

# 2010

Annual Report



## On a Good Course

## Focussed on a Goal

Making good progress towards being an international specialty pharmaceutical company. Successful in 95 countries all over the world. With a clear profile in the therapeutic areas of oncology, dermatology, antiinfectives and comprehensive oral surgery technologies.

RIEMSER Arzneimittel AG consistently pursues a focussed growth strategy in order to guarantee the long-term success of the company in an increasingly demanding market environment. A pragmatic and flexible mid-sized business culture, efficient processes and standards as well as strategic acquisitions, organic growth and geographic expansion allow us to achieve sustainably high growth rates.

So we are working continuously on being able to carry our success story on in challenging markets. Ready to consistently continue the course of further development.

## On a Good Course

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## Defining objectives

The international markets are our benchmark, attractive niches our preferred goals. We work actively on providing solutions which our customers need and which at the same time benefit our company. The way to achieve this objective is defined by a strategic, revenue-oriented portfolio management. In this way we reduce the portfolio's complexity where this complexity leads to restrictions. And we develop further in those areas which promise a maximum benefit to all stakeholders.



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## **Product portfolio after optimisation**

*From 576 products early in 2010 the portfolio was reduced by more than 100 products following a comprehensive analysis and evaluation within the framework of our strategic revenue-oriented portfolio management.*



## Planning the course

In order to achieve demanding sales targets we use growth opportunities on attractive target markets at home and abroad. An intensive strategic analysis of the international growth markets supports our regional diversification. It shows where the most attractive markets are and where market potentials can be exploited in an optimum way. For instance also by using acquisitions and in-licensing.



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## Particularly relevant growth markets worldwide

*Any involvement in foreign markets is preceded by the analysis of specific countries and/or markets on the basis of defined criteria. Evaluation criteria include the attractiveness of the regional pharmaceutical market, the regulatory and patent situation on site as well as further local specific characteristics. Thus we identify growth markets which specifically comply with the strategic orientation of the company and which will be in the focus of our activities in the future.*



## Sense of community

Sustainable success requires that all pursue the same aim. That the responsibilities are clear. That everyone brings his own strengths in into the common cause. Using the principle of Management by Objectives RIEMSER relies on a personnel management system facilitating the increasing involvement of the staff in the company and in its aims, and their participation in the company's success. The result: An open cooperation, raising climate and motivation to a new level.



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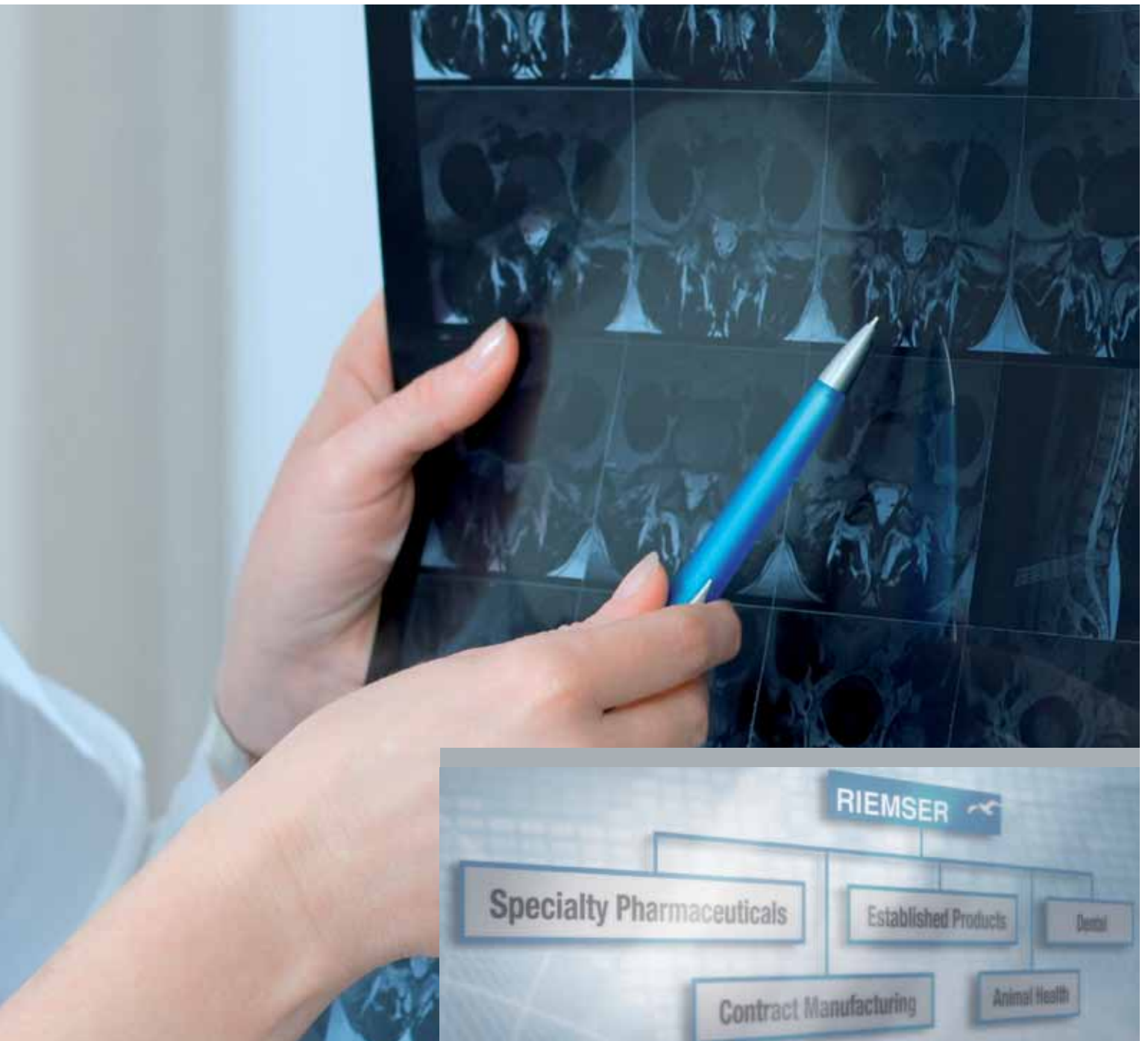
## Number of concluded target agreements

*In 2010 target agreements within the Management by Objectives framework were initially concluded for the whole management, consisting of the heads of departments, product and area managers, as well as with selected employees from the Regulatory and Medicine & Science departments. Based on the experience made target agreements will be signed with all employees from 2011.*



## Providing orientation

Clear responsibilities and transparent rules of cooperation facilitate solution-oriented actions. For this purpose the strategy-oriented organisation of RIEMSER concentrates the pharmaceutical business into well-defined business units: Specialty Pharmaceuticals as a growth driver and Established Products as a solid revenue platform. They are complemented by the Dental business as another important pillar. This demarcation defines who will act when and with whom the responsibility lies. For the benefit of an improved active management of the product portfolio and maximised profitability.



# 5

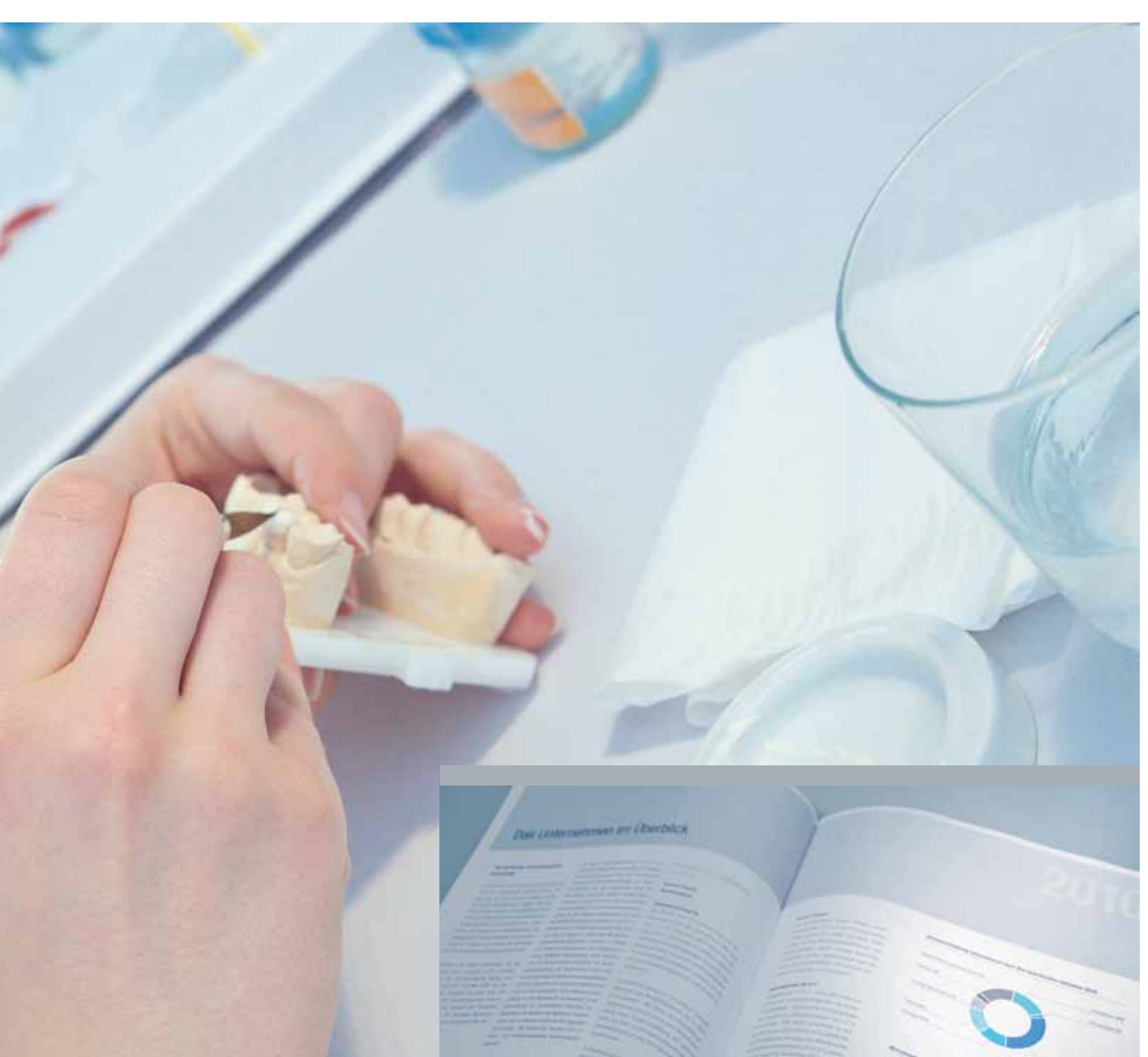
## Number of future business units

*With the sub-division into business units and therapeutic areas the matrix structure of RIEMSER reflects the market realities. Defined responsibilities and clear strategies help to efficiently manage and optimize the business.*



## Efficient use of resources

Achieving the maximum possible with the available resources. RIEMSER pursues this demand at many levels. The financial resources are also part of it. Optimisations within the financial sector, strengthening controlling and simplifying administrative procedures, will ensure the still more efficient use of resources in the future.



## **Increase in efficiency results in cost reduction**

*Many small improvements add up to significant amounts. In 2010 we managed to complete a whole bundle of individual measures for optimising procedures and reducing costs in finance, controlling, accounting, IT and other areas. A number of further measures are currently in process.*

# Letter to the shareholders



**Dr. Michael Mehler**  
chairman of the Executive Board

For RIEMSER Arzneimittel AG the year of 2010 marked an important step in its development to become a successful internationally active specialty pharmaceutical company. In addition to the operative performance designed to achieve further growth a number of development projects under the title of RIEMSER – The Next Decade were initiated and largely completed. These projects covered all essential company areas ranging from personnel management via strategy development, organisational structure and interdisciplinary cooperation to production optimisation and quality management. The related optimisations and adjustments to the market requirements will guarantee RIEMSER a sustainable competitiveness in an environment, which is increasingly competitive and more and more strictly regulated on all markets.

For us, consequently, the year of 2010 was characterised by four large topics: growth, portfolio optimisation, further development of the company, and handling of the unprecedented legal restrictions imposed within the framework of the German Statutory Health Insurance Fund Change Act as well as the German Medicines Market Restructuring Act (AMNOG).

## **Growth**

Also in 2010 RIEMSER was able to continue its growth strategy in spite of considerable legal interventions in the second half of the year. The Group's turnover increased to €115.1 million, a growth of 12.3 % compared with the previous year. Our EBITDA result rose to €27.1 million. The sale of the majority of our animal health business performed within the further strategic focussing at the end of the year as well as product divestments within the framework of portfolio optimisation clearly contributed to this result. In the Oncology area the products of Aloxi® with a turnover of 6.1 million and Tepadina®, formerly Thiotepa®, which was launched in Germany in May and which experiences a remarkable revival after registration as an 'orphan drug' for a special indication, are essential drivers of our organic growth. We share the future world-wide marketing of Tepadina® with our Italian partner and holder of the marketing authorization, Adienne Pharma & Biotech. In the Antiinfectives area we recorded a new record turnover of €6.6 million (+32.5 %) for Vancomycin Enterocaps®, and also the tuberculosis range grew to reach €11.9 million (+26.1 %) based on the portfolio acquired from Grünenthal GmbH and a marked expansion of international sales. All in all we increased our turnover of the antiinfectives range to reach €20.8 million (+34.7 %).

Underlining the development to become a specialty pharmaceutical company we already achieved 52.0 % of the overall turnover as well as 71.0 % of the revenue in the strategically important therapeutic areas of oncology, anti-infectives and dermatology as well as in the dental business in the past year.

Internationally we increased our turnover to €36.9 million, which is equivalent to a growth by 11.1 % compared with the previous year. Both the cardio-vascular range of products and in particular the anti-infectives area contributed essentially to this growth.

The life cycle management activities also had a considerable share in our growth. We strengthened the profile of our products on the market by 17 clinical studies as well as scientific cooperation, e. g. in the form of advisory boards in the areas of oncology and dermatology. A total of 13 newly submitted applications for marketing authorisation in 8 countries and 15 registrations received in 12 countries particularly contributed to our further internationalisation.

#### **Portfolio optimisation**

At the beginning of the year we strengthened our position on the tuberculosis market by acquiring the antibiotics range of products from Grünenthal GmbH, in particular their rifampicin products. This made us the unchallenged market leader in Germany in this segment.

Based on a detailed analysis of our existing product portfolio with a view to its strategic orientation, growth opportunities and profitability, we decided to sell a number of antibiotics and other products in the course of the year, which resulted in an adjustment and optimisation of the portfolio by about 100 products. The proceeds of these divestments significantly contributed to the annual result and the internal resources unblocked by this adjustment can be used more effectively for our growth areas in the future.

Also within the framework of the strategic sharpening of our profile as a specialty pharmaceutical company we decided to sell the majority of our existing animal health business to the Belgian company Ecuphar N.V. at the end of the year. However, in particular the swine fever vaccines, one of the roots of the RIEMSER business, and the research and development projects of this segment have remained with RIEMSER Arzneimittel AG.

Within the course of the year we defined the orientation and the goal criteria for our acquisition activities, which will help us to more systematically and efficiently evaluate the market for attractive acquisition objects in order to secure our long-term growth objectives beyond organic growth.

#### **Further development of the company**

In order to sustainably promote and secure our development towards a successful international specialty pharmaceutical company, a

number of specific projects were implemented under the title of RIEMSER – The Next Decade involving almost all company areas in 2010.

For promoting personnel development and a stronger identification with the company goals the Management by Objectives principle was introduced. Initially implemented for the complete RIEMSER management, annual individual talks on the definition of targets and their achievement are held in connection with a transparent bonus scheme, which in addition to the personal identification with the company goals also offers a complementary incentive to contribute to and share in the success of the company. This concept will be expanded to cover all RIEMSER employees at all sites in 2011.

For our essential growth areas of oncology, anti-infectives, dermatology and dental specific strategies were developed and implemented in cross-functional teams both for the national and international markets. The portfolio analysis coordinated by the Business Development department which evaluated our range of products for compliance with our strategic orientation, on the one hand, and for its current and future profitability, on the other hand, also has to be seen in this connection. About 100 products were identified which subsequently were partly sold or discontinued. With external help we conducted a detailed analysis of the

# Letter to the shareholders

international markets with the aim of identifying high-potential markets in line with our strategically important growth areas as well as of investigating opportunities for further strengthening our portfolio.

The optimisation of our organisational structure, in particular of the business units, was the aim of another project in order to secure the successful implementation of our strategy, shorten decision-making processes and make them transparent, promote cross-functional cooperation and strengthen the interlocking of national and international activities and to empower the product-responsible teams. As a result we implemented a new business unit structure in the course of the year. The therapeutic areas of Oncology, Antiinfectives and Dermatology were combined in the Specialty Pharmaceuticals business unit, while the Established Products business unit covers the areas of Medical Devices and those pharmaceutical products, whose stable performance and profitability we will continue to rely on also in the years to come. The Dental area continues to form its own business unit, since here special market dynamics apply, so that the expertise is bundled in a special business unit. All measures for the management of our products are coordinated in appropriate therapeutic area teams representing all required company functions.

In another essential project we evaluated the capacities, utilization and profitability of our manufacturing sites with the aim of securing our competitiveness also in the areas of manufacturing and product procurement in the long term. Within the framework of the implementation of the project results, we had to decide on a personnel reduction, mainly at our Leipzig site. The required measures were implemented within the framework of a social compensation plan in agreement with the Works Council largely at the end of 2010. The future savings made possible through this measure increase the efficiency of production thus acting to secure the economic future of the site and our competitiveness.

Quality assurance is an essential and critical function in a pharmaceutical company. In a further development project we harmonised the quality management processes at RIEMSER Arzneimittel AG at the different sites and introduced a central management of this function. This will ensure that also in future RIEMSER Arzneimittel AG will be able to fully meet the increasing requirements in quality management.

## **Legal framework**

The year of 2010 was characterised by massive and in this form unprecedented additional legally imposed impairments of our business.

In August 2010 the Statutory Health Insurance Fund Change Act entered into force in Germany,

by which the government, as essential measures, increased the manufacturer's rebate for medicinal products without reference price from 6.0 % to 16.0 %, on the one hand, and proclaimed a price moratorium for a period of 3 years on the price level of August 2009, on the other hand. Both measures considerably affect RIEMSER Arzneimittel AG – as almost all other pharmaceutical companies in Germany – as a medium-sized company.

The German Medicines Market Restructuring Act (AMNOG), which was prepared in 2010 and entered into force on 01 January 2011, will considerably change the German pharmaceutical market, on the one hand by forced price negotiations with the health insurance funds for new medicinal products and, on the other hand, by the obligation to present cost-benefit evaluations, initially for new, but on request also for already established medicines.

These changes will demand from us an even more cost-efficient management, the professional preparation for future new product launches on the German market and the further consistent implementation of our strategy of internationalisation thus reducing our dependence from the development in a single market.

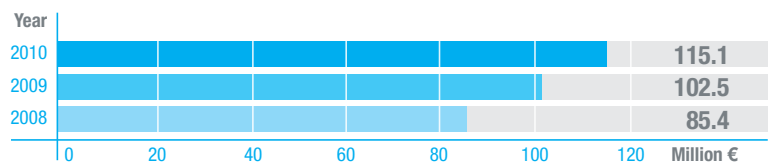
## Prospects

RIEMSER Arzneimittel AG is making good progress to become a leading international specialty pharmaceutical company. With the measures implemented and completed in the past year we have established an excellent basis in all areas for a sustainably successful operation on the market in line with our defined growth strategy. Our differentiation in Specialty Pharmaceuticals, Established Products and Dental allows us to allocate our resources and expertise in an optimum way. Our excellent networks and partnerships, national and international, support both organic growth and the identification of further attractive acquisition opportunities. Appropriate corporate action will provide us with the flexibility to consistently pursue our growth objectives. Thus we will further increase the company value and the attractiveness of RIEMSER Arzneimittel AG both for our employees and business partners and for our shareholders.

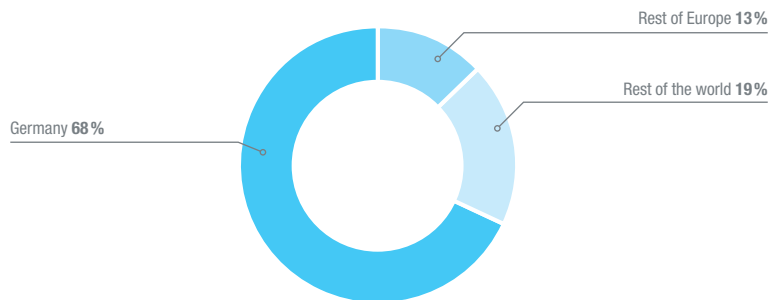


Dr. Michael Mehler  
Chief Executive Officer

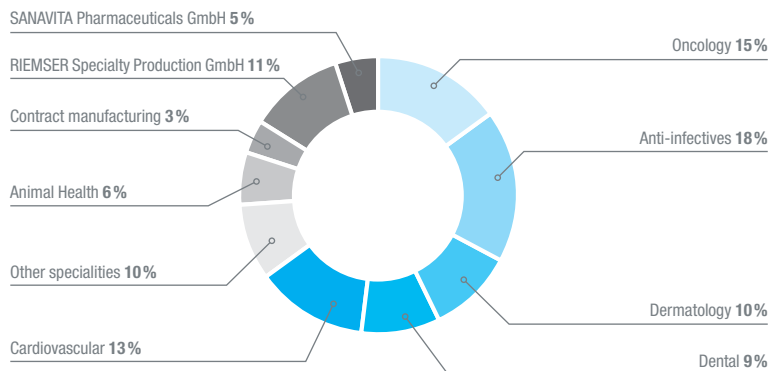
## Gross sales development during 2008–2010



## Geographic distribution of turnover in 2010



## Distribution of turnover by therapeutic areas in 2010



Executive Board  
CEO | CFO

Business Development  
Central Marketing Services

Controlling/Accounting  
Information Technology  
Human Resources/Legal/General Administration

## Optimising the organisation

*Successful organisations evolve with dynamic markets. Systematically by means of a consistent, sustainable strategy. Flexibly by means of structures accelerating international growth in selected therapeutic areas of application and in innovative niches. Sustainably by means of a long-term life cycle management maximising product cycles and exploiting synergies.*

Business Unit  
Dental

Business Unit  
Animal Health

Contract Manufacturing

Contract Manufacturing

TA Oncology  
TA Anti-infectives  
TA Dermatology

Medical Devices

International Business Organisation

Regulatory Affairs/CMC

Medical Science & Operations

Manufacturing/Materials Management

Quality

# Report of the supervisory board

In the expired fiscal year of 2010 we regularly monitored the administration of business by the Executive Board and supported the strategic advancement of the company as well as essential individual measures by providing appropriate advice. We were involved in all important company decisions in a timely manner.

In the year under review, 2010, the Supervisory Board held seven meetings (of which five in person). All members of the Supervisory Board were present in five meetings. Where particularly pressing matters were involved, we also took decisions outside of these meetings. Additionally the President of the Supervisory Board (who is also the Chairman of the Staff Committee) and the Chairpersons of the Finance and Audit Committee and of the Transactions Committee were in regular contact with the Executive Board.

## **Top priorities discussed at the plenary meetings**

At the meetings of the Supervisory Board and in additional reports the Executive Board informed us on all the relevant aspects of the company's planning, including financial, investment and personnel planning, on the economic situation of the company (including risk situation and risk management) and also on decisions and business transactions which were important for the company. Furthermore, the meeting agendas also included numerous individual topics, which we discussed with the Executive Board. We never had any doubts regarding the lawfulness and regularity of the administration of business.

Important topics at the meeting held on 22/23 April 2010 to discuss the balance sheet were the annual financial statement of RIEMSER Arzneimittel AG as certified by Deloitte, and the certified consolidated financial statement with the corresponding management reports as at 31 December 2009 and the Executive Board's proposal for the appropriation of earnings. The discussions were based on the preliminary audits and deliberations of the Audit Committee. Both the Executive Board and Deloitte answered all questions comprehensively. After giving careful consideration to the financial situation and the shareholders' expectations we approved of the Executive Board's proposal for the appropriation of earnings.

There was also a debate on the proposals for resolutions to be presented at the shareholders' meeting. Based on the preliminary deliberations of the Audit Committee we decided, in absence of the Deloitte representatives, to propose to the shareholders' meeting that PricewaterhouseCoopers AG (PwC), Olof-Palme-Str. 35, 60439 Frankfurt am Main, Germany, be appointed as the auditor for the 2010 annual financial statement and consolidated financial statement. We also adopted the remaining proposals for the resolutions to be presented at the shareholders' meeting.

## **Reports from the committees**

For fulfilling its tasks efficiently the Supervisory Board set up three standing committees to prepare specific topics for the plenary meetings. Their chairpersons reported on the work done in their respective committees at the meetings of the Supervisory Board. This extensive exchange of information ensured a smooth cooperation.

Work accomplished by the Committees in the year under review:

In 2010 the Finance and Audit Committee held 9 meetings, three of which were telephone conferences. In April 2010 the Committee examined the annual financial statements for the 2009 fiscal year and consequently recommended to the Supervisory Board that the prepared financial statements be approved.

# Report of the supervisory board

In further meetings the Audit Committee discussed the quarterly financial statements and the progress of business with the Executive Board, and regularly had the Executive Board inform the Audit Committee on their assessment of the business situation.

In the course of the further expansion of the company in the 2010 fiscal year the Audit Committee was also involved in the financing of individual acquisition projects as well as in the planning of financial resources.

One priority topic of the Committee's work in 2010 consisted in assisting the Executive Board in reviewing various planning and reporting systems. Moreover the Audit Committee supported the Executive Board in the conclusion of a sales and lease-back project, the further improvement of the capital structure, the preparation of additional expansion financing and of the 2011–2013 3-year-plan, in particular the 2011 budget plan.

The Transactions Committee held four meetings in the course of the year, two of which were telephone conferences, and dealt

with numerous acquisition projects (share deals and asset deals) that were offered to RIEMSER Arzneimittel AG or actively pursued by the Executive Board. Those meetings also discussed the progress made with the integration of acquired businesses, in particular of the Rifampicin® portfolio acquired from Grünenthal GmbH at the beginning of the year.

In the fourth quarter the framework for the strategic sale of the majority of the animal health business was discussed and decided on.

The Staff Committee held five meetings, one of which was a telephone conference, and concentrated mainly on the concept for implementing a performance management system in the whole RIEMSER Group, on target agreements for the executive managers, on organisational development and on the related succession planning for executive managers, as well as on the salary and wage development in the group of companies. One main focus was on the careful search for a successor for Dr. Gordon Guth, who retired on 31 December 2010 as Chief Financial Officer (CFO).

## **Discussion and audit of the annual financial statement and the consolidated financial statement for 2010**

PwC performed the audit of the annual financial statement for 2010, which was prepared in line with the principles of the German Commercial Code (HGB), and of the management report of RIEMSER Arzneimittel AG, and granted its unqualified auditor's certificate.

The annual financial statement and the Executive Board's proposal for the appropriation of earnings as well as the auditor's reports were made available in good time to the Supervisory Board. They were discussed in the Finance and Audit Committee in the presence of the annual auditor.

The annual auditor reported on essential auditing results taking the focal points defined by the Supervisory Board (Audit Committee) into consideration. These focal points included the audit of the subsidiary companies, of the internal performance allocation between RIEMSER Inc. and RIEMSER Arzneimittel AG, of the documentation on the evaluation of the finished products as at the record date and of the implementation of the new German BilMoG accounting rules. The annual auditor was also available for questions and further information. Thereupon the

annual financial and the annual consolidated statements as well as the resolutions proposed by the Finance and Audit Committee were examined in detail by the Supervisory Board in the balance sheet discussion meeting held on 27 May 2011.

After detailed examination of the 2010 annual financial statement of RIEMSER Arzneimittel AG, including the management report and the consolidated financial statement with the Group management report, the Supervisory Board came to the final conclusion that there were no objections to be raised. In agreement with the recommendation passed by the Audit Committee we thus agreed with the auditor's results, approved of the financial statements prepared by the Executive Board in our balance sheet discussion meeting and informed the Executive Board accordingly. The annual financial statement for 2010 of RIEMSER Arzneimittel AG has thus been approved.

In its regular and intensive discussions with the Executive Board the Supervisory Board paid attention to the further systematic expansion of the RIEMSER Group as a flexible and innovative company – in spite of drastic state measures

taken in the health sectors of several countries. Against this background we seized attractive growth opportunities but also supported personnel adjustments, which were performed by the Executive Board in a balanced way and as socially responsible as possible.

We would like to thank the Executive Board and all members of the staff for their personal involvement, performance and commitment to the company which has further grown in 2010 in a challenging market environment.



Dr. Christoph Schröder  
President of the Supervisory Board

# Management

## Supervisory Board

Dr. Christoph Schröder (President), businessman, Berlin, TVM Capital  
Norbert Braun (Deputy), MBA, Greifswald, founder of RIEMSER Arzneimittel AG  
Hubert Esperon, GE Capital Equity, Managing Director EMEA  
Mathias Hlubek, Kronberg, former CFO of Deutsche Börse  
Jürgen Christian Baumann, Monheim, former member of the board of management at Schwarz Pharma  
Dr. Burkhard Blank, M.D., Cambridge (Massachusetts), USA, former SVP for Medicine and DRA at Boehringer Ingelheim Pharmaceuticals Inc. and Altus Pharmaceuticals

## Executive Board

Dr. Michael Mehler (CEO)  
Dr. Gordon Guth (CFO), retired from the company as at 31 December 2010  
Beatrice von Buchwaldt (CFO), from 04/2011

## RIEMSER Management Team

Thomas Merrifield (from 03/2011, Head of Specialty Pharmaceuticals BU)  
Dr. René Glas-Albrecht (Head of Established Products BU/Central Marketing Services)  
Dr. Michael Leible (Head of Dental BU)  
Edeltraud Lafer (Head of International Business)  
Dr. Herbert Göpfert (Head of Oncology therapeutic area)  
Dr. Berno Müller (Head of Medicine & Science)  
Dr. Andreas Püttner (Head of Regulatory Affairs)  
Helmut Pick (Head of Materials Management)  
Michael Pister (Head of Business Development & Licensing)  
Dr. Peter Binasch (General Representative)  
Dr. Martin Erhardt (Head of the Leipzig and Gengenbach operating sites)  
Dr. Alexander Classen (Managing Director of RIEMSER Specialty Production GmbH, Laupheim)

# Overview of the company

## RIEMSER Arzneimittel AG

RIEMSER Arzneimittel AG is a specialised, internationally active pharmaceutical company focussing on fast-growing niches in selected high-demand therapeutic areas.

The range of products is diversified and covers business areas for human and veterinary medicinal products. For human preparations our core competence is in the fields of oncology, dermatology, antiinfectives as well as dental preparations; for veterinary preparations in the field of animal vaccines.

These preparations are sold in 95 countries all over the world. The company has about 600 employees at several locations, including the USA.

## International niche and re-launch strategy

RIEMSER Arzneimittel AG aims at an organic growth by geographic expansion implemented with regionally specific marketing concepts.

The focus is on regions with good growth forecasts. These include:

1. Europe
2. CIS
3. Asia
4. Central and South America.

The entry into selected additional European markets is another growth factor.

## General developments

### RIEMSER – The Next Decade

In 2010 several projects were initiated and already largely implemented in order to expand the growth path and to make RIEMSER Arzneimittel AG fit for the future.

These included the expansion of a focussed portfolio strategy, the adjustment of the organisational structure to the market requirements, the implementation of the Management by Objectives instrument, and further measures.

### Strategic portfolio management

With the decision in favour of a strategic, revenue-oriented portfolio management the go-ahead for its implementation was given in 2010, too. The aim is to reduce the portfolio's complexity in line with the requirements of the company strategy in order to improve profitability and handling.

As a first step an inventory of the existing product portfolio with more than 1.100 items was taken. Evaluation criteria included turnover, cost of production, profit contribution, expense for approval/CMC as well as medicine & science, strategy compliance and growth potential. This inventory was complemented by an analysis of regional growth markets according to different criteria. A regular portfolio evaluation ensures the institutionalisation of this process.

The analysis resulted in a list of products which had a disproportionately low contribution to the overall turnover. Consequently, RIEMSER Arzneimittel AG adjusted the portfolio by removing more than 100 products (equivalent to 18.0 % of all registrations). The remaining portfolio provides an improved profitability and a reduced complexity in the company. A selling process was initiated and already completed for those products or segments identified as not strategy-compliant.

# Overview of the company



## **Identification and evaluation of target markets**

In 2010 a comprehensive systematic analysis of regional growth markets was made within the framework of the strategic portfolio management. The assessed criteria included the attractiveness of a country and/or pharmaceutical market in terms of the strategic therapeutic areas of application of RIEMSER Arzneimittel AG, of a market-risk evaluation, the regulatory and patent situation, sales situation and local characteristics.

On this basis it has been possible to identify the most attractive target markets within the existing RIEMSER territory. Moreover, strategies have been developed on how to exploit the market potential in the respective countries in the most optimum way.

## **Partnerships continue to be growth drivers**

Strong on-site partnerships contribute decisively to international success. For this reason existing partnerships will be continuously expanded and additional regional and transregional long-term marketing and sales alliances established.

## **Optimized management structure with new matrix organization**

In 2010 the organisational structure was adapted in order to better align the organisation with strategic and operative objectives as well as for better orientation towards the needs of the markets. Further internationalisation, concentration on selected therapeutic areas and on innovative niches, the development of synergies, the consistent implementation of a life cycle management system and of our growth strategy were in the focus of attention. In addition, communication and decision processes shall be improved.

## **Business units as organisational units**

The new business-unit based structure concentrates the pharmaceutical business into two main areas: Specialty Pharmaceuticals as a growth driver and Established Products as a solid revenue platform. The Dental business will be another pillar in a dynamic, future-proof specialized market. Animal Health and Contract Manufacture complement the portfolio.

The business units are tightly interconnected with all business-critical departments (Inter-

national Business Organisation, Regulatory/CMC, Medicine & Science, Production/Materials Management and Quality) as well as with further staff departments supporting the operative business.

## **VISTA project**

In 2010, within the framework of the VISTA project, in a first step an analysis of five manufacturing sites of RIEMSER Arzneimittel AG was conducted with the aim of greatest cost transparency as well as of identifying cost reduction potentials, for ensuring the company's commercial competitiveness. These included the German locations in Gengenbach, Leipzig, Riems, Schiffweiler as well as RIEMSER Specialty Production GmbH in Laupheim.

This analysis identified opportunities for an optimisation of the degree of capacity utilisation as well as for cost reductions which will help to further improve results in the years to come.

Within the framework of the required measures also personnel overcapacities had to be removed in line with a comprehensive social compensation plan in agreement with the Works Council.

## **Management by objectives**

With the introduction of the Management by Objectives personnel management instrument the employees assume more responsibility for achieving the targets and thus for implementing the company strategy.

The system will be launched in 2 steps: Already in 2010 target agreements were concluded with the whole management, consisting of the heads of departments, product and area managers, as well as with selected employees from the Regulatory and Medicine & Science departments. In 2011 all employees will be involved in the programme.

This instrument will be linked with a transparent bonus scheme for promoting performance and motivation. This does not only allow the involvement of the executive management but gives every employee the chance of achieving a bonus depending on his/her performance. For the future it is planned to link the target agreement scheme stronger with personnel development measures.

# Overview of the company

## Medical Science and Operations

The Medical Science and Operations department aims at aligning research and scientific support with the needs of the market thus generating additional benefit for patients and the medical community.

As one important step towards an increased customer benefit, since 2010 health services research has been implemented as a standard procedure for all new study projects. Health services research is principle- and problem-oriented multidisciplinary research investigating the practical implementation of patient care. The proximity to the doctor and patient and the related closer contact with reality makes health services research an important complement of clinical studies. Health services research, systematically performed, can be considered a form of scientific qualitative market research able to deliver valuable findings with a view to existing products. Beginning with opportunities for improving the quality of life of patients via raising the economic efficiency of overall systems to detecting unoccupied market niches offering chances for the future.

In addition interventional and non-interventional clinical studies will continue to be conducted, currently including studies on Vagantin® (hyperhidrosis), Antiadiposum X 112 T/ Avalin (weight reduction) and Elacur® hot (against pain in the lower back).

Another task was the scientific support of the launch of Tepadina®. Here the establishment of Advisory Boards in all strategic business areas also paid off. These boards are high-profile bodies which combine know-how at the highest scientific level and initiate studies. The Advisory Boards for oncology and dermatology are already regularly active with sessions and expert meetings. For the anti-infectives business the composition of the board will be adapted after the strategic realignment.

## Regulatory Affairs

13 registrations in 8 countries were applied for in 2010. The company obtained 15 new registrations in 12 countries for the first time. However, the existing registrations for all medicinal products containing bufexamac were cancelled in Europe by the Committee for Medicinal Products for Human Use (CHMP). This measure forced RIEMSER Arzneimittel AG to take Parfenac® from the market.

We were able to support our partner Adienne Pharma & Biotech (Italy) in the new registration of Tepadina® by active regulatory cooperation. In addition the Regulatory Affairs department conducted several advice procedures at European authorities. A pharmacovigilance inspection performed by the Medicines and Healthcare Products Regulatory Agency (MHRA) was successfully passed.

## The business units

### Specialty Pharmaceuticals BU

#### Therapeutic area Oncology

##### Niche products as growth drivers

The Oncology segment supplies products and services for the supportive and palliative therapy of oncological patients preventing or alleviating the side effects of cancer therapies, thus improving the quality of life of people suffering from cancer.

Additionally, in 2010 through our partnership with Adienne Pharma & Biotech (Italy), with Tepadina® an innovation was placed on the market, which is used for high-dose chemotherapy before stem cell transplantations. Thus a market is addressed which covers about 62,800 stem cell transplantations annually worldwide and which is growing at a rate of about 2.7 % per year.

Against this background the Oncology business was able to record a two-digit growth in 2010 again. Turnover increased by 17.2 % against 2009 to reach €14.6 million, with the majority (€12.5 million) for the German business. Main growth drivers were the Aloxi® and Tepadina® preparations generating two thirds of the turnover.

## Expansion of the international markets

The business, which currently is still much focussed on Germany, shall become more international through increasing activities on foreign markets. In particular Tepadina® is perceived as a chance in order to position a first strategic product on growth markets. Meanwhile RIEMSER Arzneimittel AG distributes Tepadina® in Germany, Austria, the Czech Republic and Poland. For Adienne Pharma & Biotech (marketing authorization holders, Italy) we produce Tepadina® for Italy, Spain, the United Kingdom, the USA and other markets. In the near future sales will be expanded to France, CIS, Asia and South Africa, and our cooperation with major clinics will be strengthened. At the same time we will continue to promote our scientific positioning. In future the systematic in-licensing of complementing key products on the international level will be another factor in order to expand the worldwide market relevance.

## Product portfolio with patent protection

Aloxi®, which is marketed by RIEMSER Arzneimittel AG in Germany only, is used for the prevention of nausea and vomiting in the wake of chemotherapy over the whole therapy cycle. As a second generation setron it achieves a better and longer efficacy through one single administration and is the most innovative and only patent-protected product of its class. The preparation is listed as a standard in the MASCC (Multinational Association of Supportive Care in Cancer) and ESMO (European Society

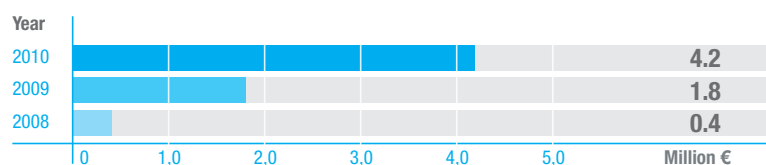
for Medical Oncology) guidelines. In 2010 the number of prescriptions rose by 20.0 % again, with the clinical business showing the strongest growth rate with a share of 15.0 %. For further strengthening the Aloxi® portfolio and within the framework of our life cycle management Aloxi® oral was launched in Germany.

With the support from a highly qualified field force a close cooperation with opinion leaders is maintained. A co-promotion with Bendalis GmbH generated additional sales power in December 2010.

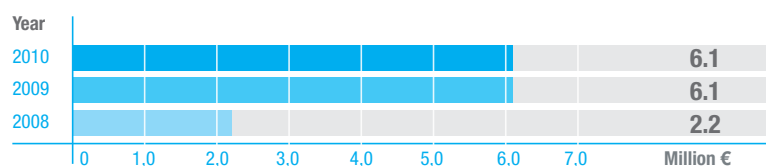
## Innovation in high-dose chemotherapy

Tepadina® is used in high-dose chemotherapy before stem cell transplantations. It covers a large area of application around autologous and allogenic stem cell transplantations of haematological and solid tumours and is equally suitable for adults and children. The preparation distinguishes itself by high efficiency and safety and a low degree of side effects. This is documented with treatment profiles of more than 7,000 patients and more than 20 years of clinical experience.

Gross sales development for Thiotepa®/Tepadina® during 2008–2010 (Group)



Gross sales development for Aloxi® during 2008–2010 (Germany)



# Overview of the company

In cancer therapy in combination with chemotherapy Tepadina® prepares patients for the transplantation of haematopoietic stem cells. This applies, for instance, to blood cancer (also leukaemia) or diseases which reduce the number of red blood cells (e. g. thalassemia, sickle cell anaemia). Moreover the preparation is suitable for treating solid tumours, where a high-dose chemotherapy with subsequent haematopoietic stem cell transplantation is conducted.

The active substance in Tepadina® is cytotoxic and systematically destroys cells which reproduce fast. This will provide place before the transplantation of new cells and reduce the risk of rejection.

The product was launched in Germany in May 2010. Specialised key account managers primarily addressing selected centres for stem cell transplantation are responsible for the sale and partnership with our customers. These specialists support interested doctors with treatment protocols and a comprehensive literature pool.

RIEMSER Arzneimittel AG holds the exclusive marketing rights for Germany, France, Austria, CEE, CIS, Asia and South Africa. The worldwide marketing of Tepadina®

is performed in close cooperation with Adienne Pharma & Biotech, Italy, which also holds the marketing authorization. The international launch will be successively conducted by partner companies after receiving the reimbursement approval from the respective authorities.

## **Therapeutic area Antiinfectives**

### **Portfolio expanded**

With the integration of the acquired tuberculosis and antibiotics businesses of the company Grünenthal GmbH the TBC portfolio was expanded and our position as a specialty supplier in the antiinfectives area clearly consolidated. The group's turnover with antiinfectives rose by 34.7 % from €15.5 million in 2009 to reach €20.8 million in 2010, with the German business contributing €15.1 million.

In the non-tuberculosis business the turnover increased by 48.9 % against 2009 to €8.8 million. Here Vancomycin Enterocaps® (€6.6 million) again proved to be the most important sales driver. Already €1.1 million of which were recorded internationally; €0.6 million through named-patient programmes in Eastern Europe, in particular in the CIS. Decisive success factors in this context are our unique position on the market based on the unique formulation as well as the support through our dialogue marketing which is optimised for specific target groups.

For this reason we will continue to build competence networks and to directly address the medical community as a marketing strategy.

Across the group the tuberculosis business recorded an increase by 26.1 % from €9.5 million in 2009 to €11.9 million in 2010. On the international scale an extraordinary turnover to the amount of €1.3 million had been achieved in 2009 through an additional tender in Russia. Adjusted by this non-recurring special item we managed to achieve another increase in 2010 exceeding the plan. Meanwhile the international tuberculosis business contributes €4.6 million to the result. After successful negotiations with the Brazilian authorities we managed to double the delivery quantity of Terizidex® in Brazil compared to 2009. With Peteha® the turnover with the International Development Association (IDA) was doubled. Moreover the WHO granted RIEMSER Arzneimittel AG the Accredited Supplier status which also resulted in additional sales.

Our cooperation with the WHO and other professional associations promotes both our popularity and reputation thus contributing to our further growth.

## Therapeutic area Dermatology

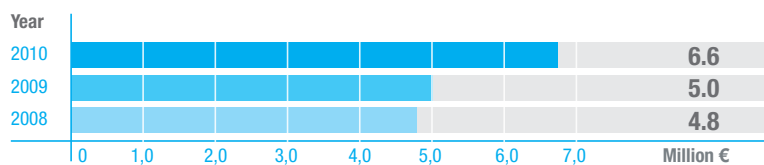
For the Dermatology business 2010 was a year of strategic realignment with the aim of providing the foundation for future expansion. For this purpose national and international markets have been identified where now and in future a strong market position can be achieved. Moreover the portfolio was adjusted and optimized in line with economic and strategic criteria allowing this business to be perceived more strongly as a specialist for niche indications.

Within the framework of these changes the segment initially slightly shrank in 2010 with the decrease in turnover amounting to about €0.5 million down to €11.7 million. The discontinuation of the Parfenac® products contributed with €371,000 to the decline. The reason was the recall of the bufexamac active substance by the European Medicines Agency (EMA) affecting all manufacturers in Europe.

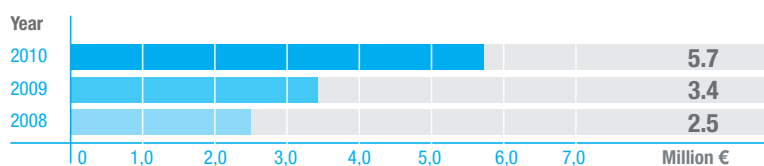
The hyperhidrosis area was under increased pressure in 2010. The main reasons were product introductions retailed for self-medication, which from a subjective perspective of those affected might substitute prescribed preparations. A two-digit sales increase in this retail



Gross sales development for Vancomycin Enterocaps® during 2008–2010



Gross sales development for rifampicin products during 2008–2010



# Overview of the company

sector resulted in a decline of the Dermatology business, because RIEMSER holds a market share of about 20.0 % with its products in the prescription segment. Nevertheless Vagantin® recorded a stronger growth than all other prescription products on the market. In order to further support the product RIEMSER Arzneimittel AG initiated market studies, including a nationwide pilot study for health services research on hyperhidrosis as well as a completed post-marketing surveillance study. A clinical study on hyperhidrosis is currently in preparation. The studies succeed in showing the significance of Vagantin® in the treatment of hyperhidrosis patients, in particular with a view to the typical level of suffering and the achievable abatement using Vagantin®. The results will be communicated in the professional and general media in 2011.

## Established Products BU

### Pharmaceutical segment Cardiovascular

#### Interventions by the authorities

Across the group this segment recorded an expected decline of sales to the amount of €0.9 million down to €14.7 million (–5.7 %) in 2010. The reasons were price reductions imposed by the authorities in several countries, just as in 2009 already. For example, for Ismo® a sales decline of about 20.0 % was recorded due to price interventions in several European countries (IT, SP, PT, FI).

In Columbia we managed to implement price increases and minimum order quantities for Lanitop® covering 5 years. With this contract extension, and taking a compensation payment into consideration, the sales level is the same as in 2009. Thus it will make a clear positive contribution to the international results.

In Germany it was possible to stabilise the results in the cardiovascular segment by an active life cycle management. In the end we were able to achieve sales of €3.5 million, which was only €0.1 million less than the previous year (–2.9 %).

#### Hylase® Dessau

The sale of the Hylase® Dessau (hyaluronidase) special preparation remained stable in 2010 with a turnover to the amount of €1.8 million across the group. Here the marketing activities

paid off which aim at positioning Hylase® Dessau also as a supplement in local anaesthetics for minor surgical interventions in addition to its use in ophthalmology.

#### Antiadiposium X112 T

In 2010 Antiadiposium X112 T – one of the last registered and reimbursable products for the treatment of obesity – recorded an increase in turnover of 7.5 % to reach €2.5 million. Thus this product developed definitely better than the market of prescription-only anti-obesity drugs, which declined by 42.0 % due to the market exit of a competitive product. One factor contributing to this positive development is a service-oriented marketing campaign, which, for instance, supports the patients with a dietary journal resulting in a shift in the market share.

#### SANAVITA Pharmaceuticals GmbH (Werne)

SANAVITA again raised its turnover clearly. The increase in 2010 against the previous year was 20.2 %. Vietnam remains the decisive sales driver. Other outstanding countries are Uzbekistan and Kazakhstan as well as several countries in the Near East and in North Africa. All in all the Southeast Asian region accounts for about 45.0 % of the overall turnover, central Asia for about 27.0 %. It was possible to stabilise and further develop the business model. Here SANAVITA pursues the strategy of relying exclusively on registered products which are safe in terms of regulatory requirements. Distribution

is implemented with the help of local wholesalers, controlled through partner networks.

## Medical Devices segment

### PR support for bite away® and Herpotherm®

Using national PR campaigns it was possible to clearly increase the popularity of bite away® and Herpotherm® with the actress Yvonne Wölke as the face of the brand. At the Baltic Sea, at swimming lakes and leisure pools the German rescue services of DLRG and DRK Wasserwacht meanwhile use bite away® as the preferred tool for the treatment of insect stings.

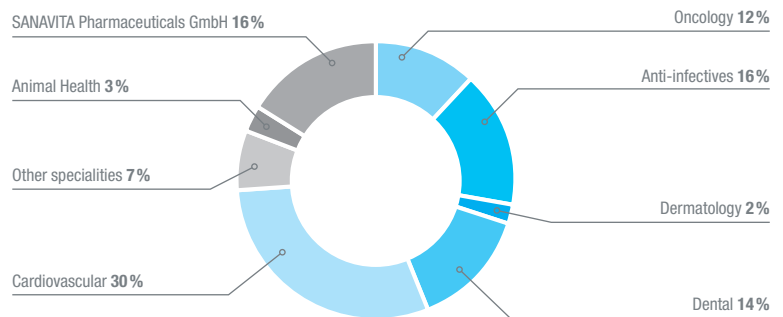
The cooperation of Sophie Schütt, actress and Herpotherm user, with the star coiffeur Udo Walz resulted in an additional support for Herpotherm®. Via Udo Walz as a multiplier the preparation developed to become a VIP insider's tip which resulted in increases in turnover of about 100.0 %.

## Dental BU

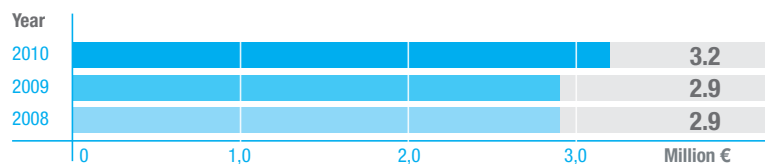
### Strategic portfolio design by fields of competence

After strategic adjustment, as an innovative supplier of oral surgery products, this worldwide active business unit concentrates on three decisive fields of competence of modern

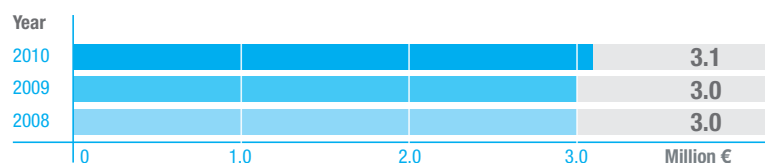
### Distribution of international turnover by regions in 2010



### Gross sales development for Aldactone® capsules during 2008–2010



### Gross sales development for Ledermix® during 2008–2010



# Overview of the company

medicine. These cover regenerative medicine (e. g. Cerasorb®), implantological medicine (Revois® implant system) and healing-promoting medicine (e. g. Ledermix® and Gengigel®). With the structural differentiation of the product segments by the therapeutic areas of oral medicine and with the concentration on pioneering, harmonised solutions providing the best possible support to the dentist in his/her work, the product portfolio is even more closely geared to the requirements of the market. At the same time the optimisation of the portfolio in the wake of the strategy alignment allows us to focus on the growth drivers and the portfolio's adjustment by removing a few hardly profitable products.

## **New management**

With Dr. Michael Leible we were able to win an experienced manager as the new head of the Dental BU for the implementation of the new business strategy. He is an expert of regenerative medicine and has 20 years of experience in managerial positions at national and international dental and biotechnology companies.

## **On international course**

The Dental business unit is present in 29 countries all over the world. In 2010 it grew internationally by 4.4 %. The development of new areas of indication partly contributed to this growth. The business unit takes local preferences into consideration and actively reacts to the needs of the customers. Across the Group the Dental BU recorded a turnover of €10.0 million, roughly equivalent to the previous year.

## **Million-seller in growth market**

With 1,000,000 units sold in all areas of application since the launch of the product, Cerasorb® is the most used synthetic bone augmentation material. In Germany the synthetic market share is 30.3 %. Globally Cerasorb® is used in more than 60 countries. It is considered to be the worldwide reference standard of its family. Already 135 studies substantiate its safety and reliability, which makes it one of the best documented synthetic bone augmentation materials.

Broad marketing campaigns accompanying the rollout of Cerasorb® in Germany and in the USA contributed to the success on the markets.

## **Successful product launch opens new markets**

With the launch of AlloSorb™ in the USA it was possible to open up the market segment for allogenic bone substitution materials, which is equivalent to 40.6 % of the overall regenerative oral surgery market in den USA. (Source: iData 2010)

## **RIEMSER Inc., USA**

Also in 2010 the situation in the USA was burdened by the aftermath of the financial crisis. Rising unemployment and the unlimited granting of consumer credits resulted in an increased propensity to save also affecting private dental services. The patients postponed necessary treatments or decided in favour of lower-cost treatment alternatives. This situation primarily affected premium services such as implants. However, meanwhile an increasing stimulation of the market can be seen again.

Since December 2010 RIEMSER Inc. has a new management with the aim of further expanding the market position of RIEMSER Inc. The corresponding steps include the focussed use of the field force for key accounts, the complementing involvement of dental wholesale for supporting smaller customers, the introduction of product innovations and other measures.

## **Development with a potential for the future**

After a successful redesign the Revois® Pro implant system covers new market demands and increases its potential for the acquisition of new customers. An optimised interface design ensures bacterial tightness and an easier handling. For cost saving purposes a consistent reduction of the required components was implemented. Thus Revois® Pro is the complete solution system with one of the least number of elements on the market. All-inclusive packages are providing solutions for typical cases of application. For the dentist this means a simpler handling and lower storage costs, for the distributor an easier stockpiling and less advisory expense.

## **Animal Health BU**

### **Results improved**

With €7.4 million the overall results of the Animal Health BU increased by 39.1 % against the previous year (2009: €5.3 million). Internationally sales increased by 17.4 % compared with 2009. An agreement on swine-fever vaccines concluded with the United States Department of Agriculture, USA, contributed to this result.

### **Innovation placed**

With the launch of Rivac® Borrelia in December 2009 a new vaccine for the protection of dogs against lyme borreliosis was established. Unlike the other borreliosis vaccine available on the market so far, Rivac® Borrelia covers about 90.0 % of the borrelia genospecies occurring in Europe. A comprehensive information campaign on the dissemination and the danger of infection with the pathogens was important to the success. We were able to show that the previous vaccine, due to its development in the USA, mainly contains the borreliosis pathogen typical of that region.

### **Portfolio expanded**

The product portfolio was successfully expanded with KEYSTONE dental products for animals. KEYSTONE is known in the USA primarily

for its dental product line in the human sector. On the basis of the comprehensive experience made the company has developed a broad spectrum of veterinary-dental products over the past three years covering a broad spectrum ranging from dental care and polishing products to instruments, micro-motors and accessories. Since 2009 the Animal Health BU has exclusively represented this range of products in Germany. After a first step with dental care products and dental instruments the portfolio was enlarged to include a micro-motor and a scaler for dental cleaning and treatment in 2010.

### **Partial sale of the animal health portfolio**

Within the framework of the further strategic development towards a specialty pharmaceutical company RIEMSER Arzneimittel AG decided to sell the majority of its animal health product portfolio and its marketing and sales unit to the Belgian company Ecuphar N.V. The sale was implemented in the first quarter of 2011. Research and development, manufacturing and selected vaccines, in particular the RIEMSER oral swine fever vaccines, will remain at RIEMSER Arzneimittel AG.



Riems

## Realising potentials

*The international competition sets standards. Lean, efficient structures prove to be success factors. Adjustments made to the cost side expand the entrepreneurial scope of action. Optimising our resources helps us to improve capacity utilization, achieve savings and optimise results. As a prerequisite for financing growth and seizing future opportunities.*



Leipzig

Schiffweiler

Gengenbach

Laupheim

# Group Management Report

## General economic framework conditions

### Global economy

Only in the second half-year the measures taken by the central banks and the different state stimulus packages from the year 2009 and further follow-up measures from 2010 showed effect. As a consequence the economic situation has noticeably recovered and eased.

### Germany

The worldwide recession also had its impact on the German economy beginning in 2009. However, it recovered faster than expected at the beginning of the recession. The German economy grew strongly again in 2010. With +3.6 % the Gross Domestic Product (GDP), adjusted for prices, increased as strongly as never before since the reunification of Germany. This is shown by calculations made by the German Federal Office of Statistics (Destatis). The economic recovery mainly occurred in the spring and summer of 2010. In the previous year Germany had experienced the most severe recession of the post-war period: Price-adjusted GDP decreased by 5.0 % in 2009. According to the German Federal Office of Statistics a further GDP increase is expected for 2011.

## Development in the pharmaceutical sector

In spite of a difficult economic situation, the pharmaceutical market continues to be among the world's growth markets. Main drivers for this development are innovative products and the demographic change in key markets. The product portfolio's composition is decisive for the sustainable corporate success in the pharmaceutical sector. Expired patents for important medicines, an increasing pressure by generics as well as increasingly restrictive framework conditions threatened the pharmaceutical and biotechnological companies also in 2010. Smaller, specialised niche suppliers managed to further successfully assert their positions.

Industry experts estimate that IP protected medicines with a sales volume amounting to more than US\$137 billion will lose their exclusivity by 2013. Although this is a small portion of the world market only, high shares of turnover are at stake for the affected manufacturers. Companies manufacturing generics are acting increasingly aggressive in challenging patents. Moreover, they have intensified the pricing competition for many old products, which were still supplying sound contributions to the results of manufacturers of original medicines.

The pharmaceutical manufacturers increasingly act in a cost-sensitive health environment and prepare themselves for more intensive

cost-benefit analyses and intensified price negotiations with the health insurance funds.

The worldwide pharmaceutical market continued to grow strongly in 2010. For 2011 the IMS Health industry analyst expects a growth of the German market of about 2.0 %. In particular, the ageing population and preventative measures would stimulate the demand. National reform projects on the national health markets will result in an increased pressure on the prices for medicines and in a further restructuring on the markets for medicinal products. In Germany the rebate strategies pursued by the health insurance funds continued to exercise pressure on the market and led to an oligopolisation on the generics market.

With the German Medicines Market Restructuring Act (AMNOG) Article 140b of Book V of the German Social Code was revised. Now pharmaceutical companies and manufacturers of medicinal products can participate in integrated health care contracts. Thus the trend will be more and more in the direction of selective contracts.

The introduction of the system of early benefit assessment together with the related price control measures will result in significant changes on the German health care market.

# Group Management Report

The stage of the health care reform implemented in 2010 and in particular the increase in the obligatory rebate for prescription medicines without reference prices from 6.0 % to 16.0 % and the AMNOG shall further promote the dualism consisting of health care for the population and a highly efficient use of resources in Germany.

The change in the Package Size Ordinance, the price moratorium valid till 2013 and the determination of the reference prices shall be mentioned here briefly as other new stipulations of the AMNOG.

Principally we should expect challenging framework conditions also for the 2011 fiscal year.

## Business development in the year 2010

The 2010 fiscal year reflected the continuing focus of RIEMSER Arzneimittel AG on the medium-term goal of becoming a specialty pharmaceutical company and on its increased orientation towards the capital market.

The year 2010 was mainly characterized by the following measures and processes:

- Development of the activities in the Oncology and Supportive Care busi-

nesses (growth based on the Aloxi® antiemetic on the German market).

- Launch of the Tepadina® product on the German market (EMA market authorization received on 22 February 2010).
- Launch of the Aloxi® oral product on the German market as a life cycle management measure for reinforcing the Aloxi® portfolio in November 2010.
- Launch of the Rivac® Borrelia vaccine in the Animal Health business unit.
- Further integration of the business activities acquired in 2008 with the Dental business unit.
- Optimisation and restructuring of the RIEMSER Inc. business model (realignment of the field force, change in management, introduction of the next product generation, involvement of dental wholesale)
- The process of RIEMSER's transformation towards a specialised, internationally active pharmaceutical company focussing on growth niches in selected therapeutic areas with a high medicinal demand was promoted with the help of important projects.
- In the Management by Objectives project the first and second management levels

of the group were more closely involved in the achievement of the company's goals by means of target agreements.

- Within the Vista project the manufacturing sites of the groups were checked for overcapacities. At the Leipzig location essential overcapacities were removed through a reduction in personnel; at other locations this was possible without redundancies.
- The company structure was converted into a consistent matrix organisation with effect from 01 January 2011 enabling an efficient implementation of the company strategy.
- The projects for the optimisation of the quality control departments and of the finance and reporting structures were further promoted in 2010 and shall be completed in 2011.
- The certification audit for active and non-active medical devices was successfully completed.
- Within the framework of the further strategic development towards a specialty pharmaceutical company with effect from 31 December 2010 the majority of the animal health product portfolio and the marketing and sales unit was sold to the Belgian company Ecuphar N.V., which is specialised in veterinary

medicine. Research and development, manufacturing and selected vaccines, in particular the RIEMSER oral swine fever vaccines, will remain at RIEMSER.

- Commencement of further essential projects for the development of saving potentials in the fields of purchasing and procurement of raw materials and finished products as well as for improving the economic efficiency of the manufacturing processes.
- Credit refinancing operations to the total amount of €9.0 million.
- Capital increase by existing shareholders to the amount of €4.9 million.
- Changes in the composition of the executive management:  
Dr. Gordon Guth retired from his position as CFO with effect from 31 December 2010. His successor is Beatrice von Buchwaldt with effect from 01 April 2011.

## Medical Science and Operations

### 1. Life cycle management of existing products

After merging the Medico-Marketing and Research & Development departments to form the new Medical Science and Operations department the activities were further concentrated in 2010 in line with the strategic aims. One main task in this context is the focus RIEMSER Arzneimittel AG places on the life cycle management of products already introduced onto the market with the aim of continually improving their marketing. Additionally, potential new indications are being evaluated continuously within the framework of the strategic therapeutic areas. In 2010, too, we managed to implement and also to successfully complete several life cycle management measures in order to ensure the registration of important revenue drivers. These include interventional randomised placebo-controlled studies on Vagantin® against hyperhidrosis, Antiadiposium X 112 T against overweight, Elacur® hot against back pain, but also non-interventional studies on Mykundex®, Vagantin®, Terizidon or Recatol® Algin M lemon.

### 2. Health services research

In addition to classic research and development in 2010 further steps were taken to establish health services research as an additional op-

portunity for qualitative scientific market analysis not only as a result of the changed legal framework conditions.

For this purpose aspects of health services research were additionally taken into consideration in all new study projects; in particular for Vagantin® in the hyperhidrosis indication several health service research approaches were initiated. These included a hyperhidrosis pilot study (patients' and doctors' survey on the health care situation of hyperhidrosis patients), an epidemiological study on the prevalence of hyperhidrosis and also a doctorate project with Idstein University on the health care situation for hyperhidrosis.

### 3. Scientific cooperation

In its research activities RIEMSER Arzneimittel AG also makes use of a broad network of regional and international university experts. For this purpose in particular in the strategic therapeutic areas appropriate Advisory Boards have been established. The company thus also benefits from funded projects executed in cooperation with these research institutions. After completion of the RIEMSER Arzneimittel AG involvement the funded Nanoderm project was prepared jointly with the university partners for successful further development.

# Group Management Report



## 4. Publications

For informing the professional communities and for supporting our marketing operations scientific results for the following products/projects were published and/or accepted for publication: Hylase® Dessau, Vagantin®, reviews in the fields of tuberculosis and HippoTrichon®.

## Earning position

### Sales trend

Sales revenues before reductions of revenues increased by €12.6 million to €115.1 million (+12.3 %) compared with the previous year.

Vancomycin oral (special antibiotic) with a turnover of more than €6.6 million, Aloxi® (treatment of cancer-therapy-induced vomiting) with €6.1 million and Ismo® with €4.5 million were the most successful products.

Broken down by **sales regions**, the domestic business achieved €78.3 million (previous year: €69.3 million) and the international business recorded €36.9 million (previous year: €33.2 million), of which €14.8 million (previous year: €12.3 million) in Europe and €22.1 million (previous year: €20.9 million) in the 'Rest of the world' area.

**Domestic business** was increased to €78.3 million and essentially relied on stronger sales of the rifampicin products of Eremfat®, RifampicinHefa® and Rifa (+€3.0 million), Thiotepa®/Tepadina® (+€2.5 million) and Vancomycin Enterocaps® (+€0.8 million).

The share of the turnover in the international business amounted to €36.9 million (+11.1 % against the previous year). This includes a turnover to the amount of €2.4 million from a named-patient programme in Italy in cooperation with our Italian partner Adienne Pharma & Biotech. Desmo®, a product for the treatment of coronary heart diseases, continued to be the top-selling product in the international sales region recording a turnover of €4.3 million.

In 2010 the turnover of the **Human line of business** achieved €107.7 million, including international business. As a result, this segment grew by €10.5 million over the previous year.

With a domestic turnover of €6.5 million in 2010 the **Animal Health business** unit exceeded the previous year's level (+24.4 %) in particular through a higher turnover in the field of swine fever vaccines. In the international business the turnover increased by €0.1 million to reach €1.0 million.

The positive figures of the Human and Animal Health lines of business also reflect the positive sales trend of the international business which increased by 11.1 % (+€3.7 million) compared with the previous year. This increase is mainly due to the international business of RIEMSER Arzneimittel AG. SANAVITA Pharmaceuticals GmbH with an increase in turnover of 20.2 % to €6.0 million and RIEMSER Specialty Production GmbH with an increase in turnover of 12.0 % to €12.5 million also contributed to this result.

**RIEMSER Specialty Production GmbH** develops, produces and packages solid peroral medicinal products and food supplements and recorded a turnover of €12.5 million in the 2010 financial year (before consolidation activities). Due to the modified product portfolio the quota of materials rose from 42.2 % (2009) to 49.8 %. The balance sheet total sank by 9.7 % down to €6.4 million. Due to the reduced accounts payable to credit institutes and to the AG the equity ratio rose from 55.0 % (2009) to 68.3 %.

Since December 2010 the RIEMSER Group has held 100.0 % (previously 50.4 %) of **SANAVITA Pharmaceuticals GmbH** with its headquarters in Werne near Dortmund, Germany. SANAVITA is primarily active in international business. The product portfolio includes tu-

berculosis, cardiovascular and pain medicines as well as antibiotics, oncological drugs and cephalosporines. All products sold by the company are manufactured in certified production facilities according to the latest technical processes complying with the GMP standard and thus meeting the internationally recognised standards.

SANAVITA Pharmaceuticals GmbH recorded a clear increase in turnover of 20.0 % to €6.0 million (previous year: €5.0 million) in the reporting period. At the same time the company managed to close with a positive result of ordinary business activity to the amount of €63,000.

**RIEMSER Inc.**, headquartered in North Carolina, USA, is a subsidiary of the RIEMSER Group. The company sells dental products in North America and, after reduction of revenues, contributed €2.2 million to the Group's turnover.

The **other operational revenues** rose by €6.9 million to €10.4 million compared with the previous year (€3.5 million). This figure includes revenues from the partial sale of the Animal Health BU to the amount of €5.0 million as well as revenues from asset disposals to the amount of €2.5 million.

# Group Management Report

The **acquisition and sale of medicinal registrations and trademarks/brands** is an element of the business strategy and, besides complementing the offered range of products, shall in particular stimulate the growth in turnover and revenue as well as promote the company's further internationalisation. In 2010 registrations from the Human segment as well as parts of the Animal Health BU were sold. New registrations have been acquired.

The **cost of materials** increased disproportionately high in relation to the sales trend by 14.0 % to reach €37.5 million. This results in a slightly increased quota of materials used of 32.6 % (2009: 32.1 %) for the reporting year. Gross earnings rose to 69.3 % (previous year: 68.3 %) of the total performance.

The **staffing costs** of €27.0 million increased noticeably compared with the previous year (€26.0 million). This increase is essentially attributable to the further expansion of several business activities and the related new recruitments as well as to the required increase in selected wages and salaries in 2010. The average number of employees sank from 645 in the previous year to 644 in the year under review. At the Leipzig location essential production overcapacities were removed in the year under review. This resulted in a reduction in staff in 2010 and will also reduce staff in 2011.

The **cost of depreciation and amortisation** of €14.6 million decreased noticeably compared with the previous year (€17.7 million). This is partly attributable to the full use of the depreciation capacity for the Roche package.

The **other operating expenses** rose by €5.2 million to €28.9 million compared with the previous year (€23.7 million). This increase is primarily the result of the increased costs for advertising (+€0.8 million) and outsourced work (e. g. Vista project) (+€1.3 million) as well as of a service fee to the amount of €2.4 million for our Italian partner Adienne Pharma & Biotech.

**Extraordinary expenses** to the amount of €1.5 million were recorded. These mainly include compensation payments for staff made redundant within the framework of removing overcapacities at the Leipzig location.

The **financial result** slightly improved to €-4.5 million (previous year: €-4.8 million). The included **other interest and similar expenses** decreased from €4.9 million down to €4.7 million in the year under review.

**Taxes on income and revenue** rose by €1.7 million to reach €2.7 million against the previous year. This figure is attributable to the amount of €0.4 million to taxes on income and revenue of previous years as a result of the 2004–2007 tax audit as well as to the increased result before tax in 2010.

The RIEMSER Group closed the 2010 financial year with an **annual surplus** to the amount of €5.1 million (previous year: €0.6 million).

## Financial situation

### Assets

As of the reporting date the assets side of the balance sheet is essentially characterised by intangible assets (€35.4 million) and inventories (€19.0 million). Short-term account receivables rose from €20.3 million to €24.0 million, of which €6.3 million are attributable to the partial sale of the veterinary business.

The Group's **fixed assets** decreased from €53.2 million to €50.0 million in the 2010 financial year. In spite of the acquisition of registrations to the amount of €9.0 million the intangible assets decreased by €2.3 million down to €35.4 million due to amortisation.

The **financial assets** (€5.0 thousand) decreased by €10.0 thousand over the course of the financial year.

The amount of accounts receivable for supplies and services rose by €3.5 million to reach €17.5 million. This increase results from the accounts receivable from a named-patient programme

in Italy in cooperation with our Italian partner Adienne Pharma & Biotech (€1.3 million) and the increased turnover in the fiscal year. The other assets rose from €1.8 million in the previous year to €6.7 million due to accounts receivable from the sale of the Animal Health BU (€5.2 million). On the reporting date the holding of liquid funds was €13.8 million and thus €9.7 million above the previous year's level.

## Liabilities

Besides the equity capital (€21.0 million) the liabilities side of the balance sheet is characterised by the presentation of subordinated loans (€32.5 million) and of **accounts payable** to credit institutes (€23.6 million). The changes in **authorised capital** (€+0.4 million) and in **capital reserve** (€+4.5 million) are attributable to the capital increase performed by RIEMSER Arzneimittel AG in March 2010.

The **revenue reserves** have not changed. In 2010 the **accruals** increased from €6.6 million to €11.9 million. This increase mainly resulted from the tax accruals, which rose by €2.6 million compared with the previous year, from the other accruals which increased by €2.3 million, and from the accruals for pensions which increased by €0.3 million.

The **accounts payable to credit institutions** decreased on balance from €34.9 million down to €23.6 million through redemption payments throughout the year. The **accounts payable for supplies and services** increased by a total of €3.3 million to reach €15.1 million. These essentially include outstanding payments of the residual purchase price for dental products (€1.6 million) and for registrations from Grünenthal GmbH (€5.4 million).

## Financial position

The **cash flow from continuing business activity** amounting to €30.1 million was above the previous year's level (€12.8 million) mainly on account of the better annual result.

In the reporting year the **cash flow from investment activity** amounted to €-7.0 million (previous year: €-9.6 million). This change is mainly attributable to cash inflows from disposals of intangible and tangible assets which were higher than in the previous year.

The **cash flow from financing activity** amounted to €-8.5 million (previous year: €-3.3 million) and includes, apart from loans accrued in 2010 (€9.0 million), redemption payments (€22.3 million) as well as a capital increase at the mother company (€4.9 million).

## Prospects for the 2011 and 2012 financial years

The RIEMSER Group is developing to become a specialised, internationally active pharmaceutical company focussing on fast-growing niches in selected therapeutic areas with a high medical need. The international business shall continue to grow and increasingly favourably influence the total turnover and the company. In the 2011 business year the RIEMSER Group aims at achieving a further growth in sales and result.

Due to the lower scheduled amortisation of intangible assets in 2011 and to savings in staffing costs compared with 2010 and to other cost savings the RIEMSER Group assumes a positive annual result above the one of 2010. For the 2012 business year further growth is planned.

# Group Management Report

## Substantial risks and opportunities for future development Risk management system

For the RIEMSER Group risk management represents an essential and indispensable element of corporate management and control. RIEMSER Arzneimittel AG monitors the business development of all of the Group's companies. In-house reports are regularly prepared for reconciling rolling corporate planning. These reports inform the Executive Board and the responsible management levels in good time and comprehensively about all significant risks. The most important risks are grouped according to risk categories and listed below:

### **Competitive risks**

The RIEMSER Group finds itself in competition with other pharmaceutical companies. Risks for its own market position are analysed regularly by observing the market and competition, and countermeasures are taken, as far as possible.

### **Risks caused by changes in the legal underlying conditions**

The effects arising from the tendency of increasing state intervention in the national health systems (e.g. by introducing or modifying different forms of pricing regulations) can lead to a significant additional pressure on margins for important revenue drivers, and affect the Group's result situation.

The RIEMSER Group counters these risks through continuous observation of the underlying conditions in the most important markets.

### **Manufacturing and procurement risks**

The RIEMSER Group is subject to certain procurement market risks, which take the form of possibly not having available the requisite quantity or quality of raw materials and primary products, that are required for manufacture, or of possibly not having them available to a sufficient degree.

Suppliers are therefore regularly evaluated and supply alternatives developed, if necessary.

The facilities and manufacturing technologies for the manufacture of pharmaceutical products are regularly audited by state authorities for compliance with the Good Manufacturing Practices (GMP) standards.

The RIEMSER Group ensures compliance with these standards by taking appropriate measures for quality control and quality assurance.

The risk of a partial or complete failure of production plants is minimised by means of security measures and maintenance schedules. Moreover, the RIEMSER Group endeavours to provide sufficient in-house or external standby capacities.

However, even by such measures, deviations from the approved product properties occurring in the manufacture of pharmaceutical products cannot be completely excluded.

### **Financial risks**

The risks associated with variations in interest rates and currencies are hedged against within the framework of the RIEMSER Group's in-house guidelines. Adequate derivative financial instruments are applied for this purpose.

### **Liquidity situation**

Several corporate actions taken in 2010 clearly improved the inventory of short- and medium-term financing instruments. It is to assume, that the RIEMSER Group is able to fulfil its obligations at any time.

### **Legal risks**

At present the company is involved in legal disputes in the course of its normal business activity. According to the present state of knowledge the RIEMSER Group expects that its economic position will not be significantly impacted, although against the background of the imponderabilities with which legal disputes are generally fraught, the outcome is not foreseeable with complete certainty.

### **Protection against the risk of damages**

The risks of damage to property and of liability loss are hedged against by means of insurances with a sufficient extent of cover, insofar as this is possible and economically justifiable.

### **Major opportunities**

The RIEMSER Group plans the launch of products in the Oncology field with effect on the turnover of the 2011 financial year as well as a further international expansion.

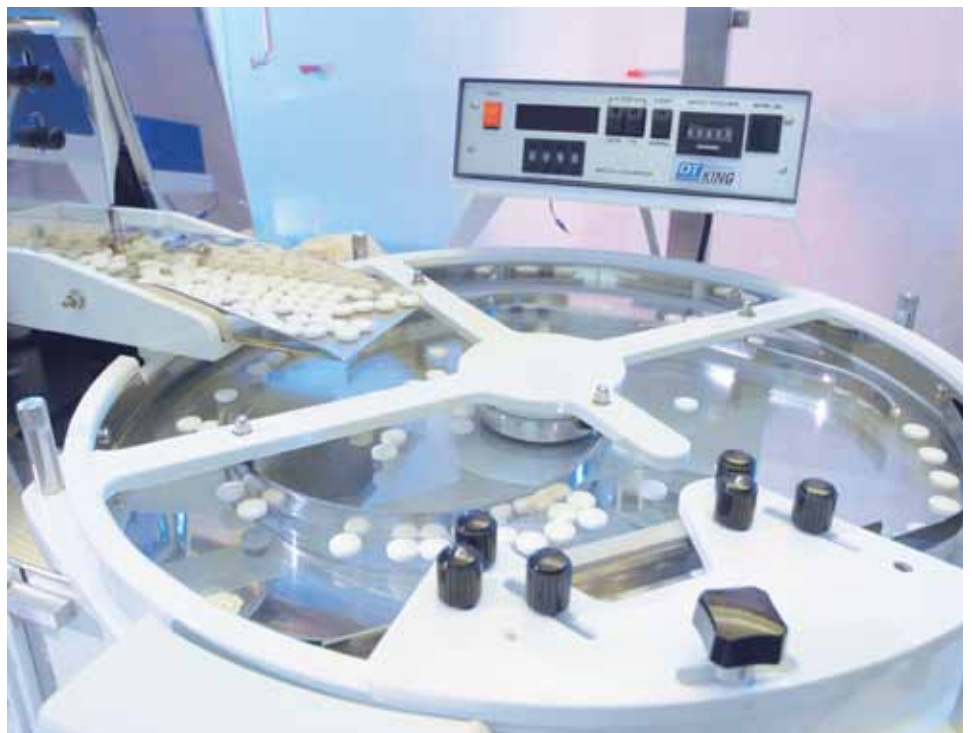
## Events of particular significance that occurred after the end of financial year

The partial sale of the Animal Health segment was conducted as of 31 December 2010. The book profit to the amount of €5.0 million was recorded in 2010; the inflow in liquidity to the amount of €6.0 million is in 2nd quarter 2011. The negotiations on the financing of scheduled acquisitions and the restructuring of the financing of operating assets, commenced in 4th quarter 2010, shall be completed by 2nd quarter 2011. There have not been any other further events of particular significance.

Greifswald, 15 April 2011



Dr. Michael Mehler



## Strengthening competences

*Concentrating on our own core competences. Recognising that less might be more. And then doing what is required to maximise the benefit. A clear profile on the market can only be achieved by a company which continuously raises and develops its profile. Which reduces complexity in order to maximise opportunities. Within the framework of a well-defined strategy helping to improve procedures and profitability.*



# Balance Sheet

## Profit and Loss Account of the Group

for the period from 1 January to 31 December 2010

	EUR	EUR	Prev. year KEUR
<b>1. Sales revenues</b>	110,700,683.41		99,534,574
<b>2. Increase in the holding of finished and unfinished products</b>	195,479.59		876
<b>3. Other own fixed assets capitalized</b>	717,825.83		653,634
<b>4. Other operating income</b>	10,375,485.64		3,523,006
		121,989,474.47	103,712,090
<b>5. Cost of materials</b>			
a) Expenses for raw materials and supplies and for purchased goods	36,793,552.79		32,073,457
b) Expenses of purchased services	676,405.92		783,999
		37,469,958.71	32,857,456
<b>6. Staff costs</b>			
a) Wages and salaries	22,761,474.02		21,746,977
b) Social security contributions, pensions and other benefits (of which for pensions €285,715.06; previous year: €330,319.65)	4,244,054.81		4,222,745
		27,005,528.83	25,969,722
<b>7. Amortisation and depreciation</b>			
a) of intangible fixed assets and tangible assets	14,406,246.72		17,017,161
b) of current assets, of these exceed the depreciations usual for corporations	218,136.16		653,501
		14,624,382.88	17,670,662
<b>8. Other operating expenses</b>		28,933,085.56	23,674,203
<b>9. Operating result</b>		13,956,518.49	3,540,046
<b>10. Income from long-term financial assets</b>		34,280.33	56,473
<b>11. Other interest and similar income</b>		179,204.34	52,767
<b>12. Amortisation of financial assets</b>		4,261.07	0
<b>13. Interest and similar expenses</b>		4,703,857.03	4,943,127
<b>14. Financial result</b>		-4,494,633.43	-4,833,888
<b>15. Result of ordinary business activity</b>		9,461,885.06	-1,293,842
<b>16. Extraordinary revenues</b>	0.00		3,836,090
<b>17. Extraordinary expenses</b>	1,538,794.32		787,747
<b>18. Extraordinary result</b>		-1,538,794.32	3,048,343
<b>19. Taxes on income and revenue</b>		2,731,736.13	1,057,965
<b>20. Other taxes</b>		50,861.27	77,737
<b>21. Consolidated net profit for the year before shares of other shareholders</b>		5,140,493.34	618,799
<b>22. Loss incurred by other shareholders</b>		-19,975.88	57
<b>23. Consolidated profit for the year</b>		5,120,517.46	618,856
<b>24. Loss brought forward from the previous year</b>		-5,429,277.57	-6,048,134
<b>25. Consolidated net loss</b>		-308,760.11	-5,429,278

# Balance Sheet as at 31 December 2010

Assets		EUR	EUR	EUR	Prev. year kEUR
<b>A. Non-current assets</b>					
<b>I. Intangible assets</b>					
1.	Self-created industrial property rights and similar rights and values	1,759,661.49			1,151,510
2.	Concessions, industrial property rights acquired for a consideration and similar rights and values as well as licenses to such rights and values	30,587,393.62			34,076,460
3.	Goodwill	973,330.74			616,417
4.	Advance payments made	2,123,809.32			1,872,300
			35,444,195.17		37,716,688
<b>II. Tangible assets</b>					
1.	Real estate and buildings, including buildings on third-party real estate	4,565,172.70			4,633,806
2.	Technical installations and machines	6,268,636.91			6,653,360
3.	Other installations, fixtures and furnishings	3,587,783.18			3,869,474
4.	Advance payments made and installations under construction	103,311.80			261,842
			14,524,904.59		15,418,482
<b>III. Financial assets</b>					
1.	Investments	4,700.00			4,700
2.	Other loans	200.00			10,761
			4,900.00		15,461
				49,973,999.76	53,150,631
<b>B. Current assets</b>					
<b>I. Inventories</b>					
1.	Raw materials and supplies	6,071,801.64			6,308,842
2.	Work in progress	2,038,365.01			1,768,524
3.	Finished products and goods	10,835,270.78			11,857,604
4.	Advance payments made	50,484.16			71,274
			18,995,921.59		20,006,244
<b>II. Accounts receivable and other assets</b>					
1.	Accounts receivable from supplies and services	17,531,290.48			13,982,182
2.	Accounts receivable from companies with which an equity relationship exists	193,365.70			4,900,000
3.	Other assets	6,662,597.96			1,766,931
			24,387,254.14		20,649,113
<b>III. Cash on hand, credits at credit institutes</b>					
			13,780,093.70		4,121,301
				57,163,269.43	44,776,657
<b>C. Accruals and deferrals</b>					
				304,855.19	267,177
<b>D. Deferred taxes</b>					
				0.00	4,411
<b>E. Active difference resulting from asset offsetting</b>					
				29,010.00	23,726
				107,471,134.38	98,222,602

<b>Liabilities</b>		EUR	EUR	Prev. year kEUR
<b>A. Equity capital</b>				
<b>I. Authorised capital</b>		4,550,325.00		4,150,549
	Nominal value of own shares	41,960.00		0
	Issued capital		4,508,365.00	4,150,549
<b>II. Capital reserve</b>			10,080,236.32	5,578,493
<b>III. Revenue reserve</b>			5,445,929.59	5,445,930
<b>IV. Equity capital difference from currency translation</b>			-58,757.30	2,691
<b>V. Consolidated net loss</b>			-308,760.11	-5,429,278
<b>VI. Shares of other shareholders</b>			0.00	-8,248
			<b>19,667,013.50</b>	<b>9,740,138</b>
<b>B. Balance from capital consolidation</b>			<b>1,361,907.05</b>	<b>1,370,617</b>
<b>C. Accruals</b>				
1.	Accruals for pensions and similar obligations		3,114,336.00	2,816,078
2.	Tax accruals		2,987,559.54	350,748
3.	Other accruals		5,769,843.69	3,439,872
			<b>11,871,739.23</b>	<b>6,606,698</b>
<b>D. Accounts payable</b>				
1.	Accounts payable from participatory rights capital, subordinate loans and investments made by dormant shareholders		32,500,000.00	32,800,000
2.	Accounts payable to credit institutes		23,622,988.98	34,893,503
3.	Advance payments received for purchase orders		23,921.25	11,279
4.	Accounts payable for supplies and services		15,057,313.23	11,735,994
5.	Accounts payable to companies with which an equity relationship exists		0.00	13,709
6.	Other accounts payable		3,266,597.73	990,665
			<b>74,470,821.19</b>	<b>80,445,149</b>
<b>E. Accruals and deferrals</b>			<b>0.00</b>	<b>60,000</b>
<b>F. deferred tax liabilities</b>			<b>99,653.41</b>	<b>0</b>
			<b>107,471,134.38</b>	<b>98,222,602</b>

# Key figures

## condensed Balance Sheet as at 31.12.2010

Assets	2009 KEUR	2010 KEUR	change in %
A. Non-current assets	53,151	49,974	- 6.0
B. Current assets	44,777	57,163	27.7
C. Accruals and deferrals	267	305	14.2
D. deferred taxes	4	0	/
E. Active difference resulting from asset offsetting	24	29	20.8
	98,223	107,471	9.4

Liabilities	2009 KEUR	2010 KEUR	change in %
A. Equity capital	9,740	19,667	101.9
B. Balance from capital consolidation	1,371	1,362	- 0.7
C. Accruals	6,607	11,872	79.7
D. Accounts payable	80,445	74,471	- 7.4
E. Accruals and deferrals	60	0	/
F. deferred tax liabilities	0	100	/
	98,223	107,471	9.4

## Sales by segment

Segments	2008	2009	2010
Oncology	7,199,900	12,407,600	16,987,800
Anti-infectives	12,818,600	15,436,000	20,791,500
Dermatology	12,125,200	12,222,400	11,700,600
Dental	6,652,100	10,055,200	9,998,100
Cardiovascular	15,981,500	15,566,900	14,682,200
Other specialities	12,966,500	12,312,900	12,838,200
Animal Health	4,858,500	5,330,900	7,415,800
SANAVITA Pharmaceuticals GmbH	3,582,100	4,981,100	5,987,700
Contract manufacturing	4,372,700	3,610,400	2,919,300
RIEMSER Specialty Production GmbH	4,825,500	10,581,000	11,791,300
Total sales	85,382,600	102,504,400	115,112,500

## Total sales

Year	Sales in Million EUR
2008	85.4
2009	102.5
2010	115.1

## Employees (by December 31 of the relevant year)

Year	Number of employees
2008	606
2009	660
2010	616

## Geographic distribution of turnover

	Germany	Rest of Europe	Rest of the world
2008	58,599,100	13,017,700	14,753,400
2009	69,300,000	12,300,000	20,900,000
2010	78,251,800	14,754,800	22,105,800

## Equity ratio %

Year	Equity capital KEUR	Equity ratio
2008	3,109	3 %
2009	11,111	11 %
2010	21,029	20 %

## Growth

Year	Growth
2008	36 %
2009	20 %
2010	12 %

## EBIT

Year	EBIT in Million EUR
2008	0.5
2009	3.5
2010	14.0

## EBITDA

Year	EBITDA in Million EUR
2008	17.6
2009	21.2
2010	27.1



## Pursuing goals

*Awakening passion for achieving the joint goal. Developing individuality and forming the community. Any company is only as successful as the people working in it. This success requires certain preconditions. An open dialogue. Individual development opportunities. Living leadership. So that inspiration can be gained from the conflicting framework of challenge, motivation, performance and encouragement.*

# Human resources and social report

## Implementing new structures

In 2010 the work of the Human Resources department was characterised by the different projects within RIEMSER – The Next Decade, including the introduction of the Management by Objectives management method, the implementation of the new matrix organisation and the optimisation of the portfolio.

In addition to operative activities strategic tasks were increasingly to be fulfilled. These included supporting different project groups as well as assisting in the employee survey conducted by an external consultant firm.

Within the framework of the removal of personnel overcapacities, in particular at the Leipzig location, preparations were made and the negotiations for the conclusion of a reconciliation of interests agreement and a social compensation plan supported. Subsequently the adopted measures were implemented.

In spite of the personnel reduction in the whole company about 40 positions had to be filled newly, again or temporarily. A total of 12 new fixed-term or permanent positions in the Quality Control/Assurance, Medical Science and Operations, Regulatory Affairs departments as well as in the Animal Health BU were created.

Number of employees			
Location/area	31/12/2010	31/12/2009	31/12/2008
Main location, Isle of Riems	227	227	204
LAW, Leipzig	178	210	203
TA Oncology, Muenster	15	15	14
Dental BU, Kleinostheim	43	41	26
RÖSCH Medizintechnik, Berlin	5	5	5
Gengenbach operating site	15	17	12
Schiffweiler operating site	37	37	36
<b>RIEMSER Arzneimittel AG</b>	<b>520</b>	<b>552</b>	<b>500</b>
RIEMSER Specialty Production GmbH, Laupheim	88	101	96
SANAVITA Pharmaceuticals GmbH, Werne	8	7	10
<b>Group</b>	<b>616</b>	<b>660</b>	<b>606</b>

# Human resources and social report

## Staff structure

### Seniority

In connection with the completed personnel measures the staff turnover rate rose to 3.5%. The share of fixed-term contracts (without apprentices and trainees) is 4.0%.

### Gender composition

The share of women is predominant. Also in top positions women are represented in disproportionately high numbers compared with the overall economy: About 45.0% of the top management is female.

Seniority periods in %							
Group	under 1	under 5	under 10	under 15	under 20	under 25	over 25
2008	16.7	34.4	20.5	4.1	5.0	7.1	12.4
2009	15.9	37.9	20.8	4.2	3.3	7.0	10.9
2010	7.8	36.0	21.3	11.0	3.2	6.3	14.3

Gender composition of the staff in %		
Location/area	Women	Men
Main location, Isle of Riems	63.9	36.1
LAW, Leipzig	65.2	34.8
TA Oncology, Muenster	46.7	53.3
Dental BU, Kleinostheim	46.5	53.5
RÖSCH Medizintechnik, Berlin	20.0	80.0
Gengenbach operating site	40.0	60.0
Schiffweiler operating site	70.3	29.7
<b>RIEMSER Arzneimittel AG</b>	<b>61.7</b>	<b>38.3</b>
RIEMSER Specialty Production GmbH, Laupheim	47.7	52.3
SANAVITA Pharmaceuticals GmbH, Werne	75.0	25.0
<b>Group</b>	<b>59.9</b>	<b>40.1</b>

Age composition of the staff in %						
Location/area	under 20	under 30	under 40	under 50	under 60	from 60
Main location, Isle of Riems	3.5	28.2	21.6	18.9	23.3	4.4
LAW, Leipzig	2.2	13.5	22.5	29.2	28.1	4.5
TA Oncology, Muenster	0.0	6.7	6.7	46.7	33.3	6.7
Dental BU, Kleinostheim	0.0	11.6	27.9	37.2	23.3	0.0
RÖSCH Medizintechnik, Berlin	0.0	0.0	40.0	40.0	20.0	0.0
Gengenbach operating site	6.7	40.0	0.0	20.0	26.7	6.7
Schiffweiler operating site	0.0	10.8	13.5	43.2	24.3	8.1
<b>RIEMSER Arzneimittel AG</b>	<b>2.5</b>	<b>20.0</b>	<b>21.0</b>	<b>26.7</b>	<b>25.4</b>	<b>4.4</b>
RIEMSER Specialty Production GmbH	3.4	23.9	14.8	14.8	33.0	10.2
SANAVITA Pharmaceuticals GmbH	0.0	25.0	25.0	0.0	50.0	0.0
<b>Group</b>	<b>2.6</b>	<b>20.6</b>	<b>20.1</b>	<b>24.7</b>	<b>26.8</b>	<b>5.2</b>

## Educational qualification

The high know-how available in the company is reflected in the educational qualification of the employees in the Group. 36.6 % have graduated from a university or an advanced technical college, 56.4 % have completed a vocational training.

## Remuneration policy

As an attractive employer RIEMSER offers a performance-based remuneration taking personal commitment appropriately into consideration. Within the framework of the Management by Objectives management system the variable remuneration components for high performers contributing to the success of the company were newly defined in 2010.

In the 2010 financial year the staff cost in the Group amounted to a total of €27.0 million, of which €22.8 million for remunerations and €4.2 million for social security contributions.



Share of graduates in %				
Location/area	Apprentices	without vocational qualification	with vocational qualification	University/college graduates
Main location, Isle of Riems	6.6	0.0	47.1	46.3
LAW, Leipzig	2.8	4.5	52.2	40.4
TA Oncology, Muenster	0.0	0.0	40.0	60.0
Dental BU, Kleinostheim	0.0	0.0	67.4	32.6
RÖSCH Medizintechnik, Berlin	0.0	0.0	80.0	20.0
Gengenbach operating site	6.7	0.0	73.3	20.0
Schiffweiler operating site	2.8	0.0	86.1	11.1
<b>RIEMSER Arzneimittel AG</b>	4.2	1.5	54.1	40.1
RIEMSER Specialty Production GmbH, Laupheim	5.7	8.0	68.2	18.2
SANAVITA Pharmaceuticals GmbH, Werne	12.5	0.0	75.0	12.5
<b>Group</b>	4.6	2.4	56.4	36.6

# Human resources and social report



## Staff recruitment

Due to the general shortage in skilled labour the search for qualified employees and managers (pharmaceutics/natural sciences) with professional experience is increasingly difficult. The number of unsolicited applications decreased by about 15.0 % against the previous year. This development is countered by a more intensive active search, including via Internet job portals, employment advertisement in newspapers and in technical journals as well as by using recruitment agencies.

It is also more and more difficult to find qualified applicants for apprenticeship training positions. For the first time one position remained vacant. Furthermore the company participates in trans-regional educational fairs and in the „Girl's Day“ information campaign, the aim of which is to arouse the interest of female students in careers unusual for women, in order to address qualified interested persons. Moreover, all locations offer students the opportunity to obtain some insight into the working environment of the company.

### Sickness absence in %

Location/area	
Main location, Isle of Riems	4.1
LAW, Leipzig	5.7
TA Oncology, Muenster	2.8
Dental BU, Kleinostheim (w/o Inc.)	3.8
RÖSCH Medizintechnik, Berlin	1.1
Gengenbach operating site	5.9
Schiffweiler operating site	5.7
<b>RIEMSER Arzneimittel AG</b>	<b>4.8</b>
RIEMSER Specialty Production GmbH, Laupheim	2.9
SANAVITA Pharmaceuticals GmbH, Werne	0.3
<b>Group</b>	<b>4.5</b>

## Staff development

Management by Objectives has been implemented as a generally accepted method of company management. This human resources management instrument enables us to bind employees more tightly to the company and its aims. The dialogue between executives and the employees is promoted; the development of the employees is systematically aligned with the achievement of their performance targets and with the operative requirements. The purpose of this is to fulfil our long term quantitative and qualitative demand for technical and managerial staff. This is also the aim of the support and qualification programmes for our technical and managerial staff as well as of the „RIEMSER University“.

## Training

As at 31 December 2010 19 young people were undergoing training. 6 apprentices successfully completed their vocational training in 2010, four of which were then employed; two will join the company after the completion of their studies.

Students from the technical disciplines of pharmacy, natural sciences and biotechnology are regularly completing their practical semesters at all our locations. In 2010, we supported about 46 interns and undergraduates.

## Sickness absence

In 2010 the number of staff absent for sickness noticeably fell down to 4.5 % compared with the previous year. This figure is mainly attributable to a decrease in the field of long-term sickness.

## Social security contributions

### Corporate pension scheme

The employees of RIEMSER Arzneimittel AG have the possibility of setting up reserves within the framework of the company pension scheme by converting their remuneration into social security contributions for improving their own old age provisions. Almost all options financed by the employees or employer, for instance through supporting or pension funds, are offered.

### Health and safety

Occupational safety and health are decisive elements of the company organisation and obligatory for all. All our staff is trained regularly with regard to occupational safety and health and instructed to observe the stipulated protective measures. In addition, in all work areas safety officers and employees trained in first-aid measures are available to support the managers.

Technical facilities, building equipment and the work places comply with the state of technology. Ongoing risk assessments are performed to review all activities and work processes. This pays off, among other things, in a constantly low number of just minor workplace accidents. In 2010 in the Group there occurred 12 minor accidents at the workplace and on the way to work requiring reporting.

### Codetermination

In the spring 2010 the Works Councils were regularly elected at the Riems, Leipzig, Gengenbach and Schiffweiler locations and for the first time also at the Muenster site. These elections were accompanied by the new election of the General Works Council and the Economic Committee.

Cooperation of the company management with the codetermination bodies has always been constructive and trustworthy, also for the implementation of the transformation projects we were all acting in concert.

### Corporate social responsibility

With its commitment for charitable, socio-political and cultural causes the Group supports welfare associations, schools, sports clubs and cultural organisations. A total of €38,517 was donated in 2010.

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