



Making a real difference



NORGINE

Annual Report 2008



Chairman's Report

After a year marked by dramatic change, it is reassuring to be able to start this letter on a consistent basis. In spite of the turbulent environment, Norgine stayed focused upon delivering long-term value and our core philosophy and strategic objectives remain unchanged.

Simply put, we seek to maintain our position as the leading specialty pharmaceutical company with all of Europe as our domestic market. With this organisation as our foundation, Norgine will work with partners to develop, register and launch innovative new healthcare products throughout Europe.

While the future will undoubtedly bring new challenges, I am confident that Norgine has the strategy, the infrastructure and, most critically, the team of professionals, required to succeed in this changing environment. It is only left for me to, once again, thank the entire team at Norgine for their extraordinary efforts during 2008. Without their absolute commitment to delivering results, Norgine would not have continued to thrive in this, our 103rd, year.



A handwritten signature in blue ink that reads "Peter Stein".

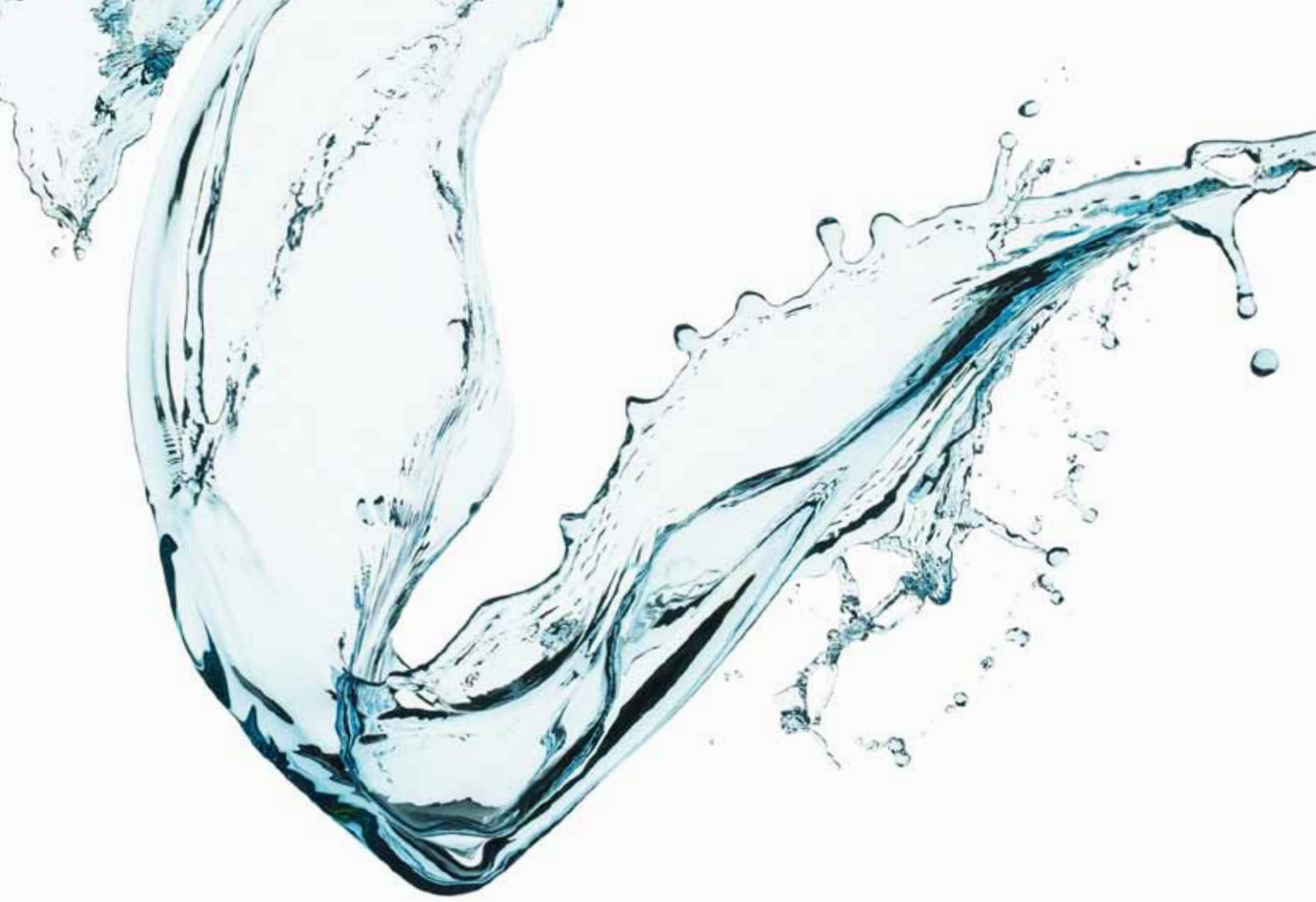
Peter Stein
Chairman

Our strategic objectives can be condensed to three elements:

1. To be the European partner of choice by ensuring that Norgine continuously operates in all our markets at the highest standard of quality expected of the pharmaceutical industry and that we always honour our ethical obligations towards patients as well as customers, physicians, corporate partners and other stakeholders;
2. To leverage this investment in a unique European pharmaceutical infrastructure by licensing in and acquiring new products which help improve patient care and sustain our sales growth;
3. To drive forward our pipeline of R&D projects, whether they be internally conceived or developed in partnership with others, to create innovative products that we can market through our European infrastructure and, where we own global rights, license out to partners in other major markets.

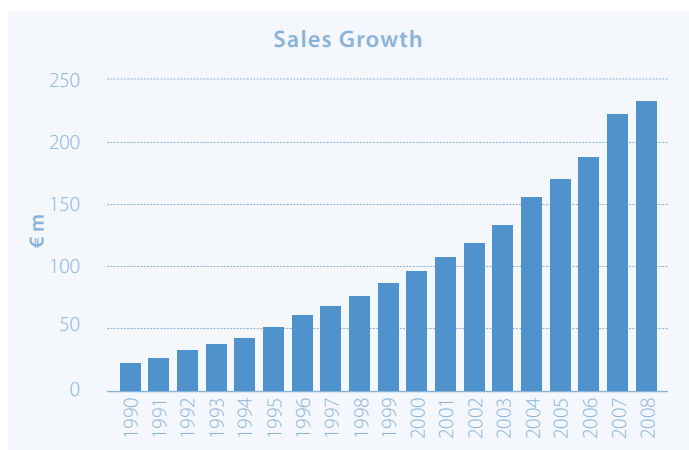
During 2008, we achieved major milestones in all three areas:

- Norgine made a major investment in the further integration of our critical business systems in order to adapt to, and anticipate, rapidly evolving regulatory requirements.
- Norgine expanded our geographic presence with the establishment of a sales and marketing subsidiary in Portugal.
- Norgine signed a license agreement with Alfa Wassermann S.p.A. with respect to the product XIFAXAN® and subsequently launched the product in Germany. More recently, the two companies have been proud to share the prestigious H. G. Creutzfeldt Innovation Award.
- Norgine acquired European rights to COLAL-PRED® from Alizyme Plc. Since signing this agreement in June 2008, Norgine has been collaborating with Alizyme, and its other licensees, in order to complete the development of the product.
- Norgine executed agreements with two new regional licensees for our innovative bowel lavage solution, MOVIPREP®. We look forward to working with Ajinomoto in Japan and Medical Futures in Canada in order to make MOVIPREP the leading bowel lavage product in those markets.
- Norgine initiated the Phase III clinical trial programme for our most advanced R&D project.



2008 Results

Net product sales increased by 5%. While this was better than the sales growth of the European pharmaceutical industry as a whole, it was the first year of notional single digit growth in more than 20 years. In large part, the figure is explained by the precipitate decline of the British Pound against the Euro. On a constant currency basis, Norgine's product sales increased by 10%. As a rule, we tend to be suspicious about the use of constant currency figures. Positive exchange variances are rarely mentioned to explain a company's success even if we have highlighted these effects in the past. However, the constant currency figure does more accurately reflect our underlying performance since we had no material in-market price increases in the year. On a constant currency basis, 2008 was therefore Norgine's 22nd consecutive year of double-digit growth.



Norgine's two largest products continued to show strong growth in 2008. In spite of increasing levels of competition, MOVICOL® grew by a further 13% in equivalent units as Norgine extended the use of the product to new patient groups and expanded the overall market. Although MOVICOL has been on the market since 1995, Norgine has continually invested in order to renew the clinical data supporting the product's use and to develop new and improved presentations. MOVICOL is a clear demonstration that innovation can take many forms and that, ultimately, patient benefit is not measured by the number of patents protecting a product.

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In only its second full year of sales, MOVIPREP became the overall European market leader among products to prepare the colon prior to cancer detection procedures and is now Norgine's second largest product. While a colonoscopy is never going to be an entirely pleasant experience, the procedure is the most effective way to detect colorectal cancer. It is critical for the physician to use a bowel preparation which minimises patient discomfort and maximises compliance prior to the colonoscopy, provides a clean colon in order to derive the full diagnostic and therapeutic value of the procedure, and avoids long term adverse effects upon the patient's other organs. We believe that MOVIPREP offers the optimal balance of patient safety, comfort and efficacy and are pleased to see that clinicians are rapidly adopting this new gold standard.

As previously discussed, the rapid decline of the British pound had a material impact upon the value of our British sales shown in our accounts. A secondary effect was that parallel exports of our products from the UK to other European markets increased materially during the year as traders were able to exploit the resulting differential in selling prices and thereby also reduce our average achieved selling price in Euro based markets. A peculiarity of the pharmaceutical market in Europe is that while the pricing from manufacturers is heavily regulated, traders are free to exploit currency effects.

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The net effect of this pricing pressure was a small increase in Norgine's cost of sales as a percentage of product sales. The decline of the pound did have a silver lining as Norgine also incurs expenses denominated in pounds because it still has significant operations in the UK. In keeping with long-term trends and objectives, Sales, General and Administration costs declined slightly as a percentage of revenue. However this was more than offset by another significant increase in Research and Development activity.

Norgine's pre-tax income declined in the year by 39%. While this is a significant decline, it is entirely explained by the 48% increase in R&D investments. As discussed in previous reports, Norgine has consistently sought to spend as much in R&D as we can both afford to invest and can invest wisely, and, to the full extent permitted by accounting standards, we expense these costs. Although they are not valued in our balance sheet, we are confident that our pipeline has a significant future sales potential in Europe and out-licensing potential in the rest of the world.

Finally, Norgine's effective tax rate increased substantially in 2008 as a result of a number of one-time factors. We are confident that the tax rate will revert to more normal levels in 2009.

After many years of reporting EBITDA in order to conform to industry practice, we have finally summoned the courage to resist this scourge of accounting practice. We object to EBITDA as it is largely dependent upon the chosen business model, creates incentives for illogical decisions and does not reflect the true performance of a specialty pharmaceutical company. As a company that actively researches new products and expenses the related costs, we will always have a lower EBITDA than a similar company which does no research of its own and consequently acquires, capitalises and amortises the cost of products developed by others. We believe it is more rational to break down our financials into the two crucial components.

Income Statement	2008 €'000	2007 €'000	Growth %
Net Turnover	232,778	222,074	4.8%
Other Revenue	7,983	3,698	115.9%
COGS	80,007	73,675	8.6%
Gross Margin	160,754	152,097	5.7%
Sales, Marketing & Admin Expenses	120,887	114,854	5.2%
Research & Development Expenses	28,402	19,183	48.1%
Earnings Before Interest & Taxes	11,465	18,060	-36.5%
Net Interest Expenses	769	586	31.2%
Tax	4,086	3,986	2.5%
Net Income	6,610	13,488	-51.0%



Norgine's core business of manufacturing, marketing and supporting existing medicines, including R&D costs necessary to maintain these franchises, generated a pre-tax operating profit of €42.3 million (the total blue bar), an increase of 7% over 2007. Over the past five years, our operating contribution has increased at an annually compounded rate of 9%.

The nature of Norgine's business model is that we will have irregular peaks of income due to reaching a pre-determined milestone event. These are included in our reported operating contribution. Although they are, unfortunately, sporadic, they are not extraordinary income as we explicitly engage in our R&D activity in part to create these sources of income. Within the last five years, these payments made a material contribution to our results in 2006 and, to a lesser extent, 2008. The inclusion of these milestone and licensing payments can distort short-term comparisons but, fortunately, we are not managing the business for the short-term.

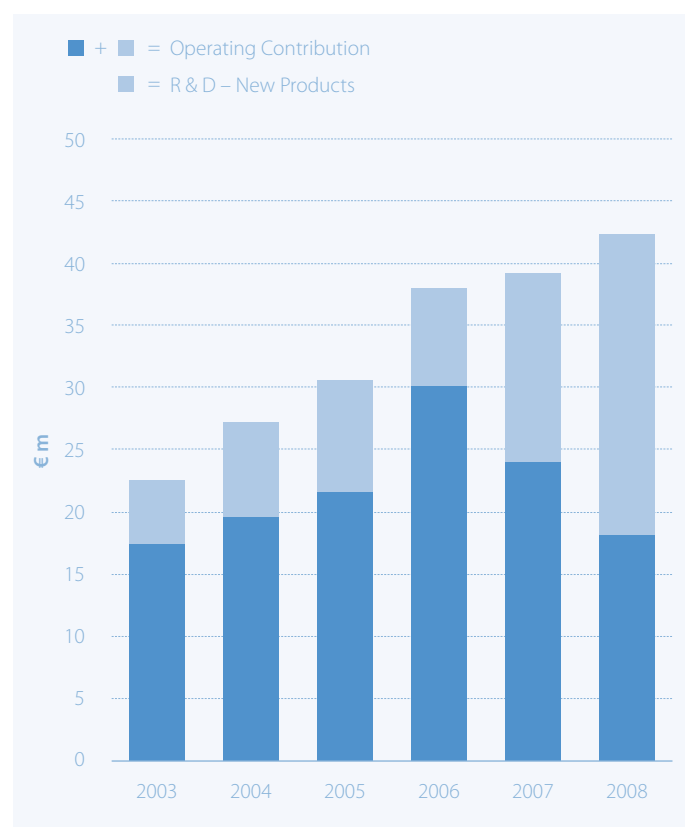
For complete clarity, we should add that we have also resisted the temptation to create a category for extraordinary expenses even though we incurred a large amount of non-recurring expenses in 2008. While these specific expenses will not recur in future years, an ever-changing set of non-recurring expenses seem to recur in most years and, consequently, we are suspicious of accounts which discount non-recurring expenses and present operating contribution on a so-called "ongoing" basis.

Norgine chooses to invest a portion of the funds generated by our operating business into research and development of entirely new products (the light blue segment of the blue bar). The net result of these two figures is our EBITDA. It would be entirely possible to use the profits from the operating business solely to purchase products developed by others. The result would be a company with greater EBITDA and short-term profits but, we believe, lesser long-term prospects.

The graph demonstrates why we look to the future with confidence. Norgine's operating business has been generating solid gains in operating profits that in turn have allowed us to substantially increase our investment in future products. While the vast majority of the latter investment does not appear on our balance sheet, we are confident that we are generating long-term value to sustain the growth of our business.

Balance Sheet

Assets	2008 €'000	2007 €'000
Current Assets		
Cash & Equivalents	6,169	11,373
Stocks	23,162	20,166
Receivables	49,528	41,831
Total Current Assets	78,859	73,370
Fixed Assets		
Tangible Fixed Assets	36,776	41,267
Intangible Fixed Assets	4,029	1,609
Financial Fixed Assets	1,604	1,257
Total Fixed Assets	42,409	44,133
Total Assets	121,268	117,503
Liabilities & Equity		
Current Liabilities	44,018	41,153
Long-Term Liabilities & Provisions	12,814	9,252
Shareholders' Equity	64,436	67,098
Total Liabilities & Equity	121,268	117,503



Future Prospects



Although the pharmaceutical industry as a whole is under threat, Norgine continues to be optimistic about its prospects. That is not to say that we are complacent about the changes in the environment.


Much of the turmoil in the overall industry is caused by the recognition that there is no medical or social need for many, if not most, of the products historically developed by Big Pharma, in particular the patentable new molecules which do not offer significant medical benefit over established molecules in the same class. Since Norgine has never pursued this model, it is untouched by the consequences of its failure. Norgine continues to see significant areas of unmet medical need and we are confident that we can, together with our partners, develop novel treatments, either based upon new uses for established molecules or novel classes of therapy.

Another major driver of change is the increasing recognition that Hippocrates had a point. The pharmaceutical industry must, above all else, do no harm. This has important ramifications for the industry in general and Norgine in particular. Similarly to other companies, we have made major investments in order to ensure compliance with rapidly evolving standards of pharmacovigilance.

On the positive side, our integrated European structure has facilitated the process of implementing a global system and has given Norgine a competitive advantage. Norgine also benefited when the increased emphasis upon a risk benefit analysis led the FDA to take action against certain competitors of MOVIPREP in the USA. More generally, one would suspect intuitively that the heightened standards of pharmacovigilance should limit the use of new chemical entities to true innovations in medical practice while favouring improved formulations and novel uses of existing chemical entities, with known side effect profiles based upon millions of patient exposures, over the “me too” new chemical entities, which have at best been tested in a few thousand subjects under controlled circumstances and provide little medical benefit over existing therapy.

With the exception of truly innovative products, it is unquestionable that pharmaceutical prices will come under increasing pressure. This is particularly true in the United States, which has in the past had relative pricing freedom. As a European company that has for many years coped with restricted pricing, Norgine has the advantage of never having built a bloated infrastructure reliant on high prices. We consequently do not need to re-engineer to the same extent as others. Nevertheless we expect our average unit prices to continue to erode over time. Unfortunately, in their understandable drive to reduce short-term costs, many healthcare systems undermine continued investment in, and improvement of, existing therapies and thereby inadvertently create market conditions that favour new highly priced products and actually increase the overall drug budget.





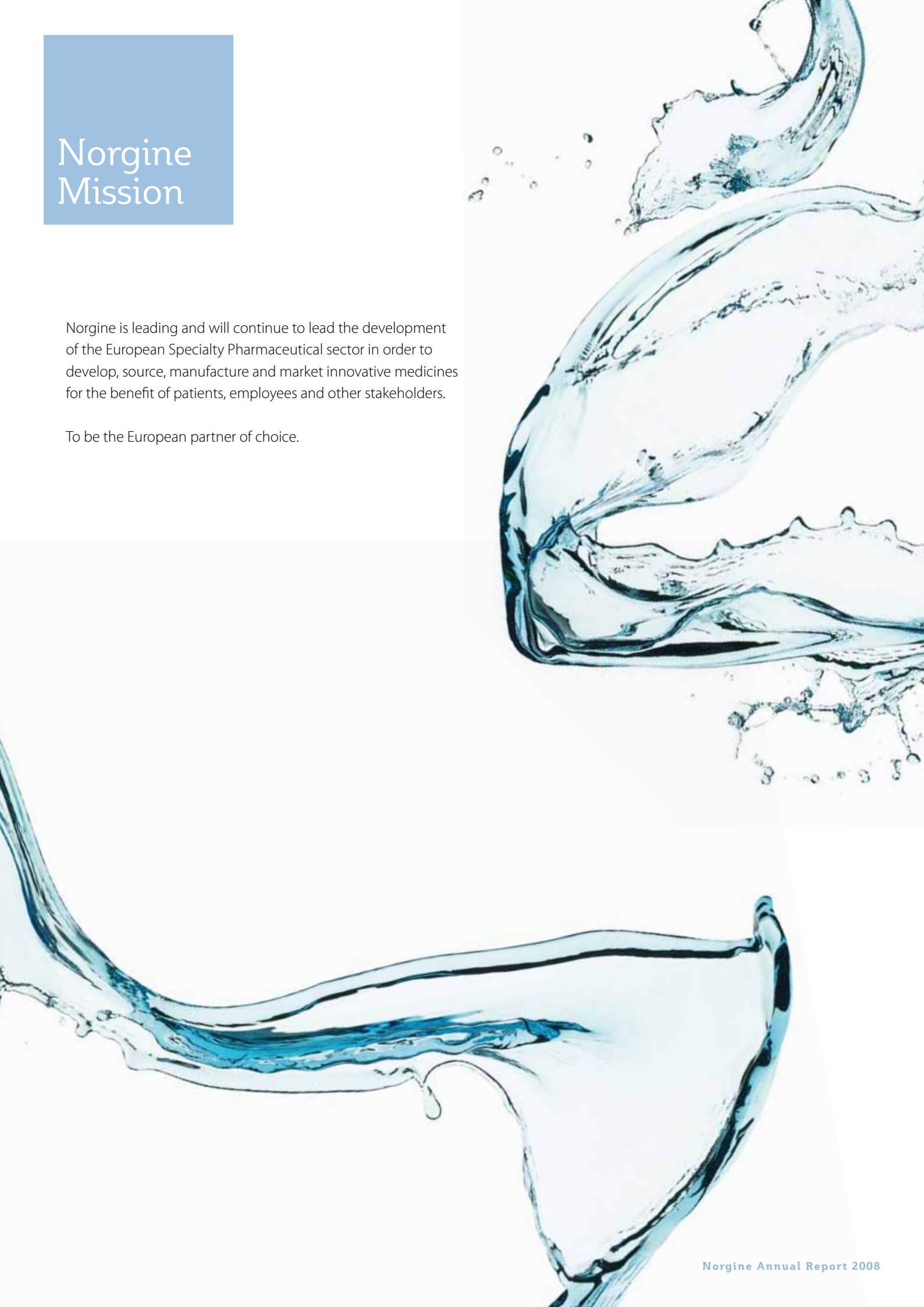
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Norgine Mission

Norgine is leading and will continue to lead the development of the European Specialty Pharmaceutical sector in order to develop, source, manufacture and market innovative medicines for the benefit of patients, employees and other stakeholders.

To be the European partner of choice.





Norgine
Vision

Happier, healthier lives. We make a real difference.

At Norgine we have an ongoing commitment to improving patients' lives. By developing highly effective medicines for conditions currently with unmet clinical needs, we make a real difference.

We focus not only on conditions that are life threatening, but also those that can cause patients considerable physical suffering. Our products are an important factor in improving the quality-of-life for patients with a range of acute and chronic illnesses.

We pride ourselves on offering a range of medicines that are innovative and clinically effective as well as easy to use and patient-friendly. In conjunction with our patient-oriented philosophy and commitment, we offer a wide range of support materials to enable physicians, nurses and pharmacists to help patients understand and manage their conditions.

At Norgine we aim to help people live happier, healthier lives.



Working with motivated people

Our philosophy is to invest in people who combine qualifications with drive and enthusiasm and this includes our strong commitment to staff training and development. As an independent and entrepreneurial company we encourage individuals to make positive contributions that directly affect the Company's success. Our partners can therefore look forward to working with talented and committed individuals.

Norgine currently employs more than 1000 staff in over 15 countries. The largest group are employed in sales and marketing, followed by manufacturing. A strong R&D team, medical and regulatory affairs, and administration experts support these staff.



A large, artistic photograph of a water splash, showing the intricate, crystalline structure of the water droplets and the flow of the liquid. The splash is captured in a way that highlights the transparency and dynamic movement of the water, creating a sense of freshness and purity. The background is a light, neutral color, which makes the blue and white tones of the water stand out.

Research and Development

To further develop our capabilities in early stage research, and allow greater independence in provision of clinical trial materials, we have made a substantial capital investment by building a new Technical Development facility in Hengoed. Once fully operational in 2009 we will have the ability to produce a wide variety of medicinal formulations for clinical trials, as well as being better able to manage our own formulation research.

Through 2008, we have made significant investments in the area of Pharmacovigilance by way of recognition of the importance of this area to the company. We have undertaken a major review of our processes and procedures and have significantly increased our competence and experience as part of our approach to risk management in this area.

Looking forward into 2009 we anticipate further maturation of our pipeline as well as our development processes to ensure that we maximise our efficiency and maintain a strong focus on governance and patient safety.

Within Norgine Development we have made good progress in our Phase III studies for our lead asset, the liver staging tool, NRL972. We are pleased with both the extent of the programme and the rate of patient recruitment. NRL001 also continues to progress in clinical development with significant success in planning and initiating studies that will be pivotal to determining the profile and success of this project.

We have continued our collaborative research model to work with both industrial and academic partners to bring in new assets and to better understand the opportunities of different mechanisms for early stage research. Specifically we have had success in partnering with Alizyme in 2008 for further development of COLAL-PRED as a potentially safer, colonic release, locally acting steroid for the treatment of Ulcerative Colitis.

