	Number of shares	Nominal value	Share capital	Capital reserves	Retained earnings	Total
29.12.03 Founding of Ypsomed Holding AG	2 500	100.00	250 000.00			250 000.00
31.03.04 Net profit					11 096 910.20	11 346 910.20
01.04.04 Balance	2 500	100.00	250 000.00		11 096 910.20	11 346 910.20
01.07.04 Reverse merger with Finox Beteiligungen AG				6 165 915.24		17 512 825.44
28.07.04 Capital increase settled with shareholder-loan	997 500	100.00	99 750 000.00			117 262 825.44
18.09.04 Split 1:8	8 000 000	12.50				117 262 825.44
20.09.04 Capital increase/IPO	3 016 000	12.50	37 700 000.00	165 143 042.21		320 105 867.65
28.09.04 Capital increase/IPO over-allotment	228 213	12.50	2 852 662.50	12 495 951.29		335 454 481.44
31.03.05 Net profit					825 726.81	336 280 208.25
31.08.05 Nominal value reduction CHF 0.90 per share			-10 119 791.70			-10 119 791.70
31.03.06 Net profit					1 187 206.38	1 187 206.38
31.03.06 Balance	11 244 213	11.60	130 432 870.80	183 804 908.74	13 109 843.39	327 347 622.93

Limitation on the transferability of shares

No share certificates are issued for Ypsomed Holding AG shares. Any shareholder may ask the company at any time to issue a confirmation regarding the registered shares entered in the Share Register in its name. Any person validly entered in the Share Register as an owner or beneficiary is considered to be a shareholder of the company. Any person acquiring registered shares or the beneficial entitlement to registered shares must apply in writing to be entered in the Share Register. Approval is given by the Board of Directors, which may delegate this power. The transfer is then entered in the Share Register. Applicants will be entered in the Share Register as shareholders with voting rights, provided they expressly declare that they have acquired the registered shares in their own name and for their own account. If this declaration is not made, the Board of Directors may refuse the entry. The Board of Directors may draw up principles for the entry of nominees and may permit nominees to be entered in the Share Register with voting rights for shares up to a maximum of 5% of the nominal share capital. The Board of Directors may also allow nominees to be entered in the Share Register with voting rights for shares exceeding this limit if the nominees disclose the names, addresses, nationality, domicile and shareholdings of the natural persons and legal entities on whose account they

hold 1% or more of the nominal share capital. The 5% limit also applies to nominees who are related to one another through capital ownership or voting rights, by virtue of a common management or otherwise. If a shareholder has been entered in the Share Register on the basis of incorrect information, having given the parties involved the right to be heard, the Board of Directors may remove from the Register the entry as a shareholder with voting rights and replace it with an entry as a shareholder without voting rights instead.

Restrictions on the transfer of registered shares may only be amended by a resolution passed at the shareholders' meeting with a qualified majority of at least $\frac{2}{3}$ of the votes represented and an absolute majority of the nominal share capital represented at such meeting.

Board of Directors

Members of the Board of Directors

The Board of Directors consists of a minimum of three and a maximum of five members elected for a term of office of three years with the possibility of re-election. The Board of Directors is self-constituting. All three members are non-executive members. Mr Michel and Dr Schäfer belonged to the group management of Disetronic Holding AG until April 2003 and March 2001 respectively.

Name	Nationality	Year	Position	Member since*	Elected until the AGM in
Willy Michel	Switzerland	1947	Chairman of the Board of Directors	1984	2007
Dr. Dieter Schäfer	Germany	1942	Vice-Chairman of the Board of Directors	1992	2007
Peter Kappeler	Switzerland	1947	Member of the Board of Directors	1996	2007
Prof. Dr. Norbert Thom	Germany	1946	Member of the Board of Directors	2005	2007

*Including membership of the Board of Directors of Disetronic

Willy Michel, Chairman of the Board of Directors of Ypsomed Holding AG, founded Disetronic together with his brother in 1984. They were together, until his brother's departure from the business in 1995, and thereafter Mr Michel was alone responsible for the development, production, distribution and sale of Disetronic products. Within the context of the sale of Disetronic to Roche Holding AG in 2003, Mr Michel bought back the injection business of Disetronic, which has traded under the name Ypsomed since then. He has held the post of Chairman of the Board of Directors of the Disetronic Group and now the Ypsomed Group without interruption. Prior to the founding of Disetronic, Mr Michel obtained a broad range of experience with several industry and pharmaceutical companies in the fields of development, sales & marketing and he was the head of Novo-Nordisk Switzerland for six years. He was a member of the city council of Burgdorf for three years. In addition, he is the owner of several companies, including companies involved in the fields of art and gastronomy. He is currently Chairman of the Board of Directors of BV Holding AG and holds directorships with various non-listed companies.

Dr. phil. nat. Dieter Schäfer, Vice Chairman of the Board of Directors of Ypsomed Holding AG, joined Disetronic Holding AG in 1992 as a member of the Board and as general manager of all German subsidiaries of Disetronic at that time, being responsible for building up Disetronic's distribution network in Germany. He headed the marketing of the insulin pump and needle business in Germany and was very closely involved in the development of Disetronic products such as the insulin pump and injection systems. In addition, he was general manager of Disetronic GmbH in Kiel and as such responsible for the manufacturing of medical devices produced in Germany. Before Dr. Schäfer joined Disetronic, he was with Hoechst Germany (now sanofi-aventis) for twenty-two years, taking on

various functions in the diabetes business and gathering a broad range of experience in the research and marketing of insulin and oral antidiabetics. From 1974 to 1992, Dr Schäfer headed the division known as Hoechst Pharma Germany. Dieter Schäfer has a doctorate degree in chemistry from the University of Frankfurt a.M. in Germany.

Peter Kappeler, Member of the Board of Directors of Ypsomed Holding AG, was elected to the Board of Disetronic Holding AG in 1996, when that company went public. Mr Kappeler took over the operative management of the BEKB/BCBE in 1992 and served in this function until 2003, when he was elected to the Board of the BEKB/BCBE. He has previously held various management positions in banking and other industries. He is also a member of various boards of directors, associations and foundations, including Givaudan SA (member of the Board), Cendres et Métaux SA (member of the Board), Schweizerischen Mobiliar Holding AG (member of the Board), Schweizerischen Mobiliar Genossenschaft (member of the Board) and Jungfraubahn Holding AG (member of the Board). Furthermore he is a member of the foundation Board of the Sommerakademie im Zentrum Paul Klee and a member of the management committee of the Trade and Industry Association of the Canton of Berne. Mr Kappeler is an engineering graduate of the ETH Zürich (dip. Ing. ETH) and a graduate of INSEAD in Fontainebleau (MBA).

Prof. Dr. rer. pol. Dres. h. c. Norbert Thom, member of the Board, Ypsomed Holding AG, since 2005. After studying economics and social sciences, he became scientific assistant, project manager and private tutor at the University of Cologne, Acting Professor at the University of Giessen and Professor at the University of Freiburg, Switzerland, of management, organization and human resources studies. Prof. Thom is the founder and director of the Institute for Organization

and Human Resources at the University of Bern and Professor of Business Management Studies. From 1995–1997 he was Vice-Chancellor of Finance and Planning and member of the Board of Governors at the University of Bern. From 1997–2000 he was a member of the Swiss Scientific Board, the advisory body of the Bundesrat for questions concerning economic policy. In 2005 he received an honorary doctorate (Dr. h. c.) from the Mykolas Romeris University in Vilnius (Law School, Lithuania) for, among other things, contributions to the New Public Management. In 2006 he received an honorary doctorate (Dr. h. c.) from the Johannes Kepler University, Linz (Austria), for achievements in the field of Organization and Human Resources Management. Many years of practical experience as, among other things, organization and human resources advisor to companies, authorities and governments. Member of Board of Directors at Maschinenfabrik WIFAG, Bern. Author and co-author of numerous technical essays and books; individual publications have been translated into 20 languages. Honorary vice-president of the Swiss Society for Organization and Management.

Interrelated companies

Willy Michel, Chairman of the Board of Directors of Ypsomed Holding AG, is also Chairman of the Board of Directors of BV Holding AG, which is traded on the OTC market of the Berner Kantonalbank. As at 31 March 2006, BV Holding AG held a total of 92 000 shares in Ypsomed Holding AG (previous year: 163 399 shares), representing a shareholding of 0.8%. 81 699 of these shares are locked up until 21 September 2006. Matthew Robin, CEO of Ypsomed, is also a member of the Advisory Board of BV Holding AG and Daniel Kusio, Managing Director of BV Holding AG, acts as Ypsomed Holding AG's Head of Investor & Public Relations.

How the Board of Directors operates

The Board of Directors holds regular meetings four times per year and meets on one additional occasion per year within the context of a strategy meeting with management. The agendas for the meetings are set by the Chairman; any member may ask for points to be included in the agenda. The members receive the agenda and the necessary basis for decision-making 10 days before each meeting. Any member of the Board of Directors may request information about any aspect of the Group's affairs. Votes and resolutions within the Board of Directors are taken by majority decision; if the vote is tied, the Chairman, or in his absence the Vice-Chairman, has the casting vote. Votes may not be taken by proxy. Meetings of the Board of Directors are regularly attended by the CEO and, depending on the business to be discussed, by other members of the management.

Given the size of the Board of Directors, it may advise and decide on all matters in plenary. However, pursuant to the Organisation Policy, it may delegate some of its powers to a committee of the Board of Directors on a case by case basis. There are currently no permanent committees appointed.

Competences

The Board of Directors has certain non-transferable and inalienable duties according to Swiss company law. In particular, it defines company policy and the strategic direction of the Ypsomed Group, sets its targets and priorities and allocates the resources for achieving the targets set. The Board of Directors defines the organisation of the Ypsomed Group, supervises business activities, is responsible for appointments and dismissals and for supervising the persons entrusted with management duties. It also monitors the business activities of the Group companies and those persons entrusted with management duties.

The Board of Directors has delegated responsibility for running the company to the management. The Organisation Policy for the Ypsomed Group describes their duties and areas of competence.

Instruments for information and control of management

The Ypsomed Group's information and control instruments comprise management reporting (quarterly reports) and financial reporting, the latter of which is based on group accounting in accordance with IFRS. Comprehensive consolidated accounts (profit & loss account, balance sheet, cash-flow account) with a budget comparison, the individual accounts of all of the Group companies, as well as consolidated profit & loss accounts and selected management statistics are compiled on a

quarterly basis. This set of instruments is made available to the management and to the Board of Directors every quarter. In addition, selected financial figures are made available to the management on a monthly basis. Furthermore, the Board of Directors and the management use strategic planning documents as management instruments for steering the company. Responsibility for risk management and monitoring rests with the management, which reports on these matters periodically to the Board of Directors.

Management

The management is responsible for the operative management of the Ypsomed Group within the scope of the guidelines laid down by the Board of Directors. Its duties are defined in the Organisation Policy.

Several members of the management previously belonged to the group management of Disetronic Holding AG.

Name	Nationality	Year of birth	Position	At Ypsomed (or pre-2003 at Disetronic) since
Matthew Robin	UK	1965	CEO	1998
Dr Christoph Rindlisbacher	Switzerland	1955	Director Marketing, Sales & Corporate Development	1992
Jürg Clavadetscher	Switzerland	1948	Director R&D	2002
Niklaus Ramseier	Switzerland	1963	Director Finance and IT (CFO)	2002
Yvonne Müller	Switzerland	1969	Director Human Resources	2003
Detlef Jantos	Germany	1959	General Manager European Region	2000
Heinz Ackermann	Switzerland	1950	General Manager of Ypsotec AG	1997
Christoph Brand	Switzerland	1959	Director of Production & Logistics	2004
Dr. Beat Maurer	Switzerland	1958	Director Legal and Intellectual Property, Secretary of the Board	1992

CORPORATE GOVERNANCE

Matthew Robin: CEO (and Quality & Regulatory Affairs ad interim), with Ypsomed (or pre-2003 with Disetronic) since 1998, prior to that he held various positions in production, marketing, sales and general management for Lonza AG in Switzerland and in the USA. Education: Degree in chemical engineering from Imperial College, University of London. Member of the advisory board of BV Holding AG and member of Board at Medisize Holding AG (Medical side of Gurit Heberlein).

Christoph Rindlisbacher: Dr. med. vet., Marketing, Sales & Corporate Development, with Ypsomed (or pre-2003 with Disetronic) since 1992, previously worked as a veterinary practitioner. Education: Degree and doctorate in veterinary medicine from the University of Berne.

Jürg Clavadetscher: Research and Development, with Ypsomed (or pre-2003 with Disetronic) since 2002, prior to that he had responsibility for developments, marketing and sales in the electrical and telecommunications industries at Faselec and Ascom. Education: Degree in electrical engineering from the ETH Zurich.

Niklaus Ramseier: CFO, with Ypsomed (or pre-2003 with Disetronic) since 2002, prior to that head of finance and controlling for the industrial services product line of the Von Roll Group and various advisory and accounting functions within a trust and auditing company. Education: Swiss certified expert for accounting and controlling.

Christoph Brand: Production and Logistics, with Ypsomed since 2004, prior to that he performed various managerial functions in the areas of planning, development, mold design and construction, equipment design and watch parts and was head of plastics technology at ETA SA (Swatch Group). Education: Technical college degree in mechanical engineering and post-graduate qualification in plastics technology.

Yvonne Müller: Human Resources, with Ypsomed since 2003, prior to that responsibility for human resources at IKEA, X-Media and Scout24, as well as in training at the Berne Cantonal Bank. Education: Graduated human resources specialist.

Detlef Jantos: Distribution Companies (Consumer Business), with Ypsomed (or pre-2003 with Disetronic) since 2000, prior to that general manager at Disetronic with responsibility for the distribution of inter alia infusion pumps and blood glucose monitoring systems, various positions of responsibility in the diabetes sector at sanofi-aventis and setting up distribution organizations for blood glucose monitoring systems in various European countries for Inverness Medical (formerly SelfCare) and Abbott (formerly MediSense). Education: Graduated as a laboratory assistant, a proven expert in the pharmaceutical business.

Heinz Ackermann: General Manager of Ypsotec, with Ypsomed (or pre-2003 with Disetronic) since 1997, previously production manager for the Swatch Group and for Fritz Leibundgut AG, head of development and procurement of testing equipment for the Swatch Group. Education: Diploma in business management, diploma from the IFKS School of Commerce in Berne and higher business diploma from the IFKS Berne.

Beat Maurer: Dr. iur., attorney-at-law, Legal and Patents, Secretary to the Board of Directors, with Ypsomed (or pre-2003 with Disetronic) since 1992, prior to that tax and legal consultant with a trust and auditing company. Education: Degree in law from the University of Freiburg i.Ue., doctorate in law from the University of Berne and admitted to the bar in the Canton of Berne.

Management contracts

A management contract has been entered into with Jantos Consulting GmbH which is headquartered in Herrsching, Germany. Under this contract, Mr Detlef Jantos, as an employee of Jantos Consulting GmbH, manages Ypsomed Group's European distribution network and is responsible for the Group's Consumer Business. The contract term is to 30 June 2008 and will be automatically renewed every two years thereafter unless it is terminated. The company is paid a fee in line with industry standards and an additional performance-related fee based on the business results of the distribution companies. A total of CHF 554 581 has been paid in the year under review. There are no other management contracts in place.

Remuneration

In addition to individual fixed salaries and fees, the variable remuneration element is based on a results-related cash payment. Only part of the Directors remuneration is paid out to the Board of Directors; the remainder is credited to a bonus bank and carried over to the business year.

All payments made directly and indirectly to the members of the Board of Directors, for the 12-month period ending 31 March 2006 totaled CHF 0.575 million. The highest total payment made to a member of the Board of Directors is CHF 309 000. The Board of Directors' remuneration is reviewed annually by the Board.

Mr Michel or his company Techpharma Management AG has rented the Ypsomed AG building at the Buchmattstrasse in Burgdorf (Ypsomed Nord) since 1 January 2006. The parties signed a rental contract that provided for a normal market rent in the amount of CHF 952 500 + VAT. The rental contract can be terminated for the first time with 24 months notice from 31 December 2015. The tenant

has unlimited first right of refusal for the whole rental period, to a maximum of 25 years. In the year under review there was no rent payment.

The sum of all payments made directly and indirectly to the members of the management, including paid out bonus sums, for the 12-month period ending 31 March 2006 is CHF 2.398 million. The highest total payment made to a member of the management is CHF 554 581. Pay and bonuses are reviewed annually by the Board of Directors.

No severance payments were made to former directors. During the year under review, a total of CHF 545 946 was paid to former members of the management, two of whom continue to work for one of the Group companies.

Allocation of shares in the year under review

No shares were allocated in the year under review. In the course of the IPO in autumn 2004, shares were offered to members of the Board of Directors, the management and to other persons within the scope of a "Friends and Family Programme" at preferential terms with a discount of 25% on the issue price. Under this programme, a total of 76 688 shares were sold on preferential terms. Half of these shares had a 12 month lock-up until 21 September 2005, the other half had a 24 month lock-up until 21 September 2006. For further details reference is made to the offering circular (only available in English). It can be viewed on the company's website at www.ypsomed.com (under Media/Investor/Corporate Governance).

Share ownership

Non-executive members of the Board of Directors and affiliated persons held 7716996 shares on 31 March 2006. Executive members of the Board of Directors as well as members of the management and affiliated persons held 12083 shares. There were no options held on Ypsomed shares.

The company issued no options on participation rights in Ypsomed Holding AG or Group companies.

Executive loans

Willy Michel made a loan to the company that since then has been assigned to his company Techpharma Management AG. On 31 March 2006, an amount of CHF 200000000 was still outstanding on this loan. Interest of CHF 1037751.70 was paid on the loan amount for the period from 1 April 2005 to 31 March 2006. The key terms of the loan agreement are: the loan bears interest at a rate of 0.5% p.a., it is repayable by 31 March 2010, the loan cannot be cancelled by Techpharma Management AG, but Ypsomed Holding may repay the loan early at any time. On 31 August 2005 an amount of CHF 18120814 was paid off.

There are no further executive loans.

Shareholders' rights of participation

Voting right restrictions and representation

All shareholders who are entered in the Share Register with voting rights are entitled to vote at the shareholders' meeting. Shareholders may arrange to be represented at the shareholders' meeting by proxy. In exercising its voting right, no shareholder may directly or indirectly amalgamate more than 5% of all the voting rights in the form of its own shares and those it is representing. Legal entities and partnerships which are related to one another through capital ownership or voting rights or by virtue of a common management or otherwise, as well as natural persons, legal entities or partnerships that adopt a coordinated approach in order to circumvent the restrictions on voting rights will be considered as one person. However, the restriction on voting rights will not apply to the exercise of voting rights by the company representative, a depositary representative or the specially designated independent shareholder representative, nor to Willy Michel, as more than 5% of all voting rights were registered to him in the Share Register at the time the Articles of Association were drawn up (Art. 16 of the Articles of Association).

Quorums according to the Articles of Association

Unless otherwise stipulated by law or by the Articles of Association, the shareholders' meeting will adopt resolutions and conduct votes on the basis of an absolute majority of the votes cast, excluding blank and invalid votes. The Chairman will also vote and, if the vote is tied, he will have the casting vote. The quorums laid down in the Articles of Association reflect statutory quorums.

Convening the shareholders' meeting

The shareholders' meeting will be convened by way of a letter to the shareholders who are entered in the Share Register at least 20 days prior to the meeting, as well as by publishing a notice in the Swiss Official Gazette of Commerce (SHAB).

Agenda items

Shareholders holding shares with a nominal value of at least CHF 1 million have the right to request that a specific matter is put on the agenda, by specifying the items of the agenda and the proposals. Such requests must be submitted in writing to the Chairman of the Board of Directors at least 45 days before the meeting.

Entries in the Share Register

Entries in the Share Register will be made until six days prior to the General Meeting.

Change of control and blocking mechanisms

In the event of a public takeover bid, the bidder is required pursuant to Art. 32 of the Swiss Stock Exchange Act to make an offer for all of the company's listed shares as soon as it acquires shares directly, indirectly or in concert with third parties, which along with the shares already held, exceed the threshold of 49% of the voting rights of the company, whether exercisable or not (Art. 10 Articles of Association).

There are no change of control clauses with members of the Board of Directors, management and/or other personnel.

Auditors

Term of the mandate and term of office of the chief auditor

PricewaterhouseCoopers AG in Berne, and its legal predecessors, have acted as auditors and group accountants for the Disetronic Group and its individual subsidiaries since their formation. They have also acted as the auditors since the founding of Ypsomed Holding AG (December 2003) and as group accountants for the Ypsomed Group and its individual subsidiaries since the reorganisation that took place prior to the IPO of shares in Ypsomed Holding AG on the SWX Swiss Exchange in autumn 2004. The current chief auditor has been in office at Ypsomed Holding AG since December 2003. The auditors and group accountants are each appointed for a term of one year by the shareholders' meeting.

Auditing fees

The total auditing fees charged by the auditing company for Ypsomed Holding AG and its Group companies in the course of the year under review amount to CHF 209'000. Ypsomed Holding and its Group companies were invoiced CHF 76'000 for additional services.

Instruments for supervision and control of auditing

The complete Board of Directors undertakes the supervision and control of the external audit. The group accountant is in attendance during the discussion and acceptance of the consolidated and annual accounts by the Board of Directors. The group accountant compiles an explanatory report annually for the attention of the Board of Directors. Furthermore, the group accountant writes a management letter which includes comments from the management and which is presented to the Board of Directors.

INFORMATION FOR INVESTORS

Information policy

Ypsomed Holding AG maintains an open and transparent communication policy towards shareholders, potential investors, financial analysts, the media, and customers, based on the principle of equality. The company uses the following instruments: annual report, half-year report, presentation of the annual results to the media and financial analysts ahead of the shareholders' meeting, as well as briefing the media on important events. Responsibility for communication with investors rests with the Chairman of the Board of Directors who may delegate this duty to the CEO.

The following banks monitor the development of the Ypsomed Group:

- Credit Suisse First Boston (www.csfb.com),
Mr Christoph Gretler
- Bank Leu (www.leu.com)
Ms Sibylle Bischofberger Frick
- Bank Sarasin & Co. Ltd. (www.sarasin.ch),
Mr Samuel Stursberg
- BZ-Bank (www.bzbank.ch)
Mr Patrik Jäger
- Helvea (helvea.com) Mr Daniel Jelovcan
- Kepler Equities (www.kepler-equities.com)
Mr Florian Gaiser
- Lombard Odier Darier Hentsch
(www.lombardodierdarierhentsch.com),
Mr Christoph Gubler
- Neue Zürcher Bank (www.nzb.ch)
Mr Zubin Dastoor
- Swissfirst (www.swissfirst.ch),
Ms Karin Bendler
- Bank Vontobel (www.vontobel.com),
Mr Patrick Laager
- Zurich Cantonal Bank (www.zkb.ch),
Ms Yasemin Ersan

Other company publications are available to download or on order from our website (www.ypsomed.com). Official announcements are published in the Swiss Official Gazette of Commerce (SHAB). Interested shareholders, financial analysts and media representatives can receive regular company publications, on request.

Key forthcoming dates

27 June 2006

Annual Shareholders Meeting, Burgdorf

9 November 2006

Press conference and presentation of the half-year figures to analysts

27 June 2007

Annual Shareholders Meeting (provisional)

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GLOSSARY

Amylin

Hormone produced together with insulin in the pancreas. According to latest research, amylin complements the effect of insulin in the treatment of diabetes and allows the blood sugar level to be controlled more effectively.

Anemia (deficiency of blood)

Anemia occurs for different reasons, but essentially means that blood does not carry enough oxygen; classic symptoms are pallor, tiredness, breathlessness and palpitations (heart is beating irregularly or faster or more forcefully than it should, given the level of activity demanded of it).

Auto-injectors

In auto-injectors, the needle insertion and injection of drug is automatic. Auto-injectors therefore offer the advantage of a lowered injection barrier and higher safety features because the needle is hidden at all times. Auto-injectors are the device of choice for drugs in mono-dose formulation which are less frequently injected and/or do not require variable dosing. The immediate injection through application of the device on the skin also makes auto-injectors particularly appropriate for emergency drugs (migraine; anaphylactic shock).

Biomolecule injectables

Biomolecule injectables is a term covering biological therapeutic drugs which are developed and manufactured using biotechnology. Such biomolecules cannot be delivered using traditional methods (e. g. orally) as they would be destroyed by the digestive tract and must use the injectable route of administration.

Blood sugar/blood glucose

In intensified insulin therapy, the blood sugar or blood glucose value should be measured at least four times a day in order to adjust the amount of insulin administered to actual requirements. A person's insulin requirements fluctuate over the course of the day due to the varying levels of hormones which increase blood sugar, the consumption of food, physical activity or febrile infections. Diabetics normally measure their blood sugar levels themselves using a portable blood sugar monitor. To carry out the measurement, a small blood sample must first be obtained and placed on a test strip. An enzymatic reaction within the test strip converts the blood sugar into a measurable product which is then measured on the basis of a photometric or electrochemical process and displayed by the monitoring device.

Blood sugar monitoring/blood glucose monitoring

Blood glucose monitoring refers to home monitoring of blood glucose levels, for example by using a portable glucose monitor. Monitoring is done by the individual or a caregiver on a regular basis.

Cannula

See Pen needle.

Cartridge

A drug reservoir containing the drug to be administered which is used with, for example, reusable pens. Some substances need pens with two-chamber cartridges, which contain lyophilised drug and diluent that are mixed before use automatically in the pen.

Compliance

In medicine we talk about the compliance of the patient. This means that, in many illnesses, for healing to occur the patient needs to have a cooperative attitude. In the medical sense, compliance can therefore be described as sticking to one's therapy, taking one's medicine as prescribed; in short, following the doctor's orders. Compliance is particularly important for diabetics with regard to taking their medicine, following a diet or making lifestyle changes.

Diabetes

Diabetes is a chronic metabolic disorder resulting from under-production of insulin in the body or from restricted sensitivity of the body to the presence of insulin. In people with diabetes, the blood sugar is no longer absorbed from the blood cells in the requisite quantity. As a result, there is too much glucose in the blood (hyperglycaemia/excess sugar), which is then secreted in part via the kidneys. In type-1 diabetes (also known as insulin-dependent or juvenile diabetes) the body produces insufficient insulin, if any, because most or all of the insulin-producing cells in the pancreas have become damaged by a viral infection. It generally develops during a person's youth and has to be treated by administering insulin. Type-1 diabetes accounts for about 10% of all cases of diabetes and, given its clear symptoms, is generally correctly diagnosed and treated. In type-2 diabetes (also known as non-insulin-dependent or maturity-onset diabetes), which is much more common, the pancreas produces insulin, however it does so in insufficient quantities or with insufficient effect. It is triggered, among other things, by over-eating or lack of exercise and is, therefore, commonly referred to as an illness of affluence. Type-2 diabetes is generally found in people who are over the age of 40 and who carry excess weight. It is initially treated by following a healthy diet and by taking more physical exercise. Tablets and insulin injections may be considered in later phases. According to estimates, about half of all people who currently have type-2 diabetes are unaware that they have it. If diabetes is undiagnosed or inadequately treated, this can have serious consequences for the kidneys, nerves, eyes or blood vessels.

EPO (Erythropoietin)

Natural hormone mainly produced by the kidney which regulates the formation of red blood cells (erythrocytes) in the bone marrow.

FDA (Food and Drug Administration)

US health authority.

Growth hormone

One of the body's natural hormones used today primarily to treat growth disorders in young people.

Heparin

Medication with anti-coagulant properties. Anti-coagulant indicates that a substance delays or stops blood clotting.

Hyperglycaemia

Too much glucose in the blood. Hyperglycaemia (high blood sugar) can occur, for example, as a result of too high an intake of carbohydrates and is usually due to insufficient insulin production or administration or to reduced sensitivity to the body's own insulin. It represents a metabolic disorder where the unused glucose passes into the urine and ketone bodies (e.g. acetone) may be formed, causing overacidity of the blood. Symptoms of hyperglycaemia include increased thirst, frequent urination, fatigue, slow-healing wounds and impaired vision. In severe cases, the disease may lead to nausea, vomiting, a smell of acetone on the breath, the occurrence of glucose and acetone in the urine and finally to a life-threatening condition (diabetic coma). To combat hyperglycaemia, insulin is administered and the intake of liquids increased.

Hypoglycaemia

Too little glucose in the blood. Hypoglycaemia (low blood sugar) occurs primarily as a result of eating too little, administering too much insulin, extreme physical activity or too much alcohol. The symptoms include among other things increased appetite, headaches, weakness, a loss of concentration and blurred vision. It can be treated by the immediate administration of glucose or drinking fruit juice. Acute hypoglycaemia can lead to unconsciousness and requires immediate medical attention.

GLOSSARY

Infertility (Follicles Stimulating Hormone (r-hFSH))

FSH is a gonadotropic hormone (a hormone secreted by the anterior pituitary gland and placenta), which stimulates growth of specific follicles in females, and activates sperm-forming cells in males. Used for treating infertility.

Infusion systems, infusions pumps

Infusion systems or infusion pumps are small, battery-operated devices (about the size of a pager or cell phone) that can replace insulin injections for patients managing diabetes. An infusion pump more closely mimics a healthy pancreas by continuously delivering small doses of insulin around the clock, even while a patient sleeps. Pump users can also deliver insulin at the touch of a few buttons, enabling them to control their blood sugar (glucose).

Injection

One-time introduction of liquid medication.

Injection systems/injection devices

Injection systems or injection devices comprise self-injection devices, such as pens and auto-injectors, and pen needles.

Insulin

Hormone produced in the pancreas which is required by the body's cells in order to convert blood sugar into energy. Insulin enables the blood sugar to pass from the blood into the cells. Insulin was first discovered in 1921 by two Canadians, Frederick Banting and Charles Best, and has since been used to treat diabetes. Today, it is mostly obtained by means of biotechnological processes and must be either injected or infused, since it is ineffective if administered orally.

Interferon alpha

Substance produced by the body's own immune system which is effective against certain viruses and inhibits the growth of tumours. Alpha interferon is a key drug for the treatment of hepatitis C.

Lantus®

LANTUS® is a long-acting basal insulin analogue used once a day at the same time each day that is proven to lower basal glucose levels for about 24 hours. Basal insulin is a term used to describe the slow, steady release of insulin needed to control blood glucose and to keep cells supplied with energy when no food is being digested.

Motor-driven injection systems/motor-driven injectors

Motor-driven injectors feature a manual or automated actuation of injection. They provide controlled injection rates and duration and thus enable the patient to dose expensive drugs more precisely and avoid waste. Motor-driven injectors are particularly appropriate for use by physically weak patients or for the administration of drugs with high viscosity.

Needle-free injector/needle-free technology

These terms refer to technology that allows to inject a medicinal product without a needle by imparting kinetic energy to the medicinal product, thereby expelling it through a fine nozzle, creating a jet stream which penetrates the skin.

Oncology

The branch of medicine concerned with the study and treatment of cancer/tumors.

Pen

Injection device which looks like a fountain or ballpoint pen. The prescribed dose of medication is set by adjusting a dosage knob and injected from a cartridge through a cannula into the body.

Pen needle (cannula)

A pen needle is the disposable cannula attached to the tip of the injection pen, in order to inject the drug into the body. Ypsomed's pen needles feature a click-on mechanism, which makes the pen needle easy to attach to the pen.

Psoriasis

Psoriasis is an autoimmune disorder that affects the skin, resulting in the presence of lesions over various areas of the body. The most common form (accounting for 80% of cases) is plaque psoriasis, characterized by red, raised skin covered with scales.

®/™

The ®/™ sign, when used in this document, indicates that the relevant name is a registered trademark of the relevant pharma partner of Ypsomed or Ypsomed itself.

Rheumatoid arthritis (RA)

Rheumatoid arthritis is a form of arthritis that leads to inflammation in the lining of the joints. It is thought to result from an autoimmune condition.

Self-injection devices

When used in this document, self-injection devices include pens (disposable, reusable and semi-disposable pens), auto-injectors, motor-driven injection systems, safety products, and needle-free technology.

Subcutaneous

Means "under the skin". Subcutaneous injections are injected into the fatty tissue under the skin. By use of pens or other injection systems, drugs can, for example, be administered intramuscularly, subcutaneously or intravenously.

Thrombosis

Thrombosis is the formation or presence of a blood clot inside a blood vessel or cavity of the heart. This can result in myocardial infarction, stroke, deep vein thrombosis (DVT) and pulmonary embolus (a blockage of the pulmonary artery by foreign matter or by a blood clot).



The Group publishes Annual Reports in English and German. The German version is legally binding.

Editor
Ypsomed Holding AG, Burgdorf

Concept and Design
Peter Bütikofer & Company, Zurich
Tricom AG, Zurich

Photos
jpg-factory, Felix Bearth, Zurich
Reto Andreoli, Bern
Archives of Ypsomed AG

Printing
NZZ Fretz AG, Schlieren

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