



2008

 Oriola KD

*More care™*

Annual Report

# Events in 2008



**ORIOLA-KD STRENGTHENS ITS PRIVATE LABEL PROGRAMM** – The company launched the sales of healthcare consumer products sold under its proprietary MedOla® brand in Finland.



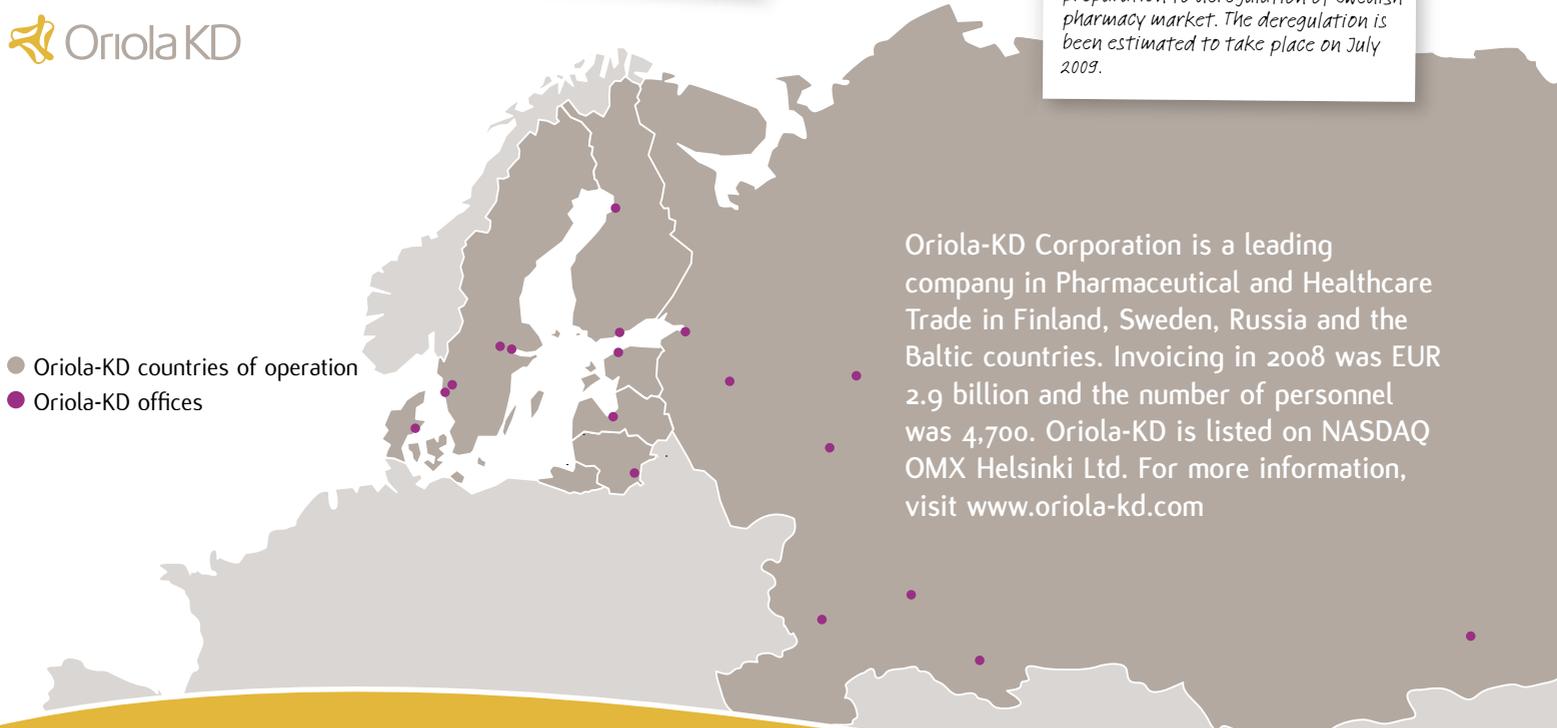
**ORIOLA-KD EXPANDED ITS OPERATIONS TO RUSSIA** – The acquisition of the Vitim and Moron Ltd pharmacy and pharmaceutical wholesale companies was confirmed in spring 2008.



**ORIOLA 60 YEARS** – Year 2008 was a jubileum year to Oriola when it threw a party for decision-makers, customers, principals and authorities in the field.



**DEREGULATION OF THE SWEDISH PHARMACY MARKET** – Oriola-KD started preparation to deregulation of Swedish pharmacy market. The deregulation is been estimated to take place on July 2009.



- Oriola-KD countries of operation
- Oriola-KD offices

Oriola-KD Corporation is a leading company in Pharmaceutical and Healthcare Trade in Finland, Sweden, Russia and the Baltic countries. Invoicing in 2008 was EUR 2.9 billion and the number of personnel was 4,700. Oriola-KD is listed on NASDAQ OMX Helsinki Ltd. For more information, visit [www.oriola-kd.com](http://www.oriola-kd.com)

**IMPORTANT DATES 2009**  
 Interim Report 1–3/2009 on Wednesday, 29 April 2009  
 Interim Report 1–6/2009 on Thursday, 13 August 2009  
 Interim Report 1–9/2009 on Thursday, 29 October 2009

Oriola-KD Corporation's Annual General Meeting will be held on Thursday, 16 April 2009 in Helsinki.

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# 2008

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# CEO's Review

For Oriola-KD, 2008 was a year of success. The long-planned acquisition on Russia's rapidly growing pharmaceuticals retail and wholesale market went ahead, preparations for changes in the Swedish pharmacy market proceeded according to plan, and we achieved the targets we set in 2007 for improving operating profit and return on capital employed, despite the challenging market situation.

Alongside the Russian and Swedish programs, we also continued to develop our core business operations and to shed non-core businesses, a process which we started in 2006. We focused on improving the profitability of pharmaceutical wholesale in Finland and Sweden and took further strides towards our goal of raising distribution margins closer to the general European level. This work will continue in 2009, the focus being on services pricing and process development. In addition, we will discontinue product groups and services that do not represent our core business or which perform poorly. These steps have reinforced the positive trend in our profitability and have focused our resources on those services which are most important for our customers and for quality enhancement.

Early in 2008, we defined a new strategy for Oriola-KD. Our goal is to be a leading pharmaceutical retail, wholesale and healthcare trade company in Finland, Sweden, Russia and the Baltic countries. With the help of our revised strategy, we are preparing for changes due to take place in our markets in the coming years. These foreseeable changes include a change in the ownership of pharmacies and in the regulations governing their business operations, a slowdown in market growth in Finland and Sweden due to the expiry of pharmaceutical patents and more widespread use of generic drugs, an increase in the importance of comprehensive management of the refrigerated transport chain, particularly in the distribution of expensive special medicines, and consolidation among customers and suppliers in our Healthcare Equipment and Supplies business.

In April 2008, we took an important strategic step on the Russian market, broadening the expertise within our retail business. Oriola-KD is currently one of the leading pharmaceutical retail and wholesale companies in Russia. At the end of 2008 we were operating 150 modern

pharmacies in and around Moscow. Our wholesale operations are concentrated in the more densely populated western part of Russia. In addition to integrating newly acquired businesses, we placed a particular focus in 2008 on enhancing business operations and improving profitability, and we succeeded well in this. Although the uncertainty in financial markets had an adverse effect on the Russian economy, Oriola-KD's good liquidity and careful preparation against a weakening in the value of the rouble enabled us to strengthen our market position in the Russian pharmaceutical wholesale sector, particularly in the latter part of the year. We will continue to develop the operations of our Russian companies and will seek a moderate expansion of our pharmacy chain in 2009.

The Swedish Government has proposed that its pharmacy monopoly be abolished in July 2009. Such deregulation of the pharmacy market could offer Oriola-KD greater earnings potential in its pharmacy business. We have prepared for this eventuality very carefully and have created alternative operating models for developing the business.

The Healthcare Trade business's performance in 2008 was adversely affected by agreements made earlier which led to us losing the representation of two significant suppliers as part of a reorganisation of international distribution channels. Nevertheless, we boosted the efficiency of our sales operations and revised our organisational structure during the year, and in special nursing we focused our operations more sharply on selected specialised sectors. In primary healthcare, we developed our wide-ranging wholesale concept to encompass the products most commonly used in healthcare, and in the course of this process we also reinforced our product range with products manufactured under our proprietary Medola brand. Our wholesale concept offers customers the opportunity to outsource a larger share of their materials logistics to Oriola-KD, giving their healthcare staff more time to attend to patients.

We continued with our systematic efforts in personnel development during 2008. I am extremely glad that personnel satisfaction at Oriola-KD has continued to grow since 2006. Our personnel feels that developing the company is both satisfying and challenging and

that, above all, it is steering Oriola-KD in the right direction. The key development areas in 2008 were the performance-linked remuneration and bonus system, the provision of training opportunities and improving the internal flow of information.

We also conducted our first Group-wide customer satisfaction survey, which provided us with valuable feedback on our operations. We will continue to gather customer feedback in order to enhance our business operations and improve quality.

I wish to extend my thanks to all our customers, employees, partners and shareholders for their trust in the company.

**Eero Hautaniemi**  
President and CEO

Oriola-KD expanded  
into pharmaceutical  
retail and  
wholesale in Russia,  
in line with its  
strategy



#### VISION 2012

Oriola-KD is a leading pharmaceutical retail & wholesale and healthcare trade company in Finland, Sweden, Russia and the Baltics

#### STRATEGY

During 2008 Oriola-KD specified a strategy that consists of five strategic programs:

- Integrate and expand wholesale and retail business in Russia
- Transform into integrated pharmaceutical retail in Sweden
- Prepare for pharmaceutical wholesale and retail in Finland
- Implement wholesale business model for healthcare trade
- Operational excellence

# Market Review

## GENERAL MARKET TRENDS

Consolidation is occurring in the global pharmaceutical market and healthcare equipment and supplies market, with ever larger companies being formed. Consolidation is also taking place in pharmaceutical retail and wholesale and in the wholesale of healthcare equipment and supplies. The global pharmaceutical market is expected to grow at an average of 5 to 8 percent annually, despite the fact that some 20 percent of existing medicines will lose patent protection within the next five years, leading to an increase in the proportion of generic medicines.

The share of special biochemical medicines is expected to increase, as is the direct delivery of such medicines to hospitals. On-line purchasing of medicines and their direct delivery to households may also become more widespread.

The owning and conducting of pharmacy operations is being deregulated in Europe, and this is expected to lead to changes in the way in which medicines are distributed. Deregulation will allow the formation of pharmacy chains and the vertical integration of wholesale and retail activities.

## PHARMACEUTICAL MARKET

The value of the Finnish pharmaceutical market in 2008 was approximately EUR 2 billion, while that of Sweden was roughly EUR 3 billion and Russia about EUR 10 billion (460 billion roubles). The combined Lithuanian, Latvian and Estonian markets were valued at just under EUR 1 billion. The Finnish and Swedish pharmaceutical markets are estimated to grow by about 3 to 5 percent annually, while the anticipated growth in Russia is 15 to 20 percent. Per capita consumption of medicines in Western and Central Europe is roughly six times greater than in Russia. In 2008, the pharmaceutical market grew by some 7 percent in Finland, about 4 percent in Sweden, about 25 percent in Russia, and 5 to 10 percent in the Baltic countries. The growth in the Baltic countries was down substantially on the 2007 figures.

## PHARMACEUTICAL WHOLESALE MARKET

Finland and Sweden have a single-channel model of pharmaceutical distribution where the pharmaceutical wholesaler enters into a contract with a pharmaceutical company to exclusively distribute all its products to every pharmacy in the country. There are two major pharmaceutical wholesalers in Finland and Sweden. In contrast, Russia and the

Baltic countries have a multi-channel model where wholesalers can buy pharmaceuticals from different manufacturers and then market them to pharmacies. There are a number of different wholesalers in Russia and the Baltic countries.

## PHARMACY MARKET

In 2008, the approximate number of pharmacies in Finland was 800, in Sweden 900, in Russia 30,000, in Estonia 500, in Latvia 800 and in Lithuania 1,500. In Finland, pharmacies are not permitted to form chains and can only be owned by private persons, with the exception of the Helsinki and Kuopio University Pharmacies. Sweden has a state pharmacy monopoly and the Swedish Government has proposed that it be dismantled in mid-2009. This may open up new business opportunities for Oriola-KD in pharmaceutical retail. In Russia and the Baltic countries, pharmacies can form chains and be owned by both private individuals and companies. At the end of 2008, Oriola-KD had 150 pharmacies in and around Moscow and several in Latvia.

## HEALTHCARE EQUIPMENT AND SUPPLIES MARKET

The estimated volume of the healthcare and laboratory equipment and supplies market within the sector covered by Oriola-KD's Healthcare Trade segment was roughly EUR 4 billion in 2008. In 1995–2006, healthcare costs increased in Finland by an average of 5.8 percent per annum (source: Stakes). The proportion of this accounted for by equipment and supplies did not change significantly during this period, and this has been the case since 2006.

The healthcare product manufacturing industry consolidated further, with the largest companies continuing to acquire other businesses. This affects Oriola-KD's ability to increase its market share through adding new representations since the largest companies market most of their products themselves. On the other hand, basic products are becoming increasingly similar, which means that customers can be offered parallel products, and customers are also adopting local models of procurement. The increasing similarity of products and new procurement models represent opportunities for Oriola-KD. Consolidation among healthcare customers has been continuing, both in the municipal and the private sector. This consolidation is reinforced by the pressure to cut healthcare costs. When different organisations decide to merge certain functions, this can also bring new opportunities in procurement and logistics services.



# Financial Review

## DIVIDEND POLICY

- Oriola-KD will seek to pay out as dividends approximately 50 percent of earnings per share annually. The company's financial position and operational strategy shall be taken into consideration when determining annual dividend.

## LONG-TERM FINANCIAL TARGETS

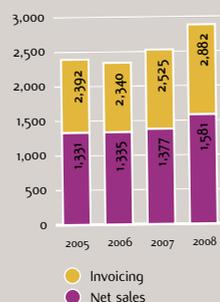
- The Group's long-term financial goals are based on the development of its operating profit (EBIT) and return on capital employed (ROCE).
- The long-term goal for the Group's operating profit excluding one-off items is set at growth of at least five percent over the previous year.
- Return on capital employed shall be at least 13 percent in 2010.

## KEY FIGURES IN 2008:

- Invoicing EUR 2,882.3 million and net sales EUR 1,580.8 million
- Operating profit EUR 36.4 million
- Operating cashflow EUR –18.1 million
- Return on capital employed 13.5 percent
- Earnings per share EUR 0.19

Oriola-KD Corporation was entered in the Trade Register on 1 July 2006 as a result of the demerger of Orion Corporation. Trading in Class A and Class B shares in Oriola-KD Corporation commenced on the main list of the NASDAQ OMX Helsinki Ltd. on 3 July 2006.

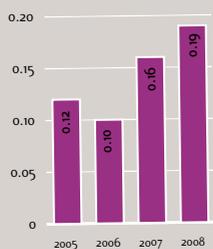
INVOICING AND NET SALES  
EUR million



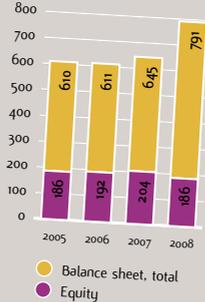
OPERATING PROFIT  
EUR million



EARNINGS PER SHARE  
€



BALANCE SHEET, TOTAL AND EQUITY  
EUR million



RETURN ON CAPITAL EMPLOYED (ROCE)  
%



CASH FLOW FROM OPERATIONS  
EUR million





# Pharmaceutical Trade

Oriola-KD engages in the pharmaceutical wholesale in Finland, Sweden, Russia, Estonia, Latvia and Lithuania. In addition, it engages in retail (i.e. pharmacy) operations in Russia and Latvia. In the Finnish and Swedish pharmaceutical wholesale, Oriola-KD's customers include pharmaceutical manufacturers and importers, and (as both retailers and end-users) pharmacies, hospitals, healthcare centres and veterinarians. In Russia, Oriola-KD's pharmaceutical wholesale customers are its own chain of pharmacies and other pharmacies, wholesalers and hospitals. Consumers are the customers of the pharmacy business.

Oriola-KD's pharmaceutical wholesale customers comprise some 60 pharmaceutical manufacturers in Finland and about 70 in Sweden. In Russia, about 20 percent of the net sales of Oriola-KD's wholesale company came from sales to Oriola-KD's own pharmacy chain and the remainder from sales to other pharmacy chains, pharmaceutical wholesalers and hospitals.

Oriola-KD's strengths in this business are its long experience and customer relationships, strong market position and high quality. Oriola-KD has operated in Finland for 60 years, in Sweden for 100 years and in the Baltic countries since the 1990s. The companies acquired by Oriola-KD in Russia have operated since the 1990s.

## MARKET GROWTH

In the Nordic and Baltic countries, the pharmaceutical market is expanding because of the ageing populations. The Russian market is expanding with the country's increasing wealth, which is boosting the demand for more expensive and effective Western medicines in place of cheaper local products. The Russian market is also expected to grow because of the country's ageing population, increasing state healthcare expenditure, improvements in the compensation system, increasing diagnostics and growing demand for over-the-counter products. The Finnish and Swedish markets are anticipated to grow an average of 3 to 5 percent annually, while the anticipated growth in the Russian market is 15 to 20 percent.

The Finnish pharmaceutical market grew 6.7 percent in 2008 (7.2 percent: The Finnish pharmaceutical market's like-for-like growth, i.e.

excluding the large one-off vaccination delivery made late in the year, was 5.4 percent in 2007). The Swedish pharmaceutical market grew by 4.1 percent (6.8 percent), and growth in the Russian market was approximately 25 percent (about 16 percent). The Baltic countries' pharmaceutical markets grew by 5 to 10 percent (approx. 20 percent) (source: IMS Health).

The introduction of the reference price system in Finland in April 2009 is expected to slow the growth of the pharmaceutical market in 2009.

## INVOICING, NET SALES AND PROFITABILITY

Invoicing by the Pharmaceutical Trade segment in 2008 came to EUR 2,682.1 million (EUR 2,253.4 million), net sales to EUR 1,425.6 million (EUR 1,135.8 million) and operating profit to EUR 32.0 million (EUR 17.4 million). The segment accounted for 93.1 percent (89.3 percent) of Oriola-KD's total invoicing, 90.2 percent (82.5 percent) of net sales and 76.2 percent (54.0 percent) of operating profit in 2008. The segment employed 4,321 (856) people at the end of the year.

The segment's invoicing in Finland was EUR 1,047.9 million (EUR 973.8 million), in Sweden EUR 1,270.3 million (EUR 1,242.2 million) and in the Baltic countries EUR 40.7 million (EUR 37.4 million) in 2008. Net sales in Finland in 2008 were EUR 533.9 million (EUR 468.1 million), in Sweden EUR 536.1 million (EUR 634.9 million) and in the Baltic countries EUR 36.7 million (EUR 32.7 million). The decline in net sales in Sweden was the result of the higher relative share of pharmaceutical manufacturers' consignment agreements in 2008.

The Russian figures have been consolidated with the Oriola-KD figures since 1 April 2008. Net sales for April-December were EUR 318.9 million, up by some 31 percent on the previous year if measured in terms rouble-denominated sales.

## MARKET SHARES AND DELIVERIES BY MARKET

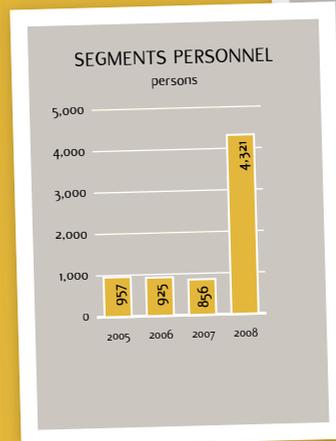
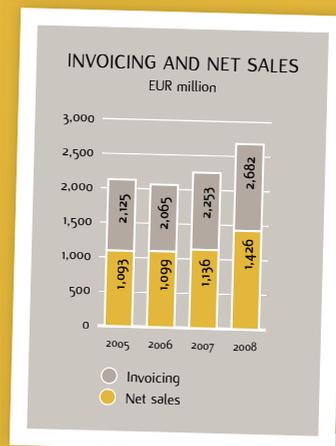
Oriola-KD held a 47.6 percent (45.9 percent) share of the pharmaceutical wholesale market in Finland and 43.8 percent (42.0 percent) pharmaceutical wholesale in Sweden in 2008 (source: IMS Health and the Finnish Association of Pharmaceutical Distributors). The share



## ORIOLA-KD IN RUSSIA

Founded in 1999, Vitim is Moscow's third largest pharmacy chain, with a market share of about 6 percent in the region. The chain uses modern sales and resource planning techniques and offers both prescription medicines and OTC products. Vitim's Sary Lekar was considered to be the second best known chain of pharmacies in Moscow in 2008 (source: DSM Group). The pharmacy operations employ approximately 1,500 people.

Moron, founded in 1996, engages in wholesaling and has a well-established and growing position in pharmaceutical wholesale. In addition to Sary Lekar, it sells to independent pharmacies, pharmacy chains, local wholesalers and hospitals. Its market share in Russia is roughly 5 percent. In 2007, Moron opened a new and modern logistics centre in Moscow, which allows for an expansion in its activities. At the end of 2008, it had regional distribution centres in St. Petersburg, Voronezh, Saratov, Chelyabinsk, Irkutsk, Nizhniy Novgorod and Tula. The wholesale operations employ some 1,500 people.



Net sales in Russia were up by some 31 percent on the previous year if measured in terms rouble-denominated sales

of the pharmaceutical wholesale market in Russia was about 5 percent. In Moscow and its environs, where Oriola-KD's market share in retail was approximately 6 percent, the share of the pharmaceutical wholesale market was about 14 percent. The share of the pharmaceutical wholesale market in Estonia was roughly 10 percent and in Latvia some 5 percent.

Generic medicines accounted for approximately 14 percent (14 percent) of the value of the total pharmaceutical market in both Finland and Sweden, approximately 40 percent in the Baltic countries (source: IMS Health). The approximate share of prescription medicines was 90 percent in Finland (90 percent), 92 percent in Sweden (91 percent), 46 percent in Russia (57 percent) and 73 percent (72 percent) in the Baltic countries.

Pharmaceutical deliveries to pharmacies accounted for some 75 percent (75 percent) of the total value of pharmaceutical deliveries in Finland, some 97 percent (99 percent) in Russia and about 86 percent (86 percent) in the Baltic countries. Correspondingly, pharmaceutical deliveries to hospital pharmacies accounted for some 25 percent (25 percent) of the total value of pharmaceutical deliveries in Finland, some 3 percent (1 percent) in Russia and about 14 percent (13 percent) in the Baltic countries.

### PHARMACEUTICAL WHOLESAL IN FINLAND AND SWEDEN

In 2008, Oriola-KD aimed at raising pharmaceutical wholesale margins in Finland and Sweden closer to the general European level. Based on negotiations undertaken, the company expects distribution margins to grow in 2009.

During 2008, Oriola-KD began to distribute the products of Wyeth in Finland and McNeil in Sweden. These new agreements represent some 2 percent of the Finnish pharmaceutical market and about 2 percent of the Swedish market (source: IMS Health). Oriola-KD continued to distribute for all its major pharmaceutical principals in Finland in 2008. In Sweden, pharmaceutical principals that will no longer be distributed by Oriola-KD are Schering-Plough and Organon. As a consequence of this, Oriola-KD's market share in Sweden in the pharmaceutical wholesale at the beginning of February 2009 is down to around 40 percent.

In June 2008, Oriola-KD Corporation increased its shareholding in the Swedish-based Kronans Droghandel AB (KD) from 85.62 percent to 98.13 percent by acquiring a minority holding in Merck Sharp & Dohme (Sverige) AB. Merck Sharp & Dohme (Sverige) AB held a 12.51 percent minority in Kronans Droghandel. Subsequent to this transac-

tion the minority holding in Kronans Droghandel consists of Organon AB's 1.87 percent holding.

### PHARMACEUTICAL RETAIL AND WHOLESAL IN RUSSIA

Oriola-KD expanded its operations to Russia and on 21 April 2008, it confirmed the acquisition of the Vitim and Moron pharmacy and pharmaceutical wholesale companies, by purchasing a 75 percent share in both. Vitim has a chain of 150 pharmacies in Moscow under the Stary Lekar brand. Moron is a nationwide pharmaceutical wholesaler, though operating primarily in the more heavily populated western part of Russia.

The acquisition is part of Oriola-KD's long-term strategy to invest in Russia's rapidly growing pharmaceutical wholesale and retail markets. Oriola-KD's aim is to invest in long-term in business growth and use its strong expertise in logistics to strengthen the Russian business.

Oriola-KD paid about EUR 65 million in cash for its 75 percent holding. Oriola-KD has also agreed to buy the remaining 25 percent in the companies in 2010. The retail and wholesale businesses acquired in Russia have been consolidated into Oriola-KD's accounts as of 1 April 2008.

The business in Russia is typically seasonal in nature, with performance being strong in the first and fourth quarters of the year. The fourth quarter has long been the strongest by a clear margin, while the second and third quarters have been weaker than the others. Oriola-KD embarked on a programme of efficiency measures in both the retail and wholesale operations as part of the takeover of the businesses in 2008.

Oriola-KD's high solvency and its careful preparation to cope with the weakening of the rouble allowed it to strengthen its market position in the Russian wholesale operations especially towards the end of the year. Improving the efficiency of the companies in Russia will continue in 2009, and the aim is to expand the pharmacy chain at a moderate rate.

### PHARMACEUTICAL WHOLESAL AND RETAIL IN THE BALTIC COUNTRIES

Oriola-KD is engaged in pharmaceutical wholesale in Estonia and Latvia and prewholesale operations for manufacturers in Lithuania. A new prewholesale agreement was made with the pharmaceutical manufacturer Teva in Lithuania, under which Oriola-KD is in charge of the warehousing of Teva's products and their delivery to wholesalers in all three Baltic countries. This activity began in January 2008.

In Latvia, Oriola-KD has its own Pansana pharmacy concept. Pansana's range includes not only medicines but also a comprehensive selection of healthcare consumer products. In Estonia Oriola-KD moved to new premises in Tallinn.

### CONSUMER HEALTH

Consumer health products are marketed in Finland, Estonia, Latvia and Lithuania, and on a smaller scale in Sweden. The segment is responsible for the entire procurement, marketing, sales and delivery process for the consumer market. The products it markets include non-prescription medicines, comprehensive food supplements, special diet products and skin care products. Some of the marketed products are covered by Oriola-KD's exclusive sales rights and the company also owns individual brands.

The distribution channels and customers include pharmacies, healthcare shops, veterinarians, sports stores, convenience stores and healthcare staff. Pharmacies are the principal distribution channel and their importance in product marketing to consumers has grown. In response to the general health trend, pharmacies have increased their range of functional products offered to consumers. Oriola-KD sells consumer products in its own pharmacies in Russia as part of the overall range.

In Finland, Oriola-KD combined the Pharmaceutical Trade and Consumer Health business units into a single organisation in mid-2008 to improve customer focus and augment the efficiency of operations.

Oriola-KD continued to refocus its range in Finland by concentrating its efforts on the most profitable product categories and its own brands, which are Avène, Dexal, Gefilus, Lysi, Nicopass, A-Pharma and Pharmacare. The most important product launch of 2008 in Finland was Nicopass, a nicotine replacement product used to relieve withdrawal symptoms experienced by people trying to quit smoking.

The possible removal of the Swedish pharmacy monopoly may offer Oriola-KD new business opportunities in this product area in 2009.

### IMPROVING THE QUALITY OF PHARMACEUTICAL DISTRIBUTION

Quality is very important to Oriola-KD's business. The company aims to develop new processes and methods to ensure better patient safety throughout the distribution and service chain. The processing and monitoring of temperature-controlled medicines is an example of this. Procedures are developed in cooperation with pharmaceutical companies and supervisory authorities. One of Oriola-KD's principal areas

of development in 2008 was the processing of temperature-controlled products.

Oriola-KD joined Excellence Finland as a key corporate member in order to form networks with companies operating in different fields and to identify new ways to improve quality to support its business in the long term.

Oriola-KD's strengths in this business are its long experience and customer relationships, strong market position and high quality.







# Healthcare Trade

Oriola-KD's Healthcare Trade business segment markets, sells, installs and services healthcare equipment and supplies in Finland, Sweden, Denmark, Estonia, Latvia and Lithuania. Oriola-KD is Finland's leading supplier of healthcare equipment and supplies. In Sweden, Oriola-KD is engaged in marketing and wholesale and healthcare logistics, which comprises logistics services offered to both healthcare product suppliers and customers. Oriola-KD is a major company in the Swedish healthcare market. The company also has a strong position in the Baltic countries and operates on a smaller scale in Denmark.

The main product groups are medical imaging products, medical products for operative specialities and nursing care products for hospitals and primary healthcare, and laboratory products for healthcare, industry and research institutes.

Oriola-KD's success factors in the business include recognition of its name, knowledge of its customers' needs, strong brands, a comprehensive field organisation in sales, regional coverage, the scope and standard of technical service and the cost benefits derived from comprehensive deliveries.

During 2008, Oriola-KD enhanced its sales activities and refocused its operations. Special nursing operations focused more on selected specialised sectors. In primary healthcare, Oriola-KD developed a broad wholesale concept to encompass the products most commonly used in healthcare, and in the course of this process also reinforced its product range with products manufactured under its proprietary Medola brand.

## INVOICING, NET SALES AND PROFITABILITY

Invoicing by the business segment in 2008 came to EUR 200.2 million (EUR 271.2 million), net sales to EUR 155.3 million (EUR 241.5 million) and operating profit to EUR 10.1 million (EUR 14.9 million). The segment accounted for 6.9 percent (10.7 percent) of Oriola-KD's total 2008 invoicing, 9.8 percent (17.5 percent) of net sales and 24.0 percent (46.0 percent) of operating profit. The Healthcare Trade segment employed a total of 388 (446) persons at the end of 2008.

Invoicing of Healthcare Trade in Finland in 2008 was EUR 85.4 million (EUR 86.9 million), in Sweden EUR 102.0 million (EUR 135.5 million) and in the Baltic countries and Denmark a total of EUR 12.8 million (EUR 12.3 million). Net sales in Finland in 2008 were EUR 76.6 million (EUR 81.7 million), in Sweden EUR 65.8 million (EUR 113.4 million) and in the Baltic countries and Denmark a total of EUR 12.7 million (EUR 10.9 million). The sale of the Swedish home distribution business in 2007 reduced both invoicing and net sales.

Oriola-KD agreed to augment its product range with Carl Zeiss Meditec's ophthalmic surgery products from the beginning of 2008. As a part of an international distribution channel reorganisation, two important suppliers, Zimmer and Sysmex, were transferred away from the Healthcare Trade in 2008, and this had a negative impact on net sales and operating profit. The marketing business of Zimmer orthopaedic products was sold in spring 2008 to a sales company established in Finland by Zimmer, and the Sysmex haematology products business was transferred as a part of the international reorganisation to Roche Diagnostics in Finland and the Baltic countries in early 2008. Oriola-KD is actively looking for new representations to reinforce its product offering in selected areas.

## HEALTHCARE LOGISTICS SERVICE IN SWEDEN

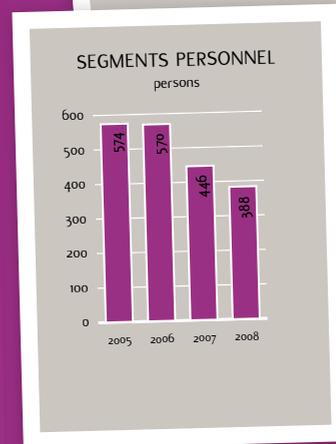
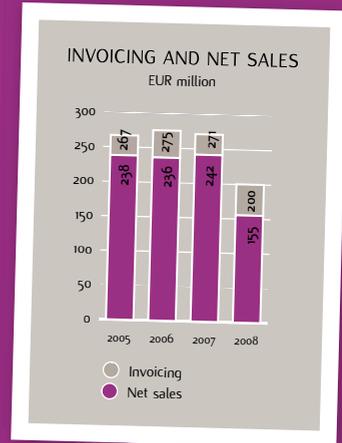
The target in the healthcare logistics services business in Sweden was to improve profitability by focusing on the provision of turnkey logistics solutions that include product procurement and wholesale operations. Oriola-KD improved profitability in 2008 and negotiated on enhancing its role as a healthcare product distributor to municipal customers in Sweden, resulting in a deal confirmed in January 2009, under which the procurement contracts of the healthcare products of 33 municipalities were transferred to Oriola-KD. At the end of 2008, Oriola-KD's market share in municipal healthcare logistics services was about 8 percent. In addition, the company offered outsourced healthcare logistics services to five joint municipal authorities. This agreement was extended to 2011.



**"ORIOLA-KD REINFORCED ITS POSITION AS THE LEADING MAGNETIC IMAGING DEVICES SUPPLIER TOGETHER WITH PHILIPS"**

In 2008, Oriola installed three new 3-Tesla magnetic imaging devices at the leading Finnish private hospitals Pulssi, Dextra and Terveystalo.

In the Philips' annual distributor survey, Oriola received the highest grade, that any partner has ever received. These surveys have been conducted since 2006. At Oriola's 60<sup>th</sup> anniversary celebration Philips handed Oriola a scale model of a lighthouse which, according to Anton Schlenger, Director and Distributor Manager at Philips, represents Oriola's beacon-like role, acting as a guide for the other companies in the sector.



**Wholesale business model to Healthcare Trade**

### MEDOLA BRAND PRODUCTS TO THE MARKET

As a part of Oriola-KD's strategic program to implement the wholesale concept within Healthcare Trade, the company launched the sales of healthcare consumables sold under its proprietary Medola brand in 2008 in Finland. The company's aim is to form a comprehensive product offering of healthcare consumables which it acquires directly from manufacturers mostly in the Asian market. Oriola-KD markets and sells the products in Finland, Sweden, Denmark and the Baltic countries.

### MATERIALS MANAGEMENT OUTSOURCING SERVICES

The strategic healthcare program also involves another business model, namely a materials management outsourcing concept, which is part of the healthcare support services. Oriola-KD's services include both healthcare products and associated services such as category management, end user training and processing and shelving of goods at hospital wards in accordance with work flow. The purpose of the comprehensive solution is to substantially reduce customers' material costs, to free care personnel to concentrate on care work and to solve potential resource issues concerning materials management. Oriola-KD has already been selected to provide such services in a major Swedish public tender process. The aim is to sign the agreement for this during spring 2009.

### DENTAL TRADE

Oriola-KD merged its Dental Trade business with the Swedish company Lifco Dental in year 2007 in Finland, Sweden, Norway and Denmark. In the Baltic countries this merging process was completed on 2 January 2008. Oriola-KD's holding in the merged dental business is 30 percent, while Lifco has a 70 percent holding. The purpose of the merger is to establish the company as a leader in northern Europe. The share of the profit from this associated company will continue to be recognised under the Healthcare Trade business segment. Dental Trade contributed EUR 0.0 million (EUR 36.5 million) to the segment's invoicing, EUR 0.0 million (EUR 35.6 million) to its net sales and EUR 2.1 million (EUR 2.2 million) to the segment's operating profit in 2008.



# Personnel

## CHANGES IN THE NUMBER OF PERSONNEL

Oriola-KD's personnel at the end of 2008 numbered 4,709 (1,302), of whom 74 percent (0 percent) worked in Russia, 14 percent (54 percent) in Finland, 8 percent (28 percent) in Sweden and a combined 4 percent (18 percent) in the Baltic countries and Denmark.

## PERSONNEL DEVELOPMENT AND SATISFACTION

The personnel satisfaction survey conducted in 2008 had a response rate of 79 percent (79 percent) and the general index came to 287 (270). This shows an improvement of about 40 percent since 2005. Personnel satisfaction was evaluated using the HUPPO index (Human Potential Index®), which has been developed to meet the management and development needs of human capital in organisations. The index factors in all the areas related to know-how, capabilities and motivation. The personnel in Russia were not included in the 2008 personnel satisfaction survey. The survey indicated that 91 percent of Oriola-KD's personnel feel that they are doing important and independent work. A total of 93 percent of the personnel said that they liked their work, and 75 percent of those surveyed thought Oriola-KD's change and development projects were steering the company in the right direction.

Personal development reviews are a key tool for management and development at Oriola-KD. The aim is that all employees should discuss personal development matters with their supervisor. The objective of the Group-wide personal development review process is to define job descriptions and goals for all employees in line with the company's strategy, and to specify personal development plans. In 2008, 76 percent of the Group's personnel participated in personal development reviews; this group had a higher job satisfaction rate than those who did not participate in the reviews. According to the 2008 job satisfaction surveys, 85 percent felt they had clear goals and 84 percent thought their job description was appropriate. The lowest satisfaction results in 2008 were related to remuneration, training opportunities, the opportunity to take up new tasks and the flow of information.

Oriola-KD also evaluates supervisory performance using the 360° evaluations introduced in 2006, and during the three years since, a total of 158 evaluations has been made. In 2008, the company adopted a

Oriola-KD's expansion into Russia has increased the number of personnel from 1,300 to 4,700

revised sales bonus system and conducted training for sales personnel. Oriola-KD also focused on training cooperation in language and cultural skills in a bid to improve both internal and external interaction skills.

Oriola-KD aims to further enhance job rotation and development opportunities within the company as well as remuneration systems, and to create a better platform for managing international business projects. Strategic expansion into Russia will increase opportunities for job rotation and personal development to Oriola-KD's personnel.

## REMUNERATION AND BONUS SYSTEMS

Remuneration at Oriola-KD is based on the collective agreements that are in force at the given time. The aim is to offer a level of salary and bonuses for each position that is competitive in relation to the market. Base salaries are based on job requirements and the qualifications, experience and performance of each employee.

Bonus systems at Oriola-KD are based on the financial performance of Oriola-KD and the business segments and on personal targets, as applicable for the country in question. The pilot phase of the bonus systems for warehouses in Finland and Sweden was concluded in January 2008, after which the bonus systems were adopted on a permanent basis. Oriola-KD began charting bonus systems in Russia during 2008.



Monitoring of working conditions was intensified in 2008 in respect of industrial accidents, sickness absences and personnel turnover, with the aim of improving job satisfaction and creating a better working environment. In Estonia, Oriola-KD's business operations were relocated to new modern logistics and office premises in early 2008.

### ORGANISATIONAL CHANGES AND PERSONNEL REDUCTIONS

The marketing business of Zimmer orthopaedic products, represented in Finland by Oriola-KD, was sold in spring 2008 to a sales company established in Finland by Zimmer. The Sysmex haematology products business was transferred to Roche Diagnostics in Finland and the Baltic countries as part of an international transaction in early 2008. As a result of these transactions, about 15 employees were transferred from Oriola-KD during the first half of 2008. The number of personnel in Russia was reduced in 2008 as operations there were adjusted.

In a move to increase the efficiency of operations overall and to improve customer service, the Finnish pharmaceutical wholesale functions in Seinäjoki were discontinued and moved to Espoo and Oulu.

### CORPORATE SOCIAL RESPONSIBILITY AND ENVIRONMENTAL IMPACTS

During 2008, Oriola-KD continued its corporate social responsibility programme that started in 2007 for supporting the WWF's Operation Mermaid. As one of the main cooperating partners of Operation Mermaid, Oriola-KD chooses to focus its donations funding on protection of the Baltic Sea. The company distributed information on the state of the Baltic Sea and measures to protect it to its personnel and to external parties at customer and stakeholder events.

In Finland, Oriola-KD made a commitment to donate a pulse oximeter to five university hospitals in February 2009 as part of a product marketing campaign. Pulse oximeters are used in newborn and paediatric intensive care units to measure the oxygen saturation of a patient's blood.

Oriola-KD's company car policy favours low-emission car models for employees in Finland and Sweden.

Oriola-KD supports sustainable development in all its activities and manages environmental concerns by conforming to an environmental system suited to its operations, with the aim of minimising adverse environmental impacts. The efficiency and economy of distribution are based on a scheduled and optimised route network. Deliveries to established customers are packed in recyclable plastic boxes that can

be reused hundreds of times. Waste prevention, reuse, sorting and recycling are essential principles of waste management. Pharmaceutical and other hazardous waste is sorted and delivered to a hazardous waste treatment plant for disposal using the methods required by medical and environmental authorities.



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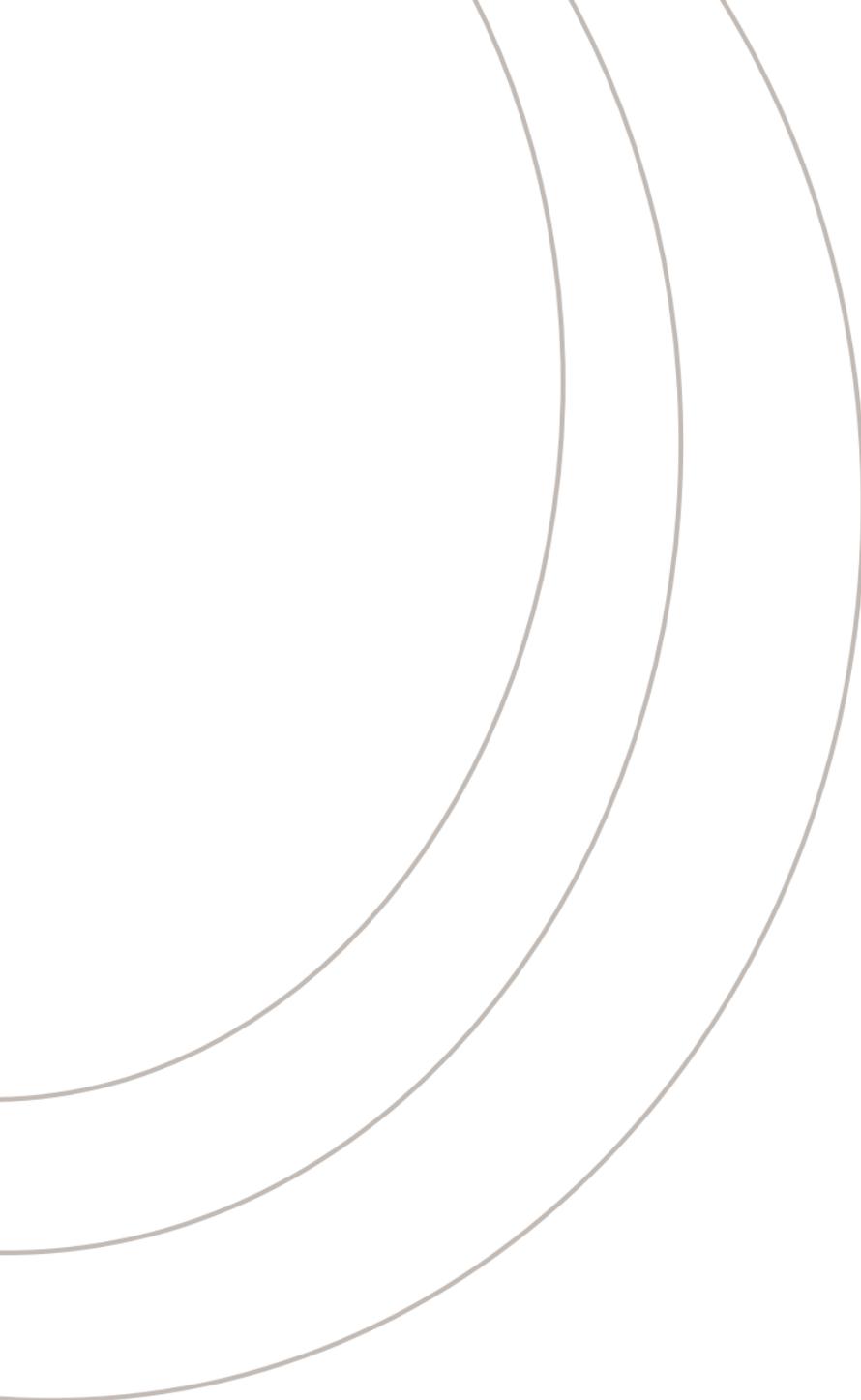
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*PROTECTION OF A WING – Oriola-KD arranged a photo competition for its personnel as a part of the Operation Mermaid program. The winner in the category Artistic was the picture "Protection of a wing", photographed by Arto Itälmela.*



*A DOOR TO A CLEANER BALTIC SEA – The winner in the category Realistic was "A Door to a Cleaner Baltic Sea", photographed by Suvi Leppämäki.*



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