



Making a real difference



Chairman's Report

I am pleased to be able to report that 2009 was yet another successful year for Norgine.

Norgine's long-term success has been built by a team of professionals committed to consistently, one might even say stubbornly, implementing a proven strategy over a sustained period. We seek to build a solid business able to develop and market innovative pharmaceutical products throughout Europe and, more subjectively, to be the best possible European Specialty Pharmaceutical company.

Europe, taken as a whole, is and will remain our domestic market. By having resisted the siren calls of short-term opportunities on a country-by-country basis, Norgine is one of the few companies to have built an integrated European presence focused on marketing the same products to the same target groups in all markets. We continue to be convinced that this model of a truly European enterprise will be increasingly advantageous as the regulatory environment in Europe evolves.

This report will review Norgine's achievements and progress during 2009, our 103rd year in business. However, our greatest achievement of 2009 is perhaps the least quantitative, namely that we enter the new year stronger than ever and reassured that Norgine has the people, the strategy, the products and the research pipeline to continue to thrive in 2010 and beyond. For this gift of confidence, I am truly grateful to all of my colleagues at Norgine.



Peter Stein
Chairman



Our strategic objectives can be condensed to three elements:

1. To be the European partner of choice by ensuring that Norgine constantly 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 to 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 which we can market through our European infrastructure and, where we own global rights, license-out to partners in other major markets.

Major milestones achieved in 2009 against these long-standing objectives included:

- Norgine integrated the pan-European R&D, Medical, Regulatory and Intellectual Property departments under the umbrella of Norgine Development.
- Norgine capitalised on its structure to significantly increase the profitability of its operating business despite the difficult environment.
- Norgine strengthened its R&D pipeline by acquiring:
 - A license to commercialise ZEGERID®, a novel formulation of omeprazole, from Santarus Inc;
 - The exclusive worldwide licence to a patent portfolio owned by L'Institut National de la Recherche Agronomique (INRA); and,
 - The global rights to CAMETOR®, a lipase inhibitor, previously being developed by Alizyme Therapeutics Ltd.
- Norgine completed patient enrolment in the pivotal Phase III clinical study of NRL972.



2009 Financial Results



Net product sales in 2009 were €253 million, a nominal increase of 9%. While currency fluctuations were more moderate than in the previous year, the nominal sales growth continued to be impacted by the weakness of the British Pound against the Euro. At constant currency rates, Norgine's net product sales increased by just over 11%, the 23rd consecutive year of double digit growth on that basis.

Norgine remains focused on the development and sale of pharmaceutical products which offer real advantages for the patient, physician and payor. The unit sales of our lead product, MOVICOL®, grew by 9% in 2009. MOVICOL remains the gold standard treatment for constipation and Europe's leading prescription brand in this segment.

MOVICOL will face increasing competition in the coming years, both from direct copies and from novel chemical entities, but we are convinced that MOVICOL continues to have significant growth potential. Indeed the newer competitors highlight what we have always said is wrong with pharmaceutical development. Instead of conducting rigorous head to head studies against MOVICOL, the newer competitors have taken the easy route of testing their products against placebo in a limited number of self-declared non-responders to unidentified "laxatives". We are confident that physicians and payors will realise that encouraging patients to use MOVICOL is both more effective, and more cost effective, than unnecessarily exposing them to a comparatively untested, novel chemical entity.

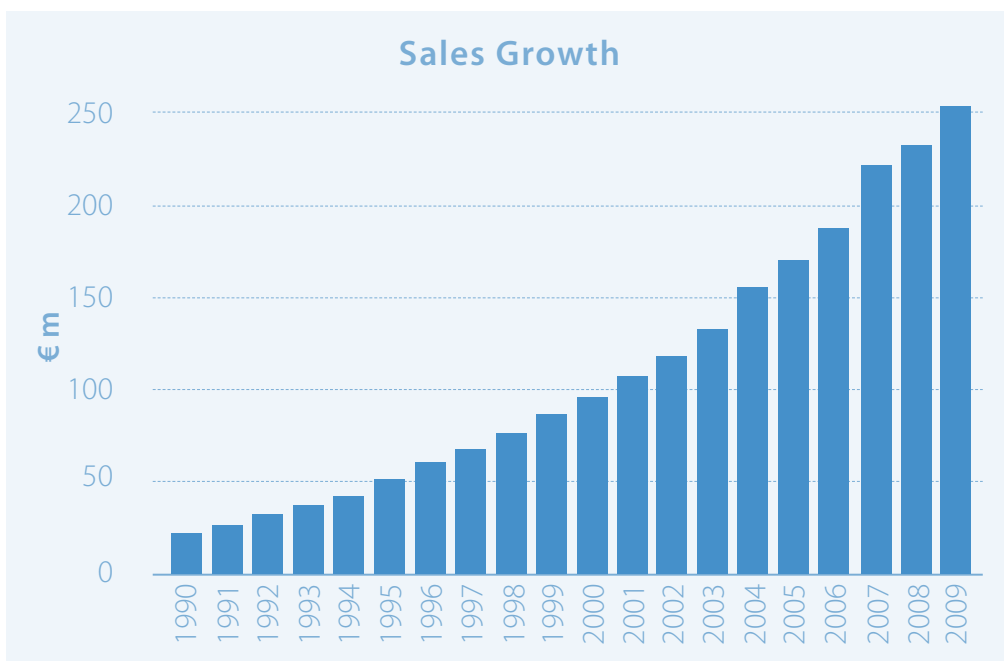
Childhood constipation, a distressing condition which affects as many as 30% of children, remains an area of focus for Norgine. We are pleased that paediatric MOVICOL is increasingly being recognised within treatment guidelines as a result of the clinical research conducted by Norgine.



During the course of 2009, Norgine launched new flavours of MOVICOL in Europe. Although they did not contribute materially to overall sales, the feedback from patients is highly positive. We anticipate the launch of further line extensions in 2010.

MOVIPREP® continues to strengthen its position as Europe's leading product for the preparation of the colon prior to colonoscopy and unit sales in Europe increased by 39%. While we are pleased with this increase, narrow calculations of the cost of competing products are still restricting more widespread use of MOVIPREP. We remain convinced that a product with the optimal combination of safety, palatability and a reduced volume will enhance patient compliance and lead to fewer repeat colonoscopies. While difficult to demonstrate in a clinical trial setting, we hope that MOVIPREP will, in this way, contribute to increasing the early detection of colorectal cancer. With the continued roll-out of bowel cancer screening programmes and new diagnostic procedures, we are confident that MOVIPREP usage will continue to expand.

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In view of the uncertain economic environment, Norgine deferred some expansion plans in order to retain flexibility and remain financially self-sufficient. It has been 85 years since Norgine last sought new equity investors and 2009 would not have been an auspicious year in which to break with this tradition.

The company's gross margin percentage on product sales declined by 1.5% as result of one-time price declines in certain markets and product mix. Given the efficiency projects which we have underway and the economies of scale resulting from our growing sales base and integrated structure, we are confident that, over the long term, the gross margin will increase.

As previously reported, we completed a number of integration projects in 2008. Consequently, we benefited from a reduced level of expenditure on the projects themselves as well as the operating efficiencies resulting from their successful completion. In contrast, we continued to seek promising opportunities to invest in new product development and total R&D expenses increased by 8% in the year.

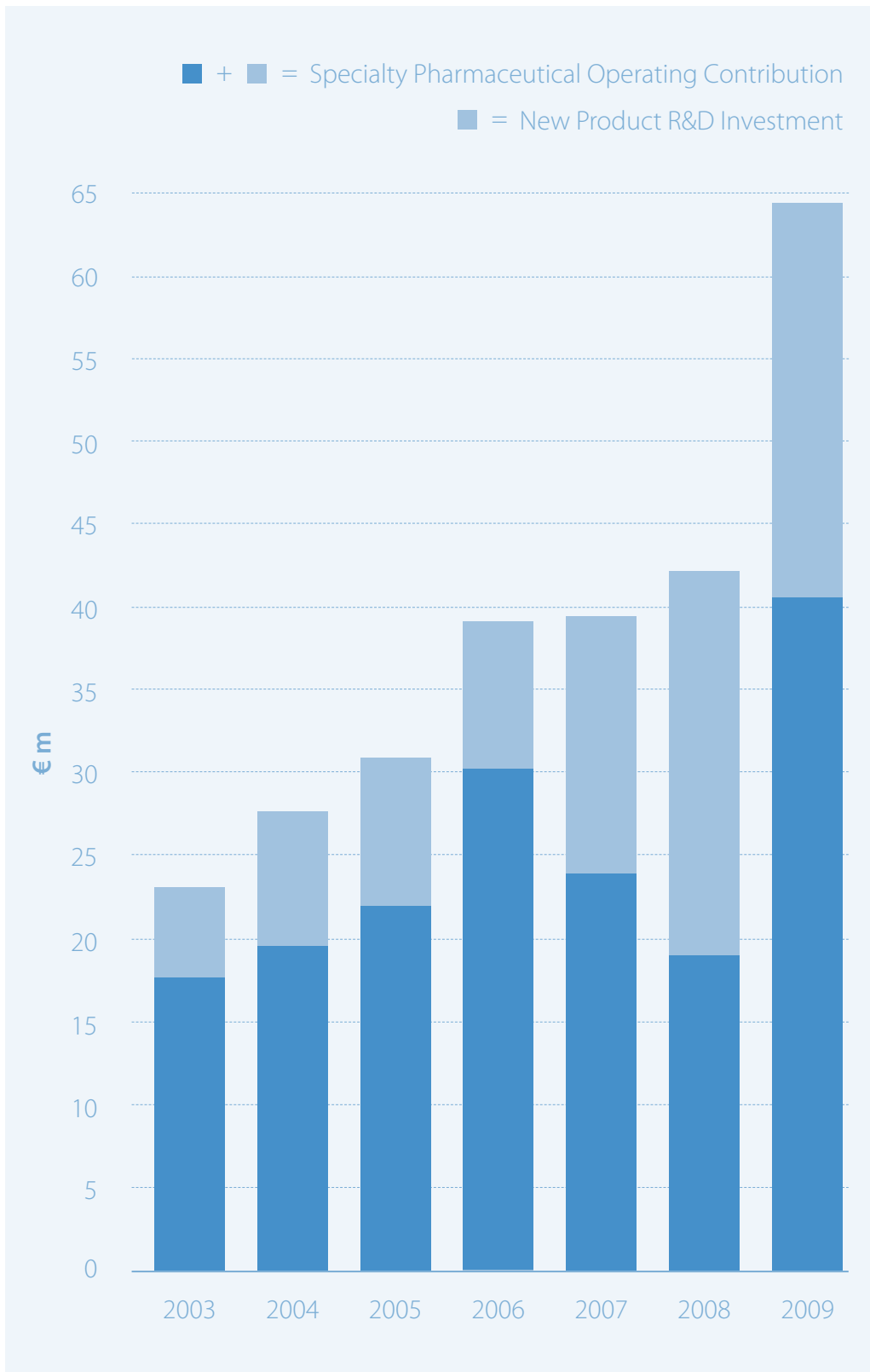
Pre-tax income tripled from 2008 to reach €32.1 million. Because of a reduction in our effective tax rate, our net income increased from €6.6 million in 2008 to €22.6 million in 2009. It is important to highlight that Norgine's 2008 profitability was unusually low as a result of a substantial increase in R&D expenses. Nevertheless, even if the comparison to 2008 is unduly flattering, we are pleased to have been able to have returned to, and even exceeded, our longer-term trends for increasing profitability.

In 2008, Norgine ceased to report EBITDA, as it is not representative of the underlying performance of the overall business. As we explained, Norgine really consists of two distinct business units: a successful established Specialty Pharmaceutical company, with operations and a supporting infrastructure spanning the European market, and an R&D company, investing in the development of new products for sale in the future. Only a minority of our R&D expenses, for example the cost of supporting the registration and continued development of existing brands,

are properly allocated to the established Specialty Pharmaceutical business.

The operating contribution from the Specialty Pharmaceutical business rose by 51% to €63.7 million. This reflects the continuing growth in sales coupled with a careful management of expenses. Although we are pleased with the substantial increase in the operating contribution, the results were supported by certain non-recurring factors as well as the impact of the weak British Pound upon our expenses. We expect the operating contribution to revert to the underlying trend-line in 2010. Taken over a five-year period, the operating contribution of the Specialty Pharmaceutical business has increased at an annual rate of 16%.

Income Statement	2009	2008	Growth
	€'000	€'000	%
Net Turnover	253,294	232,778	8.8%
Other Revenue	4,010	7,983	-49.8%
COGS	90,925	80,007	13.7%
GROSS MARGIN	166,379	160,754	3.5%
Sales, Marketing & Admin Expenses	102,855	120,887	-14.9%
R&D Expenses	30,675	28,402	8.0%
EBIT	32,849	11,465	186.5%
Net Interest Expenses	715	769	-7.0%
Tax	9,494	4,086	132.4%
Net Income	22,640	6,610	242.5%





The majority of our R&D expense is related to the development of entirely novel products. Whenever possible under accounting standards, we prefer to expense our R&D costs related to novel products rather than capitalising the investment and recognising the costs as an amortisation expense over many years. This investment in the development of entirely new products is shown in the light blue portion of the graph that appears on the previous page.

Norgine's primary financial objective is to maintain, at all times, the profitability and balance sheet strength necessary to sustain the continued growth of the business as an independent company, without recourse to equity investors. In keeping with this objective and in response to the economic situation, Norgine significantly strengthened its balance sheet in 2009 and increased our net cash position by €17 million.

Balance Sheet

Assets	2009 €'000	2008 €'000
Current Assets		
Cash & Equivalents	22,949	6,169
Stocks	23,378	23,162
Receivables	52,086	49,528
Total Current Assets	98,413	78,859
Fixed Assets		
Intangible Fixed Assets	8,346	4,029
Tangible Fixed Assets	40,633	36,776
Financial Fixed Assets	2,319	1,604
Total Fixed Assets	51,298	42,409
Total Assets	149,711	121,268

Liabilities & Equity

Current Liabilities	50,083	44,018
Long-Term Liabilities & Provisions	13,748	12,814
Shareholders' Equity	85,880	64,436
Total Liabilities & Equity	149,711	121,268

New Product R&D

In 2009 we integrated Norgine's R&D, Medical, Regulatory and Intellectual Property departments under the umbrella of Norgine Development. Increasing the cohesion and alignment between these departments is recognition that effective cross-functional working, across all of the European market, is paramount. As part of this organisational change, we invested significantly in new processes and resources to ensure our fitness for today's and tomorrow's regulatory environment.



We made further pleasing progress on our pipeline, both in terms of progressing late stage projects and in taking action to streamline projects of low or likely limited value. As a privately owned company, Norgine benefits from being able to eliminate projects without fanfare.

The liver staging tool NRL972 progressed to plan in recruiting patients for its extensive clinical trial programme in both Europe and the US. This is an important therapeutic area given the worrying increases in the prevalence of hepatic disease. In addition, NRL001, our investigational agent for faecal incontinence, demonstrated encouraging clinical results.

Recognising the importance of continued investment in existing products to further the medical knowledge about these widely used medicines, we also conducted Phase IV efficacy and safety work for MOVICOL in a new patient group.

With the acquisition of CAMETOR (cetilistat) from Alizyme and the licensing of ZEGERID, we are confident that our pipeline can be continually renewed by both late stage acquisitions from partner companies and the early stage collaborations we have with universities and academic institutions.

Our infrastructure investment continued with the completion of construction of our state of the art Pharmaceutical Development facility in Hengoed, South Wales. Now named the Norgine Development Centre, it was opened in 2009 and is expected to be fully qualified for IMP manufacture in 2010. This will provide us the flexibility and capacity for formulation and other non-clinical work on our pipeline projects, as well as reducing our dependence upon external providers.



Future Prospects



As we reflect on the significance of the events of 2009 upon Norgine's future development, there is much cause for optimism. Our strategy of building a pan-European structure has been validated and we see increasing evidence that a country-by-country approach will become untenable. The difficulties of building a European organisation by acquiring a series of discrete national businesses or products has been accentuated by the financial crisis and the resulting lack of inexpensive capital. This leaves Norgine in a strong and differentiated position.

Norgine is seeing an increasing flow of new product opportunities. As noted elsewhere, we successfully negotiated a license to ZEGERID from Santarus Inc. and we look forward to working with Santarus to complete the development of this product for the European market. Our other major acquisition of the year, CAMETOR, was acquired under less happy circumstances from a company administrator. This experience reinforced our long standing view that biopharma companies should select licensees, such as Norgine, who will not only pay a reasonable upfront payment but will also remain flexible and committed when the unpredicted crisis emerges. Unfortunately, despite lip service to the contrary, licensing out decisions still seem to be largely determined by the lure of eye catching headline "bio-dollar" payments and a perceived need for "investor validation". We can only hope that this balance will eventually re-equilibrate.

A low-angle photograph of a man in a white polo shirt looking upwards. He is positioned in the lower right foreground. The background is dominated by the complex rigging and masts of a sailboat, with a white sail partially visible. The sky is a clear, bright blue. The overall composition is clean and professional, suggesting a sense of aspiration and focus.

The crisis of confidence among the Big Pharma companies is showing no signs of abating. This is not of direct relevance for Norgine, as we compete in very different segments of the market. However, Norgine has benefited indirectly from the downsizing of Big Pharma, principally as a result of the increased availability of highly skilled managers. However, the changes to Big Pharma are not universally positive for Norgine. We are seeing signs of desperation as well as strategies which we believe to be contrary to the long-term interests of the industry. Norgine very publicly left one industry association in 2009 to protest at the short-sighted policies imposed on the industry by a handful of large companies who appear to lack confidence in their own ability to innovate. While policies such as generic substitution may add short term opportunities for their generic divisions and may temporarily protect their failed model of developing “me too” new chemical entities, we believe that this policy is misguided and contrary to the best interests of patients and the healthcare system. Norgine will continue to fight for a system which rewards true innovation and which ensures the availability of the most effective and cost-effective treatments for patients.

Notwithstanding these tribulations and diversions, Norgine will continue to succeed by remaining focused on our core business. We will expand the markets for MOVICOL and MOVIPREP, develop and launch new products in collaboration with our partners, strengthen our pan-European infrastructure and use our balance sheet to make targeted acquisitions of new opportunities for further growth.



