

Operating and Financial Review

1. Business performance review¹

This Operating & Financial Review is based on the consolidated financial statements for the UCB Group of companies prepared in accordance with IFRS. The separate statutory financial statements of UCB S.A. prepared in accordance with Belgian Generally Accepted Accounting Principles, together with the report of the Board of Directors to the General Assembly of Shareholders, as well as the auditors' report will be filed at the National Bank of Belgium within the statutory periods, and be available on request or on our website.

Key highlights

- **Revenue** at € 3 601 million remains in line with last year (2007: € 3 626 million) thanks to a biotechnology intellectual property settlement, or increasing year-over-year by 4% at constant exchange rates, exceeding company guidance of at least € 3.3 billion revenue. Without this biotechnology related settlement revenue would have decreased by 6% or -3% at constant exchange rates. Continued sales growth from Keppra[®] worldwide to € 1 266 million growing 23% (or +30% at constant exchange rates) despite the loss of market exclusivity in the US on 4 November 2008, combined with growth in Xyzal[®] revenue to € 222 million up 10% (or +13% at constant exchange rates), growth in Tussionex[™] revenue as well as growth in new product launches (Neupro[®], Vimpat[®] and Cimzia[®]), were able to compensate the decline in Zyrtec[®] U.S. revenue (net sales, royalty income and other revenue decreased by € 332 million) due to the December 2007 patent expiry. The additional revenue of € 205 million generated from the biotechnology intellectual property related settlement off-set the revenue declines compared to the previous year from *fesoterodine* milestones, generic *omeprazole* as well as adverse currency evolution and other mature products.
- **Recurring EBITDA** reached € 733 million compared to € 741 million in 2007 and above the latest company guidance of € 720 million, decreasing 1% or growing 6% at constant exchange rates compared to the previous year, reflecting the biotechnology settlement and earlier than expected implementation for the Schwarz Pharma integration related synergies and cost containment efforts.
- **Net profit** decreased from € 160 million in 2007 to € 42 million in 2008, reflecting a significant increase in non-recurring charges stemming from higher restructuring expenses and substantial fixed assets impairment charges due to the SHAPE programme as well as from lower capital gains. Net profit **adjusted** for non-recurring items reached € 270 million, 7% lower than last year (or -2% at constant exchange rates).

€ million	Actual		Variance	
	2008	2007	Actual rates	Cst rates
Revenue	3 601	3 626	-1%	4%
Net sales	3 027	3 188	-5%	-2%
Royalty income & fees	396	294	35%	53%
Other revenue	178	144	24%	30%
Gross profit²	2 455	2 579	-5%	0%
excluding inventory step-up		2 672	-8%	-3%
Marketing & selling expenses	(928)	(1 054)	-12%	-10%
Research & Development expenses	(767)	(788)	-3%	4%
General & administrative expenses	(227)	(267)	-15%	-13%
Other operating income/(expenses)	(1)	10		
Recurring EBIT (REBIT)²	531	480	11%	21%
excluding inventory step-up		573	-7%	1%
Non recurring income/(expenses)	(417)	(136)		
EBIT (operating profit)²	113	344	-67%	-55%
Net financial expenses	(156)	(125)		
Profit before income taxes	(43)	219	-120%	-102%
Income tax expenses	30	(60)		
Profit from continuing operations	(12)	159	-108%	-101%
Profit from discontinuing operations	55	2		
Net profit (after minority interests)	42	160	-74%	-67%
Recurring EBITDA	733	741	-1%	6%
Adjusted net profit³	270	292	-7%	-2%
Number of shares - non-diluted	180	180		
EPS (€ per non-diluted share)	0,24	0,89	-74%	-67%
Adjusted EPS (€ per non-diluted share)	1,50	1,62	-7%	-2%

1 Due to roundings, some financial data may not apparently add-up in the tables included in this Operating & Financial Review.

2 After acquisition related inventory step-up for 2007

3 Adjusted for after-tax impact of one-off items, contribution from discontinued operations and inventory step-up

1.1. Changes in scope

Further to the public tender offer on all the outstanding shares of Schwarz Pharma AG and the acquisition of 86.8% of all outstanding shares at the closing of the exchange offering period on 28 December 2006, UCB has consolidated the balance sheet of the Schwarz Pharma Group as at 31 December 2006 and the results of the Schwarz Pharma group of companies have been consolidated as from 1 January 2007 onwards. Over the last 12 months, UCB has acquired further shares of Schwarz Pharma AG and owned, as at 31 December 2008, 97.3% of outstanding shares or 98.3% on a fully diluted basis.

As a result of the divestment of the remaining chemical activities in Surface Specialties in February 2005, UCB reports their remaining financial impact as part of the profit from discontinued operations for both financial years 2007 and 2008.

1.2. 2008 key events

There have been a number of key events that have affected or will affect UCB financially:

Major patent expiries

- **Zyrtec® U.S. patent expiry:** first full year of UCB results without Zyrtec® U.S. due to its patent expiry end of December 2007. Gross profit amounted to € 382 million in 2007.
- **Keppra® U.S. loss of market exclusivity:** On 4 November 2008 Keppra® lost its market exclusivity for the U.S.

Agreements / initiatives

- **Otsuka agreements for Keppra® and Cimzia® in Japan:** UCB and Otsuka Pharmaceuticals Co. Ltd signed in June collaboration agreements related to Keppra® and Cimzia® in Japan. UCB and Otsuka will co-promote Keppra® for the adjunctive treatment of partial onset seizures and Cimzia® for the treatment of Crohn's disease. UCB and Otsuka will also co-develop and co-promote Keppra® and Cimzia® in other indications. UCB will join Otsuka in co-promoting the anti-platelet agent Pletaal® (*cilostazol*).
- **SHAPE:** UCB announced end of August 2008 the launch of "SHAPE", a major global project to accelerate its transformation into a focused specialist company in central nervous system and immunology disease areas. With SHAPE, UCB aims to increase focus on its core assets, re-deploy its resources, advance R&D and simplify its organisation, while successfully delivering UCB new medicines to patients and improving both competitiveness and profitability. As part of SHAPE, UCB reduces its workforce by 2 000 positions throughout the world to a level of approximately 10 000 by the end of 2009.
- **Strategic alliance with Wilex:** In January 2009, UCB and Wilex AG announced a strategic partnership to develop UCB preclinical oncology portfolio, comprising two small-molecule programmes and three antibody programmes. UCB retains exclusive rights to re-purchase each of the five programmes, following completion of initial clinical feasibility studies for each programme, and assume the responsibility for further development and commercialisation of each product. Alternatively, in the event UCB does not exercise its re-purchase right for each programme, Wilex will retain rights to develop as well as commercialise each programme and UCB will receive milestone and royalty payments from Wilex. UCB invests € 10 million to acquire a 13% stake in Wilex and will make a € 10 million milestone payment upon application of clinical Phase I trial and first dose in man, expected within approximately 12 months upon closing.
- **Divestment of UCB business in selected emerging markets:** In January 2009, UCB and GlaxoSmithKline announced the sale of the current UCB business and UCB affiliates in selected emerging markets for a cash compensation of € 515 million upon closing of the transaction expected in late March 2009. The agreement includes more than 50 UCB operations in the Far East, Middle East, Latin America and Africa but does not include Brazil, Russia, India, China, South-Korea, Australia and Mexico, which remain strategic (emerging) markets for UCB. Whilst the agreement covers principally all currently marketed products and staff in the regions mentioned above, it does not include UCB new core products such as Vimpat® (*lacosamide*), Neupro® (*rotigotine*) and Cimzia® (*certolizumab pegol*).
- **Initiation of new Research & Development partnerships:** UCB announced in February 2009 new partnerships as part of its strategy to work increasingly with industrial and academic collaborators. These partnerships are with BioSeek Inc. – application of predictive human biology to evaluate selected UCB new chemical and biological entities, deCODE chemistry & biostructures – collaboration on the structure-based discovery of novel small molecule anti-inflammatory drugs, Inogent – a multi-year collaboration to support UCB early projects (up to proof of concept) on chemical process, analytical and formulation development aspects, King's College London – a multi-year collaboration to support its structure-based drug design activities, Proteros biostructures - Research deal on gene-to-structure based drug design for novel small molecule anti-inflammatory drugs, and SAI Advantium – a multi-year discovery chemistry collaboration in support of medicinal chemistry and library synthesis activities at UCB research labs in Belgium and U.K.
- **Government-funded research collaborations:** In October 2008, UCB announced two government-funded research collaborations. With Bonn University in Germany, and certain industry partners, UCB has been selected to receive funding of € 20 million over the next three years. This will allow the company to establish a project portfolio, proprietary to UCB, of up to six drug discovery projects in the central nervous system area. In a separate research collaboration, UCB and Pfizer announced the formation of a new company, Cyclofluidic, a breakthrough technology organisation established with the aim of significantly accelerating the drug discovery process. The UK Government's Technology Strategy Board has helped facilitate this innovative arrangement and will continue to support Cyclofluidic by co-funding its R&D.

- **Divestment of anti-haemorrhagic drug to Eumedica:** UCB announced in February 2009 the sale of the world-wide rights to its anti-haemorrhagic product, Somatostatine-UCB™, to Eumedica with 2008 net sales of approximately €11.4 million.
- **Divestment of Equasym™ to Shire:** UCB announced in February 2009 the sale of the world-wide rights, except for the U.S., Canada and Barbados, and relevant staff for Equasym™ IR/XL (*methylphenidate HCl*) – a treatment for attention deficit hyperactivity disorder (ADHD) - to Shire plc for € 55 million up-front and sales conditional related milestones.

Regulatory update and pipeline progress

CNS

- **Keppra® XR U.S. approval for adjunctive treatment of partial onset seizures in adults with epilepsy:** The U.S. Food and Drug Administration (FDA) accepted the filing for Keppra® XR (*levetiracetam*) in the adjunctive treatment of partial onset seizures in adults with epilepsy in January 2008 and approved in September 2008. Launch started end of September.
- **Keppra® U.S. paediatric exclusivity in epilepsy:** In June 2008, the FDA granted paediatric exclusivity for Keppra® in epilepsy.
- **Neupro®:** At the end of March 2008, UCB announced the recall of its anti-Parkinson's drug Neupro® (*rotigotine* transdermal patch) from the U.S. market and of certain batches in Europe due to crystal formation in patches. UCB successfully implemented a full cold chain storage and distribution system for Europe. A variation is under review by the European authorities. If successful, UCB hopes that Neupro® will be available again to all patients (including new patients) in Europe by the first half of 2009. In addition UCB will continue its dialogue in the first half of 2009 with the U.S. health authorities on a potential re-launch in the U.S.
- **Neupro® European approval in restless legs syndrome:** In late 2008, Neupro® received a Marketing Authorisation from the European Commission for the treatment of restless legs syndrome (RLS).
- **FDA complete response letter for Neupro® in restless legs syndrome and advanced Parkinson's disease:** In December 2008, UCB received a Complete Response Letter from the FDA for its transdermal patch Neupro® to treat the signs and symptoms of Advanced Parkinson's disease, and as a treatment for the signs and symptoms of moderate to severe primary Restless Legs Syndrome.
- **Rotigotine results in fibromyalgia syndrome:** In February 2009, UCB announced top-line results for a proof-of-concept Phase IIa clinical trial to assess the efficacy and safety of *rotigotine* in fibromyalgia syndrome. While the study did not achieve statistical significance for the primary endpoint, UCB will evaluate development plans once full analyses are available.
- **Brivaracetam Phase III results in Unverricht Lundborg disease:** both *brivaracetam* Phase III studies in Unverricht Lundborg disease did not meet the primary endpoint of symptom relief of action myoclonus but have shown beneficial effects in a subset of patients.
- **Brivaracetam Phase III clinical programme in epilepsy:** The Phase III clinical programme for *brivaracetam* is ongoing as adjunctive therapy in patients with refractory partial-onset epilepsy and results are expected in the third quarter of 2009.
- **Vimpat® approval in Europe in epilepsy:** The European Commission approved in September 2008 Vimpat® (*lacosamide*) as adjunctive therapy in the treatment of partial-onset seizures with or without secondary generalisation in patients with epilepsy aged 16 years and older. Launched within days in Germany and the U.K.
- **Vimpat® U.S. approval in epilepsy:** At the end of October 2008, the FDA approved Vimpat® for use as an add-on therapy for the treatment of partial-onset seizures in people with epilepsy who are 17 years and older. Vimpat® will be launched in the U.S. in early 2009, expecting scheduling.
- **Vimpat® U.S. not-approvable letter in diabetic neuropathic pain:** At the end of July 2008, UCB received a not-approvable letter from the FDA for Vimpat® in diabetic neuropathic pain.
- **Vimpat® file withdrawn in Europe in diabetic neuropathic pain:** In September 2008, UCB withdrew the Marketing Authorisation Application with the European Medicines Agency (EMA) for Vimpat® in the treatment of diabetic neuropathic pain, in view of the magnitude of the clinical effect not having been convincingly established. UCB is considering initiating an additional clinical programme to further substantiate the magnitude of effect of *lacosamide* in diabetic neuropathic pain.
- **Lacosamide Phase IIa programme in fibromyalgia:** Following Phase IIa results announced in June 2008, a decision whether to start a Phase IIb with *lacosamide* to treat fibromyalgia will be made in 2009.
- **Lacosamide results in migraine prophylaxis:** In February 2009, UCB announced top-line results for a proof-of-concept Phase IIa clinical trial to assess the efficacy and safety of *lacosamide* in migraine prophylaxis. While the study did not achieve statistical significance for the primary endpoint, UCB will evaluate development plans once full analyses are available.
- **Positive Xyrem® Phase III results in fibromyalgia:** In November 2008, Jazz Pharmaceuticals, Inc. and UCB announced positive preliminary top-line results from the first of two Phase III clinical trials of *sodium oxybate* for the treatment of fibromyalgia.
- **Expected timelines for Phase II results for CDP323:** Phase II results for CDP323, an oral small molecule VLA4 inhibitor being developed for relapsing forms of multiple sclerosis, are expected in the first quarter of 2010. UCB and its partner, Biogen IDEC, expect the CDP323 Phase II clinical trial to be fully enrolled by mid-2009.

Immunology

- **Cimzia® launched in Switzerland for Crohn's disease:** Cimzia® (*certolizumab pegol*) was launched in January 2008 for the treatment of patients with Crohn's disease in Switzerland
- **Cimzia® filed in the U.S. for rheumatoid arthritis:** Cimzia® for the treatment of adult patients with active rheumatoid arthritis (RA) was filed with the FDA in February 2008. UCB received early January 2009 a Complete Response Letter from the FDA requesting a new safety update with all clinical data including new data generated since the filing of the BLA. The requests from the FDA for further analysis of existing data and a new safety update can be fulfilled through a re-analysis of the available data and consequently no additional studies are needed. Data are scheduled to be submitted in the second quarter of this year.
- **Cimzia® European Marketing Authorisation in Crohn's disease refusal:** In March 2008, UCB was informed that the European regulatory authority has rejected the company's appeal following the refusal of the Marketing Authorisation Application for Cimzia® in the treatment of patients with Crohn's disease.
- **Cimzia® U.S. approval and launch in Crohn's disease:** Cimzia®, in the treatment of moderate to severe Crohn's disease, was made available for the first patients within 48 hours following U.S. approval in April 2008.
- **Cimzia® filed in Europe for rheumatoid arthritis:** A Marketing Authorisation Application was submitted in July 2008 to the EMEA requesting the approval of Cimzia® as a subcutaneous treatment for adults with moderate to severe active rheumatoid arthritis and accepted for review.
- **Start of Phase I study for antibody CDP6038:** In December 2008, UCB announced its CDP6038 antibody drug candidate targeting IL-6 achieved a key milestone as the first subjects have been dosed in its Phase I "first in human" study. CDP6038 in pre-clinical studies has already shown potential in a number of auto-immune diseases.
- **Xyzal® oral solution U.S. approval:** In February 2008, the U.S. FDA approved a new drug application for Xyzal® (*levocetirizine*) oral solution for the relief of seasonal and year round allergies and chronic idiopathic urticaria.

Other

- **CDP791 positive Phase II results:** Following encouraging Phase II results announced in March 2008 for CDP791 in non-small cell lung cancer, UCB is evaluating partnership options.
- **Fesoterodine U.S. approval:** The FDA approved in October 2008 the anti-muscarinic agent Toviaz® (*fesoterodine fumarate*) extended-release tablets for the treatment of overactive bladder with symptoms or urge urinary incontinence, urgency, and urinary frequency. The new drug application approval was granted to Pfizer Inc., which in April 2006 acquired the exclusive worldwide rights to Toviaz® from Schwarz Pharma, now a member of the UCB Group. UCB will be entitled to receive royalties on the combined sales of Toviaz® and Pfizer current *tolterodine* product line. Toviaz® is approved in the European Union and was launched by Pfizer mid-2008.

1.3. Foreign currency impact

Given the global reach of UCB activities, its financial results are sensitive to fluctuations in foreign currencies. The main currencies affecting UCB financial performance are the US dollar (USD), Japanese yen (JPY), GB pound (GBP) and Swiss franc (CHF). The following table summarises the average rates used in converting UCB revenue and expenses to euro:

Equivalent for 1 euro	Average exchange rate 2008	Average exchange rate 2007	Increase/ (Decrease)	Closing exchange rate 2008
US dollar	1.462	1.369	-6.4%	1.395
GB pound	0.795	0.684	-14.0%	0.957
Swiss franc	1.585	1.642	+3.6%	1.491
Japanese yen	150.3	161.1	+7.2%	126.7

It is UCB policy to hedge the cash flows in the main invoicing currencies in order to limit the negative impact on results and cash flows of currency fluctuations. In view of the Schwarz Pharma acquisition, UCB has extended the hedging period and now hedges its transactional operations for a period of minimum six months and maximum 26 months. Any realised gain or loss on currency hedging contracts is recognised in the line of the income statement to which the hedged transaction relates.

1.4. Segments

UCB primary reporting segment as of 1 January 2006 is based on its three main geographical areas, namely North America, Europe and Rest of World (including Japan and Emerging Markets). The Group adopts IFRS8 Operating Segments in 2009. Consequently, in the future, the Group will present a single operating segment, that being biopharmaceuticals.

2. Income statement¹

2.1. Foreword

Recurring operating profit: In view of the transactions and decisions of a one-time nature that are impacting UCB results, the impact of those "non-recurring" items is shown separately. Besides EBIT (earnings before interest and taxes or operating profit), a line for "recurring EBIT" (REBIT or recurring operating profit), reflecting the ongoing profitability of the biopharmaceutical activities, is included. The recurring EBIT is equal to the line "Operating profit before impairment, restructuring and other income and expenses" reported in the consolidated financial statements.

Adjusted net profit: In view of the transactions and decisions of a one-time nature that are impacting UCB results for both years under review, the impact of "non-recurring items" is highlighted separately. For like-for-like comparison purposes, a line named "adjusted net profit", reflecting the ongoing after-tax profitability of the biopharmaceutical activities, is included. The adjusted net profit is equal to the line "profit" reported in the consolidated financial statements, adjusted for discontinued operations and the after-tax impact of non-recurring items and one-off items, including the acquisition related non-cash one-time inventory step-up in 2007.

2.2. Net sales by product

€ million	Actual		Variance	
	2008	2007	Actual rates	Cst rates
Keppra®	1 266	1 026	23%	30%
Zyrtec® (includ. Zyrtec-D®/Cirrus®)	249	487	-49%	-50%
Xyzal® ²	173	168	3%	4%
Tussionex™	147	114	29%	38%
Nootropil®	93	101	-8%	-7%
Metadate™ CD/Equasym™ XL	77	81	-4%	2%
Omeprazole	75	147	-49%	-46%
Neupro®	58	52	12%	16%
Cimzia®	10	1		
Vimpat®	2	0		
Other products	878	1 012	-13%	-11%
Total net sales	3 027	3 188	-5%	-2%
North America	1 193	1 442	-17%	-12%
Europe	1 414	1 342	5%	7%
Rest of world	404	385	5%	5%
Unallocated	17	20		
Average U.S.\$/€ exchange rate	1,462	1,369	-6,4%	
Average JPY/€ exchange rate	150,30	161,10	7,2%	

Net sales amounted to € 3 027 million in 2008 or 5% lower than the year before (or -2% at constant exchange rates). Currency impact is € 104 million negative for the year, i.e. net sales would have amounted to € 3 131 million, mainly as a result of the 6.4% deterioration in the US dollar and the 14% lower GB pound.

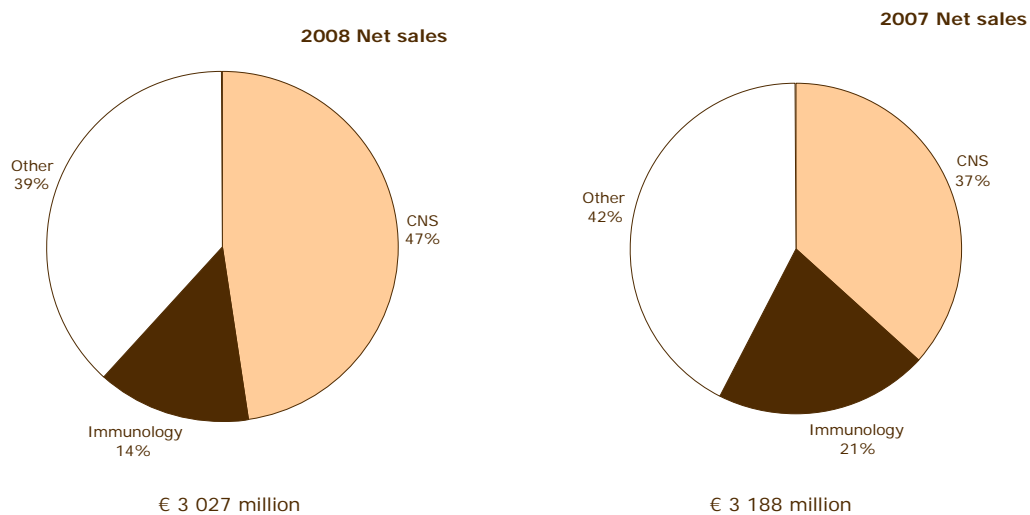
The following products contributed to sales:

- **Keppra®** (*levetiracetam*) to treat epilepsy reached net sales of € 1 266 million which were 23% higher than last year in euro or +30% at constant exchange rates, thanks to sustained growth in North America (+27% at constant exchange rates despite generic competition started in early November but helped by initial sales from extended release Keppra® XR following launch end of September), Europe (+31%) and Rest of World (+55%), confirming market leadership in the U.S. and Europe.
- The allergy product **Zyrtec®** (*cetirizine*, including Zyrtec®-D/Cirrus®) net sales decreased by € 238 million or 49% from € 487 million to € 249 million, reflecting the U.S. patent expiry on 25 December 2007 causing a € 228 million decrease in net sales, a decrease of 4% in European sales due to further genericisation, a 5% slow-down in Japanese net sales (or -11% at constant exchange rates) as a result of an average pollen season and generic competition and lower emerging markets sales (-2% at constant exchange rates).
- The allergy product **Xyzal®** (*levocetirizine*) net sales of € 173 million were slightly higher than 2007 (+3% or +4% at constant exchange rates), with stable European sales due to a below average pollen season off-setting market share gains and with increased net sales in the Rest of World (+25% at constant exchange rates). Xyzal® U.S. sales are not consolidated but UCB part of the profit-sharing agreement with sanofi-aventis is reported under the line "other revenue".

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² Excluding Xyzal® U.S. revenue of € 39 million from profit sharing with sanofi-aventis

- Anti-tussive **Tussionex™** (*hydrocodone polistirex and chlorpheniramine polistirex*) net sales of € 147 million increased by 29% compared to last year or +38% in local currency as a result of non-approved drugs forced out of the cough and cold market by the FDA and a more severe cough and cold season early in the year.
- Cognitive disorders **Nootropil®** (*piracetam*) net sales decreased 8% from € 101 million to € 93 million, in both Europe and the Rest of World.
- Attention deficit hyperactivity disorder **Metadate™ CD/Equasym™ XL** (*methylphenidate HCl*) net sales of € 77 million were down by 4% or +2% at constant exchange rates due to continued in-market performance in the U.S. and further improvement in European sales. This product is sold under the trademark Metadate™ CD in the U.S. (€ 60 million or -2% decline at constant exchange rates) and Equasym™ XL in Europe and Rest of World (€ 17 million in total).
- The gastro-intestinal generic **omeprazole** net sales reached € 75 million, 49% lower than last year (or -46% at constant exchange rates), mainly as a result of further U.S. generic entries since the last quarter of 2007.
- The Parkinson's patch, **Neupro®** (*rotigotine* transdermal patch), generated net sales of € 58 million, up by 12% from 2007 despite the U.S. recall announced in March and the slow-down in Europe due to the partial recall and no new patients' recommendation. UCB successfully implemented a full cold chain storage and distribution system for Europe. A variation is under review by the European authorities. If successful, UCB hopes that Neupro® will be available again to all patients (including new patients) in Europe by the first half of 2009. In addition UCB will continue its dialogue in the first half of 2009 with the U.S. health authorities on a potential re-launch in the U.S.
- New products **Cimzia®** (*certolizumab pegol*) and **Vimpat®** (*lacosamide*) were launched in 2008 (in April in the U.S. for Cimzia® and in September in Germany and the U.K. for Vimpat®) with net sales of respectively € 10 million and € 2 million.
- **Other products:** net sales for other products decreased 11% at constant exchange rates from € 1 012 million to € 878 million, with the main negative contributors being the U.S. products facing generic competition (Verelan®, Univas®, etc.) or discontinued (Glycolax®) as well as non-core mature gastro-intestinal products licenced out, which income is now reported under "royalty income" and "other revenue".



2.3. Net sales by geographical area

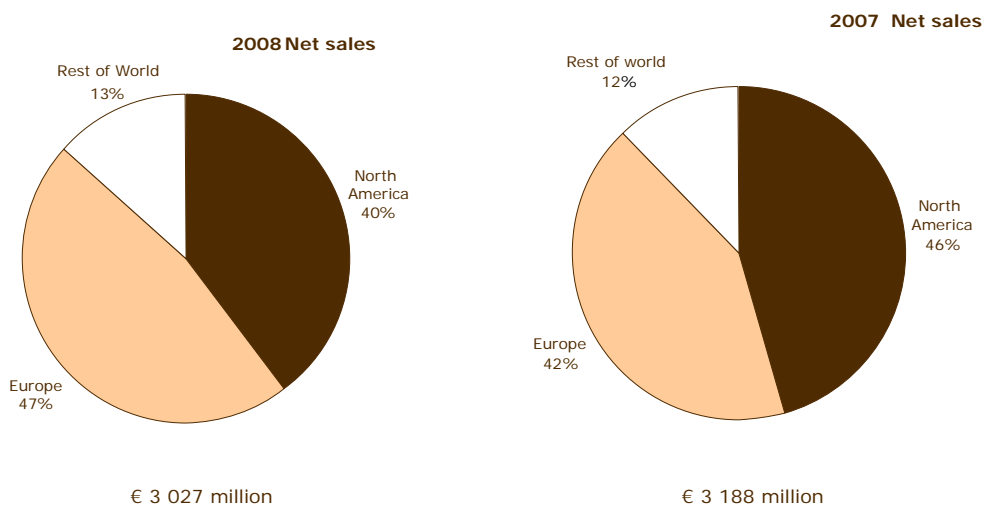
The growth in European and Rest of World net sales was not sufficient to compensate the decline in U.S. net sales, driven essentially by the Zyrtec® U.S. patent expiry on 25 December 2007:

- **North America** net sales reported by UCB amounted to € 1 193 million in 2008 (or US\$ 1 744 million) down by 17% from the year before (or -12% at constant exchange rates) due mainly to Zyrtec® U.S. patent expiry in December 2007. Keppra® net sales continued their steady growth in the first 10 months of the year and, despite the significant generic entry early in November partially off-set by initial sales of the extended release Keppra® XR launched end of September, reached € 768 million (or US\$ 1 123 million) in 2008, up by 27% year-over-year at constant exchange rates. U.S. net sales last year included the share of the gross profit generated on Zyrtec® and Zyrtec-D® by the Pfizer/UCB co-promotion as well as the sales of *cetirizine* active ingredient to Pfizer. Post patent expiry (December 2007) further net sales were not expected due to the generic competition. The net sales (including the Caribbean's) realised by Pfizer and UCB however amounted to US\$125 million in 2008, including some residual sales as well as a partial reversal of a reserve for returned goods, and UCB recorded its 25% share of the co-promotion gross profit, i.e. € 16 million, but under the line "other revenue". The € 9 million of net sales reported under Zyrtec® U.S. relate to the sales of bulk *cetirizine* to Johnson & Johnson. Zyrtec® U.S. net sales decreased from 2007 by € 228 million. *Omeprazole* net sales represented € 73 million, 50% lower than the € 147 million of the previous year (or -47% at constant exchange rates), mainly as a result of further generic entry in the last quarter of the previous year. Due to the more severe cough and cold season in the first quarter of 2008 and as a result of non-approved drugs forced out of the cough and cold market by the FDA, Tussionex™ net sales increased by 38% at constant exchange rates from € 114 million in 2007 to € 147 million in 2008. The sales of the attention deficit hyperactive deficit drug Metadate™ CD were relatively stable in U.S. dollar and reached € 60 million in 2008. Neupro® uptake for 2008, considering the recall announced in March, amounted to € 5 million only. Further to its

launch in April 2008, the first sales of Cimzia® in Crohn's disease reached € 8 million. The net sales of other products amounted to € 120 million, a decrease of € 102 million in comparison to 2007, incorporating the negative impact of the U.S. dollar and U.S. genericised products such as Verelan® or Univasc® or discontinued Glycolax® as well as gastro-intestinal products licenced-out, which income is now reported under "royalty income" and "other revenue".

- **Europe** net sales totalled € 1 414 million in 2008 up by 5% compared to 2007 (or +7% at constant exchange rates). Keppra® net sales represented € 437 million, an increase of 29% compared to the same period the year before (or +31% at constant exchange rates). Xyzal® net sales remained flat at € 143 million due to a less severe pollen season compared to last year in most European countries off-setting market share gains. Nootropil® still accounted for € 69 million of Europe net sales, reflecting an 8% decrease. Neupro® net sales increasing by 26% to € 53 million in 2008 resulted from a sustained use in main launched markets, despite the partial recall and no new patients' recommendation. All other products contributed € 625 million to the European net sales, a reduction of 3% versus the previous year at constant exchange rates, with the respiratory product Innovair® (*betameclason* and *formoterol* combination) uptake more than compensated by eroding net sales from mature products.
- **Rest of World** net sales amounted to € 404 million in 2008, an increase of 5% both at real and constant exchange rates. In Japan, an average pollen season and generic competition that started late in 2007 caused Zyrtec® net sales to decrease from € 116 million to € 110 million, or -11% at constant exchange rates. Furthermore, in other Rest of World countries, Zyrtec® net sales came down by 2% at constant exchange rates from € 45 million to € 43 million, whilst Xyzal® net sales improved by 25% at constant exchange rates from € 22 million to € 26 million. At constant exchange rates, Keppra® net sales grew 55% year-over-year, Nootropil® net sales went-down by 4% and other products net sales increased by 5%.

€ million	2008 / 2007 variance					
	Actual		At actual rates		At constant rates	
	2008	2007	€ million	%	€ million	%
North America						
Keppra®	768	645	123	19%	176	27%
Tussionex™	147	114	33	29%	43	38%
Omeprazole	73	147	(74)	-50%	(69)	-47%
Metadate™ CD	60	66	(5)	-8%	(1)	-2%
Zyrtec® (including Zyrtec-D®)	9	237	(228)	-96%	(228)	-96%
Cimzia®	8	0	8		8	
Neupro®	5	10	(5)	-51%	(5)	-47%
Xyzal®	3	2	1		1	
Other products	120	221	(102)	-46%	(93)	-42%
Net sales North America	1 193	1 442	(249)		(167)	-12%
Europe						
Keppra®	437	340	98	29%	107	31%
Xyzal®	143	143	0	0%	0	0%
Zyrtec® (including Cirrus®)	87	89	(3)	-3%	(4)	-4%
Nootropil®	69	75	(6)	-8%	(6)	-7%
Neupro®	53	42	11	26%	13	30%
Other products	625	652	(28)	-4%	(20)	-3%
Net sales Europe	1 414	1 342	72	5%	90	7%
Rest of World						
Zyrtec® (including Cirrus®)	153	161	(8)	-5%	(14)	-9%
Keppra®	60	41	19	47%	23	55%
Xyzal®	26	22	4	18%	5	25%
Nootropil®	24	26	(2)	-8%	(1)	-4%
Other products	140	134	6	4%	7	5%
Net sales Rest of World	404	385	18	5%	20	5%
Unallocated	17	20				
Total net sales	3 027	3 188	(161)	-5%	(57)	-2%



2.4. Royalty income and expenses

€ million	Actual		Variance	
	2008	2007	Actual rates	Cst rates
Royalty income & fees	396	294	35%	53%
Zyrtec® U.S.	30	149	-80%	-79%
Biotechnology IP	318	121	163%	204%
Other	49	25	97%	107%
Royalty expenses	(205)	(60)	241%	287%
Biotechnology IP	(161)	(40)	302%	368%
Other	(43)	(20)	117%	123%
Net royalty income & fees	191	234	-18%	-7%

Net royalty income & fees for 2008 amounted to € 191 million, down by 18% compared to the same period last year or -7% at constant exchange rates with additional income from a biotechnology intellectual property settlement attenuating the negative impact of reduced royalty flows from Pfizer on Zyrtec® U.S. further to its patent expiry in December 2007:

- The royalty income & fees amounted to € 396 million in 2008, up by € 102 million, or by 35% compared to last year (or +53% at constant exchange rates) but include € 205 million settlement revenue stemming from an agreement reached in October 2008 with a third party who had reserved its right to challenge certain prior royalty payments to UCB. The agreement permitted UCB recognition of deferred revenue as royalty income in the fourth quarter 2008 (and also consequently of related royalty expenses). While such royalties will no longer be received (and paid), in previous years, these royalty income and expenses had not been recognised in UCB results. Excluding the above mentioned settlement related income, royalty income & fees would have amounted to € 191 million, i.e. a decrease of 35% from 2007. The decrease in royalty income related to Zyrtec® U.S. from € 149 million in 2007 to € 30 million in 2008 stems from the patent expiry at the end of 2007 only partially compensated by limited royalty income from Pfizer in the first quarter of 2008 and royalty income received from Johnson & Johnson on over-the-counter Zyrtec® U.S. sales. Excluding the settlement, biotechnology intellectual property generated €113 million of royalty income in 2008, slightly lower than the € 121 million recognised the year before but growing 6% at constant exchange rates on solid in-market sales for products on which royalties are due to UCB. The increase in other royalty income from € 25 million in 2007 to € 49 million in 2008 is due to a licencing deal on non-core mature gastro-intestinal products signed early in 2008 as well as reimbursement by sanofi-aventis of royalty expenses to be paid to Sepracor, Inc. on increased U.S. Xyzal® sales, and the first royalty income resulting from Toviaz® (*fesoterodine*) sales in Europe by Pfizer.
- The royalty expenses of € 205 million, which are recognised in the cost of goods sold, increased by € 145 million compared to the year before, due essentially to the € 134 million royalty expenses recognised as part of the above-mentioned settlement on Biotechnology IP. The increase in other royalty expenses is related to increased royalties paid to Sepracor, Inc. on increased U.S. Xyzal® sales as well as royalty expenses on *nifedipine* sales (a treatment for vasospastic angina, chronic stable angina and treatment of high blood pressure).

2.5. Other revenue

€ million	Actual		Variance	
	2008	2007	Actual rates	Cst rates
Fesoterodine milestones	24	50	-52%	-52%
Xyzal [®] U.S. milestones / profit sharing	39	32	23%	31%
Zyrtec [®] U.S. milestones / profit sharing	16			
Contract manufacturing sales	42	49	-15%	11%
Provas [™] profit sharing	23	12	92%	92%
Otsuka	20			
Other	15	1		
Other revenue	178	144	25%	30%

Other revenue for 2008 amounted to € 178 million, up by 25% compared to the same period last year (or up by 30% at constant exchange rates). 2007 other revenue included € 50 million of income recognised as part of the agreement with Pfizer on *fesoterodine*, for the treatment of overactive bladder, whilst there was € 24 million recognised in the 2008 accounts mainly in connection with the November FDA approval for the U.S. Recognition of profit sharing with sanofi-aventis on Xyzal[®] U.S. sales reached € 39 million in 2008 (on US\$ 149 million in-market sales reported by sanofi-aventis) compared to € 32 million recognised in 2007 for approval and launch related milestones as well as profit-sharing with sanofi-aventis on Xyzal[®] U.S. As indicated in the net sales section, post patent expiry net sales of Zyrtec[®] in the U.S. amounted to US\$125 million in 2008, and UCB recorded its 25% share of the co-promotion gross profit, i.e. € 16 million, but under "other revenue". Contract manufacturing sales decreased from € 49 million in 2007 to € 42 million in 2008. The increase in other revenue from Provas[™] results from the change in the middle of 2007 of the licence contract into a profit-sharing agreement reported since then under "other revenue" at 50% rather than under "net sales". The Otsuka related other revenue pertains to milestones recognised as part of the agreements entered into by Otsuka and UCB in June 2008 on Keppra[®] and Cimzia[®] in Japan, whereby UCB and Otsuka will co-promote Keppra[®] for the adjunctive treatment of partial onset seizures and Cimzia[®] for the treatment of Crohn's disease. The increase in other categories in other revenue to € 15 million in 2008 is mainly due to milestones recognised as part of a licencing deal on non-core mature gastro-intestinal products signed early in 2008.

2.6. Gross profit

€ million	Actual		Variance	
	2008	2007	Actual rates	Cst rates
Revenue	3 601	3 626	-1%	4%
Net sales	3 027	3 188	-5%	-2%
Royalty income	396	294	35%	53%
Other revenue	178	144	24%	30%
Cost of sales	(1 146)	(1 047)	9%	13%
Cost of sales products & services	(847)	(817)	4%	4%
Royalty expenses	(205)	(60)	241%	287%
Inventory step-up		(93)		
Amortisation of intangible assets linked to sales	(95)	(77)	23%	29%
Gross profit	2 455	2 579	-5%	0%
- Acquisition related inventory step-up		93		
Gross profit before inventory step-up	2 455	2 672	-8%	-3%
of which				
Products & services	2 358	2 515	-6%	-2%
Net royalty income	191	234	-18%	-7%
Amortisation of intangible assets linked to sales	(95)	(77)		

Gross profit of € 2 455 million was 5% lower than 2007 (but unchanged at constant exchange rates). Adjusted for the € 93 million non-cash, one-time impact of inventory step-up recognised in 2007 as per IFRS requirements, gross profit would have decreased by 8% (or -3% at constant exchange rates), despite the net contribution from the biotechnology intellectual property settlement of € 71 million. Excluding this settlement in 2008 and the inventory step-up charge in 2007, gross profit would have decreased by 11%, or 6% at constant exchange rates, driven by revenue decrease and higher manufacturing costs (mainly Cimzia[®] and Neupro[®] related costs).

As a percentage of revenue, gross profit represented 68.2% in 2008, down from 73.7% in 2007 before inventory step-up further to the substantial loss of contribution from Zyrtec[®] U.S., an increase in one-time costs and a deterioration of some key currencies which predominantly impact the revenue (albeit with a reduced impact due to favourable currency hedging contracts), with no substantial off-set in costs of goods sold as the majority of the manufacturing sites are based in the Euro zone.

Cost of sales is composed of four main categories, namely the cost of sales for products and services, the royalty expenses, the inventory step-up (in 2007 only) as well as the intangible assets amortisation expenses linked to sales:

- **Cost of sales products & services:** The cost of sales for products and services increased by € 30 million from € 817 million in 2007 to € 847 million in 2008 with positive volume impact on costs from lower net sales more than off-set by an increase in costs for Cimzia® and the costs related to Neupro® (U.S. recall, European cold chain implementation, as well as re-work).
- **Royalty expenses:** Royalties paid-out increased from € 60 million in 2007 to € 205 million in 2008 due essentially to the € 134 million royalty expenses recognised as part of the above-mentioned settlement on biotechnology IP. The increase in other royalty expenses is related to increased royalties paid to Sepracor, Inc. on increased U.S. Xyzal® sales as well as royalty expenses on *nifedipine* sales (a treatment for vasospastic angina, chronic stable angina and treatment of high blood pressure).
- **Inventory step-up:** As part of the Schwarz Pharma acquisition, UCB was required under IFRS to recognise acquired inventories at their fair value. The ensuing increase in inventory value of € 93 million as of 31 December 2006 had to be recognised in the cost of sales over 2007 and represented a one-time charge of an equivalent amount but with no cash impact.
- **Intangible assets amortisation expenses linked to sales:** The majority of the € 95 million of 2008 expenses are linked to acquired intangible assets and relate mainly to the Celltech and Schwarz Pharma acquisitions. Under IFRS 3 (Business Combinations), UCB has reflected on its balance sheet a significant amount of intangible assets related to the Celltech and the Schwarz Pharma acquisitions (in-process Research & Development, manufacturing know-how, royalty streams, trade-names, etc.), which gave rise to amortisation expenses of € 89 million in 2008, compared to € 77 million in 2007, reflecting new intangible assets amortisation expenses on launched products (Cimzia® and Neupro® in the U.S., Vimpat® and Toviaz® in Europe).

2.7. Recurring EBIT and recurring EBITDA

€ million	Actual		Variance	
	2008	2007	Actual rates	Cst rates
Revenue	3 601	3 626	-1%	4%
Net sales	3 027	3 188	-5%	-2%
Royalty income & fees	396	294	35%	53%
Other revenue	178	144	24%	30%
Gross profit	2 455	2 579	-5%	0%
excluding inventory step-up		2 672	-8%	-3%
Marketing & selling expenses	(928)	(1 054)	-12%	-10%
as a % of net sales	31%	33%		
Research & Development expenses	(767)	(788)	-3%	-4%
as a % of net sales	25%	25%		
General & administrative expenses	(227)	(267)	-15%	-13%
as a % of net sales	8%	8%		
Other operating income/(expenses)	(1)	10	-112%	-107%
Total operating expenses	(1 924)	(2 099)	-8%	-5%
Recurring EBIT (REBIT)	531	480	11%	21%
excluding inventory step-up		573	-7%	1%
+ Amortisation of intangible assets	105	93		
+ Depreciation charges	97	75		
+ Inventory step-up (non-cash IFRS one-off)		93		
Recurring EBITDA (REBITDA)	733	741	-1%	6%

Operating expenses encompassing Marketing & selling expenses, Research & development expenses, General & administrative expenses and other operating income/expenses reached € 1 924 million in 2008, 8% lower than last year (or -5% at constant exchange rates), reflecting:

- € 126 million lower marketing & selling expenses or -10% at constant exchange rates, driven by substantial incremental synergies from the Schwarz Pharma acquisition as well as cost containment measures on mature products whilst increasing investments behind the various product launches (Xyzal® U.S., Cimzia® U.S., Keppra® XR U.S., Vimpat® in Europe) as well as preparing for upcoming launches.
- € 21 million lower research & development expenses or a 3% reduction (without the deterioration of the GB pound and the US dollar R&D expenses would have increased by 4%), reflecting sustained efforts in several Phase III and Phase IIIb/IV studies as well as discovery research partially off-set by the reduction in R&D infrastructure expenses.
- € 40 million lower general & administrative or 13% lower expenses at constant exchange rates, resulting from the full impact of synergy efforts undertaken as part of the Schwarz Pharma acquisition.
- Other operating income/(expenses) amounted to a € 1 million loss in 2008, which is € 11 million lower than 2007, which included higher reimbursement of expenses and reversals of provisions.

Recurring EBIT was up by 11% (or +21% at constant exchange rates). Excluding the € 93 million non-cash one-time impact of inventory step-up recognised in 2007, recurring EBIT would have decreased by 7%. At constant exchange rates and disregarding the impact of inventory step-up, recurring EBIT would have improved by 1%.

Recurring EBITDA was down by 1% to € 733 million compared to 2007 (but growing 6% at constant exchange rates) and exceeded the company's latest guidance of € 720 million.

2.8 Net profit and adjusted net profit

€ million	Actual		Variance	
	2008	2007	Actual rates	Cst rates
Recurring EBIT	531	480	11%	21%
Impairment charges	(160)	(36)		
Restructuring expenses	(272)	(123)		
Other non recurring income/(expenses)	14	23		
Restructuring & non recurring income/(expenses)	(417)	(136)		
EBIT (Operating Profit)	113	344	-67%	-55%
Net financial expenses	(156)	(125)		
Profit before income taxes	(43)	219	-120%	-102%
Income tax expenses	30	(60)		
Profit from continuing operations	(12)	159	-108%	-101%
+ Profit from discontinued operations	55	2		
- Minority interests	(1)	(1)		
Net profit	42	160	-74%	-67%
+ After-tax non-recurring items & financial one-offs	339	98		
- Profit from discontinued operations	(55)	(2)		
+ After-tax inventory step-up	0	57		
- Tax one-offs	(56)	(21)		
Adjusted net profit (after minority interests)	270	292	-7%	-2%

- **Restructuring & non-recurring income/(expenses)** amounted to € 417 million pre-tax expenses, € 281 million higher than last year. The increase in impairment charges from € 36 million in 2007 to € 160 million is related to a reduction in the value in use calculated for some tangible fixed assets as a consequence of the SHAPE programme announced in August 2008. The restructuring expenses of € 272 million predominantly result from SHAPE including the closure of the Cambridge research site announced in January 2008, whilst 2007 included mainly the remaining restructuring expenses related to the integration of Schwarz Pharma for € 123 million. Other non-recurring income/(expenses) amounted to a € 14 million profit in 2008 mainly represented by a UCB claim settled in its favour, whereas there was in 2007 a profit of € 23 million in other non-recurring income/(expenses) including the capital gains realised on the sale of Cytec shares and UCB OTC European activities to Pierre Fabre, off-set by write-offs and provisions for legal claims. The non-cash portion of the 2008 restructuring & non-recurring income/(expenses) of € 417 million represents approximately € 160 million.
- **Net financial expenses** in 2008 were € 156 million compared to € 125 million last year on increased net debt resulting from the continued tendering of Schwarz Pharma shares but also include € 16 million of guaranteed dividend recognised in financial expenses for Schwarz Pharma minority shareholders and the impact of an adverse evolution of the main trading currencies versus the euro.
- The change in effective **taxes** from a € 60 million charge in 2007 to a € 30 million credit in 2008 is mainly due to the integration of Schwarz Pharma entities into UCB entities, to the finalisation of certain tax audits and to the recognition of previously unrecognised deferred tax assets. The average tax rate on recurring activities was 28% in 2008 compared to 33% in the prior year.
- **Profit from discontinued operations** reached € 55 million in 2008 as a result of the partial reversal of provisions related to the legacy chemical activities, including adjustments for environmental claims for sites for which UCB retained liability and which were settled in the past 12 months.
- **Net profit** for the year reached € 42 million, i.e. € 118 million or 74% below prior year (or -67% at constant exchange rates), reflecting stable recurring profitability, currency deterioration against the euro and an increase in non-recurring expenses and financial expenses only partially off-set by higher favourable tax one-offs.
- Adjusting for the after-tax impact of non-recurring items, for the after-tax contribution from discontinued operations and for tax one-offs, **adjusted net profit** reached € 270 million, which is 7% below the € 292 million of adjusted net profit for 2007 (or -2% at constant exchange rates), with higher financial expenses not fully compensated by stable operating performance at constant exchange rates and lower taxes on recurring operations.

3. Capital expenditure

The tangible capital expenditure resulting from UCB biopharmaceutical activities amounted to € 104 million in 2008 compared to € 220 million in 2007.

The 2008 investments reflect essentially maintenance, improvement and replacement capital expenditure, as well as investment behind new products and delivery mechanisms. Acquisition of intangible assets reached € 75 million in 2008 (versus € 31 million in 2007) for the payment of licence products, milestones and software.

In addition, as foreseen in the agreement between UCB and Lonza for the manufacturing by Lonza of PEGylated antibody fragment based bulk actives, UCB has participated in the pre-financing of the related capital expenditure. An additional amount of € 5 million has been accounted for in 2008 (in addition to the € 117 million reported at the end of 2007) as a pre-payment and is recognised in expenses over the life of the contract from the time the assets will be in

use. Depreciation charges on this investment are recognised in the cost of goods sold and are added-back for recurring EBITDA calculation purposes.

4. Balance sheet

€ million	2008 31 December	2007 31 December ¹	Variance
Non-current assets	7 687	7 900	-3%
Intangible assets	2 169	2 293	-5%
Goodwill	4 579	4 403	4%
Other non-current assets	939	1 204	-22%
Current assets	1 837	1 782	3%
Total assets	9 524	9 682	-2%
Shareholders' equity	4 017	4 264	-6%
Capital & reserves	3 973	4 103	
Profit for the period	42	160	
Minority interests	2	1	
Non-current liabilities	2 953	3 404	-13%
Current liabilities	2 554	2 014	27%
Total liabilities and shareholders' equity	9 524	9 682	-2%
Net debt	(2 443)	(1 915)	28%
Liquid assets	470	505	
Financial debt	(2 913)	(2 420)	

The balance sheets as presented as at 31 December 2007 and as at 31 December 2008 are at comparable scope:

- **Intangible assets:** Further to ongoing amortisation of the intangible assets related to the acquisition of Celltech and Schwarz Pharma (€ 89 million) and to significant currency impact (-29% depreciation of the closing GB pound rate between end 2007 and end 2008), intangible assets decreased by € 124 million from € 2 293 million as at 31 December 2007 to € 2 169 million as at 31 December 2008.
- **Goodwill:** Increase of € 176 million in goodwill between 31 December 2007 and 31 December 2008 reflecting an increase resulting from the impact of the purchase of further Schwarz Pharma shares from minority shareholders (net of de-recognition of the guaranteed dividend owed to these minority shareholders), partially off-set by the impact of the declining GB pound.
- **Other non-current assets:** The level of other non-current assets decreased by € 265 million, mainly driven by a decrease in long-term financial receivables, fixed assets impairment charges and reduced deferred tax assets' recognition.
- **Current assets:** The 3% increase in current assets from € 1 782 million to € 1 837 million stems from an increase in inventories ahead of product launches partially off-set by a decrease in trade & other receivables.
- **Shareholders' equity:** UCB shareholders' equity, at € 4 017 million, decreased by € 247 million between 31 December 2007 and 31 December 2008. Whilst equity increased by the amount of net profit (€ 42 million), equity decreased by € 166 million for the dividends declared on the 2007 results, and by € 123 million mainly resulting from hedging contracts' fair value adjustments recognised in equity.
- **Non-current liabilities:** The decrease in non-current liabilities from € 3 404 million to € 2 953 million results from lower deferred tax liabilities and a decrease in the guaranteed dividend to Schwarz Pharma minority shareholders further to the tendering of their shares in 2008.
- **Current liabilities:** The increase in the current liabilities from € 2 014 million to € 2 554 million is predominantly caused by a € 404 million increase in short-term financial debt to finance the acquisition of additional Schwarz Pharma shares, combined with an increase in short-term provisions related to SHAPE.
- **Net debt:** The net debt of € (2 443) million represents an increase of € 528 million (see cash flow section hereafter reflecting a negative € (307) million free cash flow from continuing operations stemming from the € 505 million purchase of further Schwarz Pharma shares in 2008) combined with a dividend payment of € 166 million to UCB shareholders.

¹ Restarted for gross-to-net provision reclassification between current assets and liabilities

5. Cash flow statement

€ million	Actual	
	2008	2007
Profit from continuing operations	42	160
Non cash items	381	223
Change in working capital	(57)	107
Cash flow from operating activities	366	490
Cash flow from investing activities	(673)	(201)
of which		
Tangible fixed assets purchase	(104)	(220)
Intangible assets purchase	(75)	(30)
Settlement Schwarz Pharma shares	(505)	(217)
Divestments	11	271
Free cash flow from continuing operations	(307)	289
Cash flow from financing activities	278	(766)
Proceeds/(outflows) from discontinued operations	19	(1)
Change in cash	(10)	(478)

The evolution of the cash flow generated by the biopharmaceuticals activities is driven by the following elements:

- **Cash flow from operating activities:** The reduction in net profit from € 160 million in 2007 to € 42 million in 2008 combined with a deterioration of working capital were the main cause behind the decrease in cash flow from operating activities from € 490 million in 2007 to € 366 million in the comparable period of 2008.
- **Cash flow from investing activities:** Tangible and intangible fixed assets additions amounted to € 179 million (see section on capital expenditure), a reduction of € 71 million compared to 2007. There were also € 505 million of cash outflows related to the acquisition of further Schwarz Pharma shares following the tendering of minority shareholders' stakes in 2008. Cash flow from investing activities of € (673) million in 2008 shows a significant deterioration compared to the 2007 level of € (201) million, which included divestment proceeds and lower purchases of Schwarz Pharma shares.
- **Cash flow from financing activities:** The payment to UCB shareholders of the dividend related to the 2007 results amounted to € 166 million. Debt was raised for € 444 million to purchase additional Schwarz Pharma shares in 2008. Cash flow from financing activities subsequently amounted to € 278 million.

6. Outlook 2009

2009 is expected to see an increased focus on UCB core assets, a re-deployment of its resources, a further advancement of R&D and a simplification of its organisation, while successfully delivering UCB new medicines to patients. With SHAPE a significant re-allocation of resources will start rapidly, improving both competitiveness and profitability. As part of SHAPE, UCB has almost finalised the reduction of its workforce by 2 000 positions throughout the world, representing approximately 17% of its global workforce.

- **Revenue** is expected to reach approximately € 3.3 billion in 2009 due to full annualised generic competition on Keppra® in the U.S., the impact of divested products and further erosion of our mature products, partially off-set by continued sales progress of Keppra® in Europe and the performance of newly launched products.
- As a result of SHAPE with its increased focus on ongoing and potentially upcoming product launches in key areas as well as the targeted focus of our research & development efforts, operating expenses will continue declining in 2009. At the same time, by the end of the year, SHAPE starts enhancing profitability, **recurring EBITDA** is expected to end the year above € 680 million.
- **Net profit**, as reported but excluding expected capital gains resulting from the announced divestitures of current UCB products, businesses and affiliates, is expected to exceed € 130 million in 2009.

Consolidated income statement

For the year ended 31 December	Note	2008	2007
€ million			
Continuing operations			
Net sales	5	3 027	3 188
Royalties	5	396	294
Other revenue	5 & 8	178	144
Revenue		3 601	3 626
Cost of sales		(1 146)	(1 047)
Gross profit		2 455	2 579
Marketing & selling expenses		(928)	(1 054)
Research & development expenses		(767)	(788)
General & administrative expenses		(228)	(267)
Other operating income/(expenses)	11	(1)	10
Operating profit before impairment, restructuring and other income and expenses		531	480
Impairment of non-financial assets	12	(160)	(36)
Restructuring expenses	13	(272)	(123)
Other income/(expenses)	14	14	23
Operating profit		113	344
Financial income	15	28	41
Financing costs	15	(184)	(166)
Profit/(loss) before income taxes		(43)	219
Income tax credit/(expense)	16	30	(60)
Profit/(loss) from continuing operations		(13)	159
Discontinued operations			
Profit from discontinued operations	7	55	2
Profit		43	161
Attributable to:			
Equity holders of UCB S.A.		42	160
Minority interests		1	1
Basic earnings per share (€)			
from continuing operations	34	(0.07)	0.88
from discontinued operations	34	0.31	0.01
Total basic earnings per share		0.24	0.89
Diluted earnings per share (€)			
from continuing operations	34	(0.07)	0.86
from discontinued operations	34	0.30	0.01
Total diluted earnings per share		0.23	0.87

Consolidated balance sheet

At 31 December	Note	2008	2007
€ million			
ASSETS			
Non-current assets			
Intangible assets	17	2 169	2 293
Goodwill	18	4 579	4 403
Property, plant & equipment	19	623	758
Deferred income tax assets	28	161	210
Employee benefits	29	8	10
Financial & other assets (including derivative financial instruments)	20	147	226
Total non-current assets		7 687	7 900
Current assets			
Inventories	21	363	307
Trade & other receivables	22	859	873
Income tax receivables		11	27
Financial & other assets (including derivative financial instruments)	20	104	96
Cash & cash equivalents	23	463	479
		1 800	1 782
Assets of disposal group classified as held for sale	6	37	-
Total current assets		1 837	1 782
Total assets		9 524	9 682
EQUITY AND LIABILITIES			
Equity			
Capital & reserves attributable to UCB shareholders	24	4 015	4 263
Minority interests		2	1
Total equity		4 017	4 264
Non-current liabilities			
Borrowings	26	1 996	1 906
Other financial liabilities (including derivative financial instruments)	27	103	376
Deferred income tax liabilities	28	441	700
Employee benefits	29	106	126
Provisions	30	251	268
Trade & other liabilities	31	56	29
Total non-current liabilities		2 953	3 405
Current liabilities			
Borrowings	26	917	514
Other financial liabilities (including derivative financial instruments)	27	129	35
Provisions	30	257	75
Trade & other liabilities	31	1 159	1 235
Income tax payables		87	154
		2 549	2 013
Liabilities of disposal group classified as held for sale	6	5	-
Total current liabilities		2 554	2 013
Total liabilities		5 507	5 418
Total equity & liabilities		9 524	9 682

Consolidated cash flow statement

For the year ended 31 December € million	Note	2008	2007
Profit for the year attributable to equity holders of UCB S.A.		42	160
Minority interest	9 & 19	1	1
Depreciation of property, plant & equipment	9 & 17	75	75
Amortisation of intangible assets	9 & 12	105	85
Impairment of non-financial assets		160	36
Loss/(gain) on disposals of property, plant & equipment		0	(5)
Loss/(gain) on disposals other than property, plant & equipment		0	0
Equity settled share-based payment expense	25	14	10
Profit from discontinued operations	7	(55)	(2)
Profit from disposed operations, other than discontinued operations		0	(48)
Net interest (income)/expense		110	133
Net non-cash financing costs		131	38
Financial derivatives – change in fair value	15	(22)	(14)
Guaranteed dividend related to the Schwarz Pharma minority shareholders	3.1	16	0
Dividend income	15	0	(1)
Income tax expense/(credit)	16	(30)	60
Cash flows from operating activities before changes in working capital, provisions and employee benefits		547	528
Decrease/(increase) in inventories		(57)	108
Decrease/(increase) in trade & other receivables & other assets		36	47
Increase/(decrease) in trade & other payables		(36)	45
Net movement in provisions & employee benefits		137	19
Net cash generated from operating activities		627	747
Interest received		84	78
Interest paid		(199)	(160)
Income taxes paid		(146)	(175)
CASH FLOWS FROM OPERATING ACTIVITIES		366	490
Acquisition of intangible assets	17	(75)	(31)
Acquisition of property, plant & equipment	19	(104)	(220)
Acquisition of subsidiaries, net of cash acquired	3.1	(505)	(217)
Acquisition of other investments		0	(4)
Proceeds from sale of intangible assets		0	0
Proceeds from sale of property, plant & equipment		3	13
Proceeds from sale of subsidiaries, net of cash disposed		0	0
Proceeds from sale of businesses, net of cash disposed		6	6
Proceeds from sale of other investments		2	251
Dividends received	15	0	1
CASH FLOWS FROM INVESTING ACTIVITIES		(673)	(201)
Proceeds from issuance of share capital		0	3
Proceeds from borrowings	26	530	169
Repayment of borrowings	26	(86)	(769)
Repayment of finance lease liabilities		(2)	(3)
(Purchase)/re-issuance of treasury shares	24	2	(2)
Dividend paid to UCB shareholders net of dividend paid on treasury shares		(166)	(164)
CASH FLOWS FROM FINANCING ACTIVITIES		278	(766)
CASH FLOWS FROM DISCONTINUED OPERATIONS		19	(1)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(10)	(478)
Cash & cash equivalents less bank overdrafts at the beginning of the year	23	444	934
Effect of exchange rate fluctuations		0	(12)
CASH AND CASH EQUIVALENTS LESS BANK OVERDRAFTS AT THE END OF THE YEAR	23	434	444

Consolidated statement of changes in equity

€ million	Share capital & share premium	Treasury shares	Retained earnings	Other reserves	Cumulative translation adjustments	Minority interests	Total stockholders' equity
Balance at 1 January 2008	2 151	(127)	2 393	328	(482)	1	4 264
Net gain/(loss) on available-for-sale financial assets ¹ – Note 20							0
Net loss on cash flow hedges ¹ - Note 33				(146)			(146)
Net investment hedge - Note 33							0
Currency translation adjustments					13		13
Net income/(expense) recognised directly in equity				(146)	13		(133)
Profit			42			1	43
Total recognised income/(expense)			42	(146)	13	1	(90)
Dividends relating to 2007			(166)				(166)
Share-based payments - Note 25			14				14
Transfer between reserves		3	(3)				-
Treasury shares - Note 24		(1)					(1)
Change in accounting policy - Note 2.2			(4)				(4)
Balance at 31 December 2008	2 151	(125)	2 276	182	(469)	2	4 017
Balance at 1 January 2007	2 148	(125)	2 387	287	(124)	198	4 771
Net gain/(loss) on available-for-sale financial assets ¹ – Note 20				(29)			(29)
Net loss on cash flow hedges ¹ - Note 33				15			15
Net investment hedge - Note 33				55			55
Currency translation adjustments					(358)		(358)
Net income/(expense) recognised directly in equity				41	(358)		(317)
Profit			160				160
Total recognised income/(expense)			160	41	(358)		(157)
Dividends relating to 2006			(164)				(164)
Share-based payments - Note 25		(2)	10				10
Treasury shares - Note 24							(2)
Issue of share capital – business combination	3						3
Minority interest arising on business combination – domination and profit transfer agreement						(197)	(197)
Balance at 31 December 2007	2 151	(127)	2 393	328	(482)	1	4 264

¹ Net of tax