

GALENICA
HOLDING



Contents

Annual Business Report 1999

Editorial	5
<i>Summary</i>	
The Year in Brief	6
The Structure of the Galenica Group in 1999	7
Key Figures	8
The Political Environment of the Pharmaceutical Market 1999	10
<i>Development</i>	
Change and a New Strategic Direction	14
<i>Business Report</i>	
Distribution Division	18
Industrial Division	22
Agencies and Marketing Division	26
Staff and Management	30
Annual General Meeting	31
Proposed Distribution of Profits	31
<i>Prospects for the year 2000</i>	34
The New Structure of the Group	35
Products and Services provided within the Six Business Sectors	36
<i>Companies in the Group</i>	40

Financial Statements 1999

Consolidated Profit and Loss Account for the Group	46
Consolidated Balance Sheet for the Group	47
Consolidated Statement of Fund Flows	48
Notes to the Consolidated Financial Statements	49
Auditors' Report on the Consolidated Financial Statements	55
Profit and Loss Account for Galenica Holding Ltd	56
Balance Sheet for Galenica Holding Ltd	57
Annex to the Financial Statements of Galenica Holding Ltd	58
Notes to the Financial Statements of Galenica Holding Ltd	59
Auditors' Report	60

1999 Annual Business Report
of the Galenica Group and Galenica Holding Ltd
as presented to the Annual General Meeting
of Shareholders held in Berne on 25 May 2000.



Etienne Jornod

Dr. Dorothee Padrutt

For the Galenica Group 1999 was an extremely interesting and eventful year, dominated by change, departures in new directions and success.

Change: In 1999 Galenica successfully completed its conversion, started in the mid-90s, from a supplier of pharmaceutical products for pharmacists to a provider of a broad range of medicines and logistical and other services in the health market.

New departures: At the Extraordinary General Meeting of shareholders held on 16 December 1999 a major step into the future was approved. Galenica will become a more international enterprise. Through a joint venture with the pan-European Alliance UniChem Plc Galenica is planning to enter Europe's major markets in the field of prewholesaling. We intend to expand in this sector, which is already highly productive within Switzerland. Galenica's range of activities will thus be enriched. Thanks to the clear vote of approval of Galenica's shareholders, we shall be going into the retail trade and will be able to take advantage of Alliance UniChem's profes-

sional know-how in the field. Galenica will become a more attractive company. With our new services sector we plan to expand the range of advisory and other services we offer. Thanks to «Galenica Information Systems» we are already leading the Swiss pharmaceutical market with regard to scientific and commercial data-bases.

Success: Through its subsidiary Vifor (International), the Galenica Group has become the world's leading manufacturer of products for treating iron-based anaemia for the first time, gaining a market share of 12.7%. Vifor (International) meanwhile exports its products to 80 countries all around the world. In Switzerland, Vifor and Democal occupy 3rd and 4th positions in the OTC market behind Novartis and Roche. The reorganisation of Galenica Distribution, which was successfully completed in 1998, bore fruit during the year under review. In the prewholesaling sector, Galenica Representations once again achieved a marked growth in turnover.

Today the Galenica Group operates successfully in six different sectors of the pharmaceutical and health market. The Group has thus been reorganised and now comprises the following sectors: Pharma International, Pharma Switzerland, Prewholesale, Distribution, Services and Retail.

The Board of Directors intends that the Galenica Group should further expand while maintaining the company's long tradition. It is therefore one of our strategic aims to allow the company to develop independently from its present position of strength. This does not in any way exclude strong partnerships such as that newly established with Alliance UniChem.

Since 1995 the Galenica Group's profit has enjoyed a double-digit growth rate. The Group owes its success to its customers. Our main aim is to satisfy them through the services and products we provide, and in this respect nothing will change in the future. Our success is also due to the motivation of our staff, and we are continually aware of their pride in their work.

Our shareholders are also an important support, as they showed through their confidence in the Board's proposal at the Extraordinary General Meeting held on 16 December 1999. We shall not let them down.

Etienne Jornod

Chairman and Chief Executive Officer

Dr. Dorothee Padrutt

Vice-Chairman

Turnover

In comparison with the previous year, consolidated net turnover rose by 6.3 % to CHF 1,884.7 million.

Investments

The companies within the Group invested a total of CHF 38.5 million (1998: CHF 18.3 million) in intangible and tangible assets, mainly land and buildings, manufacturing and storage facilities, IT equipment and vehicles.

Consolidated profit

The consolidated profit for 1999, amounted to CHF 41.8 million, representing an increase of 21.8 % over the previous year.

Galenica Holding Ltd

Annual profits amounted to CHF 25.6 million, compared with CHF 25.7 million in 1998.

Dividends

The Board of Directors proposes the payment of a dividend of CHF 5.– per registered A share and CHF 25.– per registered B share. In comparison with the previous year when the dividend was combined with a capital repayment the increase is 13.6 %.

Distribution Division

The consolidated turnover for the Distribution Division amounted to CHF 1,513.4 million, thus increasing by 2.2% over the previous year. Operating results also rose substantially, with a 40 % increase over the figure for 1998. This development is largely due to the completion of the 3-year period of reorganisation (see page 18–19).

Industrial Division

This Division also enjoyed a successful year in 1999. The sales figures of Vifor (International) for the USA were highly satisfactory and the company also succeeded in consolidating its position in the other markets. Once again sales of OTC products rose, at a rate of 4.9 % in a market where the overall rate of growth was only 3.7 % (see page 22–24).

Agencies and Marketing Division

With a 21% growth rate the prewholesale sector once again achieved a marked rise in turnover (see page 26–27).

Shareholders

As per 31 December 1999 the Group's shares were held as follows:

1,000,000 registered A shares

- 63.1 % held by 1,665 pharmacists
- 2.8 % held by professional organisations
- 12.3 % held in 156 estates
- 11.8 % held by partners
- remaining 10.0% held by the Galenica Pension Fund

450,000 quoted registered B shares

- 75.6 % held by 3,143 shareholders, of which 6.4% are held in trust and entail no voting rights
- 24.4 % held by the Swiss Securities Clearing Corporation

On 31 December 1999 there were two major shareholders in Galenica Holding Ltd which held over 5 % of the voting rights:

- Galenica Pension Fund with 100,000 registered A shares plus 20,000 registered B shares (5.5 % of the share capital)
- Alliance UniChem Plc announced on 29 November 1999 that it held over 10% of the voting rights

Other Shareholding

Dolisos (Schweiz) Ltd, 50%

The 1999 turnover of this joint subsidiary of Galenica Holding and Dolisos Paris amounted to CHF 3.9 million. This is an improvement by 6.6 % as compared to 1 July 1997 to 30 June 1998.

The Structure of the Galenica Group in 1999

Distribution Division	Industrial Division	Agencies and Marketing Division	Financing and Real Estate
Galenica Distribution Ltd Schönbühl	Vifor Ltd Fribourg	Galenica Representations Ltd Berne	Sigal Ltd Berne
Galenica Ltd Schönbühl	Vifor (International) Ltd St. Gallen	Panpharma Ltd Berne	Galenica Guarantee Cooperative Berne
SWW Stotzer Wyberg Wyss Ltd Schönbühl	Vifor France Ltd Neuilly-sur-Seine (F)	Adima Ltd Berne	Sigal Drize Ltd Geneva
Amidro Ltd Schönbühl	Laboratoire Golaz Ltd Fribourg	Pharma-concept Ltd Fribourg	Galenica Finance Ltd Jersey (UK)
Medicount Ltd Schönbühl	Democal Ltd Berne		Galenica Deutschland GmbH Frankfurt a/M (D)
Wyss Pharma Ltd Cham	Cophar Ltd Berne		Galenica International Ltd Tortola (British Virgin Islands)
Bipharma SA Morges	Medichemie Group Ettingen		
Pharmacie et Droguerie de St-Laurent SA Lausanne	<ul style="list-style-type: none"> • Medichemie Ltd • Serumwerk Ltd • Phardi Ltd • Medichemie-Bioline Ltd 		
Pharmacie Conod SA Lausanne			

Board of Directors

of Galenica Holding Ltd

(composition until the Annual General Meeting to be held on 25 May 2000)

Galenica Holding Ltd

- Etienne Jornod*, *Chairman and CEO*
- Dr. Dorothee Padrutt*, *Vice-Chairman*
- Jean-Pierre Bonny*
- Dr. Jean-François Bonvin
- Martin Breitenmoser
- Dr. Max Brentano
- Dr. Peter Brunner
- Dr. Paul Fasel
- Jean-Luc Forni
- Françoise Golaz
- Prof. Dr. med. Aloys von Graffenried
- Dr. Emanuel von Hornstein
- Claude Lüthi
- Dr. Franz Merki
- Carl M. Meyer*
- Anne-Lise Monnier*
- Dr. Paul-André Nussbaumer*
- Michel Rey

*Members of the Board Committee

Corporate Executive Committee 1999

- Etienne Jornod, *Chairman*
- René Jenny, *Head of the Distribution Division*
- Dr. Heinrich Unger, *Head of the Industrial and Agencies and Marketing Divisions*
- Fritz Hirsbrunner, *Head of Finance and Corporate Services*

Auditors

ATAG Ernst & Young Ltd, Berne

Key Figures

		1999	1998
Galenica Group	Turnover	in CHF million 1,884.7¹⁾	1,773.6 ¹⁾
	– Distribution Division	1,513.4²⁾	1,481.0 ²⁾
	– Industrial Division	135.5²⁾	106.0 ²⁾
	– Agencies and Marketing Division	420.9²⁾	347.5 ²⁾
	Profit from operations	46.0	33.4
	Profit before extraordinary items and taxes	52.8	39.0
	Extraordinary items	(2.9)	4.2
	Profit for the year	41.8	34.3
	Depreciation	19.6	18.7
	Equity	355.5	382.4
	Return on equity	in % 11.3	9.2
	Equity (% of the total balance)	44.8	50.8
	Capital expenditure	in CHF million 38.5	18.3
	Average number of employees	1,544	1,447
	Galenica Holding	Profit from operations	in CHF million 26.2
Extraordinary items		0.1	3.4
Profit for the year		25.6	25.7
Equity		281.6	270.3
Equity (% of the total balance)		90.4	94.1
Consolidated data according to stocks quoted on the stock exchange (B)	Equity	in CHF 546.9	588.4
	Profit before taxes	81.3	60.0
	Profit for the year	64.4	52.8
	Gross dividend	25.0³⁾	7.0
	Capital repayment	–	15.0
	Pay-out ratio	in % 38.85⁵⁾	41.64 ⁴⁾
	Extreme stock exchange rates	min./max. in CHF 670 / 1,240	605 / 938
	Extreme gross revenue	min./max. in % 2.0 / 3.7⁵⁾	2.4 / 3.6 ⁴⁾

¹⁾ integral consolidation

²⁾ consolidated by Division

³⁾ proposed to the Annual General Meeting of Shareholders by the Board of Directors

⁴⁾ for 1998 in connection with the capital repayment and dividend

⁵⁾ for 1999 in connection with the proposed dividend

The Political Environment of the Pharmaceutical Market in 1999

Turnover in retail prices 1999

Sales channel	Turnover in CHF mio.	Variation in %
Pharmacists	3,020	9.6
Doctors	990	11.9
Hospitals	465	9.4
Druggists	275	3.4
Total	4,750	9.6

Source: IHA.IMS Health GmbH, Hergiswil

Turnover in packages 1999

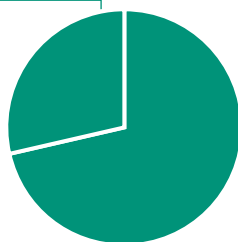
Sales channel	packages in mio.	Variation in %
Pharmacists	113.8	2.2
Doctors	26.2	4.4
Hospitals	21.2	(0.9)
Druggists	23.3	1.7
Total	184.5	2.0

Source: IHA.IMS Health GmbH, Hergiswil

Retail price in CHF mio.

Prescription (3,389 / 71.4 %)

OTC (1,361 / 28.6 %)



Source: IHA.IMS Health GmbH, Hergiswil

At present the political environment of the market for pharmaceutical products is very much dominated by the debate on costs in the health field and the corresponding demands for more competition, by the investigation of the pharmaceutical market launched by the Competition Commission and by the new law on medicines. The principal developments over the year are summarised below.

The cost of the Swiss health system

In June 1999 the Federal Office of Statistics (FOS) published the latest figures concerning the Swiss health system, according to which a total of CHF 38 billion was spent on health in 1997, representing CHF 5,348 per inhabitant. This corresponds to 10.2% of gross domestic product (GDP).

Although a slight slackening off of the rise in the cost of health can be seen, the FOS noted that a growing proportion of this expenditure can once again be attributed to goods and services. The FOS also stated that the measures included in the new health law, which came into force on 1 January 1996 and is aimed at attenuating the rise in the cost of health, have not yet come into full effect.

With further rises in the cost of health, economy measures adopted in relation to government budgeting and the increase in health insurance premiums the political pressure for more competition and cost savings in health will persist.

The Swiss pharmaceutical market

In 1997 the cost of medication amounted to CHF 4.27 billion, representing CHF 601 per head of the population. Medicines constituted 11.2% of the total amount spent on health.

In 1998 total expenditure on pharmaceutical products amounted to CHF 4.33 billion and in 1999 around CHF 4.75 billion. These figures represent the market in pharmaceutical products on the basis of retail prices. Compared with the previous year this entails a rise in value of 9.6% and a rise in volume of 2%, which is mainly accounted for by the launch of new products.

Competition Commission (CC)

On the basis of the law on cartels which came into force in 1996, the CC launched an investigation into Sanphar, and in particular the margins on pharmaceutical products in Switzerland. This investigation, in which the parties involved are playing an active role, should be completed by spring 2000. Regardless of the decision reached by the CC, it is already clear that the private-law market regulations of Sanphar, the Association of the Swiss pharmaceutical branch, will be abandoned. The Board of Sanphar has proposed its dissolution to its General Meeting being held this June.

With regard to products which are reimbursed by the health insurance companies a compensation system under public law will be set up on the basis of the law on health insurance.

New law on medicines

On 1 March 1999 the Federal Council laid before the Swiss parliament a proposal for a new federal law on pharmaceutical and medical products. The aim of this law is to establish a modern and uniform system of federal control of medicines which is also in line with international requirements. The proposal was examined by a special commission set up by the National Council, the Commission for Social Security and Health. The proposal was debated in the National Council in spring 2000.

The main points of the new law on medicines are as follows:

- the creation of a national register of medicines in line with EU practice
- the creation of a Swiss Office for the Control of Medicines

The following aspects are of particular interest to Galenica:

- wholesale licences and the corresponding quality criteria
- regulations concerning parallel imports
- regulations concerning the supply of medicines by mail-order
- regulations concerning different categories of pharmaceutical products
- the ban on discounts and rebates and the corresponding arrangements with the health insurance companies

Extension of the law on health insurance

The main aspects of the law on health insurance which came into force in 1996 are solidarity (introduction of compulsory medical insurance, fixing of uniform premiums) and comprehensive measures to reduce the rise in the cost of health (special forms of insurance, stabilisation of the cost of in-patient treatment, a review of medicines that have been on the special list for more than 15 years). After only three years it is still too early to assess the effects of the new law. As far as concerns solidarity, a positive effect can already be seen according to the Federal Office for Social Security, while there are few signs of any attenuation of the rise in costs.

In autumn 1998 the Federal Council proposed to the Swiss parliament that certain points of the law on health insurance be revised. The first stage of this revision process should provide more transparency and include measures aimed at improving the implementation of the law. Important elements in this respect are the questions of reduced premiums, improved transferability and measures aimed at cutting costs (extending cantonal responsibility with regard to adopting global budgets and allowing pharmacists to substitute a generic product for an original product under certain conditions). This revision is currently being debated in parliament.

The Federal Department of Home Affairs is at present planning a second revision phase which will involve new regulations concerning funding for hospitals. The first consultative process was carried out in spring 1999.

Agreements between the Swiss Pharmacists' Association (SPA) and the Swiss Association of Health Insurance Companies (SAHIC)

At the end of December 1999 the SPA and the SAHIC signed two agreements; a provisional agreement concerning the year 2000 and an agreement concerning the introduction of an alternative compensation model in 2001. The agreements are aimed at achieving the following:

- maintaining the system of direct payment by insurers
- helping to reduce the cost of the health system in that pharmacists will grant a 3% discount on reimbursed list A and list B products from April 2000 on
- devising and launching a performance-based compensation model for pharmacists

New medical tariff structure

On 2 February 2000 the doctors' section of the Swiss Medical Association approved the new «Tarmed» tariff system. According to the new law on health insurance the new tariff system has to be approved by the Federal Council.

Change and a New Strategic Direction

On 1 September 1995 fifty members of the Galenica Group management gathered in Appenberg on the edge of the Bernese Emmental to reflect on the future of Galenica in a rapidly changing economic environment (market economy renewal, the new law on cartels [1 February 1996], the new law on health insurance [1 July 1996], responsibility in the light of the new law on medicines). The New Galenica idea was born and sweeping reorganisational measures were subsequently implemented. This idea has now become reality.

From logistics to a broad range of pharmaceutical activities

During a reorganisational phase which lasted several years Galenica underwent fundamental changes. This process was completed during the year under review. Today, Galenica Holding comprises a broad range of companies which covers a vast spectrum within the Swiss health market. At present the Galenica Group earns almost 70% of its operating income from activities outside the traditional wholesaling field. Thanks to the clear deci-

sions taken by the Extraordinary General Meeting on 16 December 1999, new activities are also being taken up. This means that the Galenica Group will in future be involved in every aspect of the commercial chain in Switzerland, from production to distribution and retailing.

The Extraordinary General Meeting held on 16 December 1999

A new direction for the Galenica Group was adopted by the Extraordinary General Meeting held on 16 December 1999. The Board of Directors proposed changing the statutes in order to create a broader basis for the aims of the Group in the future. The various changes proposed were accepted by between 77% and 95% of the shareholders. The main changes were as follows:

- The aims of Galenica Holding should be defined in broader terms
- Galenica Holding should be allowed to allot participation in Galenica Distribution to strategic partners
- The unique partnership between the Group Alliance UniChem in the retail sector should be made possible
- The A shares and thus the entire share capital should be quoted on the Swiss stock exchange
- Contrary to the generally applicable 5% limit on voting rights, the Board of Directors should be allowed to allot strategic partners a voting shareholding of up to 20%
- The Board of Directors should be limited to a maximum of 12 members

Signature of the strategic agreement with Alliance UniChem

Alliance UniChem is no stranger to the Galenica Group. The Group has been working with Alliance UniChem for several years within the framework of the IPSO (International Pharmaceutical Services Organisation), an association comprising important pharmaceutical wholesalers in Europe. Out of all the European wholesalers, Alliance UniChem is the group which corresponds most closely to the broad range of market activities of the Galenica Group.

- In the prewholesaling sector, a joint venture company has been set up to establish a logistics network throughout Europe. This company aims to reach the no. 1 position in the market as soon as possible
- In the retail sector, Galenica intends to expand its range of products aimed at Swiss pharmacists. Galenica also plans to expand its retail trade in Switzerland through flexible and tailor-made partnership models for interested pharmacists
- In the services sector, Galenica will work with Alliance UniChem throughout Europe to develop and supply an attractive range of services in the health market

The gateway to the market – a public company with a broad shareholding basis

With the changes to the statutes adopted at the General Meeting held on 16 December 1999 the market is now open to a Galenica Group which already enjoys a strong position. The share capital of Galenica Holding consists of 1,000,000 registered A shares (nominal value CHF 10) and 450,000 registered B shares (nominal value CHF 50). The B shares have been traded on the Swiss stock exchange for some time. With a few exceptions, the A shares were reserved exclusively for pharmacists. With a selling price of CHF 120 these shares were clearly undervalued. It was also difficult to trade in the A shares. Young pharmacists did not have the means to invest in shares. The decision to deregulate trading in the A shares was based on the following grounds:

- The rate for the A shares would reflect the economic strength of the Galenica Group and would be governed by the market
- Those holding A shares until now would profit by the adjustment of the rate to the market value
- At the same time holders of B shares would also profit, since some financial analysts claimed that the B shares were also undervalued
- The problem of trading in A shares would be resolved
- The new share distribution would put Galenica in a position to meet the demands of the current economic situation

Decision to close the Biel distribution centre

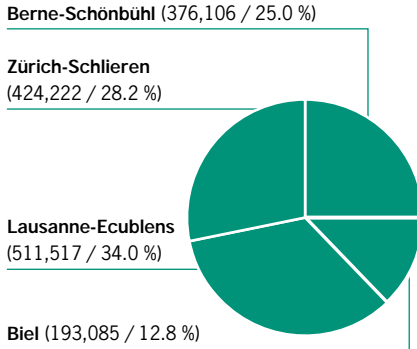
As part of the optimisation measures adopted it was decided in November 1999 to close the Biel distribution centre in September 2000 and to transfer its activities to the centres in Zürich-Schlieren, Berne-Schönbühl, Lausanne-Ecublens.

Acquisition of the Medicemie Group

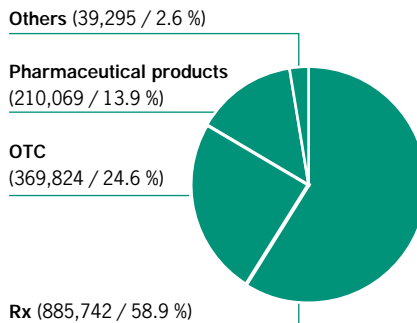
The acquisition of the Medicemie Group, specialised in phytotherapy and gastroenterology products, reinforced Galenica's position in the Swiss market.

The Distribution Division

Turnover by distribution centre in thousand CHF



Turnover by product group in thousand CHF



Turnover and results

After the completion in 1998 of the fundamental reorganisation under the «New Galenica» project, which took several years, 1999 was a highly satisfactory year for the Distribution Division. From both a qualitative and a quantitative point of view all the efforts made are now starting to bear fruit. Consolidated sales for the Distribution Division amounted to CHF 1,513.4 Million in 1999, which corresponds to a rise of 2.2%. The operating result showed a highly satisfactory increase of 40% over the previous year.

Activities

After the completion of the New Galenica project, Galenica Distribution is now a forward-looking logistics company within the Swiss health field prepared to face the coming changes in the market with confidence.

Today we offer all our customers optimal, attractive services at the most competitive prices. The market is covered by three units, dealing with pharmacists, dispensing doctors and druggists.

For the first time identical sales conditions have been drawn up for pharmacists and druggists.

Information meetings were organised during the second half of the year, during which around 500 pharmacists and 200 druggists were informed about the latest developments in the health field. At the same time future developments in our market were discussed in depth.

Consolidation

The complexity of the reorganisation phase, which was completed at the end of 1998, was followed by a consolidation phase during the year under review. This consolidation phase now enables us to gradually achieve our planned cost savings as well as our ambitious quality aims.

An important part of the consolidation phase was to optimise IT procedures. The new standard software has proven to be a worthwhile investment and has been constantly improved and modified to suit the specific character of our market. A major aspect was also to ensure that the whole system would enter the 3rd millennium without any hiccups, a challenge which was dealt with admirably. Management structures were also modified. The more centralised implementation of the reorganisation phase was transformed into a decentralised organisational structure.

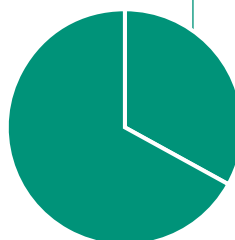
Inauguration of the Doctors' Centre in Cham

Galenica Distribution opened its doctors' centre in Cham in May 1999. This facility has been set up on the basis of the latest information and with the collaboration of leading experts in the field and offers doctors the possibility of obtaining information and advice on how to run a private practice. The permanent exhibition enables them to familiarise themselves with the latest products in

Consolidated Operating Result for the Distribution Division

in million CHF	1999	1998
Depreciation	13.0	13.4
Profit from operations	14.8	10.6
Result as % of turnover	1.0	0.7

Distribution 33 % compared with profit from operations of the Group (34 % in 1998)



medical technology. A customer service offers competent advice and information concerning all aspects of running a successful surgery, including planning and management, ordering and acquisition, the surgery pharmacy, medical technology, IT for doctors, hygiene planning and waste disposal. Regular further training courses are also offered in modern premises.

Decision to close the Biel distribution centre

As part of the optimisation measures adopted it was decided in November 1999 to close the Biel distribution centre in September 2000 and to transfer its activities to the centres in Zürich-Schlieren, Berne-Schönbühl and Lausanne-Ecublens. This will mean that existing resources can be used more effectively and duplication can be reduced. Galenica's customers will be able to take advantage of an optimised range of products and shorter delivery routes.

The closing of the Biel distribution centre means the loss of 240 jobs. The transfer of the Biel centre's activities to the other three centres will create 150 new jobs, however. A comprehensive social plan has been put in place for the staff in Biel affected by the closure.

Information technology

The recent far-reaching developments in the field of information technology have also led to a great variety of new projects in the distribution sector.

It is Galenica's clearly expressed aim to set up a network of suppliers in the health field in order to optimise their synergistic characteristics. For this reason projects involving network-orientated IT were started during the year under review.

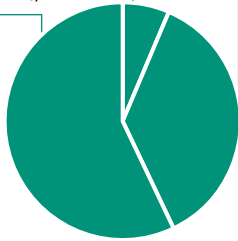
The Industrial Division

Sales for the Industrial Division in million CHF

OTC (Non-prescription medicines) (49.5 / 36.5 %)

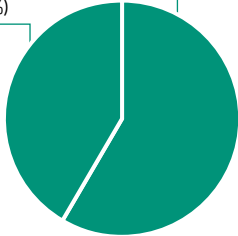
Toll manufacturing (8.7 / 6.4 %)

Prescription
medicines (77.3 / 57.1 %)



Switzerland (64.0 / 47.2 %)

Export (71.5 / 52.8 %)



The Industrial Division is involved in the development, manufacturing and marketing of pharmaceutical products.

The companies within this division focus their activities on OTC products for pharmacists and druggists and prescription products for doctors within Switzerland on the one hand, and the worldwide market for medicines, particularly in the market niche of the treatment of iron-based anaemia, on the other.

In Switzerland, Vifor and Democal occupy 3rd and 4th positions in the OTC market behind Novartis and Roche.

Vifor (International) exports its products to over 80 countries and in 1999 it managed for the first time to take over 1st place in the world market for iron therapy products with a market share of 12.7%.

Vifor manufactures, develops and registers products on behalf of third parties to whom it offers the use of its know-how, laboratories and production facilities.

During the year under review the production unit in Fribourg obtained ISO 9001/EN 46001 certification, thanks to its state-of-the art facilities and wealth of know-how.

In November the Medichemie Group was taken over. This group enjoyed an overall growth rate of 11.7% in 1999, the Bioline and Phardi lines achieving excellent growth in turnover of 41% and 30% respectively. The result for manufacturing under licence was lower than the previous year, however.

Turnover

Consolidated sales for the Industrial Division rose to CHF 135.5 million in 1999. Within Switzerland, sales of OTC products rose at a rate clearly above that of the market 4.9% (compared to 3.7%). Thanks to the integration of the Medichemie Group, booked retrospectively to January 1999, the division's turnover rose by a further CHF 29.5 million in comparison with the previous year, corresponding to an increase of 27.8%.

Vifor (International) Ltd number 1 in the world market of iron therapeutics

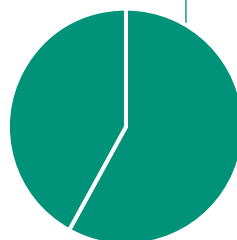
Vifor (International) can once again look back on a highly successful year. It further improved its position in the international market and increased its turnover to CHF 60.5 million. The focus was mainly on drawing up and submitting a variety of registration applications, namely for Venofer® in Europe and North America. By the end of 1999 the following products had been successfully registered:

- Venofer®: India, Uruguay, Croatia, Slovenia, South Korea, Honduras, Vietnam, Panama, Russia, and the EU with a «mutual recognition process» involving the countries where it was not already registered (Austria, Belgium, Denmark, Finland, Greece, Ireland, Italy, Luxemburg, Spain and Sweden)
- Maltofer® syrup: Germany and Vietnam
- Maltofer® Fol pastilles: Syria, Turkey and Vietnam
- Maltofer® tablets: Syria and Turkey
- Maltofer® drops: Vietnam

Consolidated Operating Result for the Industrial Division

in million CHF	1999	1998
Depreciation	5.4	4.3
Profit from operations	26.2	17.9
Result as % of turnover	19.3	16.9

Industry 58 % compared with profit from operations of the Group (56 % in 1998)



Turnover was strengthened and improved in the USA and the company now enjoys a 30% market share in parenteral products, despite the fact that Ferrlecit® was registered in August 1999 as a new rival product.

During the year under review Vifor (International) also succeeded in taking over the leading position in the international market for iron products with a share of 12.7%. This is largely due to the constant expansion of the areas of use and the scientific documentation of our high-quality products. In 1999 seventeen studies were completed.

Thanks to the enormous success of the Vifor (International) products Maltofer® and Venofer® all round the world it has become necessary to extend the production unit and laboratories in St. Gallen. In the middle of the year the Board of Directors accordingly approved the purchase of the premises, which had been rented so far. A project is already underway for renovating and extending the production unit in order to ensure that Vifor (International) can maintain its important position in the worldwide market niche in iron therapy in the future.

Vifor Ltd at 3rd place in the OTC market

Vifor achieved a turnover figure of CHF 35.2 million in 1999. It succeeded in further expanding in the OTC sector, mainly with its leading brand products:

- Triofer® and Triomer®, *antirhinitics*
- Magnesium complexe® and Magnesium vital®
- Algifor®, *analgesic of the new generation*
- Pulmofer®, *sustained release anti-tussive*
- Collypan®/Collyarm®, *eye drops and artificial tears*
- Revalid®, *hair and nail tonic*

The success of these products is due to their excellent quality and extreme effectiveness on the one hand, and to the regular contact between our representatives and our customers on the other, since a pharmacist's staff will recommend Vifor products only if they are familiar with them. Apart from providing an opportunity for discussing scientific matters, our reps' visits are also used to discuss marketing aims.

Vifor also maintains good relations with doctors with regard to its prescription products. Those manufactured in Fribourg are well respected. Our range of products for treating iron-based anaemia – Venofer®, Maltofer® and Ferrum®, manufactured by Vifor (International) Ltd – are much appreciated by doctors who prescribe them.

Our other proven products are:

- Mg 5®, *Insurance reimbursed magnesium*
- Itinerol B6®, *Anti-emetic*
- Mucofor®, *Mucolytic*

The Laboratoire Golaz department markets the commonly used gynaecological products

- Gynefix® *contraceptive IUD* and the hormonal preparations
- Oestrogel®, *Estradiol substitute*
- Utrogestan®, *Fertility and menopause* whose efficacy is well proven and which are much appreciated by patients who use them.

Vifor Ltd production unit for galenic products

In 1999 Vifor gained ISO certification for its modern and versatile production unit. All working procedures conform to international GMP (Good manufacturing practices) norms. Since July 1999 ISO 9001 and EN 46001 quality norms, which cover all fields including acquisitions, logistics and development, have also been applied. The ISO certification inspection was carried out in June 1999 and the premises were approved. This is a new and important step towards total quality management, Vifor's strategic target since the modernisation of the entire production unit in 1996. Since we guarantee jobs in other com-

panies, the fact that we can satisfactorily meet our customers' needs, apart from ensuring high-quality products, is of major importance in the current economic climate.

Thanks to this latest step, Vifor is sure to remain a competitive manufacturer of pharmaceutical products in the future. The comprehensive service offered by the company, which includes manufacture, packaging and analysis as well as development, not forgetting prompt delivery, means that Vifor can be counted on as a reliable partner.

Democal Ltd

Democal achieved a turnover figure of CHF 21.6 million in 1999. The figures cannot be directly compared to those for the previous year, however, since products were redistributed within the Group's companies. On a comparable basis turnover rose by 3.9% in a market with an overall turnover growth rate of 3.7%.

The principal products whose sales led to this increased turnover were:

- Lidazon® and Tyrothricin®, *for treating sore throats*
- Physiologica®, Nasben® and the new Nasmer®, *for colds*

- DemoPectol®, DemoTussol® and Pectocalmine®, *for coughs*
- Kafa®, DemoGripal C® and Seranex®, *aching limbs and fever*
- Pil-Food®, Tonikum D® and the Demovit® line, *tonics*
- Demovarin® and Demoven®, *aching legs*
- Ameu® polymer unsaturated fishoil, *for high blood fat levels*

In addition, Democal successfully launched an important number of new products on the market during the year. Nasmer® was added to the range of products for treating colds, Drosana® infusion was added to the DemoPectol® and DemoTussol® cough mixture range, the line of tonics was extended to include Demovit Junior® effervescent tablets and Piloxil® and with the relaunch of Ameu®. In addition, the new Demostan® spray and Artofen® Gel were launched.

The Medichemie Group

The Medichemie Group (1999 turnover of CHF 25.2 million), which was taken over by the Galenica Group in autumn 1999, has two main strengths. On the one hand it is very successful in promoting scientifically proven phytotherapy products among doctors, and on the other it enjoys a leading position in a specific area of gastroenterology. Both areas represent important market niches in Switzerland.

Among the brand's prescription phytotherapy products used in Switzerland the principal items are Jarsin® for treating mild to medium depression and Symfona N® for the treatment

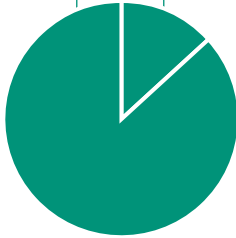
of inadequate cerebral circulation, both belonging to the Medichemie Bioline. In Switzerland, as in Germany, the market for scientifically proven phytotherapy products has expanded enormously over the past two years and development potential for the future is very promising. An important indicator of quality is the fact that, although they are available without prescription, Medichemie's phytotherapy products are among the few items in this field which are included in the special list (SL) kept by the Federal Office of Social Security and are thus reimbursed by health insurance companies.

In the gastroenterology field Medichemie leads the market in products for treating morbus Crohn and colitis ulcerosa, both of which cause inflammation of the digestive tract. The main product used to treat these complaints, and a market leader, is Salofalk®. Medichemie's specific gastroenterology courses aimed at doctors are of great importance.

The Agencies and Marketing Division

Sales in million CHF

Agencies (55.4 / 13.2 %)
Marketing (365.5 / 86.8 %)



The Agencies and Marketing Division is the link between the pharmaceutical industry and its trading partners in the health market in Switzerland.

This division comprises the following companies:

- Galenica Representations Ltd
- Adima Ltd
- Panpharma Ltd
- Pharmaconcept Ltd

Turnover

The division's consolidated sales for the year amounted to CHF 420.9 million (+21.1 %) and are made up as follows:

- CHF 55.4 million from agencies
- CHF 365.5 million from marketing (prewholesale)

Galenica Representations Ltd

Galenica Representations takes over marketing and agency activities, registration of products with the Swiss Inter-Cantonal Office for the Control of Medicines and a broad range of prewholesaling services, i.e. importing, stocking, repackaging, management and marketing for Swiss and other manufacturers of health, hygiene and cosmetic products.

In the year under review prewholesaling logistics increased by 20.8%. This can be accounted for by the acquisition of products

made by ICN Pharmaceuticals and 3M Health Care. Following the success of the division's prewholesaling activities, the Board of Directors approved plans in the middle of the year to build a new prewholesale distribution centre in Burgdorf.

New contracts strengthened the division's leading position in the Swiss prewholesale sector, already established through partnership with Glaxo Wellcome (Switzerland), Smith Kline Beecham, Eli Lilly, UCB-Pharma, Solvay-Pharma and others.

Adima Ltd and Panpharma Ltd

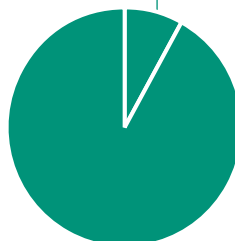
Adima and Panpharma are ideal partners for marketing and selling parapharmaceutical products in the Swiss retail sector. The companies' various teams of specialised sales staff provide advice and further training for pharmacists and druggists in connection with these brands' high-quality products. Thanks to the consistent development of their core business sectors: cosmetics, dressings, diabetes, home diagnostics and food supplements, both companies are leading players in the retail health trade. Mention should also be made of the following products marketed by Panpharma, all of which enjoy a strong position in the market:

- RoC®
- Compeed®
- IVF
- Medisense®
- Becton Dickinson and Hartmann

Consolidated Operating Result for the Agencies and Marketing Division

in million CHF	1999	1998
Depreciation	0.6	0.5
Profit from operations	3.7	3.2
Result as % of turnover	0.9	0.9

Agencies and Marketing 8 % compared with profit from operations of the Group (10 % in 1998)



During the past year Adima took over the well known name Piz Buin® which specialises in products for protection against the sun. This brand is an ideal complement to the highly successful Neutrogena® skin-care and cosmetic line.

Other leading brands marketed by Adima include:

- 3M®
- Biosana®
- Dextro-Energen®
- Rowenta Beauty®

Turnover showed a satisfactory increase and the companies were able to further strengthen their position in the Swiss market thanks to the leading products mentioned above.

Pharmaconcept Ltd

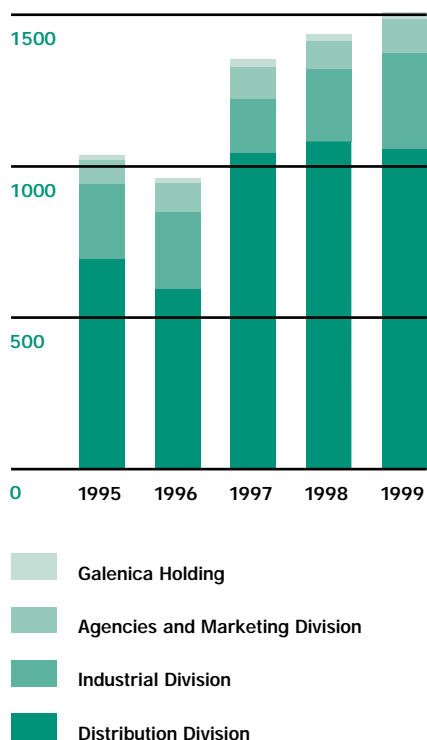
Pharmaconcept is a company which provides advisory and other services for pharmacists. The firm assists and advises independent pharmacists in the various fields of management and positioning.

Emphasis is on the training, marketing and merchandising modules which enable the pharmacist to create his or her own profile but at the same time to use the synergies and other advantages of the partnership. Thanks to a newly structured and broader range of services pharmacists can choose the model which best suits their needs. Pharmaconcept will be transferred and integrated into the retail structure which is at present being set up. The organisation of the company will be adapted to meet the new needs and requirements.

In 1999 Pharmaconcept was asked to take over the organisation and running of «Vitawell», the highly successful trade fair for pharmacists, doctors in private practice and druggists. The dates for the 2000 Vitawell Fair are 9 to 12 September, and it will be held on the BEA site in Berne as usual.

Staff and Management

Staff numbers as of 31 December



Staff numbers

	1999	1998
Total for the Group	1,769	1,693
Adjusted total*	1,525	1,415
Galenica Holding Ltd	23	21
Distribution Division	1,070	1,040
Industrial Division	321	246
Agencies and Marketing Division	111	108

*for part-time employees

Number of Employees

In view of the fact that the Galenica Group has acquired various other companies with different personnel regulations over the past few years, it was obliged to draw up a series of new tools to establish an integral human resources policy. The process of harmonisation progressed well during the year under review.

Performance-based salary system

The performance-based salary system adopted by Galenica involves a higher degree of remuneration based on performance and achievement. The main prerequisites are precise job descriptions and promotion interviews with staff members. Senior employees were given the necessary training during 1999 and job descriptions were systematically drawn up. In future all employees will receive a profit-based bonus. This was paid out for the first time in 1999. Under the terms of the employees' share acquisition plan various employees were able to acquire ten registered A shares in Galenica Holding.

New appointments

The Board of Directors made the following appointments during the year under review:

General management:

- Philippe Weigerstorfer, *Head of General Management Prewholesale and Retail (1 January 2000)*

Senior management:

Galenica Holding

- Mark Ita, *Head of Legal Services and Public Relations for the Group (1 June 1999)*

Division Distribution

- Marcel Bosson, *Head of Operations, Berne-Schönbühl Distribution Centre*
- Walter Federer, *Head of Biel Distribution Centre*
- Rudolf Hafner, *Head of Logistics*
- Thomas Möri, *Head of Product Management for Galenica Information Systems*

Industrial and Agencies and Marketing Divisions

- Hans Bohner, *Head of Product Management at Democal*
- Christian Jäggi, *Head of Strategic Projects and Product Management at the Medichemie Group*
- Morena Mariotti Vuignier, *Manager of the AS 400 system at Vifor*
- Alexander Zwyer, *Head of Marketing and Sales at Vifor (International)*

Annual General Meeting

The 1999 Annual General Meeting of shareholders

The Annual General Meeting of shareholders held on 27 May 1999 approved a 3-year prolongation in office of Etienne Jornod, Chairman and Chief Executive Officer, Dr. Dorothee Padrutt, Vice-Chairman, Françoise Golaz, Martin Breitenmoser, Dr. Paul Fasel and Jean-Luc Forni.

The Annual General Meeting of shareholders on 25 May 2000

The following members of the Board of Directors will resign: Dr. Dorothee Padrutt, Jean-Pierre Bonny*, Dr. Peter Brunner*, Jean-Luc Forni*, Françoise Golaz*, Claude Lüthi*, Dr. Franz Merki* and Michel Rey. We thank them wholeheartedly for their steadfast work in helping bring about the development and success of the Galenica Group and for their helping make possible the «New Galenica». A special debt of gratitude goes to Dr. Dorothee Padrutt, Vice-Chairman of the Board of Directors since 1989 as well as Chairman of Galenica Ltd since 1992 for her untiring and influential contribution to our changes and modernisation.

The Board of Directors proposes that the following members be re-elected for a period of three years: Anne-Lise Monnier, Dr. Jean-François Bonvin, Dr. Max Brentano, Dr. Emanuel von Hornstein.

It also proposes that: Pierre Douaze, Member of the Board of Directors of Ares-Serono, Chiron and Pharming NV and Stefano Pessina, Vice-Chairman of Alliance UniChem Plc.

** These members of the Board have taken on new responsibilities within one of the Boards of our subsidiaries.*

Appropriation of available earnings for the year ending 31 December 1999

as proposed by the Board of Directors

	1999	1998
Profit		
Profit brought forward	1,461,151	1,818,205
Profit for the year	25,596,913	25,692,946
Profit of balance sheet	27,058,064	27,511,151
Allocation to other reserves	(10,000,000)	(21,500,000)
Dividends		
CHF 5.– per registered A share (nominal value CHF 10.–)	(5,000,000)	(1,400,000) ¹⁾
CHF 25.– per registered B share (nominal value CHF 50.–)	(11,250,000)	(3,150,000) ¹⁾
Profit to be carried forward	808,064	1,461,151

¹⁾ As in the previous year, the Board of Directors proposes combining the dividends with a capital repayment through the reduction of the nominal value of the shares (CHF 3.– per registered A share and CHF 15.– per registered B share).