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Interim Report 1-3/2007 on Tuesday, 24 April, 2007

Oriola-KD Corporation’s Annual General Meeting will be held on Tuesday, 13 March 2007 in Helsinki.

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ORIOLA-KD GROUP IN BRIEF

Oriola-KD is a leading Nordic healthcare company with 100 years of experience in the industry. Today 1,500 committed professionals provide high quality solutions for a growing customer and principal network.

Oriola-KD’s strength is the comprehensive product and solution portfolio in Finland, Sweden, Denmark and the Baltic Countries. Core businesses consist of pharmaceutical distribution and trade and healthcare and dental trade.

Oriola-KD’s invoicing in 2006 was EUR 2.3 billion and the company is listed on Helsinki Stock Exchange. Oriola-KD aims to add value to its customers, partners and shareholders as well as to support the wellbeing.
CEO’s review

The demerger of Orion Corporation and the listing of Oriola-KD as a new company on the Helsinki Stock Exchange in July 2006 was one of the most consequential events in the 100-year history of Oriola-KD. We may now, as an independent listed company, devote our full focus to the development of our business. Determined action was already taken in 2006 to improve our competitiveness by introducing a new strategy and revised business structure as well as implementing a cost efficiency programme.

Invoicing and net sales in 2006 remained nearly equal to those in the previous year. The lower operating profit can primarily be attributed to non-recurring items. Tighter competition also impacted on our profitability especially in pharmaceutical distribution. The watchwords for 2007 are performance and integration. We will focus on improving profitability through greater efficiency garnered from synergies within and between our businesses. We will also carry on with our survey of growth opportunities in both our business segments, as outlined in our strategy.

The healthcare market in the Baltic region is at a particularly interesting stage. The Swedish pharmaceutical market, where growth has lagged in recent years, saw good development in 2006. The new Government’s policies to deregulate of the pharmacy business in the future may open up new opportunities for operators in the sector in Sweden. Development in Finland has progressed along two paths. On the one hand, sales through hospitals of new and innovative products such as cancer medication have enjoyed substantial growth. On the other, more traditional sales of pharmaceuticals through pharmacies have fallen and dragged the entire market down in their wake. In the longer term, the ageing population provides a boost to the growth of the pharmaceutical market in Finland and Sweden alike.

The healthcare and dental trade markets have both remained on a steady growth track in Finland and Sweden. It has been interesting to observe increased interest in the market. Such attention only further solidifies our views as to the sector’s growth potential and also points towards a continuing trend of consolidation. Oriola-KD is well prepared to manage the transition and will be an active player in the changing market of both the pharmaceutical trade and the healthcare and dental trade.

Oriola-KD’s strengths lie in a comprehensive suite of products and solutions and flexibility. During 2006, we have focused particularly on personnel development with an eye to further enhancing the quality of our operations and our customer service. Our goal is to generate added value for our customers, partners and shareholders alike in all our operations.

I would like to extend my warmest thanks to our customers, partners, employees and our company’s Board of Directors and shareholders for their confidence in Oriola-KD.

Eero Hautaniemi
President and CEO
Financial Review

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

Key figures in 2006 (pro forma):

- Invoicing EUR 2,340 million and net sales EUR 1,335 million
- Operating profit excluding one-off items EUR 22.6 million and operating profit including one-off items EUR 17.4 million
- Operating cash flow EUR 52.7 million
- Return on capital employed 8.6 percent
- Earnings per share EUR 0.10
Strategy

Oriola-KD’s objective is to be a leading company in both Pharmaceutical and Healthcare & Dental Trade in Finland and Sweden by developing and investing in both business segments. Oriola-KD’s target is to grow selectively in the Baltic Countries, Denmark, Poland and Russia organically and through acquisitions.

LONG-TERM FINANCIAL TARGETS
• The Group’s long-term financial goals are based on the development of its operating profit and return on capital employed (ROCE).

OPERATING PROFIT
• The long-term goal for the Group’s operating profit excluding one-off items is set at growth of at least five percent over the previous year. Growth substantially above the long-term growth rate is expected in operating profit excluding one-off items in 2007, primarily due to the cost efficiency programme implemented in 2006.

RETURN ON CAPITAL EMPLOYED
• Return on capital employed (ROCE) shall be at least 13 percent in 2010.

DIVIDEND POLICY
• Oriola-KD will seek to pay out as dividends approximately 50 percent of earnings per share annually. The company’s financial position and operational strategy shall be taken into consideration when determining annual dividend.
Oriola -ko's distribution of pharmaceuticals and offering of consumer healthcare products support the wellbeing of individuals.
Pharmaceutical Trade business segment

Oriola-KD engages in the trade and distribution of pharmaceuticals in Finland, Sweden, Estonia, Latvia and Lithuania. Decades of experience have given the company a established and integrated role in providing medicinal care and serving the healthcare system.

Efficiency, dependability, attention to details and ERP systems based on modern information technology as well as skilled customer service are key factors in the pharmaceutical trade. These play a vital role in the high quality operations of the business segment.

The business segment’s invoicing in 2006 was EUR 2,064.7 million (2,124.8), net sales EUR 1,098.7 billion (1,093.3) and operating profit excluding one-off items EUR 15.6 million (18.1). The segment accounted for 88.2 percent (88.8) of Oriola-KD’s total invoicing in 2006, 82.3 percent of net sales (82.2) and 60.0 percent of operating profit excluding one-off items (67.3 percent). The Pharmaceutical Trade business segment had 925 employees at the end of 2006 (935).

PHARMACEUTICAL DISTRIBUTION BUSINESS

The customer base of Oriola-KD in pharmaceutical distribution consists of manufacturers and importers of pharmaceuticals as principals and pharmacies, hospitals, healthcare centres, veterinarians and other operators in the healthcare sector as retail and end-user customers. Over 60 pharmaceutical companies in Finland and over 70 in Sweden are served by Oriola-KD as principals. In January-December 2006, Oriola-KD’s share of the pharmaceutical wholesale market in Finland was 41.4 percent (42.1) and in Sweden 43.2 percent (47.1). (Source: IMS Health).

The pharmaceutical market in Finland decreased in 2006 by 0.4 percent. Finnish market grew in 2005 by 7 percent. In Sweden the pharmaceutical market grew by about 4.5 percent. Swedish market grew in 2005 by about 4 percent in 2006. (Source: IMS Health).

The cut in wholesale prices of prescription drugs at the beginning of 2006, generic substitution by pharmacies and the exceptionally large purchases of self-medication products by pharmacies towards the end of the previous year resulted in the total value of the pharmaceutical market falling in Finland. Higher fuel prices raised distribution costs in both Finland and Sweden.
During 2006, Oriola-KD concluded new distribution agreements in Finland with Roche, which holds 3.8 percent of the Finnish pharmaceutical market, and with Schering-Plough holding 1.7 percent, as well as certain other distribution agreements of lesser volume. In Sweden, new distribution agreements were concluded with Pfizer Rx and Meda, which together hold a total of about 6 percent of the Swedish pharmaceutical market. (Source: IMS Health.) Oriola-KD was earlier responsible for the distribution of roughly half of Pfizer’s product portfolio in Sweden while the new agreement covers the distribution of all pharmaceuticals as of the second quarter of 2007. In addition, Oriola-KD concluded agreements in Sweden with a few smaller pharmaceutical companies. The pharmaceutical principals transferring from Oriola-KD in the period under review hold a total combined share of some 2 percent of the Swedish pharmaceutical market. Transferring pharmaceutical principals in Sweden: Alpharma, Leo Pharma and Sandoz. Negotiations in Finland in 2006 resulted in no pharmaceutical principals transferring from Oriola-KD.

Negotiations on distribution agreements with pharmaceutical companies are mainly conducted between July and October. Negotiations in 2006 took longer than in previous years and the agreements concluded were mainly for several years’ duration. According to the situation at year-end 2006, Oriola-KD’s market share in 2007 is estimated at some 46 percent in Finland and approximately 44 percent in Sweden. Negotiations with certain principals remained underway at year-end 2006.

During 2006, Oriola-KD further increased its holding in Kronans Droghandel AB from 69.4 percent to 85.6 percent by acquiring the minority holdings of Astra Arcus AB, Pfizer AB and Pfizer Health AB. Oriola-KD seeks to acquire 100 percent control of the company in long term.

Oriola-KD also assumed responsibility for the warehousing and distribution of products in the Finnish National Public Health Institute’s national vaccine programme at the beginning of 2007.

A substantial cost efficiency programme was implemented in 2006 to improve the profitability of the distribution business by reducing the number of distribution centres in Finland from four to two and in Sweden from three to two. The full impact of the savings of some five million euro annually, will take effect in 2007.
The use of expensive drugs developed for the treatment of special patient groups and manufactured by e.g. biotechnological methods has increased over the past two years. These drugs require careful special handling for instance to maintain the cold chain. Oriola-KD has developed its operations to ensure the safe handling of such groups of drugs.

Oriola-KD continues its survey launched in 2006 to identify prospective expansion targets. The company will actively follow the possible deregulation of pharmacies in Sweden. Oriola-KD estimates that the longer term pharmaceutical market will grow by about 3–5 percent in Finland and Sweden over the next few years, which is in line with the longer-term average growth rate of these markets.

PHARMACY AND RETAIL MARKETING BUSINESS

Oriola-KD’s Pharmacy and Retail Marketing business sells and markets consumer healthcare products such as tests, nutritional supplements, special dietary products, herbal remedies, skincare products and health monitoring equipment in Finland and the Baltic States. Oriola-KD is responsible for the entire procurement and delivery chain of the products in the business. Customer insight and efficient marketing and sales functions create added value in the supply chain. Some of the products marketed are under exclusive contract to Oriola-KD. The company also owns individual brand names.

Distribution channels and customers include pharmacies, health food stores, veterinarians, sporting goods stores, consumer goods retailers and healthcare personnel. Pharmacies are the most important distribution channel for health products. In keeping with the overall health trend, pharmacies are increasing the supply of various kinds of functional products in stores, which in turn boosts their sales. The growing share of the ageing in the population also increases the demand for functional products.

Oriola-KD launched a determined effort in 2006 to manage product supply by merging two business units focusing on health products. The product portfolio was streamlined by focusing investment on the most profitable products and trimming products of lower profitability. The goal for 2007 is to make Oriola-KD’s consumer health products available on the Swedish market as well.
Avène

Avène is a French Pierre Fabre’s range of skincare products for sensitive skin. Avené is a leading pharmacy-exclusive skincare range in Central Europe and the market leader by far in France.

Oriola has been in charge of importing and marketing Avène in Finland for two years and has tripled its sales during this time. Product representatives attend to product displays at pharmacies, provide product training to pharmacists and handle consumer marketing.

Avène enjoys promising growth prospects in Finland and seeks to become market leader in pharmacy-exclusive skincare products in the foreseeable future.

DID YOU KNOW THAT:

• Oriola-KD has Pansana pharmacy chain in Latvia.
• Oriola-KD distributes almost all the veterinary drugs in Finnish market.
Oriola-KD’s extensive product and solution portfolio supports the increasingly important work of the whole healthcare sector.
The Healthcare and Dental Trade business segment consists of two businesses: healthcare trade and dental trade. In Healthcare and Dental Trade, Oriola-KD markets, sells, installs and services healthcare and dental care equipment and supplies in Finland, Sweden, Denmark, Estonia, Latvia and Lithuania.

Oriola-KD’s strengths in this business segment lie in name recognition, customer insight, strong brands, comprehensive field organisation in sales, regional coverage, scope and standard of technical service and cost benefits derived from comprehensive deliveries. In the business, the company utilises the shared logistics solutions and distribution networks of Oriola-KD.

The business segment’s invoicing in 2006 was EUR 275.4 million (267.4), net sales EUR 236.0 million (237.5) and operating profit excluding one-off items EUR 10.4 million (8.8). The segment accounted for 11.8 percent (11.2) of Oriola-KD’s total invoicing in 2006 and 17.7 percent of net sales (17.8). The segment accounted for 11.8 percent (11.2) of the Group’s invoicing in 2006, 17.7 percent of net sales (17.8) and 40.0 percent of operating profit excluding one-off items (32.7 percent). The Healthcare and Dental Trade business segment had 570 employees at the end of 2006 (574).

HEALTHCARE TRADE BUSINESS

The main product groups in Healthcare Trade are medical imaging products, medical procedure products and medical products for hospitals and basic healthcare and laboratory products for healthcare, industry and research institutes. In addition, Oriola-KD provides healthcare product-related logistics services in Sweden.

Oriola-KD estimates it held a market share of about 15 percent in Finland at year-end 2006, which makes the company the market leader. In Finland, the company solidified its position in clinical laboratory diagnostics and endoprosthetic surgery and maintained its leading position in the medical imaging and hospital supplies trade. Sales in medical imaging were boosted by two significant deliveries of equipment to Helsinki University Hospital in the latter half of the year in 2006.
In Sweden, Oriola-KD acquired Meteko Instrument AB to solidify its local operations particularly in the hospital supplies trade. Established in 1968, Meteko focuses for example on the marketing of anaesthetic and other operating theatre supplies. Meteko has ten employees. Its net sales in 2005 came to approximately EUR 3 million and the company posted a profit for the year. Oriola-KD’s earlier hospital supply-related operations in Sweden were merged with those of Meteko in August 2006.

The financial performance of healthcare logistics services in Sweden was unsatisfactory, primarily due to the loss of a customer agreement during 2005. The efficiency measures implemented improved financial performance in the latter half of the year. The healthcare logistics services in Sweden account for about half of the business segment’s invoicing but have little impact on the segment’s operating profit.

Although the market in the Baltic countries remains fragmented, Oriola-KD solidified its position especially in Latvia through successful tendering for project sales concerning public sector laboratories. Sales towards the end of the year in Estonia were boosted by the increase in VAT applicable to healthcare products taking effect at the beginning of 2007.

Oriola-KD seeks to strengthen cooperation and boost marketing resource allocations with leading equipment manufacturers, which in recent years have only grown in importance. The goal is to grow with leading partners, locate new growing partners and to strengthen the supply of each product and solution portfolio also between countries.

Although industry consolidation continued in 2006, the market remains intensely fragmented into distinct product and customer groups. Oriola-KD seeks to be an active player in industry consolidation and to strengthen its standing in Finland as well as the Swedish, Danish and Baltic markets both organically and through acquisitions. Oriola-KD estimates that growth in the market for healthcare equipment and supplies will outpace that of the pharmaceutical market in Finland and in Sweden.
DENTAL TRADE BUSINESS

In the Dental Trade business Oriola-KD markets, sells, delivers and provides services for equipment and supplies for oral healthcare. The product range comprises all products needed in dental care. The customer base consists of private and public sector dental care providers. The geographical area of operations covers Finland, Sweden, Denmark, Estonia, Latvia and Lithuania.

The company estimates that in 2006 it held a market share of over 50 percent in dental equipment and supplies delivered to dental clinics and laboratories in Finland. In the year under review, the company’s market share in Sweden and Denmark remained fairly low, yet the company has strong market standing in selected product groups. In the Baltic countries, the company is either market leader or number two depending on country.

During 2006, Oriola-KD was especially successful in Finland in the field of new technology such as the market for laser treatment equipment. In Finland, the customer base continued to consolidate into more extensive groups and chains of customers forming larger procurement units. In Sweden, the company concluded three-year comprehensive agreements on the digitalisation of imaging in municipal dental care in the provinces of Örebro and Norrbotten. In the Baltic countries, sales especially towards the end of the year were boosted by Estonia’s new policy concerning VAT which will also impact the healthcare trade. Business developed favourably also in Latvia and Lithuania.

Oriola-KD estimates that growth in the market for dental equipment and supplies will outpace that of the pharmaceutical market in Finland and in Sweden.

Innovations in dental care

The KaVo KEY Laser 3 introduced by Oriola on the dental care market has been a huge success. During autumn 2006, well over ten laser devices have been sold in Finland.

Dental laser changes dental care
The KaVo KEY Laser 3 represents state-of-the-art technology. Laser treatment can be used in almost all dental care such as root canal procedures, hard tissue procedures, treatment of gingival diseases, implant procedures and surgery.

Laser treatment is virtually painless and no local anaesthesia is usually required. Safe and gentle laser treatment is performed without touching surrounding tissues or causing any tissue damage. Laser effectively destroys bacteria and wounds heal quicker.
Magnetic diagnostics

Meilahti Hospital, located in the operating area of the Hospital District of Helsinki and Uusimaa, purchased from Oriola a new Philips Achieva 3.0T magnetic resonance imaging device that was deployed in patient use in September 2006. The device is the first three-tesla imaging device in the public sector in Finland. Upon inauguration of the device, President and CEO Lauri A. Laitinen of the Hospital District observed that Helsinki University Central Hospital aims to rank among world leaders in the operations of its imaging unit.

The Philips Achieve 3.0T replaced at Meilahti Hospital an MRI device of 1.5 tesla that had reached the end of its useful life.

“Traditional X-rays continue to account for approximately 70% of all scans performed but demand for magnetic resonance imaging is rising,” estimated Juhani Ahovuo, managing director of HUS Medical Imaging Centre.

“Although the 3T device is more expensive than the 1.5-tesla device, it is also faster and provides better diagnostics. The 3T device allows us to perform approximately 20 percent more patient scans, which enables a decrease in unit costs. The 3-tesla device also provides better images of the target structure and its pathology,” Ahovuo notes.

The 3.0T device was installed by Oriola Technical Services, who are also responsible for its future maintenance and repairs.

Magnetic resonance imaging allows more efficient and detailed examination of the human body than any other imaging method. Magnetic resonance imaging expedites tests, enables more accurate diagnoses and spares the patient from exposure to X-ray radiation.

Other benefits of magnetic resonance imaging are excellent tissue contrast and positional resolution. The stronger the magnetic field in the MRI device, the better resolution the images have and the smaller structural and functional defects of the human body can be examined.

DID YOU KNOW THAT:

• Laser is almost painless and modern way to nurse your dents.

• Oriola madekets first LED light to operating theatre in Finland.
Personnel

Supervisory performance development was a priority for Oriola-KD in 2006. The employee job satisfaction survey (HUPO) commissioned in November/December showed that employee satisfaction in management, fostering of competence and orientation had increased markedly.

EMPLOYEE SATISFACTION
The response rate to the employee job satisfaction survey was 71 percent and the general index rose by some 20 percent from the previous year. The survey indicated that employees experienced their work as important and independent, with 94% of respondents stating they enjoyed being part of the workplace community. Seventy percent perceived the reorganisation and development projects at Oriola-KD to steer the company in the right direction.

In 2006, performance appraisals were conducted with approximately half of all Group employees. Appraisals are a key tool for leadership and development at Oriola-KD and the goal is for all employees to hold performance appraisals with their supervisors. The revised Group-wide performance appraisal process mandates that job descriptions and targets are supporting the strategy as well as personal development plans are determined for employees. The goal is to enhance internal job rotation, mobility and compensation.

Focal areas in fostering competence during 2006 were the development of management and supervision, performance management and orientation. In future, HR development will focus on training, maintaining work ability through proactive measures and the development of an incentive-based compensation model.

SALARIES AND COMPENSATION SCHEMES
Salaries at Oriola-KD are based on the relevant collective agreement, the goal being to offer competitive salaries relative to the market. Base salary is determined on the basis of job requirements and the competence, experience and performance of the job holder. The compensation schemes at Oriola-KD are based on operating result for the business sectors and Oriola-KD, as applicable by countries and on personal targets.

REORGANISATION AND DISMISSALS
Reorganisation and efficiency measures in the Oriola-KD Group led to the termination of some 150 employees in Finland and Sweden in 2006, which figure includes the downsizing of some 20 persons in the first quarter of 2007. The net reduction in 2006 comes to some 55 employees. Upon termination, employees were provided external outplacement services. The programme was perceived to have facilitated the transition.
Oriola-KD Group renewed the model of business operations to matrix organisation in October 2006. The renewal aims to strengthen the steering of businesses, rationalise organisation structure and bring operational efficiency. Oriola-KD has Pharmaceutical Distribution and Trade businesses in Finland, Sweden and the Baltic Countries. Healthcare and Dental Trade businesses Oriola-KD has in Finland, Sweden, Denmark and the Baltic countries.
IMPORTANT DATES 2007

The publication dates of the Interim Reports in 2007 are as follows:

Interim Report 1-3/2007 on Tuesday, 24 April, 2007
Interim Report 1-9/2007 on Tuesday, 23 October, 2007

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