Oriola-KD operates as an effective and reliable channel between pharmaceutical manufacturers and consumers as well as patients in Northern Europe and Russia. Oriola-KD aims to ensure that pharmaceutical manufacturers’ products are processed and delivered in an unaltered state at the right time and place. In its own pharmacies, Oriola-KD provides consumers with not only medicines and pharmaceutical advice but also a wide selection of healthcare consumer products and high-quality customer service.

**Important dates**

Oriola-KD Corporation published its financial statements for the financial year 1 January–31 December 2010 on Friday 11 February 2011.

The interim reports for 2011 will be published according to the following timetable:

- Interim report 1–6/2011, Thursday 4 August 2011

**General Meeting of Shareholders:**

Oriola-KD Corporation’s Annual General Meeting will be held on Wednesday 6 April 2011 in Helsinki.

**Further information:**

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Oriola-KD aims to provide an efficient and high-quality service for the customers: pharmaceutical manufacturers, pharmacies, and customers of pharmacies.
Oriola-KD is an international listed company focusing on pharmaceutical retail and wholesale businesses with operations in Finland, Sweden, Russia and the Baltic countries.

The Oriola-KD Group’s net sales in 2010 were EUR 1.9 billion. The number of employees at the end of the year was 5,381, of which 444 worked in Finland, 1,476 in Sweden, 3,364 in Russia and 97 in the Baltic countries. Oriola-KD Corporation is the parent company of Oriola-KD Group and it is listed on NASDAQ OMX Helsinki.

Services for pharmaceutical manufacturers and consumers

Oriola-KD’s operations have grown and expanded internationally in recent years, and the company focuses on pharmaceutical retail and wholesale in accordance with its strategy. Growth potential has been created in new markets by expanding into pharmaceutical retail and wholesale in Russia in 2008, and by starting up pharmaceutical retail operations in Sweden in 2010 in connection with the removal of the country’s pharmacy monopoly. The company is a major player in the pharmaceutical wholesale business in Finland, and in the pharmaceutical retail and wholesale in both Sweden and Russia. Pharmaceutical wholesale operations are smaller in the Baltic states. As part of Oriola-KD’s strategy, the company has given up non-core business operations by selling both the Healthcare and Dental Trade businesses in 2010.

Oriola-KD aims to provide an effective and high-quality service for the customers: pharmaceutical manufacturers, pharmacies, and customers of pharmacies. Oriola-KD operates as a reliable and efficient channel in Northern Europe and Russia, bringing together pharmaceutical manufacturers and consumers.

Oriola-KD’s development over the years 2006–2010

- Stock listing, efficiency measures and a new growth strategy
- Discontinuations of non-core businesses
- Dental Trade joint venture with Lifco
- Entering Russia’s pharmaceutical retail and wholesale market
- Increased efficiency and strong growth of Russian operations
- Entering Swedish pharmaceutical retail market
- Divestment of Healthcare and Dental Trade businesses
- Acquisition of 03 pharmacy chain in Russia
In 2010 we concluded the restructuring of our group begun in 2006. We acquired a nation wide pharmacy chain in Sweden, the remaining holding in Russian pharmaceutical retail and wholesale companies and the 03 Apteka pharmacy chain in Russia and sold the Healthcare and Dental Trade businesses. The magnitude of this transformation is shown by the fact that, of Oriola-KD’s 5,400 employees, over 80 per cent have joined the company since its birth on 1 July 2006, and about 60 per cent currently work in the retail trade.

During the year we defined a new mission, vision and values for our group. Our mission is to be “The Channel for Health”, i.e. to be the most reliable and efficient channel linking the pharmaceutical industry with the patients. Our vision is for Oriola-KD to become the leading pharmaceutical retail and wholesale company in Northern Europe and Russia. Our values: We are open, We take initiative, We take responsibility and We work together will support the attainment of our mission and vision, and guide our everyday operations. Oriola-KD is now a strongly focused company in the pharmaceutical retail and wholesale businesses.

Financial performance in 2010
The net sales of continuing operations increased by about 23 per cent to EUR 1.9 billion, but the operating profit excluding non-recurring items decreased significantly to EUR 22.5 million due to the difficult situation on the Russian market. Although Oriola-KD’s profitability was weak and we did not achieve our financial targets, our business in Finland, Sweden and the Baltic countries developed according to plan. We recognised a profit of EUR 92 million on the divestment of our Healthcare and Dental Trade businesses. Earnings per share rose to EUR 0.68.

Positive performance in Finland
Despite a decline in the Finnish pharmaceutical market, we were able to improve our profitability. The streamlining of logistical processes and the excellent sales of healthcare consumer products sold to pharmacies resulted in positive performance.

Initiation and expansion of pharmacy operations in Sweden
Sweden’s pharmacy monopoly was dismantled in 2009 and over a half of its pharmacies were sold in 2010. We acquired a nation wide pharmacy chain, and by the end of 2010 were the third largest pharmacy operator in Sweden. We have invested heavily in taking over and developing the operations of the Kronans Droghandel pharmacy chain. After opening 19 pharmacies we had 189 pharmacies by year’s end. With respect to pharmaceutical wholesale we decided to centralise pharmacy distribution in Enköping and pre-wholesale operations in Mölndal. This new wholesale structure will enable us to more flexibly respond to market changes. We will continue to expand the pharmacy chain, improve service quality and increase efficiency in both the retail and wholesale businesses.

Difficult year in Russia
It was an especially challenging year in Russia as long-term market growth crashed from a level of over 20 per cent to three per cent, a trend we could not have forecast at the end of 2009. Due to the slowing of market growth, the introduction of pharmaceutical price regulation and the extremely tight competition, we recorded a loss. Even though our net sales grew, I am not satisfied with the profitability of our wholesale operations. The pharmacy business was more stable and we expanded our Stary Lekar chain by opening new pharmacies. We also acquired the 03 Apteka pharmacy chain, which increased the number of our pharmacies in Moscow to over 250. As a result of the changed market conditions we will focus in 2011 on expanding the retail business and improving the efficiency of wholesale rather than rapidly expanding it.

Personnel development and quality improvement programme
We have measured the work satisfaction of our personnel every year since 2005 and the results have continually shown increased satisfaction. Based on the survey, employees’ work...
is perceived as important in Oriola-KD and colleagues support each other. Areas to develop, according to the 2010 survey, are the incentive systems, motivation and the receipt of feedback and recognition. Every year we choose one to three areas on which to focus in our department-based development projects for the following year.

In the spring of 2010 we launched a group-wide "Five-Star Company" quality improvement programme, the aim of which was to develop processes and clarify the responsibilities of persons working in different jobs in the pharmaceuticals distribution chain with a view to ensuring drug and patient safety. The programme has progressed well in Finland and Sweden, and will also be expanded in 2011 to Russia.

Financial targets
Oriola-KD’s long-term targets were updated to better reflect our new business structure. Our target is to grow faster than the relevant market growth, achieve an over 15 per cent return on equity and have our gearing ratio between 40 and 60 per cent. Our dividend policy, which remains unchanged, is to annually distribute about 50 per cent of our earnings per share as dividends, while considering Oriola-KD’s strategy and financial position. Our company’s strong balance sheet will make it possible for us to expand in Sweden and Russia in accordance with our strategy.

Finally, I wish to thank all of our customers, employees, partners and shareholders for the trust you have shown in our company.

Eero Hautaniemi
President and CEO

Oriola-KD is now a strongly focused company in the pharmaceutical retail and wholesale businesses.
STRATEGY

Oriola-KD is a leading company in pharmaceutical retail and wholesale in Northern Europe and Russia, providing high-quality and efficient services to pharmaceutical manufacturers, pharmacies and consumers.

Oriola-KD is a leading company in pharmaceutical retail and wholesale in its countries of operation, and the company’s aim is to grow more rapidly than the pharmaceutical market on average. The company serves consumers in Sweden and Russia in its own pharmacies and in Finland by selling healthcare consumer products. In pharmaceutical wholesale, Oriola-KD offers pharmaceutical companies an efficient and reliable pharmaceutical storage and delivery channel to pharmacies and hospitals in Finland, Sweden, Russia and the Baltic countries.

Implementation of the strategy in 2010
Oriola-KD focuses on pharmaceutical retail and wholesale in Northern Europe and Russia. In accordance with the strategy, Oriola-KD acquired a nation wide pharmacy chain in Sweden, the remaining holding in the Russian pharmaceutical retail and wholesale companies and the 03 Apteka pharmacy chain in Russia. The company also sold its Healthcare and Dental Trade businesses in 2010.

In spring 2010, Oriola-KD launched the Five Star Company programme in pharmaceutical wholesale, during which investments will be made in developing procedures, supervisory performance and the work community. The aim of the programme is to clarify the responsibilities of different roles as part of the pharmaceutical distribution chain and activities to secure patient safety.

In addition, improving the quality of the cold chain management for pharmaceuticals was a priority in 2010.

A decision was also taken during the year to renew the brand. Oriola-KD is building a strong Oriola brand for its wholesale business in Finland, Sweden, Russia and the Baltic countries.

The employees are guided by the Group’s values, which are the following: We are open, We take initiative, We take responsibility and We work together. The aim of the values is to guide employees’ work and to support the mission, vision, and attainment of strategic objectives.

Oriola-KD has a unique position in the pharmaceutical distribution chain
Mission

The Channel for Health

Vision

The Pharmaceutical Channel in Northern Europe and Russia

Values

We are open

- We express our opinions clearly and carefully listen to others
- We speak directly to those concerned
- We have no hidden agendas
- We are open to new ideas

We take initiative

- We see what needs to be done and take appropriate action
- We have courage to challenge the status quo
- We focus on solutions rather than problems

We work together

- We build on the organization’s expertise and experience
- We work for the common good of the company
- We treat others with respect

We take responsibility

- We get things done in a target-oriented way
- We take responsibility for our decisions and actions
- We act responsibly to ensure patient safety
- We take responsibility for the long-term profitability of the company
FINANCIAL REVIEW

Oriola-KD’s net sales for the Pharmaceutical Retail and Wholesale increased 23 per cent to EUR 1.9 billion and net sales of continuing operations decreased from the previous year as a result of the very difficult market situation in Russia. Business operations in Finland and Sweden developed favourably. Of net sales, 47 per cent comes from Sweden, 30 per cent from Russia, 22 per cent from Finland and 2 per cent from the Baltic countries.

<table>
<thead>
<tr>
<th>Key figures for Oriola-KD’s continuing operations</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales, EUR million</td>
<td>1,929.4</td>
<td>1,569.2</td>
</tr>
<tr>
<td>Operating profit, EUR million</td>
<td>9.8</td>
<td>52.6</td>
</tr>
<tr>
<td>Operating profit excluding one-off items, EUR million</td>
<td>22.5</td>
<td>52.6</td>
</tr>
<tr>
<td>Net profit, EUR million</td>
<td>3.5</td>
<td>39.1</td>
</tr>
<tr>
<td>Earnings per share, EUR</td>
<td>0.02</td>
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<tr>
<td>Earnings per share, EUR*</td>
<td>0.68</td>
<td>0.34</td>
</tr>
<tr>
<td>Net cash flow from operations, EUR million</td>
<td>88.7</td>
<td>100.9</td>
</tr>
<tr>
<td>Return on equity, %*</td>
<td>33.7</td>
<td>22.1</td>
</tr>
</tbody>
</table>

*) including the Healthcare Trade and Dental Trade businesses

LONG-TERM OBJECTIVES AND DIVIDEND POLICY

In 2010, Oriola-KD published its updated dividend policy and long-term objectives, which are based on growth, profitability (ROE) and balance sheet indicators.

The objective is to grow faster than the relevant markets. The company’s target return on equity (ROE) is over 15 per cent. The long-term balance sheet objective is for an average net gearing ratio of 40–60 per cent.

Dividend policy

Oriola-KD will seek to pay out annually as dividend approximately 50 per cent of the earnings per share. The company’s strategy and financial position shall be taken into consideration when determining the annual dividend payout ratio.
Net sales, EUR million

Operating profit, EUR million

Earnings per share, EUR

Balance sheet total and equity, EUR million

Return on equity (ROE), %

Gearing ratio, %

* excluding non-recurring items
** including discontinued operations
MARKET REVIEW

Global market uncertainty was reflected in consumer behaviour in 2010, slowing pharmaceutical market growth also in Europe and Russia. The pharmaceutical market is estimated to grow in the long term with growth focusing primarily on the emerging markets. In the developed markets, growth is being slowed by the expiry of pharmaceutical patents and the arrival of new, generic medicines on the market and authorities’ price regulation. At the same time, increased supply and use of expensive special products especially in hospitals is contributing to the growth of the pharmaceutical market in the developed markets.

The annual value of the global pharmaceutical market is approximately EUR 600 billion. Oriola-KD operates on a pharmaceutical market worth approximately EUR 16 billion. The value of the pharmaceutical market in Russia is approximately EUR 10 billion, in Sweden it is roughly EUR 3 billion and in Finland about EUR 2 billion. The combined Estonian, Latvian and Lithuanian markets are valued at about EUR 1 billion*.

The global pharmaceutical market has grown by around 4 to 5 per cent annually in recent years (IMS Health). This development is forecast to continue and the growth will focus on the emerging markets. In Western Europe, the pharmaceutical market has grown by approximately 1–3 per cent each year in recent years, which corresponds to the growth of the Finnish and Swedish markets in recent years. The European pharmaceutical market is being boosted by the ageing of the population and the resulting increase in medicine consumption. The Russian pharmaceutical market is expected to grow by 11–13 per cent annually (IMS Health). Growth is fuelled by the ageing of the population, government investments in health care, an increase in affluence and increased consumption of Western medicines.

A gradual liberalisation of regulatory legislation regarding pharmaceutical operations is anticipated in Europe, and this is expected to lead to the formation of pharmacy chains and the integration of pharmacy operations and pharmaceutical wholesale. This development is expected to lead to new business models.

Pharmaceutical wholesale and distribution market

There are two leading pharmaceutical wholesalers in Finland and Sweden. In Finland, pharmaceutical distribution takes place with a single-channel model in which pharmaceutical manufacturers focus the distribution of their products on a single pharmaceutical wholesaler. In Sweden, the pharmacy monopoly ended in 2009, as a result of which new business models have surfaced on the wholesale market. Following the change in the market, new providers of logistics services have entered the Swedish market alongside the single-channel model. The Russian and Baltic pharmaceutical distribution markets operate under a multi-channel model, in which pharmaceutical companies sell medicines to multiple pharmaceutical wholesale companies.

In Europe, the pharmaceutical wholesale market operates mainly under the multi-channel model. The single-channel model resembles the direct to pharmacy (DTP) model, which is becoming more common in Europe especially between major pharmaceutical companies and pharmaceutical wholesalers.

In 2010, Oriola-KD’s market share in pharmaceutical distribution was approximately 46 per cent in Finland, roughly 40 per cent in Sweden, approximately 7 per cent in Russia’s commercial pharmaceutical market and under 10 per cent in the Baltic countries. The commercial pharmaceutical market accounts for approximately 75 per cent of the total Russian pharmaceutical market*.

* IMS Health
Pharmaceutical retail, or pharmacy market

At the end of 2010, approximately 800 pharmacies were operating in Finland, around 1150 pharmacies in Sweden, and over 30,000 pharmacies in Russia. Prescription medicines accounted for approximately 80 per cent of pharmacies’ total sales in Finland and Sweden, and approximately 60 per cent in Russia. OTC pharmaceuticals accounted for about 10 per cent of pharmacies’ net sales in Finland and Sweden while the proportion is much higher in Russia, at around 30 per cent. The sale of traded goods accounts for around 10 per cent of pharmacies’ net sales in Sweden and Russia and around 7 per cent in Finland. The proportion and significance of OTC medicines and traded goods sold in pharmacies has increased in recent years. These product groups function as dynamos of pharmaceutical retail growth in all market areas, and especially in the developed markets.

In Europe, pharmacy operations are regulated separately by each country. In Finland, only private individuals can engage in pharmacy business, with the exception of the University Pharmacy chain. In Sweden, new pharmacy chains have been created as a result of the removal of the pharmacy monopoly. In Russia and the Baltic countries, pharmacies can be owned by private individuals and companies, and both private and chain-operated pharmacies exist on the market. The Russian pharmacy market is very fragmented, with the market share of the ten largest operators totalling under 15 per cent.

At the close of 2010, Oriola-KD had 189 pharmacies in Sweden that belonged to the Kronans Droghandel chain, and in Russia Oriola-KD’s chains comprised the Stary Lekar and the 03 Apteka pharmacy chains with 254 pharmacies in Moscow and its surroundings. Oriola-KD does not engage in pharmaceutical retail business in Finland or the Baltic countries.

Size of pharmaceutical markets by region in 2010 and growth estimate for 2011–2014

**MARKET SIZE IN 2010**

- **Finland**: some EUR 3 billion
- **Sweden**: some EUR 1 billion
- **Russia**: some EUR 10 billion

**GROWTH ESTIMATE 2011–2014**

- **Finland**: some 2–3 %
- **Sweden**: some 1 %
- **Russia**: some 11–13 %
A pharmaceutical distributor has to be able to deliver the products flawlessly in 24 hours to all the pharmacies in Finland.
PHARMACEUTICAL TRADE FINLAND AND BALTIMES

Oriola-KD’s subsidiary Oriola Oy is the second largest pharmaceutical wholesaler in Finland, with a market share of about 46 per cent*. In addition, Oriola-KD sells and markets a very comprehensive range of consumer health products. In Finland, Oriola-KD does not operate in pharmaceutical retail. Under Finnish law, only private individuals can engage in pharmacy business, with the exception of the University Pharmacy chain.

Pharmaceutical Trade Finland’s net sales in 2010 were EUR 417.4 million (EUR 505.1 million) and its operating profit was EUR 20.3 million (EUR 18.1 million). The segment’s net sales were 22 per cent of Oriola-KD’s total net sales. The 18 per cent decrease in net sales since the previous year was mainly caused by the changes from stock owned by Oriola-KD to consignment stock by some pharmaceutical companies. The volume of Oriola-KD’s pharmaceutical distribution in Finland remained nearly the same as in 2009, invoicing being EUR 1003.1 million (EUR 1019.7 million) including the sales of the pharmaceuticals sold from the consignment stock. The personnel at the end of the year numbered 420 (418).

Pharmaceutical market in Finland

In Finland, pharmaceutical distribution takes place with a single-channel model in which pharmaceutical manufacturers focus the distribution of their products on a single pharmaceutical wholesaler. The operation of pharmaceutical wholesalers is strictly regulated and controlled. To meet the requirements, the companies operating in the market have to invest in continuous development and state-of-the-art technology.

Measured by value, the overall pharmaceutical market decreased in 2010, as the reference price system for pharmaceuticals adopted in 2009 and the resulting price competition reduced the prices of medicines. The Finnish pharmaceutical market is stable and is estimated to grow an average of 1–3 per cent per year during the next few years.

Oriola-KD on the Finnish pharmaceutical wholesale market

Oriola-KD’s wholesale operation covers the entire country. The main distribution centre is located in Espoo and the Northern Finland distribution centre in Oulu. Oriola-KD provides logistics services for its customers: pharmaceutical storage, order-picking and distribution to customers.

In addition to its distribution activities, Oriola-KD provides pharmaceutical manufacturers and pharmacies various added value services, such as the distribution of clinical trials medicines and medical samples, storage and distribution services for marketing materials and other logistics solutions. In 2010, a new added value service was introduced: the procurement of unlicensed products. In other words, Oriola-KD imports and distributes to hospitals medicinal products that previously had no marketing authorisation in Finland.

In 2010, Oriola-KD developed its electronic services by introducing the new OriolaPro online service for pharmaceutical companies. This service brings together all the reporting and business services.

During 2010, Oriola-KD made a number of new distribution agreements in Finland. The most significant include a five-year agreement on the distribution of pharmaceuticals and food supplements with Orion as of 1 July 2011 and a new distribution agreement with Eli Lilly as of 1 January 2011. Orion accounts for some 10 per cent of the value of pharmaceuticals wholesaling in Finland, and Eli Lilly accounts for about 2 per cent*.

In the processing and distribution of pharmaceuticals, Oriola-KD invests in quality and accuracy. Covering the entire Group, the Five Star Company quality programme was launched in spring 2010. The goal is to gain the ISO 9001 quality certification for the Finnish operations during 2011. In the quality programme, all the main pharmaceutical wholesale processes and their sub-processes are inspected in detail. Particular attention has been paid to the storage, processing and distribution of temperature-controlled products. In 2010, the main distribution centre in Espoo introduced new cold store facilities to meet the growth and quality requirements of temperature-controlled pharmaceuticals. The operation of the order-picking facilities was also improved.

Consumer Health

Besides pharmaceutical distribution, Oriola-KD sells and markets consumer health products to pharmacies and the groceries. Oriola-KD’s product categories include vitamins, food supplements, pharmacy cosmetics, skincare products, tests, sports drinks and, as the latest launch in 2010, wound care products. The product range boasts the leading health and wellbeing brands in Finland, such as Gefilus, Lysi, Pansuola, Avène and several of Oriola-KD’s own brands.

Pharmaceutical Trade Baltics

Oriola-KD operates in the Baltic countries in pharmaceutical wholesale and as a pre-wholesaler for pharmaceutical manufacturers. Pharmaceutical Trade Baltics’ net sales in 2010 were EUR 31.3 million (EUR 35.7 million) and its operating profit was EUR 1.1 million (EUR 0.9 million). Personnel numbered 97 (120) at the close of 2010. Oriola-KD’s share of the Baltic pharmaceutical wholesale market was just below 10 per cent* in 2010. Oriola-KD aims to further develop its pharmaceutical pre-wholesale operation in the Baltic market and to develop new distribution models.

*) IMS Health

Annual Report 2010

15
Oriola-KD expanded its operations in Sweden in 2010 to include pharmaceutical retail in addition to the existing pharmaceutical wholesale business. Under the name Kronans Droghandel, the pharmacy chain began its operations in February 2010, to include the third largest pharmacy chain in the country by the end of the year, with a market share of 14 per cent. Oriola-KD’s pharmaceutical wholesaler KD Pharma, which is operating under the name Oriola as of January 2011, was the second largest pharmaceutical wholesale company, with a market share of 40 per cent.

In 2010, the net sales of Pharmaceutical Trade Sweden came to EUR 908.7 million (EUR 548.3 million), of which retail accounted for EUR 402.7 million (EUR 0.0 million) and wholesale EUR 554.9 million (EUR 548.3 million). The segment’s net sales were 47 per cent of Oriola-KD’s total net sales. Pharmaceutical Trade Sweden’s operating profit was EUR 12.5 million (EUR –5.0 million). The pharmacy business also boosted the number of personnel to a total of 1,483.

Sweden’s pharmacy monopoly was dismantled in July 2009. Consequently, in 2010 approximately 220 new pharmacies were established in Sweden. Given that Sweden has fewer pharmacies per inhabitant than the European average, the number of pharmacies is estimated to grow further during the next few years. The changes in the pharmacy market have also brought new operators to the pharmaceutical wholesale business. The pharmaceutical market grew 1.1 per cent in 2010 (2.4 per cent in 2009). Annual growth over the next few years is estimated to be 2 to 3 per cent.*

Pharmaceutical retail
Oriola-KD started its nationwide pharmacy business in Sweden on 19 February 2010 with the pharmacy chain Kronans Droghandel, of which Oriola-KD owns 80 per cent and Kooperativa Förbundet 20 per cent. At the end of the year, the chain consisted of 189 pharmacies and its net sales were EUR 402.7 million. The personnel at the end of the year numbered 1,190.

In 2010, Oriola-KD focused on taking charge of the new business, ensuring growth and improving efficiency. It opened a total of 19 new pharmacies, improved the chain’s product assortment and lengthened the pharmacy opening hours. An extensive renewal of information systems was also begun. New advice service pilot included the launch of diabetes follow-up and non-smoking support in 15 pharmacies. To support the chain’s development, a strong corporate culture is being built and personnel will be given training in customer service and sales.

The goal of the pharmacy operation is to grow profitably and strengthen the brand and market position achieved during the first year by providing an unrivalled service in the Swedish pharmacy market. In 2011, the work will continue: new pharmacies will be opened, information systems renewed, corporate culture reinforced, operating efficiency increased and customer service enhanced. The pilot project on pharmaceutical advice launched in 2010 will be expanded to cover all pharmacies in the chain.

Pharmaceutical wholesale
Operating under the name Oriola as of January 2011, Oriola-KD’s pharmaceutical wholesaler KD Pharma is the second largest pharmaceutical wholesale company in Sweden, with a market share of about 40 per cent. The net sales of the pharmaceutical wholesale business in 2010 amounted to EUR 554.9 million, and the personnel at the end of the year numbered 293. Oriola-KD’s wholesale logistics centres in Sweden are located in Mölnlycke and Enköping. The clientele consists of pharmaceutical companies and pharmacy chains.

Under the wholesale business strategy redefined in 2010, Oriola-KD’s wholesale business will now focus on DTP business (direct to pharmacy) and services provided to pharmaceutical industry. The efficiency of the wholesale business will be raised by centralising pharmacy distribution at the Enköping distribution centre and pharmaceutical storage and cooperation with pharmaceutical manufacturers at Mölnlycke. As a result, the number of personnel will decrease by about 70 at Mölnlycke and increase by about 30 at Enköping in early 2011.

In 2010, the wholesale business also focused on improving the management of temperature-controlled products and further developing operating processes. Oriola-KD’s goal is to maintain its strong position and to focus on quality in the distribution of expensive and temperature-controlled pharmaceuticals, and on services for pharmaceutical industry.

* IMS Health
Kronans Droghandel pharmacy chain began its operations in February 2010, becoming the third largest pharmacy chain in Sweden by the end of the year, with a market share of 14 per cent.

The art of opening a pharmacy

In November 2010, Oriola-KD’s Swedish pharmacy chain, Kronans Droghandel, opened its 183rd pharmacy at Sabbatsberg Hospital. The opening ceremonies were preceded by a busy phase during which all the necessary preparations from finding premises to stocking shelves were carried out.

The preparations for establishing a new Kronans Droghandel pharmacy take between four and six months. To help in building and planning, model pharmacies, in which even the positioning of goods on the shelves has been thought out in advance, are available, and the good reputation of the Kronans Droghandel pharmacy chain makes recruitment easier. However, this still leaves much to be done: finding suitable premises amidst customer flows and acquiring the necessary permits always take time.

After the removal of the government pharmacy monopoly, new pharmacies have been opened in Sweden at a rate of 10 to 20 per month. Around half of the Kronans Droghandel pharmacies have been set up in connection with stores in the Coop chain, which guarantees a ready flow of customers as well as a good location for the new pharmacies.
Oriola-KD engages in the pharmaceutical retail and wholesale business in Russia. Oriola-KD is the second largest retail company in the Moscow region. Oriola-KD is the sixth largest pharmaceutical wholesaler in Russia.

In 2010, the net sales of Pharmaceutical Trade Russia were EUR 572.4 million (EUR 480.7 million), of which retail accounted for EUR 106.6 million (EUR 98.7 million) and wholesale EUR 518.4 million (EUR 439.2 million). Net sales rose by 19 per cent on the previous year, and accounted for 30 per cent of Oriola-KD’s net sales. Net sales were boosted by the acquisition of the 03 Apteka pharmacy chain in August 2010. For the full year, Pharmaceutical Trade Russia posted an operating loss of EUR -18.1 million (operating profit of EUR 44.5 million). This was in part attributable to fierce price competition due to the extremely difficult market environment especially in the wholesale trade. A price control system was also introduced in Russia during the year.

The personnel at the end of the year numbered 3,381. Personnel numbers rose due to the opening of new distribution centres in Ekaterinburg and Novosibirsk, the establishment of new pharmacies in the Moscow region and the acquisition of the 03 Apteka pharmacy chain. At the end of 2010 1,734 people (1,403 people) worked in retail and 1,647 people (1,622 people) in wholesale. The organisational structure in Russia was revised and strengthened during the year.

The Russian pharmaceutical market is estimated to see annual growth of 11–13 per cent in the next few years*. In 2010, the growth of the Russian pharmaceutical market, at 3 per cent (~20 per cent), was significantly slower than the long-term growth outlook. Growth was slowed by fierce price competition and the price control system introduced on 1 April 2010. Consumers became more price conscious during 2010, and increasingly started using local, inexpensive products in favour of Western products.

At the end of 2010, the price control system covered approximately 30 per cent of all essential medicines. Under this system, a maximum level is set for pharmaceuticals’ producer prices and import prices, and regional authorities are responsible for determining and monitoring this level. This has affected the growth of the Russian pharmaceutical market, as well as pharmaceutical prices and mark-ups.

Competition for market shares was very fierce on the Russian wholesale market in 2010. In the pharmacy business, competition consists mainly of local competition. Competition in the Moscow region has been intensified by the increase in the number of pharmacies. The number of pharmacy chains in Russia remains small, but this number is expected to rise in the future.

The commercial pharmaceutical market accounts for approximately 75 per cent of the value of the total pharmaceutical market, though pharmaceutical expenditure per capita is much lower in Russia than in Europe. In the pharmaceutical retail and wholesale markets, Western medicines represent approximately 70 per cent of the value of the Russian pharmaceutical market, while Russian and Eastern European products represent approximately 70 per cent of the volume.
Oriola-KD’s operations in 2011 will focus on strengthening the organisation, achieving growth in retail, and enhancing the efficiency of wholesale.

Pharmaceutical retail
Oriola-KD owns 254 pharmacies in the Moscow region, which operate under the names Stary Lekar and 03 Apteka, which was acquired in August. At the end of 2010, the Stary Lekar pharmacies numbered 181 and 03 Apteka pharmacies numbered 73. Oriola-KD is the second largest retail company in the Moscow region and the sixth largest in Russia. Pharmaceutical retail net sales in Russia came to EUR 106.6 million in 2010. The number of personnel rose to 1,743 by the end of the year.

The objective of Oriola-KD’s pharmacy business is to grow profitably. Growth is sought by strengthening the market position in the Moscow region and, as far as is possible, expanding operations in wealthy, highly populated areas outside Moscow. A strong market position at a local level is important in pharmacy operations. The aim is to continuously develop the product selection in own pharmacies.

Pharmaceutical wholesale
With a market share of 7 per cent, Oriola-KD’s pharmaceutical wholesale company is the sixth largest pharmaceutical wholesaler in the commercial market. The commercial pharmaceutical market accounts for approximately 75 per cent of the total pharmaceutical market in Russia. Oriola-KD has a strong market position especially in Moscow and the western part of Russia. The net sales from the pharmaceutical wholesale business in 2010 were EUR 518.4 million. Personnel numbered 1,647 at the close of 2010.

The wholesale business’s main logistics centre is in Moscow, and it has 12 regional distribution centres. New distribution centres were opened in 2010 in Ekaterinburg and Novosibirsk. A new, larger distribution centre was opened in St Petersburg.

Oriola-KD’s pharmaceutical wholesale in Russia will start using the Oriola name during 2011.

Operational focus on 2011
Oriola-KD’s operations in 2011 will focus on strengthening the organisation, achieving growth in retail, and enhancing the efficiency of wholesale.

* IMS Health
Patient and pharmaceutical safety is the most important requirement governing Oriola-KD’s operations.
CORPORATE RESPONSIBILITY

As a pharmaceutical wholesaler and pharmacy operator, Oriola-KD has a responsible role in the pharmaceutical supply chain. Oriola-KD handles and delivers pharmaceutical manufacturers’ products safely, efficiently and on time, and provides appropriate pharmaceutical advice of a high quality in the Group’s pharmacies.

Patient and pharmaceutical safety is the most important requirement governing Oriola-KD’s operations. Pharmaceutical manufacturers’ products must be delivered to patients safely, efficiently and on time, regardless of circumstances. Professional customer service, pharmaceutical advice and a comprehensive product range of a high quality are the key factors ensuring success in Oriola-KD pharmacies.

The pharmaceutical sector is a strictly regulated industry. Oriola-KD complies with the applicable legislation, regulations and standards in its countries of operation while at the same time pursuing the Group’s own targets and observing its standards and procedures. Oriola-KD has obtained the required authorisations and environmental permits. Corporate responsibility is managed through Group-level, general and shared principles concerning governance and operations, which also cover risk management*. Oriola-KD follows ethically sound business practices.

Financial responsibility

Financial responsibility refers to the need to ensure profitability, competitiveness and efficiency. A financially responsible company continuously develops its operations. Oriola-KD’s goal is to be a profitable company that continuously develops its operations and is a reliable and attractive partner for all its stakeholders.

In November 2010, Oriola-KD updated its financial targets, which now include a target of achieving growth in excess of the growth in the pharmaceutical market. The ROE (return on equity) target is over 15 per cent, and the long-term goal for the average gearing ratio in the balance sheet is 40-60 per cent.

Pharmaceutical manufacturers’ products must be delivered to patients safely, efficiently and on time, regardless of circumstances.

* Read more about our Corporate Governance Statement on pages 60–65.
Important areas in Oriola-KD’s environmental responsibility include the following: the logistical management and optimisation of transportation movements and major flows of goods with the aim of reducing adverse environmental effects; waste reduction through means such as recyclable plastic containers; and sorting and disposal of pharmaceutical and other problem waste.

Environmental responsibility
Oriola-KD manages environmental concerns by conforming to environmental systems that are applicable to its operations, with the aim of minimising adverse environmental impacts.

Important areas in Oriola-KD’s environmental responsibility include the following: the logistical management and optimisation of transportation movements and major flows of goods with the aim of reducing adverse environmental effects; waste reduction through means such as recyclable plastic containers; and sorting and disposal of pharmaceutical and other problem waste using methods required by the authorities. Oriola-KD favours low-emission vehicles as company cars for employees.

Environmental impact is monitored in the businesses by measuring the amounts of emissions and waste. The implementation of environmental policies is monitored with annual surveys.

Social responsibility
The personnel’s activities are guided by Oriola-KD’s code of conduct and the Group’s values defined in late 2010. The Group’s values are as follows: We are open, We take initiative, We take responsibility and We work together. The aim of the values is to guide the personnel’s activities while supporting the implementation of the Group’s mission, vision and strategic goals.

Procurement principles and subcontractor selection and approval processes are important for Oriola-KD, and their significance will only grow as the company’s own-brand product range increases.

Oriola-KD’s employees are provided with orientation and training in working with pharmaceuticals.

Oriola-KD complies with common rules in pharmaceutical handling in order to ensure patients’ safety.
Oriola-KD’s wholesale operations guided by Good Distribution Practice

Good Distribution Practice (GDP) consists of principles and guidelines developed and monitored by the European Medicines Agency (EMA) that require pharmaceutical wholesalers to comply with common rules in pharmaceutical handling in order to ensure patients’ safety. The guidelines specify requirements on the storage, transportation, handling and marking of medicines. The Finnish and Swedish authorities the Finnish Medicines Agency and the Swedish Medical Products Agency have also defined the European guidelines in national legislation, with which Oriola-KD complies in both Finland and Sweden. The application of good practices in our operations is monitored by the national authorities and the pharmaceutical companies for whom we distribute products.

GDP also requires Pharmaceutical Wholesale to train its personnel in working with pharmaceuticals. The extent of the training is determined by the person’s job description.
One of the key factors in ensuring success at Oriola-KD is the Group’s professional and competent personnel. The development of strategic competence is a key target in personnel management at Oriola-KD. Comprehensive development of the work community, accurate resource planning and the promotion of wellbeing at work are also part of responsible personnel management. The company pays particular attention to the recruitment process, professional development and motivation of personnel.

**Personnel in 2010**

As a result of the acquisition of two pharmacy chains, the number of personnel at Oriola-KD grew by 39 per cent in 2010, numbering 5,381 (3,870) at the end of the year. Altogether 8 (11) per cent of the personnel worked in Finland, 27 (8) per cent in Sweden, 63 (78) per cent in Russia and 2 (3) per cent in the Baltic countries.

In spring 2010, Oriola-KD launched the Five Star Company programme in its pharmaceutical wholesale business, which focused on developing procedures, supervisory performance and the work community during the year. The aim of the programme is to clarify the responsibilities of different roles as part of the pharmaceutical distribution chain and activities to secure patient safety.

The pharmacy chain acquired in Sweden in 2010 has a personnel of approximately 1,200. During the year, particular focus was on the takeover of the business, development of procedures, building our employer image and recruitment. Training in customer service, corporate culture and sales for pharmacy personnel will continue in 2011.

The Five Star Company programme was launched in Sweden in 2010 as part of a Group-wide development project for the pharmaceutical wholesale business. A significant decision in pharmaceutical wholesale was to centralise pharmacy distribution at the Enköping distribution centre and pharmaceutical storage and pharmaceutical company cooperation at Mölnlycke. As a result, the number of personnel will decrease by about 70 at Mölnlycke and increase by about 30 at Enköping in early 2011.

Personnel numbers in Russia rose due to the acquisition of the 03 Apteka pharmacy chain, the establishment of new pharmacies in the Moscow region and the opening of new distribution centres in Ekaterinburg and Novosibirsk. Investment was also made in recruitment and in building a strong employer image. In the Russian companies, 360° assessments were made as part of the work to develop supervisory performance. Personal development discussions will also be gradually introduced in Russia.

The Five Star Company programme was launched in Finland in 2010. Substantial steps have been taken within the programme in various areas, such as storage functions, technology, best practices, transportation and customer service. Moreover, active cooperation continued with occupational health care to maintain and improve working ability. The number of personnel decreased as a result of the sale of the Healthcare Trade business.

**Job satisfaction**

In late 2010, job satisfaction was assessed with the Human Potential Index® (HUPO). This was the sixth such survey at Oriola-KD. According to the results, job satisfaction has improved. The strengths at Oriola-KD include the significance of the work and peer support, while bonus systems, motivation, feedback and acknowledgement were identified as areas for improvement. The HUPO results also indicate that employees would like more opportunities to engage in new tasks, training and other professional development and would welcome greater encouragement to strive for better results.

![Personnel by country, persons](image)
Corporate culture undergoing change —
best customer service as a target

Personnel competence and service ability are decisive factors for a company’s success, and this is particularly relevant in Sweden’s highly competitive pharmacy industry. Kronans Droghandel, Oriola-KD’s Swedish pharmacy chain, has focused on its employees’ well-being from day one. The target of providing the best customer service in the industry has also been set.

At the end of 2009, the management’s views on their desired management method and corporate culture were surveyed. Trust, customer satisfaction and the ability to get things done rose to the fore. In February 2010 it was the employees’ turn to share their views on the same matters. More support and problem-solving ability were hoped for from the supervisors.

The first steps towards developing corporate culture and management were taken already at the supervisor meeting in spring 2010. The aim is to create a corporate culture that will strengthen the Kronans Droghandel pharmacy chain in a highly competitive market and help to achieve the target of providing the best customer service.

In spring 2010, Oriola-KD launched the Five Star Company programme in its pharmaceutical wholesale business, which focuses on developing procedures, supervisory performance and the work community.
The response rate in the 2010 job satisfaction survey was 81 (90) per cent and the overall index score was 389 (341). In Russia the survey was conducted for the second time. Due to the ongoing organisational changes, the personnel of the O3 pharmacy chain acquired in Russia in August 2010 and the personnel of the wholesale business in Sweden were excluded from the survey. The personnel of the pharmacy chain in Sweden that started operating at the beginning of the year participated in the survey for the first time.

**Personnel development**

Personal development discussions are a key tool for management and development at Oriola-KD. The aim of these discussions is to define the annual goals and development plans at individual level. The job satisfaction index for those who participated in the discussions has been better than that for those who did not. Personal development reviews were conducted in Russia for the first time. Supervisory performance has been assessed since 2006 using the 360° assessments, and the results are used to define personal development goals. In 2010, altogether 51 supervisors were assessed. It was also defined what constitutes good management at Oriola-KD and the skills required of supervisors and managers as a result. The 360° assessments were conducted for the first time on the basis of these management competences.

**Remuneration and bonus systems**

Remuneration at Oriola-KD is based on the local collective agreements that are in force. Oriola-KD strives to provide its personnel with competitive salaries and bonus systems. The indicators are mostly based on the operating result of Oriola-KD and its business areas as well as on personal goals. In addition to the base salaries, performance-based remuneration systems are applied at Oriola-KD, particularly in the sales organisations and logistics services.

In February 2010, Oriola-KD’s Board of Directors decided on a new share incentive scheme for 2010–2012, which increased the number of key employees in the target group to 40. The aim of the expanded scheme is that long-term shareholding will secure the commitment of key employees towards developing the company’s activities.
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