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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



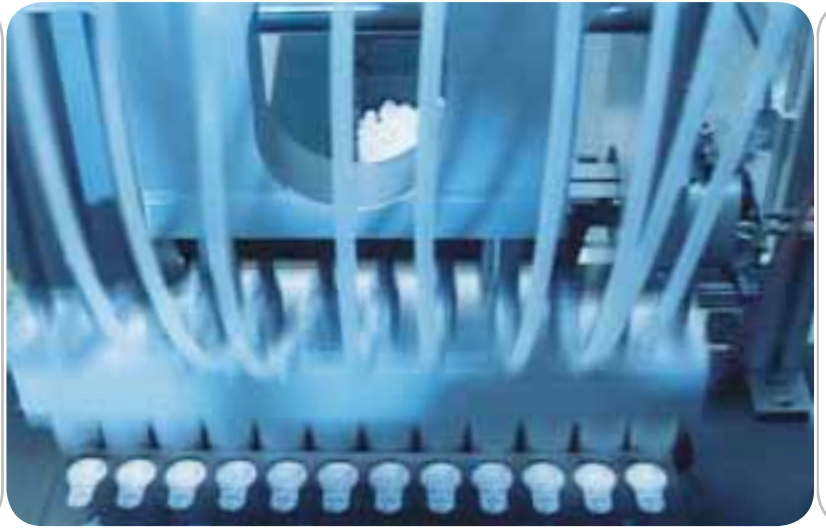
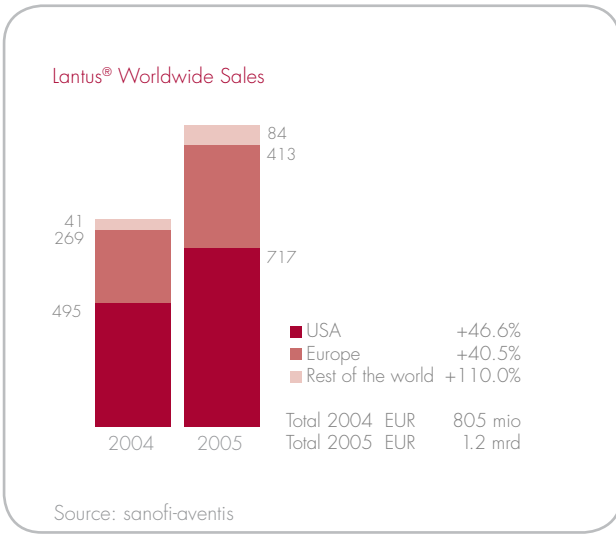
Matthew Robin
CEO



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



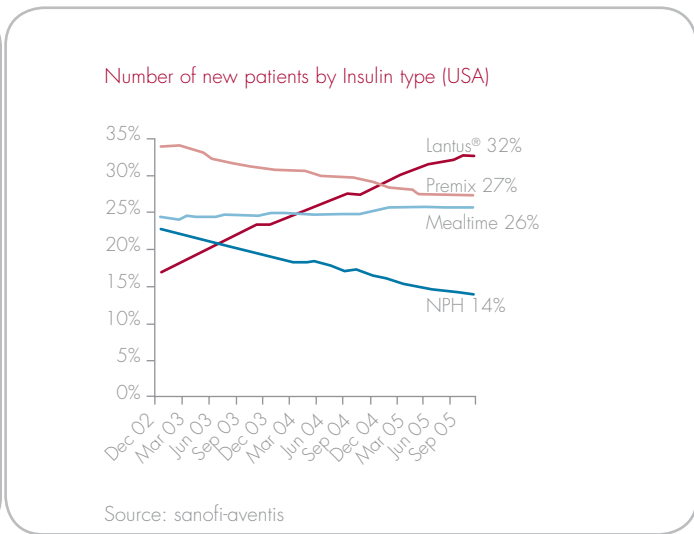
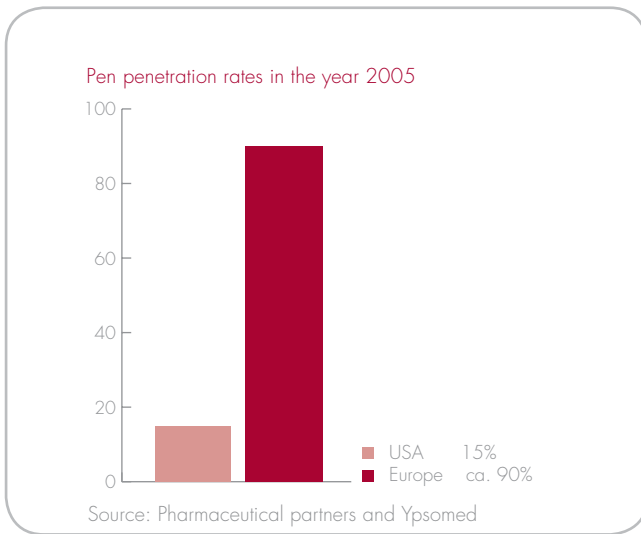
operational level, plus the mutual confidence which has built up over the period. The key components of the success shared with these customers are our innovative capability, customized products, high quality and the reliability of production & logistics.

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.



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.

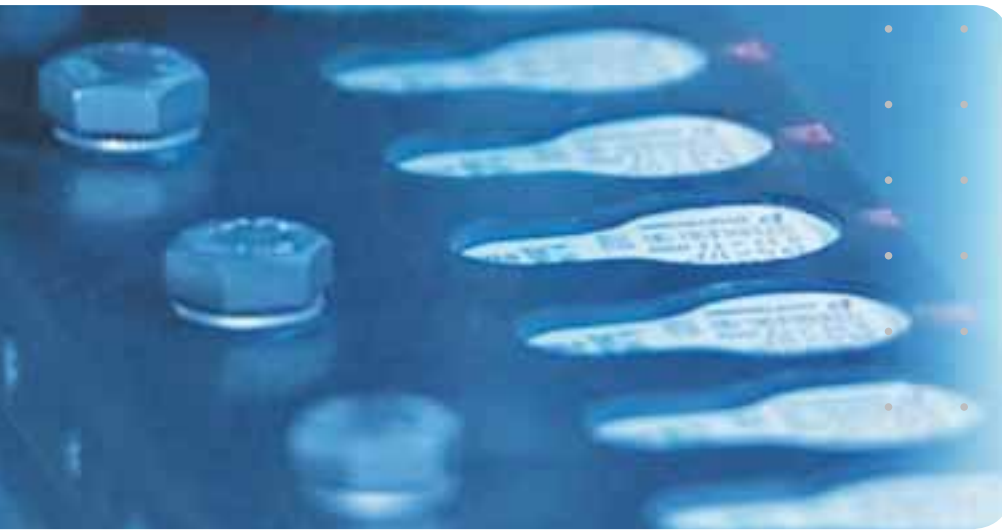
OptiClik® is a semi-disposable pen system patented by Ypsomed offering the advantages of reusable pen systems combined with those of disposable pens. OptiClik®’s reusable dialling module has a high level of functionality, a large, easily readable electronic display, and an extended dosage range stretching 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

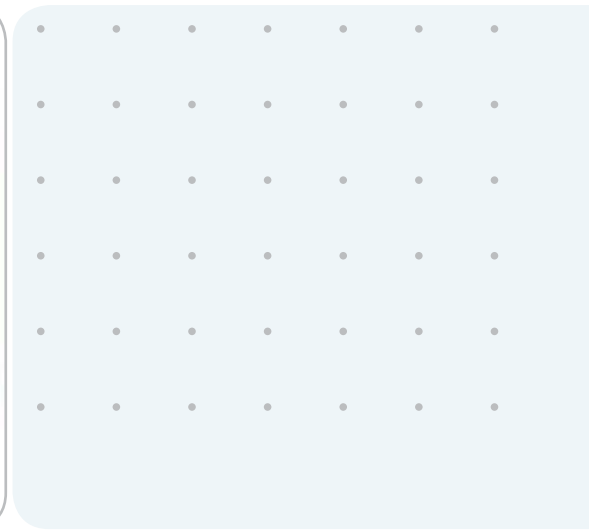


Ypsotec AG in Grenchen – a specialist in precision turned metal parts

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.

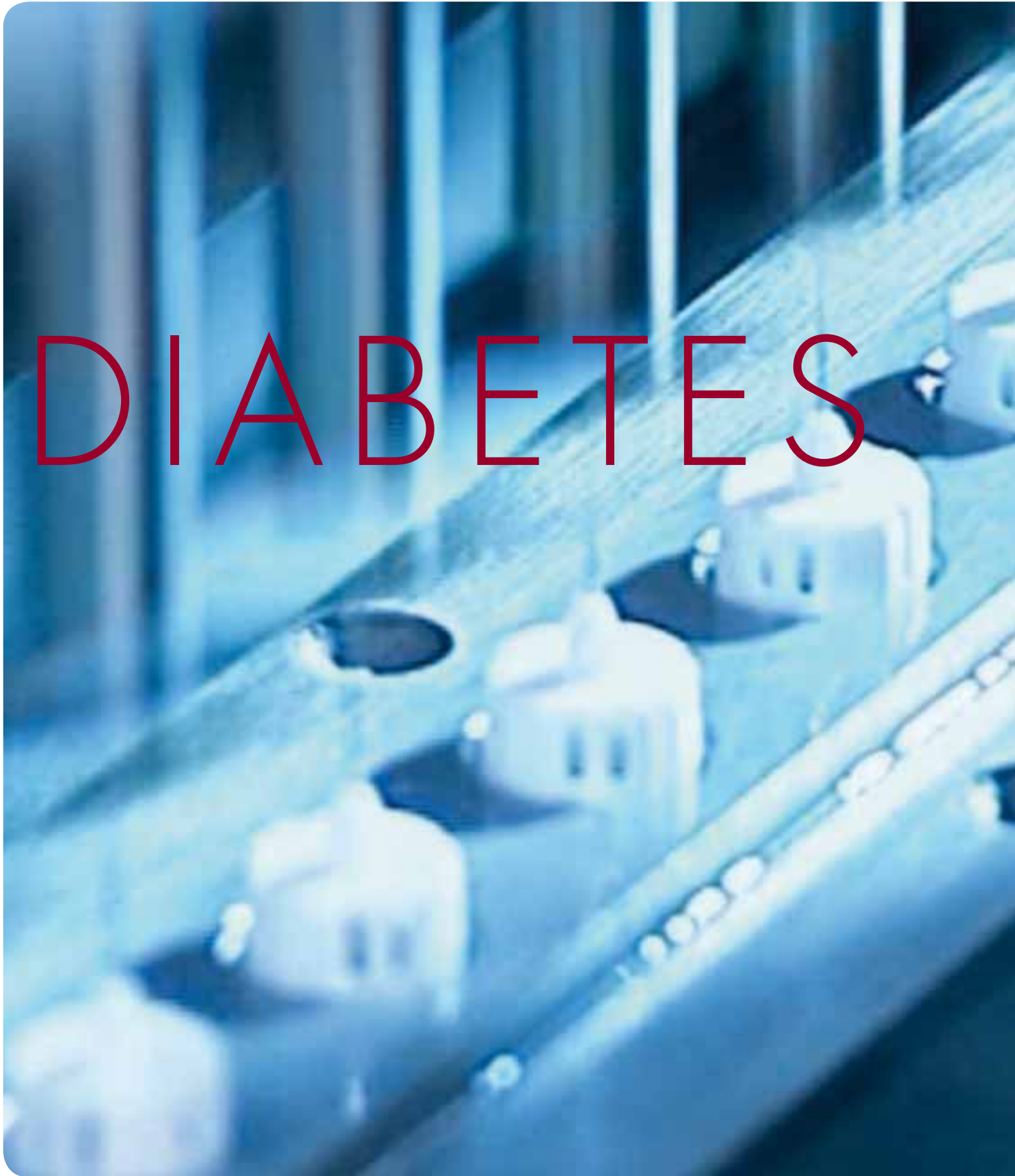
intelligent and flexible handling systems now make it possible to operate the long-turning lathes for longer periods without stopping. Investments are also being made in new quality management software and in modern equipment for computerized testing and measuring systems. The resulting gains in productivity 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.

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

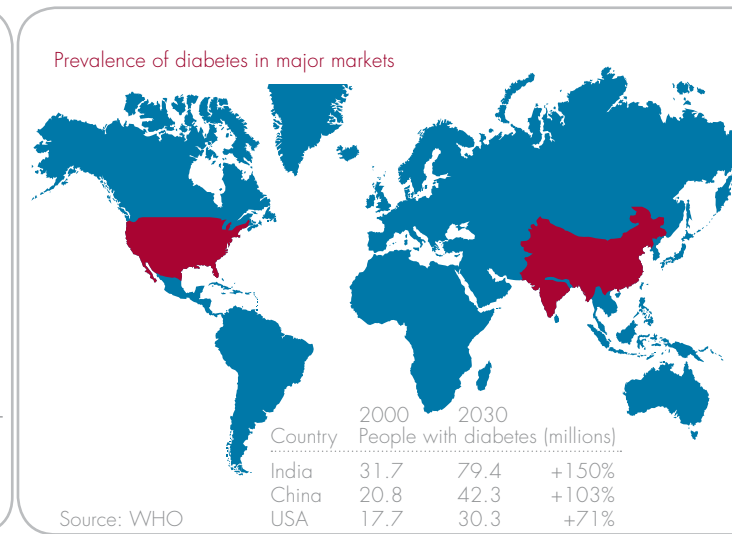
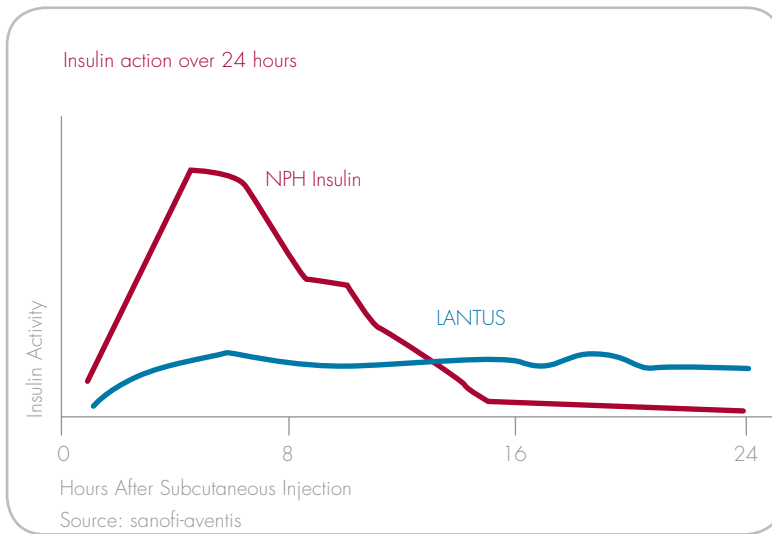


DIABETES



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.