

CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED RESULTS AND SELECTED INFORMATION FOR THE LAST FIVE OPERATING PERIODS

At December 31,

CAPITAL INFORMATION

Share capital (kEUR)

Number of shares issued and outstanding at period end

Number of preferred (non-voting) shares issued

Weighted average number of shares

Maximum potential number of shares to be issued:

. from conversion of bonds

. from exercise of stock subscription rights

Weighted average number of potentially dilutive shares to be issued:

. potentially dilutive shares to be issued from exercise of stock options

. total weighted average number of shares outstanding and potentially dilutive shares used in diluted per share calculations

REVENUES AND RESULTS FOR THE PERIOD (kEUR) ON CONTINUING ACTIVITIES

Net sales revenue

Current operating result

Operating result

Operating income before tax, amortization, depreciation, and provisions

Income tax expense (negative number indicates an income tax profit)

Net income

Result of discontinued activities and activities held for sale

Net consolidated result

BASIC PER SHARE RESULTS (EUR)

Current operating result

Operating result

Basic income before tax, amortization, depreciation, and provisions per share

Net income

Result on discontinued activities

DILUTED EARNING PER SHARE (EUR)

Current operating result

Operating result

Basic income before tax, amortization, depreciation, and provisions per share

Net income

Result on discontinued activities

PERSONNEL

Average headcount for the period

Total payroll expense (kEUR)

Social security and employee benefit (kEUR)

¹ Following changes to the R&D tax credit presentation method in 2008, the 2007 published items have been restated accordingly for easier comparison

	2004	2005	2006	2007	2007	2008
	IFRS	IFRS	IFRS	published IFRS	IFRS comparative restated in 2008 ¹	IFRS
	3,591	3,753	3,768	3,784	3,784	3,784
	11,970,275	12,509,625	12,559,675	12,612,175	12,612,175	12,611,175
	N/A	N/A	N/A	N/A	N/A	N/A
	11,967,335	12,373,581	12,541,258	12,609,700	12,609,700	12,611,175
	N/A	N/A	N/A	N/A	N/A	N/A
	1,405,640	1,174,040	1,062,416	915,550	915,550	518,500
	160,063	170,929	52,608	-	-	-
	12,127,398	12,373,581	12,541,258	12,609,700	12,609,700	12,611,175
	51,342	52,887	30,906	31,400	31,400	30,799
	1,781	-4,175	2,828	3,039	3,302	1,950
	794	-5,908	2,636	3,039	3,302	1,950
	6,254	-1,172	4,718	5,743	6,006	4,282
	-1,223	274	-20	341	581	342
	2,764	-6,692	2,266	2,665	2,665	1,918
			-19,202	6,497	6,497	-4,063
	2,764	-6,692	-16,936	9,162	9,162	-2,145
	0.15	-0.34	0.23	0.24	0.26	0.15
	0.07	-0.48	0.21	0.24	0.26	0.15
	0.62	-0.12	0.38	0.43	0.43	0.31
	0.24	-0.54	0.18	0.21	0.21	0.15
			-1.53	0.52	0.52	-0.32
	0.15	-0.34	0.23	0.24	0.26	0.15
	0.07	-0.48	0.21	0.24	0.26	0.15
	0.62	-0.12	0.38	0.43	0.43	0.31
	0.23	-0.54	0.18	0.21	0.21	0.15
			-1.53	0.52	0.52	-0.32
	465	518	285	315	315	290
	18,419	22,184	9,906	9,906	9,906	10,564
	6,512	7,899	4,187	4,116	4,116	4,432

INCOME STATEMENT

(kEUR)	Notes	12.31.08	12.31.07
CONTINUING ACTIVITIES			
Net sales revenues	4.1;2.20	30,799	31,400
Other revenues	4.2;2.21	790	324
Total current revenues		31,589	31,724
Purchase of raw materials, supplies and change in inventory of materials and products		6,653	6,298
Other supplies and external expenses and services		5,066	5,096
Tax and related charges		712	648
Wages		10,564	9,906
Payroll taxes and benefits		4,432	4,116
Net provision expense for pension benefit obligation	2.18	17	18
Fixed assets depreciation and amortization	2.9	1,983	2,093
Impairment of assets	2.13	65	42
Other expenses		147	205
Total net current expenses		29,639	28,422
Current operating result		1,950	3,302
Other operating income and expenses		-	-
Operating result		1,950	3,302
Expenses related to interest-bearing debts	4.6	-627	-755
Net income from investments	4.6	350	80
Net foreign exchange result	4.6	-135	281
Other financial expenses or revenue	4.6	722	338
Financial Result	4.6	310	-56
Consolidated net result		2,260	3,246
Current income tax expense	4.7	90	359
Deferred income tax expense	4.7;2.21	252	222
Consolidated net result of continuing activities		1,918	2,665
DISCONTINUED ACTIVITIES			
Net result of discontinued activities	5	-4,063	6,497
Net result		-2,145	9,162
Basic earning per share (EUR)		-0.17	0.73
Continuing activities		0.15	0.21
Discontinued activities		-0.32	0.52
Diluted earning per share (EUR)		-0.16	0.73
Continuing activities		0.15	0.21
Discontinued activities		-0.31	0.52

BALANCE SHEET

(kEUR)	Notes	12.31.08	12.31.07
Goodwill	2.11;3.1.2		
Intangible assets	2.12;3.1.1	667	530
Fixed assets	2.9;3.1.3	9,316	10,040
Long-term assets (more than 1 year)	2.15	1,126	1,211
Deferred tax assets	2.22		
Non-current assets		11,109	11,781
Long-term assets (less than 1 year)	2.15	101	99
Materials and products in progress and inventories	2.14;3.1.4	4,028	3,776
Trade receivables and related	2.15	7,992	5,729
Prepaid expenses	3.1.6	367	357
Other receivables	2.15	5,022	6,976
Financial instruments held for transactions	2.15	19,320	20,101
Derivative financial instruments	2.15	220	865
Cash deposits	2.15	2,977	2,679
Current assets		40,027	40,582
Non-current assets held for sale	2.19	3,770	10,368
Total assets		54,906	62,731
Share capital	3.3.1	3,784	3,784
Paid-in capital	3.3.1	32,273	32,273
Treasury shares	2.15	-120	-120
Legal, regulated and other reserves	3.3.1	765	765
Foreign currency cumulative translation adjustment	2.7;3.3.1	-236	-378
Income and expenses recognized directly to equity	3.3.1	-4	446
Group reserves and retained deficit	3.3.1	-12,846	-22,016
Amounts recorded directly to shareholder's equity relating to non-current assets held for sale			
Net income for the year		-2,145	9,162
Shareholders' equity		21,471	23,916
Borrowings and debt with financial institutions (non-current portion)		7,141	9,853
Retirement benefit obligation and similar	2.18;3.3.3	360	395
Deferred tax liabilities	2.22	151	167
Non-current liabilities		7,652	10,415
Borrowings and debt with financial institutions (current portion)	2.15;3.3.4	3,948	3,948
Provision for risk and contingency due within one year	2.17;3.3.3	682	524
Deposits and advances from customers	2.15	1,567	982
Deferred revenue	2.15	2,026	2,163
Trade payables and related	2.15	2,905	2,936
Tax, payroll and related payable	2.15	3,135	2,651
Other liabilities	2.15	104	528
Derivative financial instruments	2.15	259	9
Current liabilities		14,626	13,741
Liabilities related to non-current assets held for sale		11,157	14,659
Total shareholders' equity and liabilities		54,906	62,731

STATEMENT OF CASH FLOWS

(kEUR)	Notes	12.31.08	12.31.07
Net result of continuing activities		1,918	2,665
Adjustments			
Depreciation and amortization	2.9	1,983	2,093
Impairment of assets	2.13	65	49
Interest expense		635	755
Tax expense		100	318
Change in fair value of financial instruments*	6.1	-484	-65
Change in retirement benefit obligations	2.18	17	332
Income tax paid		-570	-89
Loss on sales of assets		-36	131
Cash flow from operations excluding interest and taxes		3,628	6,189
Net change in assets and liabilities			
Net change in inventory	3.1.4	57	-755
Net change in receivables	3.1.5	1,080	6,092
Net change in payables		230	-3,031
Net change in current provisions (including restructuring)	3.3.3	-921	-1,815
Net change in financial instruments	6.1	896	-2,220
Prepaid expenses and deferred revenue		-87	-264
Net change in working capital		1,255	-1,993
Cash flow from operating activities		4,883	4,196
Purchase of fixed assets	3.1.1;3.1.3	-1,582	-1,308
Sale and disposal of fixed assets		8	-1
Increase in deposits and long-term assets	3.1.5	87	95
Net change in cash from acquisition of subsidiaries		-	-
Cash flow from investing activities		-1,487	-1,214
Issuance of shares		-	229
Proceeds from borrowings	3.3.4	329	6,064
Repayment on borrowings	3.3.4	-4,005	-3,038
Interests paid	4.6	-611	-645
Cash flow from financing activities		-4,287	2,610
Cash flow from discontinued activities	5	392	10,299
Change in cash flows and cash equivalents		-499	15,891
Effect of changes in exchange rates on cash at beginning of the year		41	-56
Change in fair value of financial instruments held for transactions		-	-
Cash and cash equivalent at beginning of the year	3.2.1	22,715	6,880
Cash and cash equivalent at end of the year	3.2.1	22,257	22,715

STATEMENT OF CHANGES IN EQUITY

(kEUR)	Share capital	Paid-in capital	Legal reserve	Regulated reserves	Other reserves	Treasury shares	Foreign currency cumulative translation adjustment	Retained deficit	Income and expenses recognized directly to equity	Amounts recorded directly to shareholder's equity relating to discontinued activities	Net income for the year	Shareholders' equity
01.01.07	3,768	32,068	241	74	450	-120	-525	-5,080	183		-16,936	14,123
Change in actuarial differences on retirement obligations									57			57
Change in value of cash flow hedging financial instruments									206			206
Change in cumulative translation adjustments							-1,092					-1,092
Income and expenses recognized directly to equity	-	-	-	-	-	-	-1,092	-	263	-	-	-829
Cumulative translation adjustments on sold subsidiaries							1,239				-1,239	-
Result for the year											10,401	10,401
Income and expenses for the year	-	-	-	-	-	-	147	-	263	-	9,162	9,572
Allocation of net income								-16,936			16,936	-
Issuance of shares	16	205										221
12.31.07	3,784	32,273	241	74	450	-120	-378	-22,016	446	-	9,162	23,916
Change in actuarial differences on retirement obligations									34			34
Change in value of cash flow hedging financial instruments									-484			-484
Change in cumulative translation adjustments							142	8				150
Income and expenses recognized directly to equity	-	-	-	-	-	-	142	8	-450	-	-	-300
Result for the year											-2,145	-2,145
Income and expenses for the year	-	-	-	-	-	-	142	8	-450	-	-2,145	-2,445
Allocation of net income								9,162			-9,162	-
Issuance of shares												-
12.31.08	3,784	32,273	241	74	450	-120	-236	-12,846	-4	-	-2,145	21,471

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

On March 20, 2009, the Board of directors of Cerep approved the consolidated financial statements for the year ended December 31, 2008.

1. SIGNIFICANT EVENTS

Continuing activities

Cerep has extended at the beginning of 2008 its strategic collaboration agreements signed in 2002 and 2003 with two majors of the pharmaceutical industry. The former aims at further developing BioPrint® and related models. The latter utilizes Cerep's extensive experience in high throughput compound profiling to enhance the fundamental understanding of the relationships between chemical structure and biological activity.

In January 2008, Cerep was selected by Science Applications International Corporation (SAIC) on behalf of the Spinal Muscular Atrophy (SMA) Project through the National Institute of Neurological Disorders and Stroke (NINDS), National Institutes of Health, to provide in vitro pharmacological profiling and ADME-Tox services for a multi-year program. The subcontract was awarded by primary contractor SAIC after an international competitive bidding process and is a testimony to Cerep's expertise in the drug discovery arena.

On April 7, 2008, Cerep and PerkinElmer, Inc. a global leader in Health Sciences and Photonics, entered into a supply and co-marketing agreement to deliver custom drug discovery services. Under the terms of the agreement, PerkinElmer will exclusively market Cerep's target screening and profiling services to its customers, and the companies will jointly promote PerkinElmer's assay technologies and Cerep services to the drug discovery market.

In May 2008, Cerep has leased an additional 1000 sq.m of laboratories in the United-States.

These new laboratories enable Cerep to handle its customers' compounds, and to duplicate part of the tests performed in France. This development will help absorb the strong increase in demand in the United-States.

In addition, the development of Cerep activities in the dollar zone will contribute to decrease the Group's exposure to the risk linked to fluctuations of this currency.

On June 26, 2008, Cerep has signed an addendum to the EUR 6 million loan contracted on January 22, 2007. Repayment conditions and remuneration were maintained. The guarantee scheme was modified. (See "7.1. Commitments given", page 64).

Discontinued activities

In December 2008, Cerep has concluded two licensing agreements for drug candidates discovered for its own account:

- the first concerns the NPY1 antagonist co-discovered by Cerep and sanofi-aventis as part of their collaboration initiated in 1998. The drug candidate is currently in pre-clinical development for the treatment of type-2 diabetes. Under this agreement, a milestone payment was made to Cerep, plus the reimbursement of some of the expenses borne by the Group. Other payments are associated to the success of the program, including royalties on sales once the drug will reach the market.
- the second was signed with Théa for the development of an LFA-1 antagonist discovered by Cerep as part of its collaboration with Bristol-Myers Squibb. The development of this drug-candidate had been stopped for hepatotoxic effects observed after oral administration. In 2008, Cerep and Théa identified a potential novel application for the LFA-1 receptor antagonists in ophthalmology. In these new indications, the compound should be administered topically, thus strongly reducing the risk of hepatotoxic effects. The terms of the contract provide a first payment to be paid by Théa to Cerep upon signature of the agreement, as well as milestone payments. The first milestone is the completion of a successful proof of concept to be started shortly.

Recently, after allocating significant resources to find a potential partner for the development of its program in oncology conducted for the most part by its subsidiary Anceris, the Group decided to stop all expenses associated with this program (including the research of potential partners and the maintenance of intellectual property). The major accounting impacts are presented in note 3.1.2., page 48.

The interest of the scientific approach and the quality of the products discovered by the Group have been recognized by all companies that have evaluated the project. Companies that have showed an interest in licensing-in the program have nevertheless all requested additional information, including more advanced clinical trial data, in order to lower the risk profile of the program. Generating these data would require significant new investments which are not compatible with the Group strategy and its cash position.

Within a difficult economic environment, the Group will focus its resources on the development of profitable service activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES AND METHODS

2.1. PRINCIPLES APPLIED, ACCOUNTING METHODS AND USE OF ESTIMATES

The consolidated financial statements for year 2008 were prepared in accordance with the International Financial Reporting Standards adopted at European level, pursuant to Regulation No. 1606/2002 of the Council of the European Union of July 19, 2002. They are available on the European Commission's website at:

http://ec.europa.eu/internal_market/accounting/ias_fr.htm#adopted-commission

The preparation of the consolidated financial information at December 31, 2008 and of the comparative information is therefore based on:

- . the IFRS and interpretations to IFRS the application of which, as currently known, is mandatory;
- . the options chosen and exemptions used by the Group.

The following standards and interpretations, applicable for the first time to this financial year, have had no incidence on the Group's consolidated financial statements:

- . IFRIC 11: Group and Treasury Share Transactions (applicable to financial years beginning on or after March 1, 2007)
- . IFRIC 12: Service Concession Arrangements (applicable to financial years beginning on or after January 1st, 2008).
- . IFRIC 14: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction (applicable to financial years beginning on or after January 1st 2008).

Moreover, the Group did not opt for early adoption in 2008 of any standard or interpretation applicable to subsequent accounting periods, in particular:

- . IFRS 8 "Operating Segments", applicable as of financial year 2009.
- . revisions to standard IAS 1 "Presentation of Financial Statements" and standard IAS 23 "Borrowing Costs", applicable as of financial year 2009.
- . amendments to standard IFRS 2 "Share-based Payment" applicable as of financial year 2009.
- . revisions to standard IFRS 3 "Business Combinations" and standard IAS 27 "Consolidated and Separate Financial Statements", applicable as of July 1st, 2009.

2.2. PRESENTATION OF INCOME STATEMENT

The Group retained the option of the French National Accounting Board (Conseil national de la comptabilité) Recommendation 2004-R02 relating to the presentation of the income statement. Under this recommendation, the "Operating result" breaks down into two components, i.e. the "Current operating result" and the "Other operating income and expenses".

The Group stated the discontinuation of chemistry and drug discovery activities, effective at June 30, 2007, as discontinued operations in the sense of IFRS 5. The income and expenses attributable to these activities, net of taxes, are thus presented on a single income statement line in the 2008 income statement and the 2007 comparative income statement.

Likewise, following the October 31, 2007 sale of the Group's clinical services branch, the attributable income and expenses, net of taxes, are presented on a single income statement line for 2008 and for the 2007 comparative income statement.

2.3. CHANGES TO THE R&D TAX CREDIT PRESENTATION METHOD

The Company has opted for the reclassification of the research tax credit as "other revenues" because it concerns a Government subsidy not covered by the exception in paragraph 2b of IAS 20. The tax credit is therefore now stated as operating income in accordance with the provisions of IAS 20 (IAS 20.24) whereas it was recorded in previous years in deduction of income tax.

The research tax credit amounted to kEUR 665 in 2008 and kEUR 263 in 2007.

The presentation of the income statement was modified as of January 1, 2008, and the accounts reported for year 2007 restated accordingly for easier comparison.

The reconciliation between the published 2007 income statement and the 2007 income statement restated according to the new presentation is as follows:

(kEUR)	12.31.07 modified	Change	12.31.07 published
CONTINUING ACTIVITIES			
Net sales revenues	31,400	–	31,400
Other revenues	324	263	61
Total current revenues	31,724	263	31,461
Total net current expenses	28,422	–	28,422
Operating result	3,302	263	3,039
Financial Result	-56	–	-56
Consolidated net result	3,246	263	2,983
Current income tax expense	359	263	96
Deferred income tax expense	222	–	222
Consolidated net result of continuing activities	2,665	–	2,665
Net result of discontinued activities	6,497	–	6,497
Net result	9,162	–	9,162

2.4. CONSOLIDATED PRINCIPLES, METHODS AND SCOPE

The Group uses the full consolidation method. The consolidation scope at December 31, 2008, reflects the sale of the clinical service activities. As no longer part of the Group, Hesperion AG and its subsidiaries were deconsolidated on October 31, 2007.

Entity	Address	Siren	Owners	Method
Cerep SA	155, boulevard Haussmann 75008 Paris - France	353189848	100%	Parent
Cerep, Inc.	NE 95th Street Redmond, WA 98052 - USA	Foreign	100%	Full consolidation
Cerep Japan Corporation ¹	Ebisu Prime Square Tower 16th Floor 1-1-39n Hiroo Shibuya-ku - Tokyo - Japan	Foreign	100%	Full consolidation
Anceris ²	19 avenue du Québec 91951 Courtabœuf Cedex - France	422400226	100%	Full consolidation

¹ Cerep Japan Corp. has been dissolved in the fourth quarter of 2008. The Company was in liquidation at December 31, 2008.

² Included with discontinued activities at 31 December 2007 and 31 December 2008.

The financial statements are presented in thousands of euro (indicated kEUR).

2.5. ACCOUNTING YEAR

Consolidated entities close their accounting year on December 31.

2.6. USE OF ESTIMATES

The preparation of financial statements requires the use of estimates and assumptions that affect the amounts reported in those financial statements. This principally affects estimates used for the purposes of impairment testing, likely Group disbursements without consideration such as provisions for restructuring, and provisions for additional acquisition costs, retirement obligations, risks, commitments and deferred taxes, as well as the useful lives of non-current assets.

These estimates rest on the assumption of continuity of the Group's operations and are based on information available at the time the financial statements are prepared. These estimates can be revised if underlying circumstances change or as a result of new information. Actual results can differ from recorded estimates.

2.7. TRANSLATION OF FOREIGN FINANCIAL STATEMENTS

The financial statements of foreign subsidiaries, prepared in US dollar and Japanese yen, are translated into euro according to the period-end rate method of translation. Assets and liabilities are translated at the rate in effect at the end of the period, except for equity items that are translated at the historical rate. Income and expenses, and net result for the period are translated at the average rate for the period. Exchange differences resulting from the translation of the financial statements of subsidiaries, prepared in their respective currencies are recorded to shareholders' equity.

2.8. FOREIGN CURRENCY TRANSACTIONS

Current assets and current liabilities of consolidated entities expressed in currencies other than their operating currency are converted at the exchange rate in effect on the last day of the year. Differences resulting from this conversion are recorded under financial result to the income statement.

2.9. FIXED ASSETS

Intangible and fixed assets are carried at cost and amortized or depreciated using the straightline method over their respective estimated useful lives, which generally range as follows:

. Licenses, patents and similar rights	1 to 10 years
. Software	1 to 3 years
. Land	no depreciation
. Buildings	15 to 30 years
. Buildings' installation and fixtures	7 to 15 years
. Equipment and tools	3 to 7 years
. Miscellaneous installation	10 years
. Transportation equipment	3 years
. Office and computer equipment	3 to 5 years
. Furniture	5 to 10 years

Assets financed by financial lease are recorded under tangible assets to the balance sheet as if they had been funded by borrowing if the lease agreement results in a transfer of substantially all the risks and rewards incidental to ownership of the asset. In accordance with IAS 17, criteria used in evaluating lease contracts are:

- . the useful life of the leased asset compared to the length of the lease ;
- . the sum of all future lease payments compared to the asset's fair value;
- . the existence of a clause providing transfer of ownership or favorable purchase option;
- . the specific nature of the asset.

Since 2003, Cerep has been acquiring and producing cell lines. These form the biological material for the production of proteins used in pharmacological profiling assays.

This indefinitely reproducing biological material is accounted for under tangible non-depreciating assets to the balance sheet. It is valued at acquisition cost or at production cost when created by Cerep. Current provisions of IAS 16 specify that all tangible assets, except land, are to be depreciated starting on the date they are placed in service. Because it is unable to determine a useful value for this biological material, the Group considers that no depreciation can be recognized.

A tangible asset is derecognized on disposal or sale, or when it has been established that no future economic benefits can be expected from its use. Any gain or loss arising from derecognition, amounting to the difference between net proceeds from the sale and net carrying value of the asset at time of sale, is recorded to the income statement.

2.10. BORROWING COSTS

Cerep adopted the general method prescribed by IAS 23 "Borrowing costs", under which costs of borrowing are expensed in the period in which they are incurred. Thus no borrowing cost is included in the cost of assets.

2.11. BUSINESS COMBINATION AND GOODWILL

Cerep accounts for business combinations using the purchase method. It involves identification of assets and liabilities acquired and their measurement at fair value, according to provisions of IFRS 3. The acquisition cost of acquired shares is equal to the amount of payment remitted to the seller, inclusive of the amount, net of income taxes, of external costs directly attributable to the acquisition. The difference between the cost of acquired shares and the measured value of identified assets and liabilities represents goodwill.

Effective on the date of acquisition, goodwill is allocated to identified cash generating units.

2.12. INTANGIBLE ASSETS, INCLUDING R&D COSTS

The Group recognizes its intangible assets, which constitute costs of obtaining patents, software and licenses of IT tools, according to the definitions and accounting recognition criteria defined in IAS 38 "Intangible assets".

Research and development costs

Costs incurred in the research phase of internal projects are systematically recognized as expenses. Further, when no distinction can be drawn between the research phase and the development phase of an internal project, expenses incurred in connection with a project are treated as if it included only a research phase.

Furthermore, the review of internal projects - the development of drug-candidates and the projects to develop new assays and new processes as well as the development of BioPrint® revealed that Cerep is unable to demonstrate that the six accounting recognition criteria specified by the standard are met. Accordingly, Cerep considers that given the likelihood that its drug-candidates might fail in future development phases and the uncertainty that it will be able to market a candidate in an advanced phase, neither their technical feasibility nor the Group's ability to use or market the asset were demonstrated. Therefore the Group recognizes these costs as expenses.

2.13. IMPAIRMENT OF ASSETS

When events or new situations indicate that the carrying value of tangible or intangible assets are likely to decrease, the Group compares this carrying value to the recoverable amount, which is estimated based on the higher of the value in use or the net resale value. When the recoverable value is lower than the accounting value, the Group recognizes impairment for loss of value of the asset.

The resale value of a cell line is estimated based on market values of similar cell lines, when applicable. The value in use of a cell line reflects generated cash flows, its scientific interest, existence in the catalog of pharmacological tests using it and recent performance of these tests. A test for impairment of every cell line is performed at the end of each accounting period.

2.14. INVENTORY AND IN-PROGRESS

Raw materials, supplies and purchased products are valued at actual acquisition cost. Gross cost includes all costs to bring the inventories to their present condition and location, excluding any added value.

Finished products and products in progress are valued at production cost. This cost consists of raw materials, consumables, direct labor and all other related direct and indirect expenses.

Concerning continued activities:

- . Raw materials consist of purchased biological products or chemical products.
- . Supplies consist of consumables used in tests.
- . Semi-finished products are biological preparations to be used in pharmacological assays.

Concerning discontinued activities:

- . Raw materials are chemical products, including purchased building blocks.
- . Finished products consist of libraries of chemical compounds.

An inventory valuation allowance is recorded when the expected realizable value is less than the cost determined according to the methodology described above.

2.15. FINANCIAL ASSETS, LIABILITIES AND INSTRUMENTS

Financial instruments are recognized, presented and described in accordance with IAS 32 "Financial Instruments: Presentation" as amended by IFRS 7, IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures".

The Group recognizes a financial asset or a financial liability on its balance sheet upon its becoming a party to the contractual provisions of the instrument in accordance with the four categories defined by IAS 39:

- . "financial assets or liabilities at fair value through profit and loss" corresponding to financial assets or liabilities
- . "held for trading" or designated on its initial recognition as "at fair value through profit and loss";
- . "held to maturity investment";
- . "loans and receivables" or
- . "available for sales financial assets".

The Group's consolidated balance sheet is comprised of the following financial asset and liability categories:

Receivables

Trade and other receivables are financial instruments defined as "loans and receivables", recognized initially at their nominal value, with maturity date generally between 30 and 60 days. At the annual closing, receivables are measured at amortized cost, net of loss of value that takes into account the risk of uncollectibility. Bad debts are written off when identified.

Long-term financial assets

Long-term financial assets are financial instruments defined as "held to maturity investment", recognized initially at their nominal value, net of acquisition costs, if any. Subsequent to the initial recognition, they are measured at amortized cost.

A loss of value is recognized to the financial result when the recoverable value is lower than the inventory value.

Investments

Financial investments of the Group are designated as held for trading in "financial assets or liabilities at fair value through profit and loss" and recognized at fair value. Recognized initially at their purchase costs, they are subsequently measured at market value (stock market price or liquidation value, when available). Unrealized profit or loss is recognized to the income statement as financial income or expense.

The fair values of financial instruments used are determined as follows:

- . Bond and money market mutual funds: Liquidation value at the closing date;
- . Equities: Stock market price at the closing date

Cash and cash equivalents

Cash equivalents include financial assets (cash in banks, cash on hand and short-term deposits with a maturity of three months or less). Outstanding bank overdrafts are financial liabilities and recognized as borrowings in the balance sheet.

For the purpose of the statement of cash flows, cash and cash equivalents consist of the cash items described

above, net of outstanding bank overdrafts, and financial instruments held for trading used for cash management.

The fair values of cash instruments used are determined as follows:

- . Cash equivalents and short-term deposits in euro: at acquisition cost, which approximate market value due to its short-term maturity;
- . Cash equivalents and short-term deposits in foreign currency: at acquisition cost (which approximate market due to its short-term maturity) converted at the exchange rate in effect at the closing date;

Treasury shares

The Group recognizes the purchase of its own shares at cost less acquisition costs in accordance with IAS 32 and presents them as a reduction of shareholders' equity.

Liabilities and accruals

Trade payables and other receivables are financial liabilities initially recognized at their nominal value, with maturity date generally between 30 and 60 days. At the annual closing, these receivables are measured at amortized cost.

Loan and financial debt

Amounts borrowed from financial or leasing institutions are financial liabilities initially recognized at their nominal value adjusted for origination costs amortized over the term of the loan. At the annual closing, these receivables are measured at amortized cost.

Derivative financial instruments

Derivatives financial instruments include foreign currency and interest rate contracts aimed at mitigating the Group's exposure to risks of foreign exchange rate fluctuations in its probable future foreign currency denominated cash flows and to interest rate risks on its borrowings.

Derivatives instruments are recognized under assets or liabilities on the balance sheet at fair value. The Group designates its derivative instruments in accordance with criteria established under IAS 39. The recognition of changes in fair value of an instrument depends on its intended use.

Foreign exchange

Fair values of foreign exchange instruments in use are determined as follows:

- . Forward contract: liquidating value, which corresponds to the discounted value of future cash flows based on the rate at maturity;
- . Purchase of call and sale of put options, as well as sale of call options: liquidating value, which represents the result of a mathematical model that takes into account the respective currencies' spot rates and interest rates.

Derivative financial instruments are dissociated between:

- . Intrinsic value, which change thereof can be designated as a hedging instrument;
- . Time value (premium/discount and the time value of options), measured at fair value and recognized as a financial instrument.

Rate

Cerep uses swaps from variable to fixed rate which fair value is the liquidating value, which corresponds to the difference between the nominal amount and the present value of expected fixed cash flows.

Recognition of derivative instruments

The effective portion of derivative interest rate instruments that Cerep is able to designate as hedging instruments is recognized as follows:

- . Changes in value of the derivative instruments are recorded in shareholders' equity;
- . The amount recorded in shareholders' equity is transferred to the income statement when the hedged future cash flow is completed, at the establishment of the net invoice corresponding to forecast.

The ineffective portion of derivative instruments and those ineligible with regard to conditions of hedge accounting are recognized for their fair value at inception to the income statement.

2.16. SHARE-BASED PAYMENTS

Cerep only has stock subscription option plans for which vesting was before December 31, 2004, and took the option allowed under IFRS 1 not to recognize in accordance with IFRS 2 "Share-based Payment" stock subscription options for which rights vested prior to that date. French accounting principles have been applied: The difference between the exercise price paid by the beneficiary upon exercise of the warrant and the par value of the subscribed share is recorded in additional paid-in-capital.

Under the terms of the stock option plans, the sale of shares acquired through the exercise of stock options is not authorized before the end of the French tax unavailability period. There is therefore no risk of recognition of payroll taxes and related expenses by the Company from the occurrence of exercise of options during this period.

2.17. PROVISIONS

The Group recognizes a provision when exists a contractual, legal or implicit obligation resulting from past events, the termination of which would result in an outflow of resources.

Provision for restructuring

Restructuring costs represent a liability if they result from an obligation of the Group towards a third party, originating from a decision taken by the Group, announced before the annual closing date and on the condition that the Group does not expect further benefit from the concerned third parties. The project to cease chemistry activities and drug research activities as well as the termination of the in vivo pharmacology activity led to a provision accordingly representing the cost of discontinued operations, prior to classification of assets and liabilities as assets or liabilities held for sale, as applicable. Are excluded those expenses relating to persons who remain employees of the Group.

2.18. RETIREMENT OBLIGATIONS AND SIMILAR BENEFITS

Cerep applies IAS 19 "Employee Benefits" as amended on December 16, 2004, which determines the accounting rules applicable to companies for what concerns:

- . post-employment benefits such as pension and other retirement obligations as well as end of service benefit obligations;
- . other long term obligations such as profit sharing, bonuses and other deferred compensation;
- . measurement and recognition of these obligations;
- . termination benefits;
- . disclosure in Notes to the Financial statements.

Cerep applies the option to recognize the entire actuarial difference in shareholders' equity, excluding any amortization by a corridor method.

Cerep therefore records as liability the present value of defined benefits obligations at the closing date, net of the fair value, if any, of plan assets at the closing date. The actuarial differences resulting from changes in assumptions which affect the measurement of obligations are also recorded as liability, net of deferred taxes, as an offset to "income and expense recognized directly in shareholders' equity". Finally, past service cost resulting from regulatory or contractual changes to the plan is recognized over the length of acquisition of these changes.

The end of service benefit obligation specific to France is estimated linearly using the projected unit credit method. This method considers each year of service of an employee as giving rise to an additional unit of benefit entitlement and measures each unit separately to determine the final obligation. It takes into account, based on actuarial assumptions, the probability of the employee's future length of service, the future level of salary, life expectancy and employee turnover rate.

2.19. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

IFRS 5 "Non-current assets held for sale and discontinued operations" specifies in particular:

- . the rules to identify assets held for sale, and liabilities related to these assets;
- . - that assets classified as held for sale must be recognized at the lower of carrying amount or fair value less costs to sell;
- . - that groups of assets and liabilities classified as held for sale must be presented separately on the balance sheet;
- . - that the results of discontinued operations must be presented separately in the income statement, with an analysis presented by way of note.

The cessation of chemistry and drug discovery activities as of June 30, 2007, represents a discontinuation of such activities. In addition, the disposal of clinical service activities on October 31, 2007, represents a sale as of that date. The income and expenses attributable to these activities, net of taxes, are thus presented on a single income statement line for 2008 and 2007. The December 31, 2007 balance sheet presents non-current assets as well as other assets and liabilities associated with these activities.

2.20. SALES REVENUES

The Company uses the percentage of completion method to recognize revenue of service contracts in progress at the end of the accounting period.

Adjustment of service sales revenue (representing customer billing according to the terms of the respective contracts) over actual revenue earned, according to the respective studies' estimated stage of completion, is reported as accrued or deferred revenue.

Revenue from contracts that lapse over several accounting periods, including in particular long-term partnership agreements, is recognized pro rata over the term of the contract when it represents a contribution actually earned under the terms of the contract for the respective accounting period.

2.21. SUBSIDIES, ASSISTANCE AND REIMBURSABLE ADVANCES

The Group benefits from subsidies, assistance and reimbursable advances in connection with its research activities or its investments, and recognizes them in accordance with IAS 20.

Investment subsidies obtained in conjunction with purchases of fixed assets are either paid to Cerep when the equipment is acquired directly, or paid to the financing institution when the asset is acquired through a financial lease. Cerep records investment subsidies as deferred revenues to the liabilities in the consolidated balance sheet at grant date and proceeds with the recognition as other income to the consolidated income statement on the same schedule as the associated asset is depreciated.

Reimbursable advances and assistance obtained in connection with Cerep's research programs consist primarily of zero-interest advances to be repaid only if successful. For the duration of the program and in the absence of

indication of failure, Cerep records the entire grant receipt under other debt to liabilities in the consolidated balance sheet. At termination, in case of failure, the net amount retained is recognized as operating subsidies to the consolidated income statement.

Operating subsidies that benefit Cerep are recognized to the consolidated income statement when granted. The amount of subsidies, advances and assistance obtained but not yet received are recorded to "Other assets" under assets in the consolidated balance sheet.

2.22. DEFERRED INCOME TAX

The Group records deferred income tax for all temporary differences between taxable and accounting values of assets and liabilities reflected on the consolidated balance sheet.

Using a liability approach, deferred income taxes are computed based on enacted tax laws and rates at the date of the accounting period and applicable to the period at which the Group expects reversal of temporary differences to occur.

Deferred income tax assets resulting from temporary differences or tax losses and tax credits carried over are recognized only when more likely than not to realize in the future. At the end of the year, the Group reassesses the probability of future realization of deferred tax assets recognized, in order to adjust, when deemed necessary, the carrying value of recorded tax assets.

2.23. SEGMENT INFORMATION

Following the discontinuation of the chemistry and drug-discovery activities on June 30, 2007, the preclinical service activities of Cerep SA, Cerep, Inc. and Cerep Japan Corp. include the pharmacological and pharmaceutical screening and profiling activities. These activities constitute a single activity segment.

The clinical development activities of Hesperion and its subsidiaries represented the "clinical services" segment of the Group until their sale on October 31, 2007.

The chemistry and drug discovery activities discontinued on June 30, 2007 as well as the clinical service activities disposed of on October 31, 2007 are presented separately on a single line on the income statement and on the statement of cash flows.

2.24. EARNINGS PER SHARE

Earnings per share is determined according to IAS 33.

The number of shares used in the basic earnings calculation is the weighted-average number of shares outstanding during the period.

Diluted earnings per share is computed by adding to the above weighted-average number of shares outstanding, the net number of potentially dilutive shares to be issued from the exercise of dilutive instruments that are stock options. The net number of potentially new shares to be issued is determined according to the "treasury-stock" method. This method assumes that funds received from the exercise of warrants or options are used to acquire shares at the share's average market price over the accounting period.

3. PRINCIPAL BALANCE SHEET ITEMS

3.1. ASSETS

3.1.1. Intangible assets

(kEUR)	12.31.07	Effect of exchange	Increase	Decrease	Transfer	Assets held for sale	12.31.08
Gross							
Patents and licenses	1	-	-	-	-	573	574
Other intangible assets	1,330	8	491	105	92	5	1,821
Advances and assets in progress	92	-	7	0	-92		7
Total	1,423	8	498	105	0	578	2,402

(kEUR)	12.31.07	Effect of exchange	Depreciation Increase	Depreciation Decrease	Impairment Decrease	Assets held for sale	12.31.08
Depreciation / Impairment							
Patents and licenses	1	-	-	-	-	573	574
Other intangible assets	892	8	361	105	-	5	1,161
Total	893	8	361	105	-	578	1,734

(kEUR)	12.31.07	Effect of exchange	Increase	Decrease	Transfer	Assets held for sale	12.31.08
Net values							
Patents and licenses	-	-	-	-	-	-	-
Other intangible assets	438	-	130	-	92	-	660
Advances and assets in progress	92	-	7	-	-92	-	7
Total	530	-	137	-	-	-	667

The assets of Anceris, previously reclassified as assets held for sale, are again presented as non-current assets. The increase in other intangible assets during the period relates primarily to management software

3.1.2. Goodwill

Anceris and the oncology program are part of activities discontinued since June 30, 2007. The corresponding goodwill is presented since this date as non-current assets held for sale.

The Group has decided to stop all expenses associated with this program. The consequence of this decision is reflected in the consolidated financial statements by a write-off of the whole goodwill recognized on Anceris, or EUR 4.87 million.

3.1.3. Tangible assets

(kEUR)	12.31.07	Effect of exchange	Increase	Decrease	Transfer	Assets held for sale	12.31.08
Gross							
Land	-	-	-	-	-	-	-
<i>of which, financial leases</i>	-	-	-	-	-	-	-
Cell lines	1,629	-	188	2	174	-	1,989
Buildings and improvements	8,521	-	35	267	-	10	8,299
<i>of which, financial leases</i>	7,594	-	-	267	-	-	7,327
Equipment and tools	9,856	113	654	1,032	-	78	9,668
<i>of which, financial leases</i>	4,159	-	122	172	-	-	4,109
Other equipment and tools	2,572	44	214	206	-	-	2,624
<i>of which, financial leases</i>	946	-	-	4	-	-	942
Assets in progress	382	-	196	6	-174	-	398
<i>Of which cell lines</i>	247	-	181	6	-174	-	248
Advances	-	-	14	-	-	-	14
Total	22,960	157	1,300	1,513	-	88	22,992

(kEUR)	12.31.07	Effect of exchange	Depreciation Increase	Depreciation Decrease	Impairment Decrease	Assets held for sale	12.31.08
Depreciation / Impairment							
Cell lines	-	-	-	-	60	-	60
Buildings and improvements	3,030	-	579	-	-	-	3,609
<i>of which, financial leases</i>	2,624	-	497	-	-	-	3,121
Equipment and tools	7,492	101	960	976	-16	10	7,570
<i>of which, financial leases</i>	2,620	-	537	169	-16	-	2,972
Other equipment and tools	2,397	34	127	199	-	78	2,438
<i>of which, financial leases</i>	786	-	49	8	-	-	827
Assets in progress	-	-	-	-	-	-	-
Total	12,919	134	1,666	1,175	44	88	13,676

(kEUR)	12.31.07	Effect of exchange	Increase	Decrease	Transfer	Assets held for sale	12.31.08
Net values							
Land	-	-	-	-	-	-	-
<i>of which, financial leases</i>	-	-	-	-	-	-	-
Cell lines	1,629	-	128	2	174	-	1,929
Buildings and improvements	5,491	-	-544	267	-	-	4,680
<i>of which, financial leases</i>	4,970	-	-497	267	-	-	4,206
Equipment and tools	2,364	13	-290	56	-	-	2,031
<i>of which, financial leases</i>	1,539	-	-399	3	-	-	1,137
Other equipment and tools	175	10	87	7	-	-	264
<i>of which, financial leases</i>	160	-	-49	-4	-	-	115
Assets in progress	382	-	196	6	-174	-	398
<i>Of which cell lines</i>	247	-	181	6	-174	-	248
Advances	-	-	14	-	-	-	14
Total	10,041	23	-409	338	-	-	9,316

The assets of Anceris, previously reclassified as assets held for sale, are again presented as non-current assets. Since inception of the cell line acquisition and production program, Cerep has recognized kEUR 2,237 of lines to tangible assets:

- . kEUR 303 were acquired from vendors, kEUR 290 are in service and kEUR 13 are recognized under assets in progress as of December 31, 2008;

- . kEUR 1,934 were produced by Cerep teams, kEUR 1,700 are in service at the end of the year and kEUR 234 are recorded under assets in progress;

The impairment test on cell lines at December 31, 2008 identified loss of value for a global amount of kEUR 60.

Laboratory installation and equipment and other equipment and tools acquired or placed in service during the year consist primarily of robots and other laboratory equipment in Celle l'Evescault used in large profiling programs, computer equipment and furniture.

Cerep, Inc.'s acquisitions for the period amount to kEUR 540.

3.1.4. Inventory and in-progress

Main components of inventory and products in progress

(kEUR)	Gross	Valuation provision	Net at 12.31.08	Net at 12.31.07
Raw materials	2,435	272	2,163	1,965
Supplies	424		424	533
Products in progress			–	
Semi-finished products	1,445	4	1,441	1,278
Finished products			–	
Total	4,304	276	4,028	3,776

At December 31, 2008, raw materials inventory (including monomers), supplies and finished goods from discontinued chemistry activities at Villebon-sur-Yvette were presented as non-current assets held for sale and wholly recorded as impaired.

3.1.5. Financial assets

(kEUR)	Gross	Impairment	Net at 12.31.08	Net at 12.31.07
Long-term financial assets				
Retained lessee advance				
- 1 st addendum to real estate financial lease contract	826		826	893
- 2 nd addendum	318		318	347
Security deposits on real estate leases ¹	258	191	67	67
Other deposits and security bonds	16		16	3
Total long-term assets	1,418	191	1,227	1,310
of which, current financial assets	101		101	99
Trade receivables and related ²	8,189	197	7,992	5,729
Other receivables				
Advances and prepaid expenses	9		9	1
Payroll and benefit receivables	28		28	23
VAT and tax-related receivables	128		128	819
Other tax-related receivables	2193		2,193	885
Balance of Hesperion selling price	2485		2,485	4,792
Other receivables	249	70	179	456
Total other receivables	5,092	70	5,022	6,976
Total current receivables	13,382	267	13,115	12,804

¹ The security deposit paid upon inception of the facilities at Rueil-Malmaison, not reimbursed by the former lessor, was wholly recorded as impaired at December 31, 2008 and 2007

² of which billing to issue: kEUR 3,341 at December 31, 2008 and kEUR 2,255 at December 31, 2007.

Financial assets breakdown by maturity, before impairment

(kEUR)	Gross	< 1 years	1 to 5 years	> 5 years
Retained lessee advance				
- 1 st addendum to real estate financial lease contract	825	71	325	429
- 2 nd addendum	319	31	129	159
Security deposits on real estate leases	258	258		
Other deposits and security bonds	16	16		
Long-term financial assets	1,418	376	454	588
Trade receivables and related	8,189	7,992		
Advances and prepaid expenses	9	9		
Payroll and benefit receivables	28	28		
VAT and tax-related receivables	128	128		
Other tax-related receivables	2,193	2,193		
Balance of Hesperion selling price	2,485		2,485 ¹	
Other receivables	249	249		
Total other receivables	5,092	2,607	2,485	-

¹ Receivables payable at maturity on October 31, 2010, with earning interest at a rate of 6% per year and no guarantee.

3.1.6. Prepaid expenses

(kEUR)	12.31.08
Leases, rents	164
Maintenance	69
Fees, temporary staff	11
Insurance	22
Meal vouchers	27
Other expenses	74
Total	367

3.1.7. Impairment of other assets

(kEUR)	12.31.07		Effect of exchange	Decrease			12.31.08 Net book value
	Net book value	Entry in scope		Increase	Impairment	used	
Long-term financial assets	191						191
Client receivables	190			7			197
Other receivables	70						70
Prepaid expenses	-						-
Total	451	-	-	7	-	-	458

3.2. CHANGE IN CASH FLOWS

3.2.1. Change in net financial indebtedness

(kEUR)	12.31.07	Change	12.31.08	12.31.08 liabilities related to non-current assets held for sale
Gross cash and equivalents	22,780	-483	22,297 ¹	
Accrued interest and bank overdraft	65	-25	40	
Assignment of receivables	-	-	-	
Cash position	22,715	-458	22,257	-
Gross financial liabilities	13,736	-2,687	11,049	10,642
Net financial liabilities	-8,979	-2,229	-11,208	10,642

¹ Financial instruments held for transactions amount to kEUR 19,320. They are mainly comprised of marketable securities (kEUR 12,320) and short-term deposits (kEUR 7,000).

3.3. LIABILITIES AND SHAREHOLDERS' EQUITY

3.3.1. Shareholders' equity

The table below shows the number of shares authorized at the end of the accounting period:

(in thousands)	12.31.08	12.31.07
Authorized:		
Ordinary shares of EUR 0.30 each	13,776	13,776

8,661 treasury shares are registered in the name of Cerep at December 31, 2008 and 2007, recognized at acquisition cost of kEUR 120 as reduction in shareholders' equity.

Aside from share capital, consolidated shareholders' equity is composed of the following items:

- **Paid-in capital:** corresponds to the amounts contributed by shareholders of Cerep SA in excess of the nominal value of the shares.

The following table presents the changes in number and value of shares issued and related paid-in capital:

	number of shares (thousands)	Share capital (kEUR)	Paid-in capital (kEUR)
Issued, wholly outstanding			
01.01.07	12,559	3,768	32,068
Exercise of stock options	53	16	205
12.31.07	12,612	3,784	32,273
Exercise of stock options	-	-	-
12.31.08	12,612	3,784	32,273

- **Legal reserve:** correspond to accumulated appropriations made at each profit allocation, equal to one twentieth of the result of the accounting period, reduced by, as the case may be, prior losses. This appropriation ceases to be obligatory when the reserve reaches one tenth of the share capital.
- **Regulated reserves:** correspond to the unavailable reserves created at the grant of warrants and frozen on their expiration in 2002 for an amount of kEUR 53, as well as the special reserve of long term capital gains of kEUR 21. In accordance with the authorization granted by the Ordinary shareholders' general meeting on June 20, 2008, the balance of regulated reserves was reclassified as legal reserve.
- **Other reserves:** correspond to optional reserves created upon allocation of results of the parent company.
- **Foreign currency cumulative translation adjustment** corresponds to accumulated translation differences arising from conversion of financial statements of foreign subsidiaries as well as from conversion of goodwill of foreign subsidiaries.
- **Income and expenses recognized directly to equity:** represent the effect on equity of changes in fair value of derivative financial instruments for foreign exchange and interest rate eligible for the cash flow hedging accounting, as well as the effect on equity of changes in actuarial differences arising from retirement obligation. These effects are recorded net of deferred tax.
- Reserve and retained earnings: accumulated profit and loss of the parent company and other entities of the Group.

Consolidated shareholders' equity is invested capital as defined under IAS 1.

The Group intends to maintain a balance between its equity and its debt in such a way as to keep its options open in order to obtain equipment necessary for its pre-clinical service activities or to finance a possible acquisition. Since its founding, Cerep SA has never paid a dividend.

3.3.2. Employee benefits

The Group has implemented profit-sharing plans which provide for granting of stock subscription options to certain employees and management of the Group. Under the terms of the plans, granting of stock options is reserved to employees and management of companies in the Group. The rights to subscription granted under these plans are acquired either immediately, or by fraction after one to three years, on the condition that the person remains employee of the Group at the vesting date. Rights remain acquired until expiration of the option at the end of 7 years after the grant date. The sale of shares obtained through the exercise of options is not authorized before the end of the French fiscal unavailability period. Options are paid in shares of Cerep SA when exercised.

Having retained the optional exemption not to recognize under IFRS 2 "Share-based payment" stock subscription option plans whose rights are vested as at December 31, 2004, vesting under outstanding plans was prior to December 31, 2004, and no grant having taken place in 2008 or in 2007, the Group did not record any expense in the income statement.

The following table presents the number and the weighted average price (WAP) (for one share) of the Group's stock options plans:

	Number	WAP
Outstanding at the beginning of the period	915,550	12.72 €
Granted during the period	–	–
Cancelled during the period	–	–
Exercised during the period	–	–
Expired during the period	-397,050	16.73 €
Outstanding at the end of the period	518,500	9.64 €

Options outstanding at December 31, 2008 have the following exercise prices:

Expiration date	Number	Exercise price
July 17, 2009	18,500	12.69 €
November 28, 2011	500,000	9.53 €
Total	518,500	

In 2008, Cerep SA has implemented an employees bonus scheme for a term of three years in accordance with the provisions of articles L.3312-1 et seq. of the French Labor Regulations relating to employee profit-sharing. This agreement provides for sharing among Cerep SA staff having at least three months' seniority in the Company at December 31 each year in proportion to their time and attendance, an amount equal to 7.5% of the sum of consolidated operating income and the consolidated depreciation on fixed assets of the Group.

3.3.3. Provisions and accruals

(kEUR)	12.31.07	Entry in scope	Increase	Reversal (Provision used)	Reversal (provision not used)	Transfer or foreign exchange difference	12.31.08
Accrued retirement benefits	395			35			360
Risk and contingency provisions							
Chemistry & Drug Discovery restructuring							–
Other restructuring	263						263
Employee disputes	225		104	34	47	145 ¹	393
Disputes with Hesperion sub-contractors	–						–
Other disputes	33			9			24
Replanting of trees at Celle	4			2			2
Total risk and contingency provisions	525	–	104	45	47	145	682

¹ Of which kEUR 125 is due to the reclassification of Anceris liabilities previously registered as liabilities related to non current assets held for sale.

Impact on net income

(kEUR)	12.31.07	Entry in scope	Increase	Reversal (Provision used)	Reversal (provision not used)	Transfer or foreign exchange difference	12.31.08
Increases and reversals of provisions for retirement obligations	48		-17		–		-17
Other expenses	12		-104	45	47		-12
Other operating income and expenses							–
Total	60	–	-121	45	47	–	-29

Provisions for litigation

At December 31, 2008, the Group has several ongoing litigations with former employees and contractors for which the Company has, after consultation with its counsels, estimated the probable outflow of resources from legal actions in process and recorded or adjusted a provision.

Finally, the Group is exposed to a demand for payment for about EUR 1.4 million for alteration to the Rueil-Malmaison premises by its former lessor, for which it received a summons. The case was submitted in the fourth quarter of 2008 and is awaiting deliberation. After review, the Group considers this motion to be unfounded. A provision for estimated legal costs of kEUR 40 was recognized during 2007 of which kEUR 7 was actually incurred in 2007, and kEUR 9 in 2008.

Provisions for restructuring and site transfer in 2005 – Discontinuation of *in vivo* pharmacology activity and site transfer to Villebon-sur-Yvette

At December 31, 2008, the kEUR 326 provision includes the estimates established by Cerep after consultation with the counsels, of lawsuits filed with Labor conciliation court by several employees concerned by the sever-

ance plan.

Accrued retirement benefits

Obligations are measured using the projected unit credit method, based on the following actuarial assumptions:

	12.31.08		12.31.07	
Discount rate	5.00%		4.27%	
Expected annual increase in salaries	2.25%		2.25%	
Average percentage rate of payroll expenses	40.00%		40.00%	
Anticipated age of retirement	65 years		63 years	
Annual rate of turn-over by age group and category:	Employees	Management	Employees	Management
- 20 - 29	12%	22%	11%	11%
- 30 - 39	8%	18%	15%	11%
- 40 - 49	1%	8%	7%	2%
- 50 - 65	1%	1%	1%	1%
Average remaining length of service	30 years	19 years	27 years	21 years
Actuarial liability (present value of obligation)	360		395	
<i>of which, actuarial differences recognized directly in shareholder's equity</i>	19		33	

Between the beginning and the end of the year, the above balance changed as follows:

(kEUR)	12.31.08	12.31.07
Provision at beginning of the year	395	693
Actuarial differences recognized directly in shareholder's equity		
- continued activities	-52	-35
- discontinued activities		-46
Expense for the year	63	75
Reversal of provision (leave before entitlement to retirement)	-14	-81
End of service benefits paid		-
Provision - discontinued activities	-32	-211
Provision at end of the year	360	395

The expense recognized in the income statement consists of the following:

(kEUR)	12.31.08	12.31.07
Current year service cost of active beneficiaries	43	55
Financial cost	20	20
Net expense	63	75

At the time discontinued operations were recognized on June 30, 2007, kEUR 250 of the provision for end of service employee benefits that had not been utilized was transferred from the provision for employee retirement obligations to the restructuring provision.

On the occasion of their retirement, compensation owed to salaried personnel of Cerep SA according to the branch agreement of the pharmaceutical industry amounts to 3/10th of a month's salary for each year of service, up to a total of 9 months. The employees of Anceris benefited from the same provisions.

The discount rate used in establishing the liability is computed based on the average yield rate of French Treasury notes with a maturity of 15 years and over of December 2007 for calculations as of December 31, 2007. This rate of return is unusually low at December 31, 2008, the provision was calculated using a discount rate of 5%, based on the AA Bloomberg 15-year rate at December 31, 2008.

Cerep, Inc. provides a defined contribution retirement plan managed by third-party administrators, in which employees can enroll under certain conditions. The subsidiary may voluntarily match the employee's contribution, and is under no contingency that would require the recognition of a liability for retirement benefits. The Group has recognized a payroll expense of kEUR 105 in 2008 and kEUR 90 for 2007 in respect of the employer's share of contribution to defined benefit plans funded to insurance institutions or pension funds.

3.3.4. Debt, payables and other liabilities

Loan and financial debt

(kEUR)					12.31.08		12.31.07	
	Nominal Continuing activities	Nominal Dis-continued activities	Continuing activities Balance due	Weighted average interest rate	Continuing activities Balance due	Weighted average interest rate	Continuing activities Balance due	Continuing activities Balance due
Debt with financial institutions								
- euro fixed rate	2,236		732	3.66%			1,157	
- euro variable rate	6,000		2,976	4.39%			4,932	
- assignment of receivables	-		-				-	
- bank overdraft and ICNE	-		41				65	
- US dollar fixed rate	600		414	5.39%			227	
Debt with financial lease institutions								
- real estate variable rate	-	12,630	-		10,582	4.04%		11,238
- real estate fixed rate	7,456	-	4,940	5.00%	-		5,430	
- equipment fixed rate	3,488	289	1,821	5.17%	60	4.23%	1,827	172
Other debt								
- Reimbursable assistance for innovation	52		52				52	680
- Reimbursable advances	111		111				111	
Total	19,943	12,919	11,087		10,642		13,801	12,090

On January 22, 2007, Cerep contracted a loan in the amount of EUR 6 million payable over three years to carry out the restructuring and improve the rate of return of the continued activities. Half of the amount was paid upon signing and the remaining on April 22, 2007. This loan is to be repaid in quarterly fixed installments of kEUR 500 beginning on July 22, 2007. It bears variable-rate interest of 3-month Euribor + 150 basis points due quarterly, which, taking into account arrangement commission and fees, represents an effective annual rate of interest estimated at 5.67% at December 31, 2008. It was swapped to a fixed rate of 6.79% at inception.

The amendment to the real estate finance lease for the Villebon-sur-Yvette site took effect on February 1, 2007. Of an additional amount adjusted at kEUR 1,240, a total of kEUR 1,201 had been used at December 31, 2008 and will be followed by rebillings for work and guarantee retentions. This addendum was swapped to a fixed rate of 5.53% for a term of 7 years.

Finally, Cerep took out in 2007 a loan of kUSD 253 (kEUR 174) payable over 5 years in order to finance the purchase of laboratory equipment in Seattle. This is a fixed-rate loan at 6.64%.

At the end of year 2008, Cerep, Inc. contracted a new loan in the amount of k\$ 343 (kEUR 246) payable over five years in order to finance the purchase of new laboratory equipments. This is a fixed-rate loan at 4.38%.

Liabilities broken down by due date at December 31, 2008

(kEUR)	Gross	< 1 year	1 to 5 years	> 5 years
Financial institutions	10,922	3,781	4,918	2,223
<i>of which, debt</i>	4,158	2,491	1,667	-
<i>of which, financial leases</i>	6,764	1,290	3,251	2,223
<i>of which, account receivable financing</i>	-	-	-	-
Other debts	167	167	-	-
Deposits and advances from customers	1,567	1,567	-	-
Deferred revenue	2,026	2,026	-	-
Trade payables and related	2,905	2,905	-	-
Tax, payroll and related payable	3,135	3,135	-	-
Other liabilities	104	104	-	-
Total	20,826	13,685	4,918	2,223

Investment subsidies recognized as deferred revenues amounted to kEUR 82 at December 31, 2008.

Accrued portion of payables and other liabilities at December 31, 2008 and 2007

(kEUR)	12.31.08	12.31.07
Accrued interest on debt	37	65
Trade payables - accrued portion	592	1,162
Tax, payroll and related payable	2,362	2,032
Other liabilities	-	66
Total	2,991	3,325

4. PRINCIPAL INCOME STATEMENT ITEMS

4.1. SALES REVENUES

Components of sales revenue for continued activities

Continuing activities (kEUR)	12.31.08	Change	12.31.07
Cerep Group	30,799	-1.9%	31,400
<i>Net Company contribution to consolidated sales revenue</i>			
- Cerep SA	24,829	-6.4%	26,540
- Cerep, Inc.	5,970	22.8%	4,860

As 31 décembre 2008, le chiffre d'affaires valorisé à l'avancement représente 3 169 K€.

Chiffre d'affaires des activités poursuivies par zones géographiques

Le tableau ci-après fournit la ventilation du chiffre d'affaires consolidé des activités poursuivies selon la zone géographique du client.

(kEUR)			12.31.08		12.31.07	
	Amount	%	compared to 12.31.07		Amount	%
			Amount	%		
Europe	11,799	38.3%	-452	-3.7%	12,251	39.0%
<i>Of which, France</i>	3,566	11.6%	-597	-14.3%	4,163	13.3%
North America	17,336	56.3%	-607	-3.4%	17,943	57.1%
Asia	1,462	4.7%	602	70.0%	860	2.7%
Other	202	0.7%	-144	-41.6%	346	1.1%
Total	30,799	100.0%	-601	-1.9%	31,400	100.0%

4.2. OTHER REVENUES

Other revenues relate to:

- . recognition to the income statement of deferred investment subsidies;
- . R&D tax credit.

4.3. SEGMENT INFORMATION

After the discontinuation of chemistry and drug discovery activities on June 30, 2007 and the sale of clinical service activities on October 31, 2007, the Group maintained activities in the pre-clinical services segment only.

The principal portion of the Group's activities is in the three geographic areas where its entities are located: Europe, North America and Asia.

The following provides a breakdown of net assets by geographic area according to the location of entities of the Group.

(kEUR)	12.31.08		12.31.07	
	Continuing activities	Assets held for sale	Continuing activities	Assets held for sale
Goodwill, net				
Europe				4,870
<i>Of which, France</i>				4,870
North America				
Asia				
Total	-	-	-	4,870
Other intangible assets, net				
Europe	646	-	495	-
<i>Of which, France</i>	646	-	495	-
North America	14	-	35	-
Asia				
Total	660	-	530	-
Tangible assets, net				
Europe	8,556	3,787	9,595	3,789
<i>Of which, France</i>	8,556	3,787	9,595	3,789
North America	768		445	
Asia				
Total	9,324	3,787	10,040	3,789

(kEUR)	12.31.08		12.31.07	
	Continuing activities	Assets held for sale	Continuing activities	Assets held for sale
Total net assets				
Europe	9,202	3,787	10,090	8,659
<i>Of which, France</i>	9,202	3,787	10,090	8,659
Etats-Unis	782	–	480	–
Asia	–	–	–	–
Total	9,984	3,787	10,570	8,659

4.4. HEADCOUNT

Average headcount for 2008 is 290.

Headcount at Decembre 31, 2008

	Europe	Of which, France	USA	Asia	Total
Management	55	55	18		73
Technicians	132	132	22		154
Employees	51	51	14	–	65
Total	238	238	54	–	292

4.5. RESEARCH AND DEVELOPMENT COSTS

Research and development costs incurred for continuing activities and fully recorded as expenses represent kEUR 6,775 for 2008 and kEUR 5,744 for 2007.

These costs are determined using a comprehensive costing method, whereby indirect expenses (which include depreciation expense of scientific equipment) and overhead expenses are factored in pro rata of time recorded on research programs.

4.6. FINANCIAL RESULT

Principal components of financial result

(kEUR)	12.31.08	12.31.07
Foreign exchange		
Net gain/loss for continuing activities:		
- realized on bank deposits	114	-52
- realized on receivables and payables	224	-360
- unrealized on receivables and payables	-168	285
- realized on foreign currency options and sales	-151	482
Change in fair value of derivative financial instruments	-154	-119
Net gain/loss for discontinued activities:		-68
Sub-total foreign exchange	-135	168
Net gain or loss on marketable securities	350	125
Change in fair value of financial instruments*	53	-
Interest income on cash and investments and discounts obtained	508	151
Interest income on lessee advance	62	66
Interest income on Averion payment	152	13
Interest expense on debt and swaps for continuing activities	-680	-647
Interest income on cash and investments, discounts obtained for discontinued activities		38
Interest expense on debt and swaps for discontinued activities	-496	-639
Financial result – continuing activities	310	-56
Financial result – discontinued activities	-496	-669

4.7. TAX

Reconciliation of income tax expense

(kEUR)	12.31.08	12.31.07
Net result of consolidated companies	-2,145	9,162
Current tax profit	90	135
Deferred tax expense	252	-91
Total tax expense/benefit	-342	-44
Net income before tax	-1,803	9,206
Tax rate of the parent company	33,33%	33,33%
Computed tax at statutory rate	601	-3,068
Research tax credit	665	302
Annual minimum tax		-19
Permanent differences	18	-50
Tax-free capital gain		4,128
Impairment of goodwill	-1,623	
Deferred tax assets utilized	58	-
Increase of loss carryforwards non activated	-14	-1,657
Temporary differences not generating deferred tax assets		201
Difference in the subsidiaries' tax rate	-31	128
Other	-16	-9
Effective tax expense/benefit	-342	-44

Detail of deferred tax assets and liabilities

(kEUR)	12.31.07	Entry in scope	Change		Foreign exchange	Other	12.31.08
			Rate	Period			
France							
Accrued retirement benefits	131			-12			119
Tax-restatement of financial leases	72			-250			-178
French "Organic" tax	16						16
Employee bonuses	111			8			119
Other temporary differences	7			-2			5
Taxation of unrealized gains on marketable securities	-3			-1			-4
Hesperion acquisition costs	-						0
Fixed assets acquisition costs	-194			1			-193
Change in fair value of financial instruments	-264			277			13
Tax losses carried forward							-
USA							
Tax losses carried forward	-						-
Deferred depreciation expenses	-105			-16	-14		-135
Provision for impairment of trade receivables	13				2		15
Vacation accrual	37			9	5		51
Deferred rent	12			8	2		22
Other temporary differences	-			-	-		-
Total	-167	-	-	22	-6	-	-151

In the absence of sufficient significant history of taxable profits, at the end of the year the Group considered it was not probable that sufficient taxable profit would be available to utilize Cerep SA tax loss carryforwards. The Group therefore did not recognize any deferred tax assets on these and Cerep SA presents a net deferred tax liability on December 31, 2008. Given that Anceris has never turned a profit and is ceasing its operations, the likelihood of recovering its tax loss carryforwards is minimal. No deferred tax has been recognized for this subsidiary.

Deferred tax assets for which realization is considered not probable in the foreseeable future and therefore are not recognized at December 31, 2008 are the following:

Tax by type (kEUR)	12.31.07	Entry in scope	Effect of exchange	Rate	Change Base	12.31.08
Tax losses carried forward						
Cerep SA	7,571				2,305	9,876
Anceris	10,075				-55	10,020
Total	17,646	-	-	-	2,250	19,896

Effective with the 2004 French finance law, tax losses carried forward originated in France no longer expire. Tax losses incurred by a French company carry forward indefinitely.

4.8. EARNINGS PER SHARE

Only stock subscription option plans remain in effect. Diluted earnings per share therefore only reflect the net number of potentially new shares to be issued, determined according to the "treasury stock" method.

This calculation only has impact on the number of share retained as denominator of earnings per share. For numerator, the profit for the year is identical for the basic earnings per share and diluted earnings per share. The following table shows the information on the number of actions retained as denominator in the calculations of basic earnings per share and diluted earnings per share:

(in thousands of shares)	12.31.08	12.31.07
Number of shares outstanding at beginning of year	12,612	12,559
Mean weighted number of shares issued during the year	-	-
Mean weighted number of shares issued following the exercise of stock options		50
Weighted average change of treasury shares		
Mean weighted number of outstanding shares at end of year for basic earning per share	12,612	12,609
Effect of dilution ¹		
Net number of potentially new shares to be issued	N/A	N/A
Mean weighted number of outstanding shares at end of year for diluted earnings per share	12,612	12,609
Maximum potential number of shares to be issued from exercise of stock subscription rights	519	916

¹ Only potentially dilutive instruments are retained in this calculation. They consist mainly of stock subscription rights, when net result negative the potential new shares are anti-dilutive. The diluted earnings are then equal to the basic earning per share.

5. DISCONTINUED ACTIVITIES

Breakdown of non-current assets held for sale and liabilities related to these assets.

(kEUR)	12.31.08	12.31.07
Goodwill		4,870
Tangible assets	3,770	3,789
Long-term assets (less than 1 year)		
Inventories of materials and finished products		237
Trade receivables and related		30
Prepaid expenses		19
Other receivables		1,423
Non-current assets held for sale	3,770	10,368
Amounts recorded directly to shareholder's equity relating to non-current assets held for sale		
Retirement benefit obligation and similar		
Debt with financial institutions	10,642	12,090
Provision for risk and contingency due within one year	503	2,089
Trade payables and related		151
Tax, payroll and related payable	12	258
Other liabilities		71
Liabilities related to non-current assets held for sale	11,157	14,659

Goodwill

Following the Group's decision to stop all expenses associated with the program conducted by Anceris (including the research of potential partners and the maintenance of intellectual property) the goodwill of kEUR 4,870 related to Anceris shares has been removed from non-current assets for sale.

Impairment of intangible assets

Following the discontinuation of its chemistry and research activities, the Group recognized the chemistry and molecular research patents and software licenses of the Villebon-sur-Yvette site as assets held for sale. The balance of these assets was wholly recorded as impaired.

Impairment of tangible assets

Likewise, the Group has recognized as assets held for sale the land, buildings and fixtures, and the technical equipment, furniture and office equipment of the Villebon-sur-Yvette site. Amortization of these assets continued until the activities were discontinued on June 30, 2007.

At December 31, 2008, the technical equipment, furniture and office equipment of the Villebon-sur-Yvette site were almost completely sold and the balance was wholly recorded as impaired.

At this date, the value of the property at December 31, 2007 was reconfirmed by real estate professionals at kEUR 3,770 in the case of rehabilitation of the building into an office facility.

The property and equipment of the Villebon-sur-Yvette site are maintained in non-current assets held for sale in appreciation of IFRS 5. Indeed, the Company has taken the irreversible decision to divest the assets it holds in Villebon-sur-Yvette, and has concluded a series of mandates to actively market them, at fair value and in their current destination.

Risk and contingency provisions

At December 31, 2006, Cerep performed an assessment of the possible consequences of a severance plan ("Plan de sauvegarde de l'emploi"). At June 30, 2007 the severance plan ("Plan de sauvegarde de l'emploi") was put into effect, and the Group prepared a new estimate of severance pay and compensation in lieu of notice, additional social security contributions, other forecast indemnity payments and the cost of accompanying measures that concern about 60 jobs within the Group, and recognized the corresponding provision under liabilities related to discontinued operations. At the year-end, this estimate was adjusted giving rise to a further provision kEUR 356 related to deferment of certain employee contracts.

During 2008, the Group made kEUR 653 in severance and relocation payments, kEUR 9 in payments in lieu of notice and paid vacations, and kEUR 163 in related social security costs on said payments. In addition, kEUR 281 was spent on compensation and training as accompanying measures. Following the transfer of kEUR 250 of the provision for employee retirement obligations, the provision of kEUR 2,975 at December 31, 2006 stood at kEUR 3,043 at June 30, 2007, the date operations were discontinued, at kEUR 1,976 at December 31, 2007 and kEUR 489 at December 31, 2008.

The table next page shows the breakdown of operating results of discontinued activities at December 31, 2008 and December 31, 2007.

(kEUR)	12.31.08	12.31.07
Net sales revenues	1,604	18,089
Other revenues	704	126
Total operating income	2,308	18,215
Purchase of raw materials, supplies and change in inventory of materials and products	233	1,430
Other supplies and external expenses and services	1,121	6,753
Tax and related charges	52	490
Wages	30	11,125
Payroll taxes and benefits	-	2,839
Net provision expense for pension benefit obligation	-	-24
Fixed assets depreciation and amortization	-6	701
Impairment of assets	-49	26
Other expenses	-376	175
Total net operating expenses	1,005	23,515
Other operating income and expenses	-4,870	-189
Operating result	-3,567	-5,489
Expenses related to interest-bearing debts	-496	-653
Net foreign exchange result	-	-68
Other financial expenses or revenue	-	51
Current income tax expense	-	-274
Net income from sale of sold activities	-	12,382
Net result of discontinued activities	-4,063	6,497

Breakdown of identified cash flow of discontinued activities at December 31, 2008 and December 31, 2007.

(kEUR)	Total discontinued and sold activities	
	12.31.08	12.31.07
Cash flow from operations	2,834	-5,176
Net change in working capital	-1,257	3,026
Cash flow from operating activities	1,577	-2,150
Purchase of intangible and tangible assets		-1,079
Sale and disposal of intangible and tangible assets	101	473
Change in tangible assets and financial instruments		-30
Net cash on acquisitions and disposals of subsidiaries		14,896
Cash flow from investing activities	101	14,260
Repayment on borrowings	-789	-1,177
Interests paid	-496	-634
Cash flow from financing activities	-1,285	-1,811
Cash flow from discontinued activities	393	10,299

6. FINANCIAL INSTRUMENTS

The principal financial instruments of the Group consist of financial leases contracted with financial institutions, bank loans, marketable securities and cash and cash equivalents. The objective of these financial instruments is to finance operations of the Group. The Group also holds trade receivables, trade payables, deposits and advances from customers which are generated by its activities.

The Group is also engaged in transactions integrating derivative financial instruments, principally forward currency contracts and options (put and call) on USD and interest rate swaps. These instruments aim at hedging foreign currency and interest rate risks related to the Group's activities and financing. The Group does not use derivative instruments for speculative purposes.

The principal risks associated with the Group's financial instruments are foreign exchange risk, credit risk, interest rate risk and market risk.

Foreign currency exchange risk

Pursuant to the development of the Group in the United States, the Group's balance sheet is sensitive to fluctuations of the US dollar against the euro. The Group does not hedge this structural exposure but seeks to mitigate its effects by aiming at balancing assets and liabilities, and cash flows in the functional currency.

The Group is also exposed to foreign exchange risk concerning the share of sales revenue and expenses realized in currencies other than the euro. This risk mainly concerns the US dollar, and to a lesser extent the Japanese yen with regard to revenues and expenses and related cash flow as well as items corresponding to accounts receivable, accounts payable, and cash denominated in these currencies.

The Group adopted a hedging policy for the purpose of reducing its exposure to fluctuations of the US dollar and thereby protect cash flows provided from its operations. Limited to Cerep SA, this is aimed at fixing the US dollar rate for net receivables and the total amount of net projected billings denominated in this currency. Since 2003, this strategy also applies to transactions in Japanese yen, for which the Group can set up hedging instruments for commercial operations.

Derivative financial instruments used by Cerep to meet its objective in terms of hedging include forward currency contracts and currency options on the US dollar (sale of call or purchase of put options) with maturities generally not exceeding one year. These instruments hedge assets and liabilities that exist at the end of the accounting period, as well as projected net billings denominated in US dollar. Occasionally, the Group is brought to supplement its financial instruments by either deferring forward sales or reversing positions on options by purchasing call options. The Group does not use derivative instruments for speculative purposes.

At December 31, 2008, approximately 39% of the projected billings denominated in US dollar for the period 2009 are hedged.

Global net currency position at the closing date (kEUR)	USD	JPY
Assets	4,162	171
Liabilities	778	10
Net pre-hedge position	3,384	161
Cash flow hedges	120	-22
Net post-hedge position	3,504	139

In case of a negative change of the exchange rate of 1%, the impact would be kEUR -35.

Interest rate risk

The Group's exposure to interest rate fluctuations relates to the financial long-term debt.

Funding of Group entities is centralized in the Cerep SA financial division. The financial division manages all Cerep SA and Cerep Inc. borrowing and debt, negotiates lines of credit with the financial institutions, decides on credit diversification and monitors commitments.

The Group's policy consists of managing the interest expense by primarily contracting fixed-rate debt. In order to optimize the global financial cost when funding is not contracted at fixed rate but at variable rate, the Group has put in place interest rate swaps with which it exchanges, at anticipated intervals, the difference between the amount of interest at fix rates and the amount of interest at variable rates calculated on a nominal borrowing determined at the subscription of swaps.

As a result, at December 31, 2008, 73% of the debt related to the assets of the Group's continuing activities are contracted at fixed rate. Variable rate debt is composed of a EUR 6 million loan taken out on January 22, 2007 that was swapped to a fixed rate at inception. Ninety-three percent of the debt associated with non-current assets held for sale, which is essentially the real estate finance lease on the Villebon-sur-Yvette site, was obtained at a variable rate.

These swaps were entered into immediately upon signing the related loan agreements. Concerning the amendment to the real estate finance lease which took effect in February 2007, a swap has been entered into for the same nominal amounts, and under the same terms including origination date, date of interest rate adjustment, interest payment intervals and base interest rate.

The swaps have a term of 7 years from the date of inception and will be derecognized at the end of their terms whereas the loans have a term of 15 years.

The swaps meet hedging accounting criteria for cash flow hedging instruments. Fluctuations in value of the derivative instrument are recorded in shareholders' equity.

The Group considers that in the light of its consolidated financial position at December 31, 2008, an instantaneous increase of 100 base points in interest rates (EONIA and 3-month Euribor) would have represented, before tax, a net additional interest expense on fixed- and variable-rate debt of kEUR 4, as well as an increase in revenues from investments of kEUR 34. At the same time, this 100 basis point increase would have represented net post-tax income recognized directly to shareholders' equity of kEUR 204. In total, net income after tax would have been kEUR 89 greater and shareholders' equity would have been EUR 21,786 million at December 31, 2008.

An instantaneous decrease of 100 base points in interest rates would have produced an identical reverse effect on the income statement. The income and expenses recognized directly to shareholders' equity would have been decreased by kEUR 212 after taxes. In total, net income after tax would have been kEUR 89 less and shareholders' equity would have been EUR 21,192 million at December 31, 2008.

Market risk

Cerep uses several types of financial instruments for the purpose of managing its cash and equivalents. They consist of money market mutual funds or bonds, bank deposits primarily denominated in euro and US dollar, and equities.

The Group's policy aims at limiting the risk of loss on its investments by prioritizing money market or bonds instruments selected based on historical volatility and performance in comparison to referenced index and ranking by rating agencies and by reviewing regularly securities on the market.

Liquidity risk

For the Group, liquidity risk is the possibility of not being able to pay off debts as they fall due.

Assessment of liquidity risk depends on tracking maturities of the Group's debt, changes in the level of available cash and cash flow forecasts. As of the date of these financial statements, the Group has not identified any short-term funding requirements.

It is also supported by covenants associated with the loans taken out by the Group. As of the date of these financial statements, only the EUR 6 million loan contracted on January 22, 2007 includes covenants (See 7.1 "Commitments given", page 64).

Credit risk

A counterparty risk arises from the eventual failure of one party to a contract to meet its obligations, thus incurring a loss for the other party. Cerep considers that a counterparty risk exists in regard to certain balance sheet items, in particular in the case of trade receivables, and certain off-balance sheet commitments (purchase of raw materials and construction) covered by appropriate measures.

A significant proportion of sales are achieved with a small number of customers. Service contracts of the "preclinical services" activity (in pharmacological screening, profiling, or studies) cover several months and represent a significant portion of sales revenues. Consolidated sales for 2008 with the leading commercial partners for the Group's continuing activities break down as follows:

Full year 2008	
Three most important commercial partners	33%
Five most important commercial partners	40%
Ten most important commercial partners	52%

This concentration of the credit risk with a small number of customers, and the impact of the eventual default by a third party on the Group statement of income are partially offset by the size and financial solvency of the pharmaceutical manufacturing companies which are the Company's leading partners. However, Cerep customers include a number of pharmaceutical research companies which make recurrent losses, and for which funds raised with investors represent the main funding source. The Group incurred several defaults over the past years. Non-recoverability is however limited in due of the form of the Cerep customer base with more than 460 partners, consequently restricting this exposure to some extent.

Cerep commercial practice includes a procedure for measuring the solvency of a prospective customer, and where considered necessary or according to the special nature of the service supplied, application of a down payment obligation for the customer.

At December 31, 2008 aging of financial assets that are past due but not impaired breaks down as follows: kEUR 325 is less than 30 days past due, kEUR 84 between 31 and 90 days, and kEUR 88 between 91 and 180 days. Past due financial assets are composed mainly of trade receivables.

In addition, Group financial assets include kEUR 402 in financial assets that are specifically identified as not fully collectible for which an impairment provision of kEUR 388 has been booked. These include a kEUR 191 security deposit on the previous Cerep facility at Rueil-Malmaison, which has been fully provided against. In estimating the collectible portion the Group first considers financial data enabling assessment of the debtor's solvency, VAT reimbursement if applicable, as well as possible avenues of recourse.

The Group is also dependent on the solvency of certain suppliers, some of which are of strategic importance in regard to the supply of technologies or raw materials. Cerep's purchasing procedures include the establishment and regular updating of a list of approved suppliers. The approval process, which involves the quality control department, includes supplier solvency appraisal and, where appropriate, assessment by outside credit risk rating agencies.

Cerep manages the counterparty risk relating to its financial instruments by rigorous selection of the financial institutions with which it conducts its operations, diversifying credit by type of contract and through regular monitoring of its commitments.

Fair value of the Group's financial instruments

(kEUR)	Carrying value				Fair value at 12.31.08
	Gross	Impairment	Discontinued activities	Net at 12.31.08 Continuing activités	
Financial assets held to maturity					
- Retained lessee advances	1,144			1,144	1,245
- Security deposits on real estate leases	258	191		67	67
- Other deposits and security bonds	16			16	16
- Trade receivables and related	8,189	197		7,992	7,992
- Other receivables	5,092	70		5,022	5,022
Total	14,699	458	-	14,241	14,342
Financial assets at fair value, through income statement					
- Financial assets held for transactions	19,320			19,320	19,320
- Derivative financial instruments	220			220	220
- Cash deposits	2,977			2,977	2,977
Total	22,517	-	-	22,517	22,517
Total financial assets	37,216	458	-	36,758	36,859
Financial liabilities held to maturity					
- Borrowings	4,161			4,161	4,314
- Assignment of receivables	-			-	-
- Bank overdraft	4			4	4
- Fixed rate debt with financial lease institutions	6,821		60	6,761	7,336
- Variable rate debt with financial lease institutions	10,578		10,578	-	-
- Subsidies, assistance and reimbursable advances	163			163	
- Deposits and advances	1,567			1,567	1,567
- Trade payables and related	2,905			2,905	2,905
- Tax, payroll and related payable	3,148		12	3,136	3,136
- Other liabilities	104			104	104
Total	29,451	-	10,650	18,801	19,366
Financial liabilities at fair value, through income statement					
- Derivative financial instruments	259			259	259
Total	259	-	-	259	259
Total financial liabilities	29,710	-	10,650	19,060	19,625

Change in derivative financial instruments

(kEUR)	Income and expenses recognized directly to equity	Deferred tax liabilities	Financial Result
Total 01.01.07	260	155	81
Instruments exercised during year 2007	-1	-3	437
Instruments in place and eligible at December 31, 2007			
- Realization of hedged flows		6	17
- Change in fair value	206	110	21
- Change in time value		-10	-29
Ineligible instruments in place at December 31, 2007		6	20
Total 12.31.07	465	264	466
Instruments exercised during year 2008	-111	-87	-21
Instruments in place and eligible at December 31, 2008	-	-	-
- Realization of hedged flows	-	-	-
- Change in fair value	-373	-184	5
- Change in time value	-	-7	-13
Ineligible instruments in place at December 31, 2008	-	-	-
Total 12.31.08	-19	-13	-29

At December 31, 2008, the nominal values of derivative financial instruments are as follows:

(kEUR)	Derivative financial instruments		Notes
	Fair value hedge	Cash flow hedge	
			eligible ineligible
Foreign currency instruments			
Forward sale USD	1,401	1,799	Average forward rate EUR/USD: 1.345 Due January to November 2009
Forward sale JPY	16	234	Mean forward rate EUR/JPY: 127.79 Due January to October 2009
Options :			
- Sold put EUR/call USD		2,052	1,457 Average exercise price EUR/USD: 1.268 Due April to October 2009
- Sold put EUR/call USD with knockout option up	1,017		Average exercise price EUR/USD: 1.476 Maturity March 2009
- Purchased call EUR/put USD		1,922	Average exercise price EUR/USD: 1.353 Due April to October 2009
- Purchased call EUR/put USD with knockout option up	508		Average exercise price EUR/USD: 1.476 Maturity March 2009
- Sold put EUR/call JPY		110	110 Average exercise price EUR/JPY: 136.75 Maturity Mai 2009
- Purchased call EUR/put JPY		103	Average exercise price EUR/JPY: 146 Maturity Mai 2009
Interest rate instruments			
Pay fixed/receive variable interest rate swaps		13,844	Amount Rate Maturity kEUR 3 000 4.12% April 2010 kEUR 3 751 3.08% July 2012 kEUR 6 080 3.21% July 2012 kEUR 1 012 4.38% July 2014

7. OFF-BALANCE SHEET ITEMS

7.1. COMMITMENTS GIVEN

Contractual obligations (kEUR)	12.31.07		12.31.08	Payments due by maturity			12.31.08
	Dicontinued activities	Continuing activities	Continuing activities Total	<1 year	1-5 years	>5 years	Dicontinued activities Total
Commitments related to long term debt reflected under liabilities on the balance sheet (capital + interests)							
Long term debt (capital + interests)	680	7 057	4 191	2 491	1 700		
Real-estate and equipment financial lease obligations	15 219	8 641	7 366	1 250	3 655	2 461	13 844
Other financial lease obligations	1	479	691	351	340		
Operating lease payment obligations	7	1 723	1 358	581	777		
Firm purchase commitments		647	934	934			
Net forward currency buy and sell contracts		8 868	1 910	1 910			
Other long term obligations		31	142	2	107	33	
Total	15 907	27 446	16 592	7 519	6 579	2 494	13 844

Debt secured by sureties (kEUR)	12.31.07		12.31.08	Amount of surety	Carrying value of pledged assets	Dicontinued activities
	Dicontinued activities	Continuing activities	Security debt			
Debt with financial institutions	136	5 190	3 154	1 900	1 127	
Total	136	5 190	3 154	1 900	1 127	-

Other commitments (kEUR)	12.31.07		12.31.08	Amount of commitment by maturity			12.31.08
	Dicontinued activities	Continuing activities	Total	<1 year	1-5 years	>5 years	Dicontinued activities
Letters of credit			-				
Sureties on financial leases			-				
Sureties on real-estate financial leases		1 240	1 144	101	455	588	
Repurchase obligation			-				
Other commercial commitments			-				
Total	-	1 240	1 144	101	455	588	-

In the sale of Hesperion, the Group as vendor made the declarations and provided the guarantees customary for this type of transaction.

Guarantees given to lending institutions and to real-estate financial leasing institutions consist principally of pledged monetary instruments and laboratory equipment.

Addenda to real estate financial lease contracts entered into in 2002 and 2004 are collateralized by liens on the retained lessee advances.

The guarantee scheme for the loan of EUR 6 million taken on January 22, 2007 was amended by the addendum of June 26, 2008.

The lending institution has expressly agreed to replace the sureties consisting of liens on goodwill (as defined by the French term "fonds de commerce") and on shares in Hesperion by a pledge of financial instruments account for one third of the outstanding capital. Financial minima and ratios related to covenants have also been revised. They will be evaluated on the basis of the consolidated financial statements at each year-end and will be as follows:

1. at least EUR 20 million in consolidated shareholders' equity;
 2. debt ratio: net consolidated financial debt/operating result less than 3;
 3. debt to equity ratio: net consolidated financial debt/consolidated shareholders' equity less than or equal to 1;
 4. debt service coverage ratio: free consolidated cash flow/consolidated debt service equal to or more than 1;
- If two of them are not met, early repayment of the loan could be required from Cerep.

Based on the consolidated financial statements for 2008, ratios 1, 2 and 3 are met.

7.2. COMMITMENTS RECEIVED

Contractual obligations (kEUR)	12.31.07	12.31.08 Continuing activities Total	Amount of commitment by maturity			12.31.08
	Total		<1 year	1-5 years	> 5 years	D discontinued activities Total
Unused lines of credit ¹	298	-	-	-	-	39
Letters of credit		-	-	-	-	
Forgiveness of debt recovery clauses		-	-	-	-	
Sureties received		-	-	-	-	
Repurchase obligation		-	-	-	-	
Other commercial commitments		-	-	-	-	
Total	298	-	-	-	-	39

¹ Remaining kEUR 39 available on part B addendum to the Villebon-sur-Yvette real estate financial lease contract, adjusted to kEUR 1,240.

8. OTHER INFORMATION

8.1. REMUNERATION OF GROUP MANAGEMENT

(kEUR)	12.31.08	12.31.07
Short term benefits	450	311
Post-employment benefits	-	-
Termination benefits	-	-
Share-based payments	-	-
Total remuneration paid to management	450	311

8.2. STATUTORY AUDITORS FEES

The table below shows the fees of auditors and members of their networks carried by the Group for 2008

Audit (EUR excl. tax)	Ernst & Young		Groupe Y Audit		2008	
		%		%		%
Audit, duties and certification of annual and consolidated financial statements						
. Cerep SA	83 753	100%	58 038	100%		
. Fully consolidated subsidiaries	-	-	-	-		
Other assignments and services directly related to the Statutory auditors						
. Cerep SA	-	-	-	-		
. Fully consolidated subsidiaries	-	-	-	-		
Other services (legal, fiscal, etc.)						
. Cerep SA	-	-	-	-		
. Fully consolidated subsidiaries	-	-	-	-		
Total	83 753	100%	58 038	100%		

8.3. CONTRIBUTION TO NET CONSOLIDATED RESULTS

(kEUR)	Cerep SA	Cerep, Inc.	Cerep Japan Corp.	Anceris	Total
Individual companies net results	-10 134	143	-	115	-9 876
Adjustments and intercompany eliminations					
Financial leases	535				535
Treasury share impairment	22				22
Change in provision for impairment of assets	-742				-742
Borrowing costs	-3				-3
Exchange losses	-8				-8
Deferred tax on temporary differences	11				11
Change in fair value of derivative financial instruments	-71				-71
Change in fair value of financial instruments held for transactions	2				2
Actuarial differences on benefits of retirement	-2				-2
Internal provisions	12 857				12 857
Goodwill impairment				-4 870	-4 870
Group result	2 467	143	-	-4 755	-2 145