Annual Report 2012

GRÜNENTHAL

Think Innovation. Feel Life.®

About Grünenthal

The Grünenthal Group is an independent, family-owned, international research-based pharmaceutical company headquartered in Aachen, Germany. Building on its unique position in pain treatment, its objective is to become the most patient-centric company and thus to be a leader in therapy innovation. Grünenthal is one of the last five remaining research-oriented pharmaceutical companies with headquarters in Germany which sustainably invests in research and development. Research and development costs amounted to about 26 percent of revenues in 2012. Grünenthal's research and development strategy concentrates on selected fields of therapy and state-of-the-art technologies. We are intensely focused on discovering new ways to treat pain better and more effectively, with fewer side-effects than current therapies. Altogether, the Grünenthal Group has affiliates in 26 countries worldwide. Grünenthal products are sold in more than 155 countries. Today, approx. 4,400 employees are working for the Grünenthal Group worldwide. In 2012, Grünenthal achieved revenues of €973 mn.

Our vision:
Become the most patient-centric company

Each innovation starts with understanding patients' needs. Thus listening to our patients is a fundamental basis of our corporate DNA. A continuous dialogue with pain patients helps us to understand their needs and challenges. We will utilize these insights to bring better care to the market. All photos in this report show pain patients with their families (The photo on p. 34-35 shows a pain patient with a Grünenthal employee).

For more information: www.grunenthal.com.

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Photos on p. 2, 3, 12, 13: Grünenthal

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Dear Ladies and Gentlemen,

Dr. Hasso Kaempfe
Chairman of the Supervisory Board

2012 was a busy year for Grünenthal with regard to the ongoing implementation of our VISION 2020 strategy. We saw the final part of the divestment program conclude at the beginning of the year; this marked the transition to the third phase of our transformation process – focusing on profitable internal and external growth.

In 2012, the Supervisory Board continued to oversee and advise the Group Operating Committee, the senior leadership body of the Grünenthal Group, in implementing our long-term strategy. The structure of the Supervisory Board, with its regular meetings of independent Non-Executive Directors and actively participating members of the owning family, has proved itself as the right approach for the Company.

After the creation of a new organization comprising market-focused Strategic Business Units supported by Corporate Functions, the management went on to put in place further adjustments to our internal structures to create a lean administration, as well as to reorganize production to support the next phase of corporate development. I would like to especially thank the many committed middle managers and supervisors on the shop floors, as well as in the offices and laboratories, for making this happen and for diligently implementing the many little steps that together result in major improvements for the entire organization.

On the commercial side, I am very pleased to see that our focus on innovative pain therapy is paying off and delivering the results we expected. In most areas, the Company managed to achieve more than we had forecasted. However, in only a few areas, developments were somewhat slower than anticipated.

Of course, we knew that our strategy might need some fine-tuning and adjustment, as external factors can change parts of the strategic landscape. In dealing with these challenges, Grünenthal has benefited from the clear corporate structures that have been created in recent years, which enable a quick reaction if and when necessary. In addition, being a family-owned business is a clear advantage in such situations – the ongoing direct dialogue with the Wirtz family means that the management and the Supervisory Board can reach decisions faster with the full support of the owners while bearing in mind the long-term perspective for the business.

Overall, 2012 was a very successful year for Grünenthal. The entire organization remains committed to our goal of building a successful patient-centric company and achieving the growth necessary to secure Grünenthal's successful future as an independent, family-owned pharmaceutical company. As we look to build further on the achievements of the past years, I would like to thank all Grünenthal employees around the world for their hard work and support, as well as management and shareholders for their unfailing commitment and contribution.

Dr. Hasso Kaempfe
Chairman of the Supervisory Board

Insights from Harald F. Stock

Interview with the Chief Executive Officer

Dr. Stock, how did the business perform in 2012?
We had a very good year in 2012, achieving revenues of €973 mn. Excluding the divested businesses, our revenues grew by almost 13 percent. The revenue contribution from our pain products increased to 73 percent, and the proportion of brands which have been launched a maximum of 5 years before 2012 rose to 30 percent. We also made a major leap forward in profitability – with operating EBITA rising by 8 percentage points. All areas of the business have performed very well, and I am particularly pleased with our success in Europe despite the challenging market environment. These are the achievements of the entire Grünenthal team, and I would like to thank all employees for their contribution and hard work in 2012. My sincere thanks also go to our shareholders and our Supervisory Board for their support as we continue to implement the transformation phase of our long-term strategy VISION 2020.

Last year, you said external growth is a key priority in Latin America. Did you make any acquisitions in 2012?
We signed two in-licensing deals for new products in Latin America: Duexis® from Horizon Pharma and Flupirtine from Tamarang Pharmaceuticals, both of which we will market exclusively and as first-in-class. Both agreements support our focus on pain therapy and profitable external growth. They represent our first business development projects to cover the entire region. Without our new presence in Brazil, we would not have been in a position to make those deals. We continue to screen the market for opportunities to acquire companies or product portfolios to accelerate our growth. However, up until now we have not seen the right business for sale at a valuation we can justify. As a family-owned business, we have a duty towards long-term value creation and will not overpay for acquisitions.

Looking at innovation, what major developments do you see in terms of research and development?
We got off to a good start in building our pre-clinical portfolio of inflammation projects. There are a number of promising candidates, and we are confident that we can start clinical development in this area in 2015. Inflammation is a logical evolution, building on our pain competence. We asked ourselves: What growth driver would complement pain therapy? Where can we build on our specific competence in research and take a similar approach? In the long run, we want to gain the same scientific expertise in inflammation and be as successful in that field as we are currently in the field of pain. In doing so, we will always maintain a broad view when looking at external opportunities.

How about the further development of your pain portfolio?
We completed one of our last Phase III projects for Tapentadol (Palexia®, Nucynta®) in cancer pain. This will give us the ability to launch the

Harald F. Stock, PhD.
Chief Executive Officer

product in new markets like France, where the results of this study are a key component in the approval process. I am very pleased with the progress of Cebranopadol, which we are developing in collaboration with Forest Laboratories, Inc. Cebranopadol has now reached Phase IIb and we aim to start Phase III trials in 2013. GRT6010 and GRT6011, which could become innovative peripherally acting pain medications, are in Phase IIa, and our team is preparing the data analysis in order to enable us to initiate Phase IIb and, subsequently, Phase III studies.

Endo Health Solutions has introduced Opana® with our INTAC® technology (Tamper Resistant Formulation technology, TRF) in the US. We now have reached 50 percent market share with our TRF technology in the centrally acting analgesic market – a huge success, since Grünenthal only started to develop this new technology a few years ago. As the other half of the market currently is not protected by any abuse deterrent technology, this remains an opportunity for further growth because there are ongoing efforts in the US to curb the abuse of prescription drugs. To increase access to this market opportunity we have decided to set up a dedicated US-based in-market organization that will become effective in the first half of 2013.

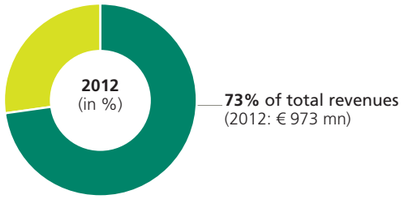
You said you wanted to further develop the Company culture in 2012 – what progress have you made in this regard?

In our annual Great Place to Work® survey, we registered a substantial improvement in 2012. We came in just short of our target to achieve an 80 percent approval rate across the entire Grünenthal Group. Given the degree of change and uncertainty all employees had to deal with in recent years, the Group Operating Committee is very proud of this additional 8 percentage point rise. We are now more committed than ever to reaching our target and I am convinced that by focusing on bringing our values – care, customer proximity and leadership – to life we can become a "Great Place to Work®" at every site.

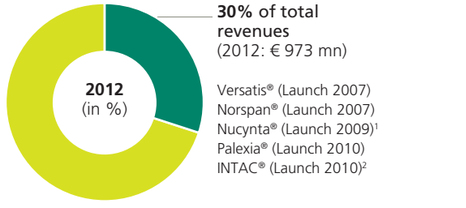
What does Grünenthal's goal of patient-centricity mean for you personally as CEO?

Ever since I began working in the health and pharmaceuticals industry back in 1996, I found it very motivating to work in an environment where we can do good things for patients. For me, there are two reasons why patient-centricity is vital: firstly, it is the key measure by which we are competing with all other pharmaceutical and health companies; secondly, it is the key driver of innovation. Grünenthal will probably never be the biggest company in the sector or the most profitable in terms of absolute figures, but if we really understand patients' needs better than anybody else, we will be able to translate this into innovation and be successful in the market in the long term. Innovation will secure

SHARE OF PAIN BRANDS IN % OF TOTAL REVENUES



PAIN BRANDS ON THE MARKET MAX. FIVE YEARS BEFORE 2012



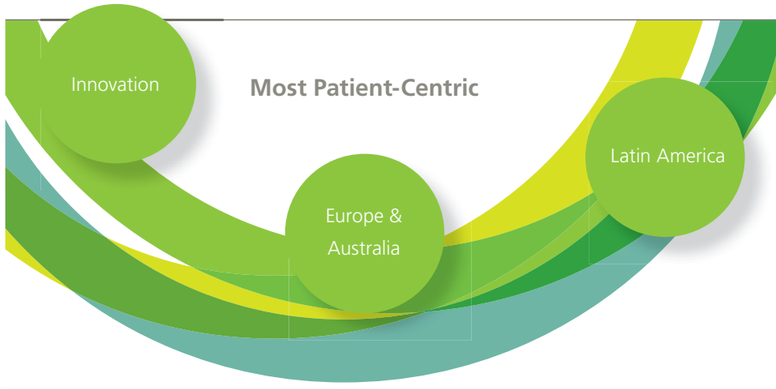
[1] Revenues from licenses [2] Revenues from licenses and net operating sales

our future as an independent mid-sized company. We will always find niches where we can achieve profitable growth. In day-to-day operations, patient-centricity means that decisions are made in the interest of our patients. Of course, we will always have to make trade-offs and compromises; however, Grünenthal will only be the most patient-centric company if decisions are made in the patients' interest – even if faced with conflicting objectives.

What are your targets for 2013?

The biggest challenge will be to deal with the generic competition for Zaldiar®. We have done our homework and we will continue to drive growth in new products. But it is unlikely that we will be able to compensate for the entire anticipated loss in revenues. Similarly, we have to secure our INTAC® business against generic products without abuse deterrent technologies (ADT), thus averting the potential impact on profit contribution. This implies pursuing the growth opportunities for this technology in the US to further gain market share in a shrinking window of opportunity. Furthermore, we will continue to optimize our businesses in Europe & Australia and Latin America, as well as seeking out external growth opportunities in Latin America.

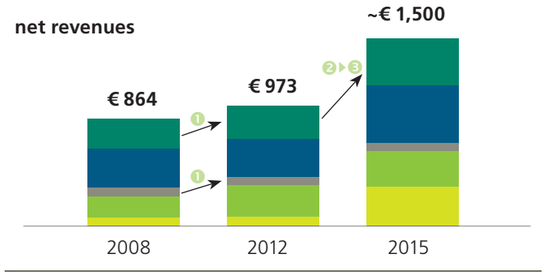
GRÜNENTHAL GROUP



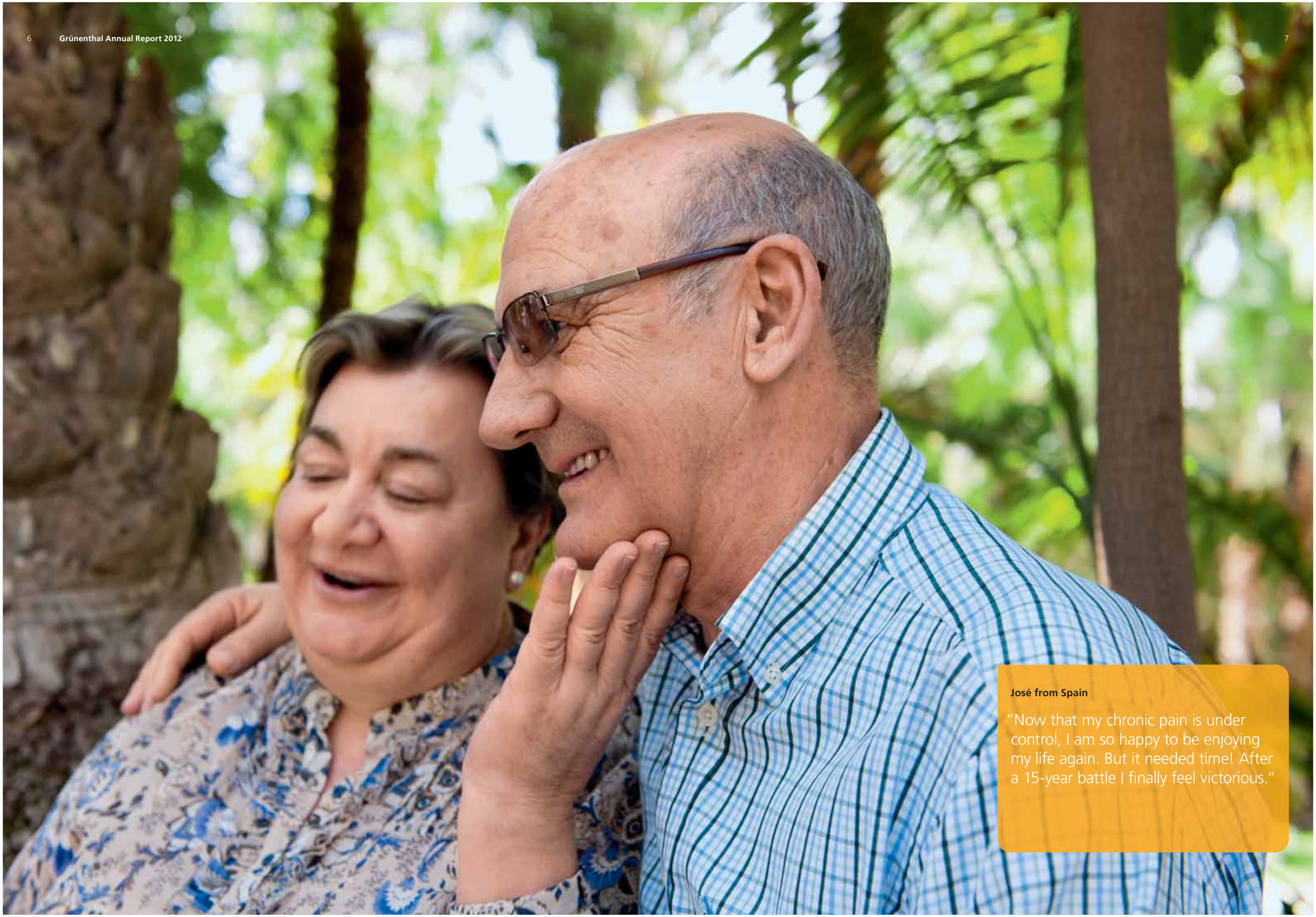
Patient-centric – innovative culture

Focus	Focused on value creation by answering unmet medical needs
Innovative R&D Model	Shared-risk partnering strategy after proof of concept allows pursuit of multiple high-return opportunities; early R&D managed as profit center
Market-oriented	Strategic Business Unit (SBU) structure fosters flexibility and responsiveness in both mature and emerging markets
Great Place to Work	Fostering a culture where people enjoy being successful

DEVELOPMENT OF "STRATEGIC CAPACITY" (€ MN)



1. **Efficiency measures** in production and administration ✔
2. **Focus** on high-margin products and geographic core markets ✔
3. **Growth**
   Besides organic growth, **strategic investments** increase our strategic capacity for innovation



José from Spain

"Now that my chronic pain is under control, I am so happy to be enjoying my life again. But it needed time! After a 15-year battle I finally feel victorious."

Key Figures

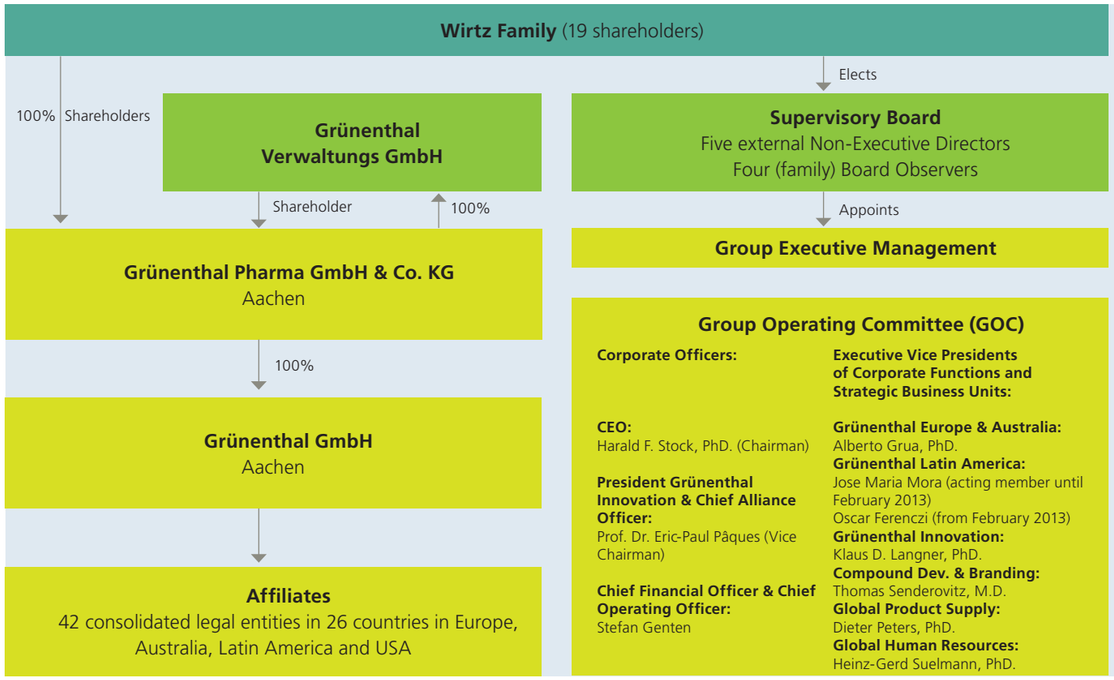
CORPORATE FIGURES IN € MN	2012	2011
Revenues	**973**	947
Revenue growth vs. previous year (%)	**+3**	+4
Growth pain business Europe & Australia (acc. to IMS, %)	**+25**	+19
Growth Latin America (acc.to IMS, %)	**+9**	+14
Revenues by region	**973**	947
Europe	**610**	673
Latin America	**199**	141
USA	**135**	111
Rest of world	**29**	22
Revenues by product	**973**	947
Palexia®	**67**	31
Versatis®	**96**	68
Zaldiar® (incl. Ixprim®)	**166**	176
Transtec®	**80**	90
Norspan®	**26**	24
Tramal®	**114**	134
Nucynta® [1]	**20**	15
INTAC® [2]	**80**	50
Others	**324**	359
Research & Development Costs	**251**	233
R&D Costs / Revenues (%)	**26**	25
Operating EBITA	**79**	5
Operating EBITA / Revenues (%)	**8**	0
Income before Taxes (IBT)	**228**	127
Income before Taxes / Revenues (%)	**23**	13
Equity Ratio (%)	**70**	64
Employees (annual average, headcount)	**ca. 4,400**	ca. 4,700

[1] Revenues from licenses [2] Revenues from licenses and net operating sales

Our financial statements are published at www.ebundesanzeiger.de (German)

Group Structure

CORPORATE GOVERNANCE 2012



EXECUTIVE MANAGEMENT STRUCTURE 2012

Group Operating Committee 2013

Front row (from left):
Prof. Dr. Eric-Paul Pâques
(President SBU Grünenthal Innovation & Chief Alliance Officer)
Harald F. Stock, PhD. (Chief Executive Officer),
Stefan Genten (Chief Financial Officer & Chief Operating Officer),

Middle row (from left):
Dieter Peters, PhD. (Global Product Supply),
Thomas Senderovitz, M.D.
(Compound Development & Branding),
Alberto Grua, PhD.
(SBU Grünenthal Europe & Australia)

Back row (from left):
Klaus D. Langner, PhD.
(SBU Grünenthal Innovation),
Heinz-Gerd Suelmann, PhD.
(Global Human Resources),
Oscar Ferenczi
(appointed Executive Vice President Grünenthal Latin America from February 15th, 2013)

Jose Maria Mora
(SBU Grünenthal Latin America; acting member of Group Operating Committee until February 15th, 2013)

Arnold from the UK

"I am still living with chronic pain, but I am able to control it better and live an active lifestyle. I will never let pain control my life again!"

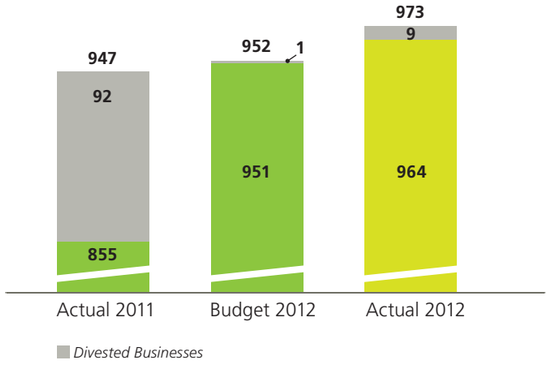
Financial Report

Challenging economic environment
Uncertainty continued to affect economic conditions in 2012. Especially in Europe and the US, the respective governments were dealing with the challenges of the public debt crisis. Global financial conditions improved overall in the fourth quarter as the European Central Bank assured its commitment to continued debt support for eurozone countries. However, the pharmaceuticals sector in particular was feeling the effects of increasing price pressure in regulated markets as governments tried to reduce the overall cost of their healthcare systems. With growth slowing in the emerging markets as well as in established economies worldwide, economic expansion for 2012 is estimated by the International Monetary Fund at 3.2 percent.

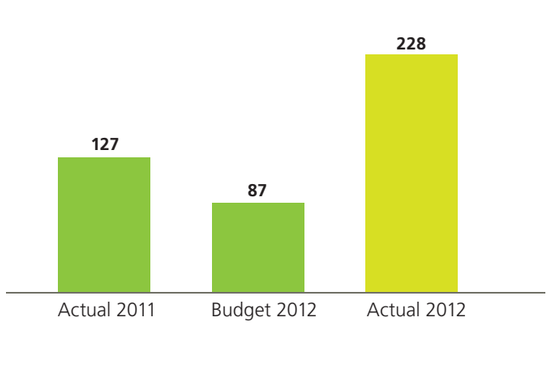
Slower growth in the pain market
In 2012, world pharmaceutical market revenues are estimated to have reached US$974 bn (acc. to IMS market prognoses). Adjusted for currency effects, this represents an increase of 3.4 percent from 2011. North America remained the most important region, with a market share of 36 percent, followed by Europe at 24 percent. Total revenues in the global market for Grünenthal relevant pain and analgesic products reached an estimated US$39 bn, adjusted for currency effects a slight increase on the previous year's level. Due to a declining market in the US, the narcotics segment, which is particularly relevant to Grünenthal, is estimated to have seen only slight growth globally.

Overall, growth in the pain segment is slowing due to the increasing market share of generics and the resulting significant price erosion. Compared to an average market growth of 4.9 percent between 2008 and 2012, Grünenthal expects an average increase in the market of between 1 percent and 2 percent for the 2013-15 period.

NET REVENUES (€ MN)



INCOME BEFORE TAXES (IBT, € MN)



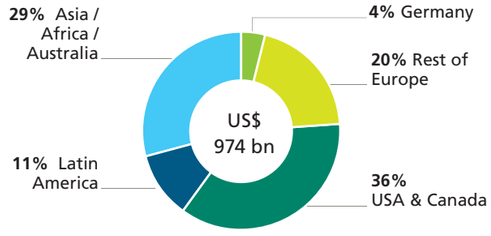
Revenue growth driven by Palexia®, Versatis® and INTAC®
Total revenues of the Grünenthal Group increased by 3 percent to €972.9 mn in 2012. Excluding revenues from divested businesses (2012: €8.6 mn, 2011: €91.6 mn), adjusted revenues rose by 12.8 percent. This increase was driven by an increase in sales of our strategic growth drivers Palexia® (up €35.8 mn) and Versatis® (up €27.9 mn). Revenues from the licensing of our INTAC® (Tamper Resistant Formulation) technology increased as a result of the launch of the reformulated version of Opana ER by Endo Health Solutions in the US market (€25.2 mn in 2012). Revenues from the tapentadol license in the North American market also increased by €5 mn. These revenue increases were partially offset by declines in the revenues of our mature global pain brands and local products in Europe.

Grünenthal's pain brands represented 73 percent of Group revenues in 2012 (2011: 68 percent) reflecting our focus on pain therapy. The proportion of revenues from young products that have been launched a maximum of 5 years before 2012 amounted to about 30 percent, a significantly higher ratio than the industry average. Besides the growing revenues of Palexia® (2012: €67 mn) and Versatis® (€96 mn), the biggest revenue contributions by product in the reporting period were made by Zaldiar® (€166 mn), Tramal® (€114 mn) and Transtec® (€80 mn).

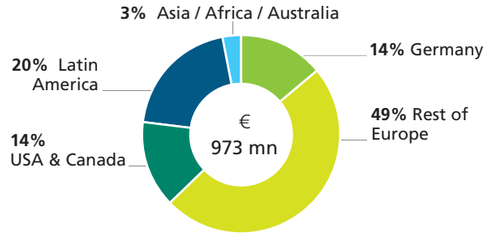
With revenues of €578 mn in 2012, the SBU Grünenthal Europe & Australia accounted for 59 percent of total revenues in the reporting period. Due to the divestment of businesses, this represents a decrease of 9 percent from €635 mn in 2011. However, the core business in pain therapy grew by 25 percent in 2012 (IMS data). The SBU Grünenthal Latin America recorded revenues of €194 mn (2011: €154 mn), contributing 20 percent of total revenues. The increase in this rapidly growing market was partially a result of currency effects.

The revenue proportion contributed by the SBU Grünenthal Innovation amounted to 16 percent of total revenues at €156 mn (2011: €120 mn). Global Product Supply and others realized revenues of €45 mn in the reporting period, an increase of 17 percent on the previous year's €38 mn.

WORLDWIDE PHARMA MARKET 2012 [1]

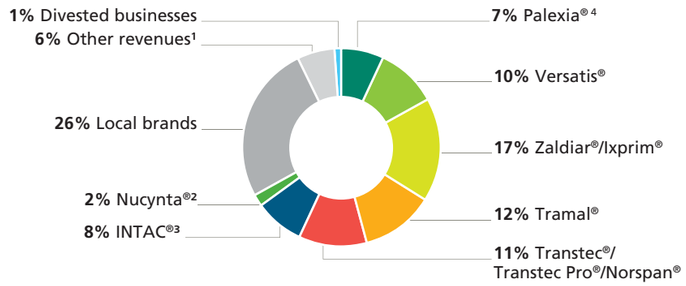


GRÜNENTHAL'S NET REVENUES 2012



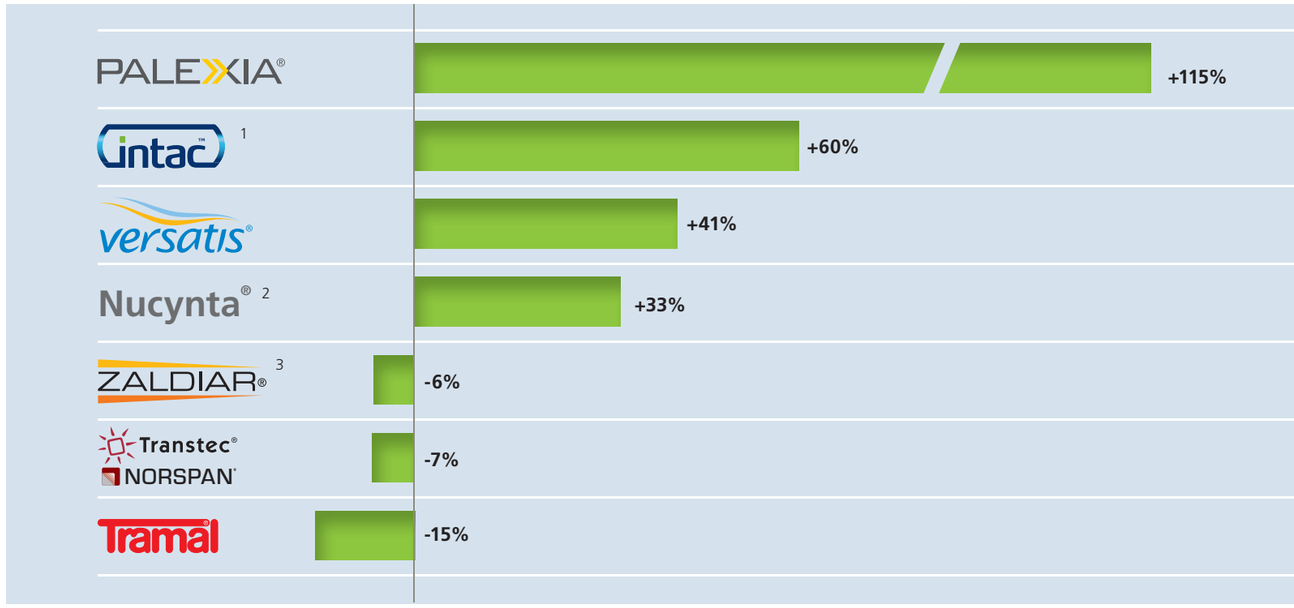
[1] *Prognoses based on IMS data*

REVENUES BY PRODUCT 2012



[1] In essence in SBU Grünenthal Innovation: revenues from milestone payments and other licenses
[2] Revenues from licenses, launch 2009
[3] Revenues from licenses and net operating sales, launch 2010
[4] Launch in October 2010

GROWTH OF TOP 7 PRODUCTS 2012



Operating income significantly improved

Operating earnings before interest, taxes and amortization (operating EBITA) increased significantly in 2012 to €78.6 mn (2011: €4.5 mn). This was the result of increased profitability in core business due to higher revenues, lower marketing and sales costs, and efficiency gains in administration. R&D costs grew by almost 8 percent to €251 mn (2011: €233 mn). At 26 percent of revenues, the proportion remains notably above the industry average. Other operating result was affected mainly by the one-off effect of having booked the remaining divestment income in 2012, resulting in a €66.9 mn increase. Consequently, income before taxes (IBT) also increased by 79 percent to €228 mn in 2012 (2011: €127 mn).

Strong financial position

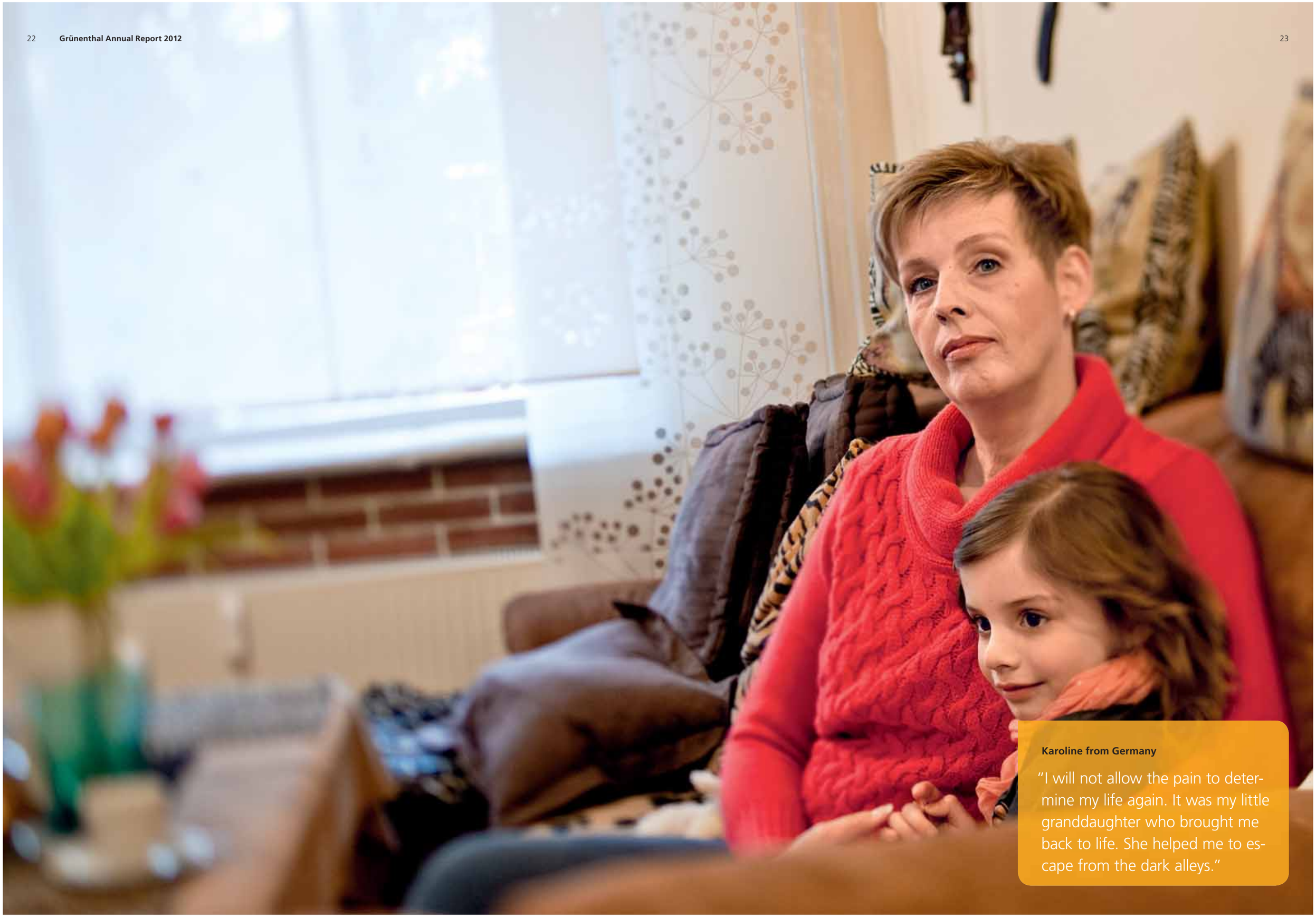
The balance sheet total increased by about €134 mn to €1,188 mn at the end of 2012. This was mainly the result of a €160.5 mn income-related increase in equity. Consequently, the equity ratio increased to 70.4 percent (2011: 64.1 percent). Provisions were partially utilized, resulting in a decrease of €27.6 mn. Liabilities remained almost unchanged at a total of €180 mn, with a shift from trade payables to other liabilities due to outstanding higher tax payments in France. As a result of the higher income generated from operations and because final proceeds from divestments were booked in 2012, the cash balance improved by €208 mn to €508 mn. Bank liabilities remained very low, such that the Group is virtually debt-free. A new syndicated loan in the amount of €360 mn has further expanded our capacity to finance our growth projects. The loan has a retention period of five years and can be claimed in EUR and USD. Beside financing general corporate purposes the new loan is highly flexible (hybrid structure) regarding the financing of any acquisition project in the future. The closing of this innovative structure of our new syndicated loan underlines the financial strength of Grünenthal.

Outlook for 2013

Faced with increased pricing pressure and generic competition in key markets, we will continue to concentrate on our growth strategy, focusing on organic growth in the pain business in Europe, as well as on accelerated organic and external growth in Latin America. At the same time, we will maintain our focus on operational excellence initiatives. However, the loss of exclusivity for Zaldiar® and the prospects in the US market represent significant challenges for 2013 and beyond. We are confident that the core elements of our VISION 2020 strategy will enable us to maintain our current R&D investment levels and generate the innovations necessary to sustain our success as an independent, mid-sized pharmaceutical company.

Overall, we expect revenues to decline slightly compared to 2012. Furthermore, we plan to reduce marketing costs and to maintain a high R&D investment level. Because the divestment program has now been completed, IBT will be significantly lower. No further divestment proceeds are planned in 2013. For 2014, we expect a return to our overall growth path, with increased revenues and IBT.

[1] Revenues from licenses and net operating sales
[2] Revenues from licenses
[3] Incl. Ixprim®



Karoline from Germany

"I will not allow the pain to determine my life again. It was my little granddaughter who brought me back to life. She helped me to escape from the dark alleys."

SBU Grünenthal Innovation

Grünenthal Innovation saw its second year operating as a Strategic Business Unit (SBU) and thus also as a profit center within the Group. We continue to see the benefits of migrating our early research activities into a more market-focused structure. To our knowledge, this approach is unique in the pharmaceuticals industry.

Grünenthal Innovation is responsible for early-stage research and development until the completion of Phase IIa (clinical proof-of-concept). In the specific Grünenthal Innovation business model, a strategic objective is to generate income from partnering, licensing, up-front and milestone payments – all stemming from co-development and co-commercialization of innovations and intellectual property with suitable partners.

Our core activities in 2012 focused on the three strategic pillars: to broaden and strengthen our pipeline of new pain medications, to continue to build our inflammation pipeline to further establish this new therapeutic area, and to develop and commercialize our INTAC® tamper resistant formulation technology. In 2012, Grünenthal Innovation generated revenues of €155.6 mn for the Group.

Building the inflammation pipeline

Two years ago, we decided to start building up inflammation as a second therapeutic area to be addressed beside pain. Inflammation fits well with our existing pain research competence, and we can benefit from similar research approaches. Therefore, our focus on inflammation is to identify and develop small molecules or new chemical entities (NCEs) rather than large molecules or biologics.

As a first step, we identified specific receptors that display inflammatory characteristics we can utilize in our research initiative. As the next step in building our pipeline, we synthesized promising NCEs that target the selected receptors. A major benefit of developing an NCE-based inflammation therapy over biologics would be the ease of administering the medication as a tablet rather than as an intravenous injection or drip – a true benefit for the patient, which clearly reflects our patient-centric approach in R&D. Until now, we have eight projects in this early-stage pipeline and have seen some promising first successes in chemical / biological test systems.

Patient-centricity in pain research

In our pain research, the current highlight is the development of Cebranopadol (GRT6005) in collaboration with Forest Laboratories, Inc., which has progressed to Phase IIb. Grünenthal Innovation has handed this drug over now to the colleagues from Compound Development and Branding (CDB) who will lead the further development.

GRT6010 and GRT6011, two compounds which are candidates for an innovative peripherally acting pain medication, have started clinical development to fully exploit the therapeutic potential and to confirm the improvement in the standard of care in different pain conditions.

Beyond these developments, we increased our efforts to identify therapeutic opportunities for patients who cannot be adequately treated with the pain therapy currently available. For us, this continues to be the key driver of patient-centricity in research. It also addresses the fundamental goal that our innovations have to be better than existing therapy options in order to pass the threshold of approval and reimbursement. Given the long time horizon of drug development, this assessment also needs to take into account other substances currently in development that are likely to be approved in the next 5 to 10 years. Therefore, Grünenthal Innovation aims to identify at an earlier stage than usual – i.e. at the research stage – how to exceed the current and anticipated standard of care.

We strive to repeat the success of our own Palexia®, one of the major innovations in pain in recent years, with new NCEs that have the greatest potential to target unmet medical needs in pain. Our approach is to build the scientific rationale and identify a pathway to show that the intended effect occurs.

One way to accomplish this is to correlate molecules with the pain which patients experience and to profile the compounds through various methods. We are also working to develop new research models and new methodologies to search for drugs that can help patients who do not have a treatment option to date.

In our patient-centric approach, we combine our research effort with the search for treatment options for specific patient groups who to date have not been sufficiently addressed in clinical trials. For patients with neuropathic pain, for example, and for many other patients, today's medication is not sufficient. To help these patients, we regularly have to move into uncharted territory to design, set up and conduct innovative clinical trials to achieve valid results.

INTAC® TRF technology benefits in the US

We are very pleased with the success of our INTAC® TRF technology in the US. Our partner, Endo Health Solutions, has completely replaced its existing Opana ER® product with a new INTAC® formulation. In order to capture the market opportunity and secure our technology position for the long term, we are continuing to develop our technology further. This includes the development of an equivalent technology platform for use in immediate-release tablets (in addition to the well-established extended-release tablets), where we have successfully completed a pilot study and proved the technology for further product development.

On the agenda for 2013

In 2013, we will continue to refine our inflammation portfolio to fast-track the most promising projects in this field. In doing so, Grünenthal Innovation will further develop our network of strategic partners in research institutions and partner companies. We have also reached a development decision for a novel non-opioid project and have two NCEs in extended preclinical profiling.

Regarding our INTAC® TRF technology, we are going to transfer further commercialization to a dedicated US-based in-market organization in order to be closer to our customers and be able to further tap into the market potential of the technology. Overall, we will continue to use our market-centered approach to drive cost-efficiency in our research and ensure that we allocate our resources to the most promising research and development initiatives.

Maria from the UK

"I've learnt to live one day at a time, being grateful for what I have, keeping an open mind and doing everything possible to have a normal life."

Grünenthal Pipeline

Projects	**Indication**	**Phase**							**Approval**
		Discovery	GLP Tox	I	IIa	IIb	III	Submission	
Tapentadol USA	Acute pain								✔
	Chronic pain								✔
	Neuropathic pain								✔
Tapentadol EU	Acute pain								✔
	Chronic pain								✔
TRF, ENDO, Oxymorphone	Pain								✔
Tapentadol Japan	Acute & chronic pain								
Tapentadol LCM	Acute & chronic pain								
Tapentadol Pediatrics	Acute & chronic pain								
Versatis LCM	Neuropathic pain								
Cebranopadol	Chronic nociceptive pain								
Cebranopadol	Neuropathic pain								
GRT6010	Pain								
GRT6011	Pain								
NCE 1	Pain								
NCE 2	Pain								
Discovery compound	Pain								
Discovery compound	Inflammation								
TRF	Technology 1st/ 2nd gen.								

Rainer from Germany with his wife, Gerda

"To make it short and simple: We all wait for new innovative medicine – every day."

SBU Grünenthal Europe & Australia

Our Strategic Business Unit (SBU) Europe & Australia had a very successful year in a difficult market environment. Due to divestments, the SBU's overall revenues of €578 mn were lower than in the previous year. However, revenues in the core business of pain therapy grew by 25 percent – significantly faster than the relevant market.[1] Driven by our key growth brands, Palexia® (a novel centrally acting analgesic) and Versatis® (a topical medicated plaster for the symptomatic relief of neuropathic pain), Grünenthal has reached a market share of 10.8 percent on the defined pain market[2] in the region. This was exactly in line with our expectations, but was significantly above the 2011 result (9.0 percent). Besides our success with Palexia® and Versatis®, a paradigm shift in pain therapy prompted by us in southern Europe and delayed generic competition for Zaldiar® in France all contributed to this excellent result.

Fast market uptake for Palexia®

The launch of Palexia® remains a success story, despite some setbacks due to political changes in certain markets. Palexia® is now on the market in Australia, Denmark, Germany (Palexia® retard), Ireland, Italy, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom. In most of these countries, Palexia® achieved the fastest market uptake for an oral opioid, and market research shows that more than 70 percent of doctors would recommend Palexia® to colleagues.

Overall, revenues of Palexia® in Europe and Australia more than doubled to €66 mn in 2012. The recently completed Phase III study with cancer patients will further support the product's "value story" as we move on to launch Palexia® in additional European markets.

Versatis® revenues reached almost €87 mn in 2012. In addition to the established markets of Austria, Belgium, Denmark, France, Germany, Ireland, Spain, Sweden and the United Kingdom, we launched the product in Australia, Norway and Portugal in 2012.

Enhancing the value story

To support the positive momentum from the new product launches, we have further enhanced our market access function by bringing in additional expertise and improving our processes. Against a background of increased cost pressures in the payor-driven markets in Europe and the resulting higher thresholds for product approval as well as for reimbursement, the constant review and enhancement of our "value story" for all our global pain brands is a key priority. We aim to prove the economic case for our products by providing additional clinical data to show their improved efficacy and safety.

Our portfolio of mature products, especially Zaldiar®, Tramal® and Transtec® continues to generate a significant proportion of revenues and supports our leading position in pain therapy. However, we will face increased generic competition, including the foreseeable market entry of a generic version of Zaldiar® in France. We therefore need to increase our efforts to manage the life cycle and, where possible, defend the market for those products in order to remain on our overall growth path.

Better understanding of chronic pain patient needs

To enhance our understanding of the needs of patients with severe chronic pain and to develop solutions to improve pain management, we continued our international Change Pain® initiative last year. In June 2012, the initiative launched the PAIN Compendium, a comprehensive international textbook about pain and its therapy. It is part of the education component of the initiative which aims to provide healthcare practitioners with comprehensive insights into pain and its management, supporting them in understanding their pain patients' needs, and assisting them in developing individual treatment plans.

Grünenthal has also entered into an official partnership on the development of European Pain Patient Pathways Recommendations with Pain Alliance Europe (PAE), an organization representing chronic pain patients in Europe, and the Active Citizenship Network (ACN), an organization that promotes and supports citizens' powers and responsibilities in policymaking. The projects will run until December 2014 and aim to create a greater awareness of chronic pain and to promote European policymaking for improved management of chronic pain. We decided to participate in this promising project in order to help create a bottom-up approach to effective and holistic pain management, putting the patient at the center of the entire process.

Another key element of our efforts to better understand the needs of patients suffering from chronic pain was our ongoing work with our Chronic Pain Ambassadors. Among the many interactions with this important group was the Patient Summit 2012, which took place in Aachen, Germany, in November 2012. Under the motto "Pain Perspectives", the event brought together patients, doctors as well as payor and industry representatives and of course Grünenthal employees to discuss the topic of chronic pain and to generate concrete ideas for action.

Outlook for 2013

Following our success in 2012, this year will be a challenging year. We will continue to drive the growth of Palexia® and Versatis®. For the 2013/14 period, we plan to launch Palexia® in Austria, Belgium, France, Luxembourg and the Netherlands, and Versatis® in Italy. Nonetheless, growth in new product revenues is unlikely to fully compensate for the revenue lost due to generic competition. But we have made good progress in enhancing profitability, and further margin improvement remains a key priority in a slow-growth market environment.

[1] *Overall retail market*

[2] *Defined pain market: N2A and Rx products of N2B and share in localized neuropathic pain of pregabalin/duloxetine gabapentin and Versatis®*

Esperanza from Spain

"I wish there would be more understanding and empathy for people with chronic pain – we are not weak if we ask for help; we are wiser and more intelligent."

SBU Grünenthal Latin America

In 2012, the management team at the Strategic Business Unit (SBU) Grünenthal Latin America focused on improving our position in Brazil and Mexico, optimizing our business approach in Chile and the Andean countries, as well as accelerating the cultural evolution for the entire regional organization. The substantial growth rates prove that we are on the right track with our investment in the Latin American region and show how hard we have worked to implement our strategy.

The SBU Grünenthal Latin America recorded sales of €194.4 mn in 2012 (according to internal data). In 2012, we grew with a fast growing Latin American market.[1]

Progressing organizational development in Brazil and Mexico

The cornerstone of our growth strategy for Latin America is the ongoing development of Brazil and Mexico, the two largest markets in the region. In Brazil, we continued to work on establishing a presence that enables us to market our own as well as recently in-licensed products. Taking a greenfield approach to building up the organization following the acquisition of a company that now forms Grünenthal do Brasil, 2012 was used to focus on organizational development and on initiating the regulatory approval process.

Overall, the process in Brazil is taking slightly longer than originally anticipated, but we remain on track to building the right platform for this market. Using a greenfield approach, we can ensure that we are prioritizing our key therapeutic areas for the market – pain and women's health – from the start.

In Mexico, we put the organizational structure in place to enter the next organic growth phase. We are planning three major product launches in this market during 2013/14, with Palexia® and Norspan® from our own portfolio and Duexis®, which we in-licensed from Horizon Pharma, Inc. In order to achieve our goals for market share and profitable growth, we are also reviewing additional in-licensing and acquisition targets.

To develop a truly pan-regional business for Grünenthal, our activities in Brazil and Mexico contribute the necessary scale to our Grünenthal affiliates in Chile, Colombia, Ecuador, Peru and Venezuela, where the Group has long-established operations with a strong market presence and significant market share.

Unlike our business model in Europe and Australia, where Grünenthal focuses on pain therapy, our Latin American business still represents a mix of Grünenthal's global pain therapy brands as well as local products that include non-pain and in-licensed products. Currently, the proportion of global brands[2] is about 31 percent, while the local products represent approximately 69 percent of the region's overall business volume. Significant therapeutic areas besides pain in selected Latin American markets were gynecology and central-nervous-system diseases (CNS).

Given that Latin America still remains a predominantly patient-driven market (as opposed to the more payor-driven markets in Europe and the USA), established brands can represent significant value in selected markets. Consequently Grünenthal continues to review its portfolio of products regularly on a market-by-market basis to optimize yield potential. This can lead to Grünenthal discontinuing products in certain markets or initiating the registration process for successful products in markets where they are currently not available.

Initiating regional Change Pain® roll-out

To support our long-term focus on the core business of pain therapy, we have also continued implementing the Change Pain® initiative. 2012 concentrated on starting up the program by establishing the resources and training staff, as well as identifying the relevant stakeholders and key opinion leaders. In 2013, we will begin to roll out the initiative and start engaging with patients, doctors and other stakeholders. Change Pain® represents a key opportunity to benefit from addressing patients directly or via specialist doctors and to support our overall goal of becoming the most patient-centric company in pain therapy.

Accelerating pan-regional business development

Grünenthal's established presence in pain therapy, together with our pan-regional footprint, offer lucrative in-licensing opportunities. In 2012, we signed our first two deals to market pain products across the entire region with Horizon Pharma, Inc. and Tamarang Pharmaceuticals. This is a big success for our newly established pan-regional business development function and represents a significant step away from the country-by-country business development approach Grünenthal previously took.

Outlook

In 2012, we started systematically introducing the Grünenthal values and leadership principles across the region alongside building a unified compliance culture. We view this as a key success factor, and with the ongoing support of our Global Human Resources function, we will continue to introduce further initiatives to promote organizational and leadership development. The first initiatives in our Cultural Evolution program have already produced tangible results in our annual Great Place to Work® employee survey, where Central America, Colombia and Mexico as well as Tecnandina achieved the status of Great Place to Work® in 2012.

For 2013, our priority remains completing our organizational set-up and finalizing regulatory approvals for our business in Brazil, as well as further implementing our external growth strategy – either through acquisitions or additional in-licensing projects. With the acquisition of projects or portfolios that are aspired, we can accelerate business development in comparison with the average regulatory approval time frame of about three years. In addition, we will roll out the first activities in our Change Pain® initiative, and we also plan to launch Palexia® and Norspan® in Mexico.

[1] Retail market / mercado etico w/o milk, sales in LC€ (Local Currency Euro, converted with fixed exchange rate) according to IMS

[2] Global brands include Zaldiar®, Tramal IR®, Tramal SR®, Tramal Long®, Tradol®, Nobligan®, Versatis®, Toperma®, Transtec®

Kay from the UK

"No matter where we are in life, we always have choices. And you know, you have choices too: our hope lies in your hands."

Compound Development & Branding

Within the process of bringing Grünenthal innovations to the market, Compound Development & Branding (CDB) is responsible for the late-stage clinical pipeline. This corporate function plans and manages the Phase IIb and Phase III trials – most often in collaboration with development partners. In an age when drug development costs are increasing and reimbursement and prices in regulated healthcare systems are decreasing, it is of vital strategic importance to get the regulatory approval of new compounds completed on time, on quality and on budget, and in a way which will ensure optimal conditions for negotiation with payors. The right development and positioning allow for the best possible pricing and revenue generation for our new medicines entering the marketplace. CDB is currently working on three major late-stage development projects: development of Cebranopadol (formerly known as GRT6005), a pediatric development program for Palexia®, and further development of Versatis® for use in post-operative neuropathic pain.

In addition to the late-stage development work, CDB conducts early clinical development for Grünenthal Innovation, as well as providing support and expertise to the commercial SBUs and business partners in maintaining regulatory dossiers and keeping products in the market. This corporate function also plays an important role in the evaluation of potential acquisition targets.

Cebranopadol moves into Phase IIb with agreed development program

Of the late-stage development projects, Cebranopadol is the first compound that has progressed from SBU Grünenthal Innovation to CDB for late-stage development. In 2012, our dialogue with regulatory authorities in Europe and the US has shown that regulatory requirements for the development of new medicines in the chronic pain area have changed, and approval for a broad label like "chronic severe pain" in the US now needs significantly more trials in various indications. In Europe, proof of efficacy in cancer pain is of particular importance. The Cebranopadol project team has re-designed the development program accordingly. Currently, Phase IIb trials have been initiated in osteoarthritis and low back pain, while a study in diabetic neuropathic pain (DPN) as well as a controlled, double blind and an open label extension trial in cancer pain will start later this year.

Label extension for Palexia® and Versatis®

For Palexia®, we initiated a pediatric investigational program in order to get this innovative pain treatment approved for use on children. This program is as important as it is difficult to run. Patient recruitment for narcotics trials with small children is notoriously difficult, and there are other technical challenges to be overcome in order to get valid results. The program is however on track thanks to the commitment of the Grünenthal team and close collaboration with our partner, Janssen Pharmaceuticals.

Versatis® is currently undergoing an additional Phase III trial to extend the label to include post-operative neuropathic pain. Furthermore, the extension of the label to localized neuropathic pain was submitted in various countries of the SBU Grünenthal Latin America territory.

Introduction of Lean Management

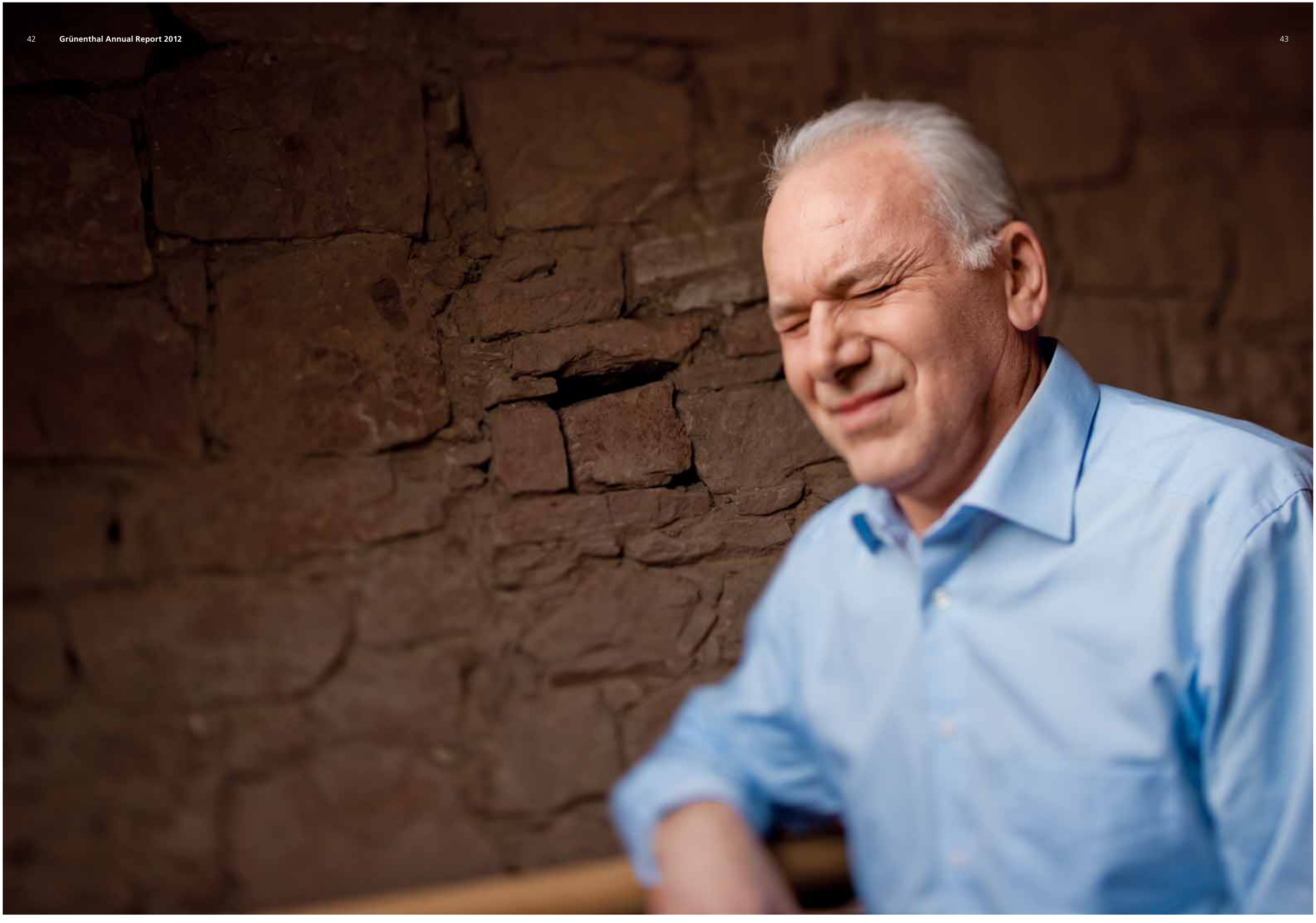
In our efforts to continuously improve our organization, we decided to introduce Lean Management across CDB. This holistic management practice will help us to improve the day-to-day management of capacity and resources and deliver exactly what our customers need from us. The principles of Lean Management increase transparency in the organization and help us to focus on identifying problems at an early stage and to work on continuous improvement. We launched a successful pilot project in Global Regulatory Affairs last year and we will roll this out in most of CDB in 2013.

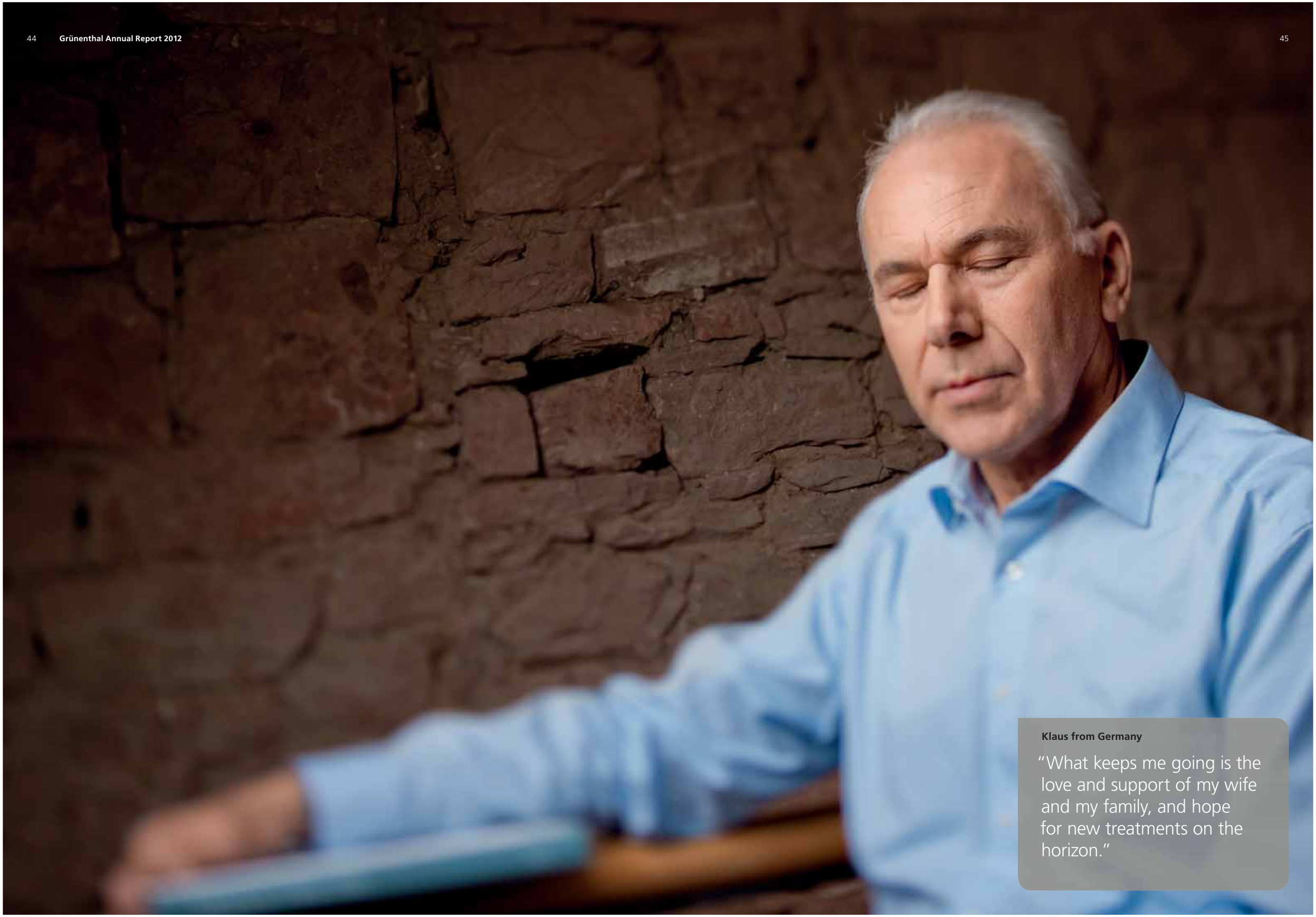
Driving the patient-centricity agenda

In 2012, CDB managed the patient-centricity initiative and achieved important milestones in this strategically important area. We initiated the Patient Ambassador Program to improve the dialogue between our key stakeholders, patients suffering from chronic pain and specialist functions within the Grünenthal Group. The team also held a very successful Patient Summit entitled "Pain Perspectives" in November 2012. Grünenthal also established a medical board chaired by the head of CDB and the head of Medical Affairs of SBU Europe & Australia to act as the patients' ombudsman and ensure that all clinical and medical activities are carried out in the patients' interests. The board established a charter that was subsequently approved by the Group Operating Committee. In early 2013, the department responsible for these activities moved to Global Human Resources, reflecting the necessary organizational evolution of the initiative into a staff function that has an impact across our entire organization.

Goals for 2013

First and foremost, CDB aims to progress the late-stage clinical development projects for Cebranopadol, Palexia® and Versatis®. Beyond the Phase IIb and Phase III trials, we will focus on the implementation of Lean Management across the organization. In addition, the current year will also see the conclusion of some longer running organizational and infrastructure projects to further develop and upgrade our technical and data management capabilities. CDB will continue to provide early clinical development for Grünenthal Innovation. In Grünenthal's ongoing evaluation of external growth opportunities, we will continue to support due diligence and pipeline review initiatives.





Klaus from Germany

"What keeps me going is the love and support of my wife and my family, and hope for new treatments on the horizon."

Global Product Supply

Global Product Supply (GPS) had a very successful year in 2012. The corporate function continued to play its vital role, both in providing cost-effective production and supply services for Grünenthal's SBUs and external toll manufacturing customers, as well as offering the capability to move new products quickly to industrial-scale production. In short, GPS supported Grünenthal's overall aim to become the most patient-centric company by making sure the right products were available at the right time and in the right place. The commercial success of our internal and external partners led to new production records at our facilities in Italy and Switzerland and allowed GPS to outperform its assigned targets for cash flow generation in 2012 also. The key highlights for GPS in 2012 included the toll manufacturing agreement we reached with STADA AG, the expansion of active pharmaceutical ingredient (API) production at our Grünenthal Campus in Aachen, Germany, as well as the kick-off to our operational excellence program.

Successful expansion of toll manufacturing

With customer focus, transparency and the ability to keep our promises, we focused on further reinforcing our track record as a flexible and reliable product supply partner. Inside Grünenthal, this included supporting the further ramp-up of production for the growth of our products Palexia® and Versatis®. In toll manufacturing, the function actively supported the accelerated launch of an INTAC® version of Opana® by Endo Health Solutions five months ahead of the original schedule and also the execution of a manufacturing agreement with STADA AG following its acquisition of Grünenthal's Central & Eastern European and Middle East business. The agreement makes STADA AG one of the largest toll-manufacturing customers and also expands the toll manufacturing further from the production of active ingredients to more complete solutions, including tablet production and packaging. The achievement of moving production of Biofrontera AG's Ameluz® quickly from laboratory scale to industrial production was repeated with a portfolio of gynecology products for an international pharmaceuticals company.

Increased API production in Aachen

In 2012, GPS also continued to adjust its global manufacturing footprint to the new strategy. At our Grünenthal Campus in Aachen, we grew the production of APIs such as Tapentadol and Betahistine significantly to satisfy increasing customer demand.

Focusing on the strategic core of Global Product Supply

We were able to conclude the closure of the site in Stolberg, Germany, on time and on budget, finalizing divestments and business closures as well as streamlining capacities. Production of sterile liquids was transferred to the Grünenthal Campus and the remaining production of oral contraceptives was moved to Hungarian company Gedeon Richter, following its earlier acquisition of the business.

The closing of the Mexican facility was started and will be concluded by the end of 2013.

Today, we have production facilities in Aachen/Germany, Origgio/Italy, Mitlödi/Switzerland and Quito/Ecuador, all of which are EU GMP (Good Manufacturing Practice) certified. The German and Swiss sites are also US FDA approved.

Operational excellence program to retain competitive edge

In late 2012, we started to implement an operational excellence program to create and retain a sustainable competitive position and maximize cash flow for the Group. Through this process of continuous improvement, we plan to engage employees throughout the entire organization to address any weak spots. The implementation of this program will be a major target for 2013, together with providing manufacturing support for the further growth of our INTAC® technology in the US.

Based on our strong Corporate Values, we aim to create a working environment that allows our employees to focus on becoming the most patient-centric company. In order to achieve this goal, we made progress in increasing transparency, encouraging open communication and creating a feedback-driven culture. We are proud to say that we are perceived by our employees as a Great Place to Work® globally (according to the results of the survey taken by the Great Place to Work® Institute).

Edith from the UK

"While there is no cure for chronic pain, there is life with chronic pain."

Global Human Resources

From a Global Human Resources perspective, two main aspects are fundamental for supporting the VISION 2020 objective: turn all of Grünenthal into a Great Place to Work® (GPtW) by managing internal cultural change – we call it our Cultural Evolution – and creating a strong employer brand. We made significant progress with both strategic initiatives in 2012.

According to the Great Place to Work® Institute, an organization qualifies as a GPtW when at least 80 percent of employees rank it as such in a worldwide survey. Coming from 68 percent when we started the survey process in 2009, the fourth-year survey results proved we have come very close to achieving our goal of being a GPtW across the entire Group. In some European countries – such as Ireland, Spain, Belgium and the Netherlands – the 2012 results showed that we are already a "Great Place to Work". However, at 79 percent on a worldwide scale, we fell a shade short of our goal. We will work hard to achieve the extra 1 to 2 percentage points increase to become a GPtW, but our efforts will not stop there, as we will then need to maintain the quality achieved over the past years.

Driving Cultural Evolution

In parallel, we have invested further in our Cultural Evolution. It is crucial that all our employees fully understand our vision to become the most patient-centric company and grasp how each person can contribute to achieving this. We also need to make sure that each employee develops a better sense of how to integrate our Corporate Values into daily working life. Additionally, everyone within our Company must be aware of how to ensure the highest compliance standards. That is why we rolled out a brand new Code of Conduct in 2012. By year-end, all 4,400 employees had familiarized themselves with a printed issue of the Code of Conduct that had been translated into seven languages. Also, a set of training courses had been initiated that will be continued in 2013. To increase our efforts in terms of employer branding, we have started to create an employer value proposition in 2012 to show what working at Grünenthal is like for those who are already working here as well as for potential new employees.

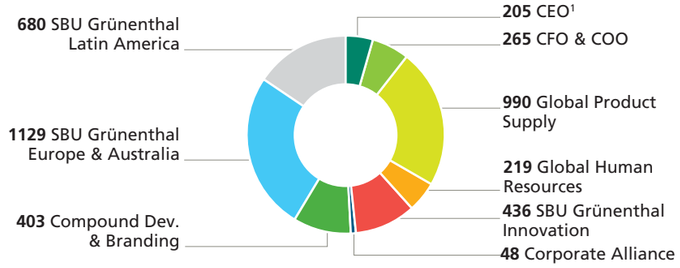
For the entire Cultural Evolution with its four elements – patient-centricity, Corporate Values, code of conduct/compliance, and employer branding – a project team was established to create a program consisting of training courses, information material, workshops and other supporting tools. This program was kicked off at Grünenthal's Group Conference at the end of 2012, which was attended by the 90 top leaders of the Company.

Talent management and leadership development

As part of the talent management process, which we standardized on a global level, we created four talent pools: an executive talent pool (ca. 50 managers), a scientific expert talent pool (34 scientists), an Europe & Australia talent pool (49 participants) and a Latin America talent pool (23 managers). We then developed a leadership program for our executive and commercial talent pools – for the executive talent pool in cooperation with the INSEAD business school, which started in April 2013; for Europe & Australia with the Frankfurt School of Finance and Management; and for Latin America with the University of Miami School of Business. The development program sessions will be supplemented by a mentoring program, where senior Company managers will partner with talent pool members as their mentors.

HEADCOUNT BY SBU/CORPORATE FUNCTION

Year-end 2012



[1] Staff functions: Global Integrity Management, Corporate Communications, Corporate Affairs

On the agenda in 2013

In 2013, we will further implement our initiatives in patient-centricity and Corporate Values. In order to foster the desired leadership behavior, especially in middle management, we will increase our activities for this target group, including a new 360-degree evaluation program to identify development measures at this level. Finally, following the consolidation of globally applicable Human Resources processes into a central IT system, we will be in a position to turn off the individual legacy systems in 2013.

Our Values

Customer Proximity
Understanding | Empathetic | Reliable

Leadership
Innovative | Courageous | Resilient

Care
Committed | Honest | Passionate

Global Brands
Therapy Focus

Building on our unique position in pain, our objective is to become the most patient-centric company and thus to be a leader in therapy innovation. We specialize in pain treatment and seek to improve the quality of life of those affected by pain by providing effective and reliable analgesics. Our intensive search for innovative ways to relieve pain better, more effectively and with fewer side-effects distinguishes us from our peers.

Grünenthal's portfolio comprises a large number of highly effective treatment options for chronic as well as for acute pain conditions. Our products are available in more than 155 countries.

PALEXXIA®

Palexia® was introduced as a new centrally acting analgesic on the pain market in 2010. The substance tapentadol is the first member of the proposed new pharmacological class MOR-NRI and is effective against severe acute and chronic pain in adults, which can be adequately managed only with opioid analgesics.

- Latest success from Grünenthal's own research and development
- Market introduction: October 2010 Palexia® retard in Germany. Today, Palexia® is available in Australia, Denmark, Ireland, Italy, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom
- Sales 2012: €67 mn

versatis®

Versatis® is a topical 5% lidocaine medicated plaster, indicated for the symptomatic relief of neuropathic pain associated with previous herpes zoster infection.

- Exclusively locally effective lidocaine pain plaster
- Market introduction: from 2007, today available in Australia, Austria, Belgium, Denmark, France, Germany, Ireland, Norway, Portugal, Spain, Sweden and the United Kingdom
- Sales 2012: €96 mn

intac™ by Grünenthal

INTAC® is an innovative formulation technology that raises hurdles against prescription drug abuse and protects intended drug action. This patient-friendly formulation requires no aversive additives or antagonists.

- Established at commercial manufacturing scale and featured in FDA-approved products
- Market introduction: 2010
- Revenues from licenses and net operating sales in 2012: €80 mn

ZALDIAR®

Zaldiar® is made up of paracetamol and the centrally acting analgesic tramadol, thus combining two well-known and proven analgesic active substances. It is indicated for the treatment of moderate to severe pain.

- Combination of active substances: paracetamol and tramadol
- Market introduction: 2003
- Sales 2012: €166 mn (incl. Ixprim®)

Tramal®

Tramal®
In 1977, Grünenthal marked a milestone in pain treatment with the introduction of Tramal® (tramadol hydrochloride). Tramal® is a centrally acting analgesic for the treatment of moderate to severe pain.

- Success from Grünenthal's own research
- Market introduction: 1977
- Sales 2012: €114 mn

Transtec®

Transtec®
In 2001, Grünenthal became the first pharmaceutical corporation to introduce a transdermal opioid matrix patch: Transtec®/Transtec Pro® for the treatment of moderate to severe cancer pain and severe pain which does not respond to non-opioid analgesics. It is not indicated for the treatment of acute pain. The active substance is the strong opioid buprenorphine.

- Success from Grünenthal's clinical development
- Market introduction: 2001
- Sales 2012: €80 mn

NORSPAN®

Norspan® is a seven-day patch containing the active substance buprenorphine. It is indicated for the treatment of moderate non-cancer related pain if an opioid is necessary for achieving adequate analgesia. Norspan® is not indicated for the treatment of acute pain.

- Low dosage buprenorphine pain patch
- Market introduction in Germany: 2007
- Sales 2012: €26 mn

We are grateful for the meaningful
and emotional moments
which you – our pain patients – share with us.
Whenever we talk, whenever we meet.
You make us better.

GRÜNENTHAL

Become the most patient-centric company.

Think Innovation. Feel Life.®

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