

Operating and Financial Review and Prospects

You should read the following discussion in conjunction with our financial statements and the notes thereto included elsewhere in this Annual Report. We refer to 'Forward-looking statements' as well as to 'Risk factors' for certain factors that may affect our operating results. Unless otherwise mentioned all amounts in this section are in thousands of Euro, except share and option data.

General

We are a fully integrated biopharmaceutical company, focused on developing, producing and marketing vaccines and antibodies against infectious diseases for private and public markets worldwide. We have a portfolio of well-known vaccines and a pipeline of potential new vaccines and antibodies. We combine proprietary technologies to discover, develop and produce a variety of vaccines and antibodies to combat infectious diseases.

Summary of the full year financial results

Total revenue and other operating income for the year ended December 31, 2007 were € 213.1 million, which represents a more than 50% increase over the € 140.9 million in revenues and other operating income reported in 2006. The increase in total revenues is mainly attributable to sales of paediatric and travel vaccines. Total operating expenses amounted to € 129.8 million. R&D expenses of € 64.0 million reflect continued focus on (pre-) clinical development. Reported loss over 2007 amounted to € 45.9 million, which includes an € 18.3 million purchase price allocation accounting charge.

Cash and cash equivalents at December 31, 2007 were € 163.2 million (2006: € 157.8 million).

Acquisitions and divestments

In early 2006, Crucell acquired 98.4% of the Swiss biotech company Berna Biotech AG (Berna Biotech) in a share exchange. In September 2006, we acquired the remaining 1.6% minority interest in Berna Biotech. In October 2006 we purchased the assets and liabilities of Florida-based Berna Products Corp. ('BPC') from Acambis plc. In November 2006, we acquired Stockholm-based SBL Vaccin Holding AB ('SBL'), a fully integrated independent biotechnology company, from the private equity firm 3i and the financial group SEB.

Our 2006 financial results included one month of SBL's financial results, three months of BPC's financial results and ten months of Berna Biotech's financial results. Our 2007 results were significantly impacted by our 2006 acquisitions as the consolidated results of the acquired companies are now included for a full year for the first time.

The impact of the 2006 acquisitions on our 2007 and 2006 financial results is as follows:

in thousands of Euro

	2007	2006
Revenue	184,225	104,741
Gross margin	63,589	21,223
Other income	3,779	1,934
Total operating expenses	(65,971)	(84,767)

Segments

In 2007 Crucell established two segments, a vaccines segment and a proteins segment. The Company's segmentation is based on our internal management reporting:

- Vaccines: developing, producing and marketing vaccines worldwide to combat infectious diseases;
- Proteins: leverage Crucell's novel, proprietary technologies to develop monoclonal antibodies to combat infectious diseases.

The Company realized total revenues of € 203,786 of which 95.8% relate to the vaccines segment and 4.2% relate to the proteins segment. The proteins segment includes some trade goods sales, but mainly consists of several candidate products in the pre-clinical phase and one product in the clinical phase (rabies). It will take several years before the first of these programs will reach the market. Therefore revenues in the proteins segment are limited compared to the vaccines segment.

Research and development costs of € 63,995 of which 75.0% relate to the vaccines segment and 25.0% to the proteins segment. The operating loss of € 51,555 can be split into an operating loss segment of € 28,714 in the vaccines segment and an operating loss of € 22,841 in the proteins segment.

The establishment of a vaccines segment and a proteins segment also changed the composition of units to which goodwill had previously been allocated. The total goodwill recognized of € 44,377 is now fully allocated to the vaccines segment.

Economic and industry-wide factors

Various economic and industry-wide factors are relevant to us and could affect our business, including the factors set forth below.

Our financial strength and ability to adapt to the current market and economic conditions are dependent, in part, on the success of our existing products, the cost of bringing novel products to market, the success of our licensees in developing commercial products using our technology, and effective management of our working capital.

Our business will depend in significant part on our ability to successfully develop innovative new products. Product development, however, is highly uncertain and very expensive, requiring significant investments in research, development and manufacturing elements. Identifying product candidates to study in clinical trials requires significant investment and may take several years. In addition, the clinical trial process for product candidates is usually lengthy, expensive and subject to high rates of failure throughout the development process. As a result, a majority of the clinical trial programs for product candidates are terminated prior to applying for regulatory approval. Even if a product receives FDA or other regulatory approval, such approval could be conditioned on the need to conduct additional trials, or we could be required to or voluntarily decide to suspend marketing of a product as a result of safety or other events.

Our industry is subject to extensive government regulation, and we must make significant expenditures to comply with these regulations. Governmental requirements regulate, among other things, the development, testing, research, manufacture, safety, efficacy, record-keeping, labeling, storage, approval, quality control, adverse event reporting, advertising, promotions, sale and distribution of our products.

Our business success is dependent in significant part on our success in establishing intellectual property rights, either internally or through in-license of third-party intellectual property rights, and protecting our intellectual property rights. If we are unable to protect our intellectual property, we may not be able to compete successfully and our sales and royalty revenues and operating results would be adversely affected. Our pending patent applications may not result in the issuance of valid patents or our issued patents may not provide

competitive advantages or may be reduced in scope. Proceedings to protect our intellectual property rights are expensive, can, and have, continued over many years and could result in a significant reduction in the scope or invalidation of our patents, which could adversely affect our operating results.

2007 was a weaker flu season in our major markets in Europe compared to 2006, which adversely impacted sales for our respiratory vaccines.

Our sales are exposed to seasonal variations, and the majority of our sales are made in the second half of the year. This is specifically the case for our influenza vaccines as vaccination programs mainly take place in the second half of the year. Furthermore, our travel vaccines sales are subject to seasonal travel patterns.

To be successful, we must retain qualified clinical, scientific, marketing, administrative and management personnel. We face significant competition for experienced personnel. The number of employees increased by 53 employees from 1,073 employees at December 31, 2006 to 1,126 employees at December 31, 2007.

Critical accounting policies and estimates

The methods, estimates and judgments we use in applying our most critical accounting policies have a significant impact on the results we report in our financial statements. Our most critical policies and the methods, estimates and judgments used are disclosed below.

Revenue recognition

In general, revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the amount of revenue and the cost (to be) incurred in the transaction can be measured reliably. Revenue is measured at the fair value of the consideration received excluding discounts, rebates, value added taxes and duties.

Revenues are recognized on a gross basis when the Company acts as the principal in an arrangement. Revenues are recognized on a net basis when the Company acts as agent.

Goods or services traded for items of a similar nature are not regarded as transactions that generate revenue. Goods or services traded for dissimilar items are regarded as transactions that generate revenue.

Product sales

Revenue from product sales is recognized when:

- The significant risk and rewards of ownership of the products have passed to the buyer,
- The Company does not retain either managerial involvement to the degree usually associated with ownership or effective control over the goods sold,
- The amount of revenue and the cost (to be) incurred in the transaction can be measured reliably; and
- It is probable that the economic benefits associated with the transaction will flow to the entity.

Discounts, rebates and returns

At the time sales revenue is recognized, we also record estimates for revenue deductions, including discounts, rebates and product returns. We report net sales after deducting all sales deductions from gross sales revenue. The following table identifies the items that reduced our gross product revenue as at the end of the periods ended December 31, 2007, 2006 and 2005.

In thousands of Euro

	2007	2006	2005
Product sales, gross	179,395	105,059	—
Discounts and rebates	626	291	—
Returns	1,200	850	—
Total discounts, rebates and returns	1,826	1,141	—
Product sales, net	177,569	103,918	—

Prior to January 1, 2006, the Company did not have any discounts, rebates and/or returns because it was not engaged in product sales prior to the 2006 business acquisitions.

Discounts and rebates

Discounts include prompt payment discounts and charge backs. In 2007, our discounts and rebates amounted to € 626.

We generally offer our U.S. wholesalers a prompt-pay cash discount as an incentive to remit payment in full within one month after the date of an invoice. Prompt-pay discount calculations are based on the gross amount of each invoice. We account for these discounts by reducing product sales by the estimated discount amount when the product is sold.

Wholesaler chargebacks, customary in our industry, are arrangements that relate to contractual agreements to sell products to Group Purchasing Organizations (GPOs) in the U.S. at fixed prices that are lower than the list prices we charge wholesalers. When the GPOs purchase our products through wholesalers at these reduced prices, the wholesaler charges us for the difference between the price the wholesaler paid to us and the price at which they sold the products to the GPO. Accruals for wholesaler charge backs closely approximate actual results because charge back amounts are fixed at the date of purchase by the GPOs. As the charge backs are settled within a short time of incurring the liability the outstanding accruals are relatively low.

We offer rebates primarily in connection with attainment of sales targets by wholesalers and large retailers in contractually agreed percentages. The rebates are accrued as the underlying sales transactions are recognized and are based on reasonable estimates on the attainment of the sales targets. These rebates have primarily been granted to customers in Switzerland and the U.S.

Returns

Returns that reduce our gross product revenue may arise from the following:

- Customers return of products defective upon delivery,
- Specific right of return in accordance with contractual terms and
- Returns via the normal distribution channels if the product is in good condition, pursuant to local law in certain jurisdictions.

In 2007, returns amounted to € 1,200 (2006: € 850) or approximately 0.7% (2006: 0.8%) of our product sales.

If we sell products that include a specific right to return, either pursuant to the sales contract or local law, revenue from that sale is recognized at time of sale only if all of the following conditions are met, in addition to the general revenue recognition terms described above:

- The customer is obligated to pay us and that obligation is not contingent on resale of the product.
- The customer's obligation to pay us would not be changed in the event of theft or physical destruction or damage of the product.
- The customer acquiring the product for resale has economic substance apart from that provided by us, e.g. the customer sells other products besides the products we deliver to it.
- We do not have significant future performance obligations to directly ensure resale of the product by the buyer.
- The amount of future returns can be reasonably estimated.

Revenue and cost of sales that are not recognized at time of the sale because the foregoing conditions were not met are recognized on the earlier of either the substantial expiration of the customer's right to return the product or the subsequent satisfaction of those conditions.

Basis for estimates

Discounts and rebates

We base our estimates for discounts and rebates primarily on historical experience and contractual agreements, supplemented by Management's judgment. In 2007, our estimates for rebates based on historical experience did not differ materially from actual results. With respect to discounts, we have

limited uncertainties in determining our estimates, because these deductions generally occur within a short time frame of incurring the liability.

For calculating our rebates estimates we make use of quantifiable contractual rebates data. In general our rebates are based on fixed rebate percentages on product sales by customers that have been granted rebates.

Returns

We base our estimates of product returns on the percentage of returns that we have experienced historically. We may adjust these return estimates if we are aware of other factors that we believe could meaningfully impact our expected return percentages. For example, in respect of our influenza vaccine, we specifically take into account the development of the flu season, in particular, the number and impact of outbreaks. While we do not have a formula that estimates the impact of the number and impact of outbreaks on the level of the accrual for returned vaccines, an increased number of outbreaks will result in a lower accrual for returned influenza vaccines, because it becomes more unlikely that vaccines will be returned. Alternatively, a lower number of outbreaks can result in a higher accrual, because it becomes more likely that influenza vaccines will be returned unused at the end of a mild flu season.

In addition, in our estimates of returns, we take into account other information, such as media coverage of vaccination programs, estimates of inventory levels of our product in the distribution channel, vaccine shelf life and known sales and market trends. These are reflected in the accruals by means of management's judgment.

- Increased media coverage of vaccination programs, either by advertising campaigns or coverage of flu outbreaks, results in an increased public awareness. Consequently, this may lead to an increased number of flu vaccinations and fewer unsold doses with our customers, which limits the level of accruals for product returns.
- Relatively high levels of inventory of our product in the distribution channel and short shelf life of product sold can be indicators for an increased level of returns.
- Sales and market trends are taken into account by reference to the product life cycle phase of products. If product sales show a decreasing revenue pattern over time, this can be an indicator for an increased level of returns.

We do not rely on quantitative externally sourced information in our calculation of returns estimates. We are not aware of any external quantitative information or other quantifiable data available that would provide us the benefit of a more reliable estimate.

The rate of product returns is quantifiable data. We monitor returns primarily on a per country basis based on the country from which the product was sold because our accruals are determined at this level. Within the individual countries, we monitor the returns on a product-by-product basis.

In 2007 our estimates for returns did not differ materially from actual results.

The following table shows the percentage of products returned as a percentage of the gross product sales per country during 2007 based on the country from which the products were originally sold.

Country	Returns 2007	Returns 2006
Spain	2.5%	1.7%
Italy	1.4%	0.1%
Switzerland	0.1%	0.7%
U.S.	1.9%	0.9%
Sweden	0.1%	0.2%
Korea	0.0%	0.0%
Netherlands	0.0%	N/A

Roll-forward information

The table below shows the roll-forward information of our discounts, rebates, and product returns:

In thousands of Euro

	Accrual for discounts and rebates	Accrual for returns	Total
January 1, 2007	(257)	(824)	(1,081)
Additions – current period	(776)	(1,235)	(2,011)
Actual returns/ credits – current period	678	707	1,385
Actual returns/ credits – prior period	—	184	184
Release of accruals – current period	150	—	150
Release of accruals – prior period	—	35	35
Effect of movements in exchange rates	15	16	31
December 31, 2007	(190)	(1,117)	(1,307)

License revenues

We recognize initial fees to the licensing of our technology as revenues over the period of our significant continuing performance obligations, if any, and upon transfer of the significant risks and rewards to the buyer. More detailed information on the accounting policies for license revenues is provided in note 2.1 'Revenue recognition' in the financial statements.

Service fees

As part of various collaboration agreements, the Company receives service fees for work performed under such agreements. Revenues and related costs associated with completing performance services are recognized when the service is completed and the collectibility of the receivable is deemed probable. Revenues associated with time and material performance contracts are recognized when the costs incurred and the costs to complete the transaction can be measured reliably.

Utilization of tax carry forward losses

Income tax

We are required to estimate our income taxes in jurisdictions in which we operate. This involves estimating our actual current tax exposure together with assessing the valuation for carry forward losses and temporary differences resulting from different treatment for tax purposes compared to IFRS. These temporary differences mainly relate to intangible fixed assets, property, plant and equipment and inventories.

As at December 31, 2007 we had tax carry forward losses for € 254,511 (2006: € 222,338, 2005: € 103,714) that are available, with certain restrictions in time, for offset against future taxable profits of the companies in which the losses arose. We assessed the likelihood that our carry forward losses will be recovered from future taxable profit, and to the extent we believe that recovery is probable we recognized a deferred tax asset, which at December 31, 2007 is € 678 (2006: € 749). To the extent the likelihood of a recovery of deferred tax assets changes, we include an expense or a gain within the tax charge in our income statement for the relevant period.

In the Netherlands anti-abuse laws may limit our ability to realize certain tax carry forward losses for an amount up to € 26,170.

Significant management judgment is required in the valuation of our deferred tax assets. We consider future taxable profit projections, historical results and ongoing tax planning strategies in assessing the recoverability of deferred tax assets. In the event that actual results differ from these estimates due to future changes in income tax law or results from final review of our tax returns by tax authorities, we may need to adjust the valuation of our deferred tax assets, which could materially impact our financial position and results of operations.

Accounting for business combinations

Business combinations are accounted for using the purchase method. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities, but excluding future restructuring) of the acquired business at fair value. Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Company's interest in the

net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less accumulated impairment losses.

Goodwill includes intangible assets that were identified in a business combination, but not valued separately because the assets were either not separable or could not be measured reliably. Assets identified and included as part of goodwill can be specific customer relationships, supply contracts not meeting the recognition requirements or the workforce acquired.

Assigning fair values to the assets and liabilities acquired in a business combination inherently requires the use of estimates. Under IFRS 3 Business Combinations, these fair values can be adjusted up to one year after the acquisition date, which can affect the amount recognized as goodwill. In 2007 the Company adjusted the following provisional values:

- The Company adjusted the provisional values as determined for BPC for certain deferred tax liabilities that related to the customer lists acquired, resulting in a € 1,277 increase of goodwill compared to the amount previously reported at 31 December 2006.
- The Company adjusted the provisional values as determined for SBL for certain deferred tax assets that related to property, plant and equipment, resulting in a € 580 decrease of goodwill compared to the amount previously reported at 31 December 2006.

Impairment reviews of property, plant and equipment, intangible assets and goodwill

For property, plant and equipment and intangible assets, Crucell assesses at each reporting date whether there is an indication that an asset may be impaired. If there is an indication of impairment, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In the year ended December 31, 2006, an impairment loss of € 19,568 was recognized for two buildings, including installed equipment, that were acquired in the business combination with Berna Biotech. Both buildings are located in Switzerland. Berna

performed contract manufacturing and conducted a candidate vaccine development program in those buildings. The development of the candidate vaccine and the contract manufacturing were phased out during 2006. The buildings are specially configured for biotechnology purposes and it is impracticable to separate the equipment from the buildings. Since there was no direct use for these buildings for any of the Company's other activities, no market for the sale of the buildings to third parties and no expectation that these buildings could be utilized in the foreseeable future, an impairment was recorded for the total carrying amount of € 19,568 as at December 31, 2006.

On March 3, 2008 the Company announced that it had entered into an exclusive agreement with Wyeth Pharmaceuticals. The Company will develop and manufacture certain components of a vaccine for use by Wyeth in clinical studies. The contract manufacturing will take place in one of the two buildings that was impaired in 2006. This is an indication that the impairment loss recognised in 2006 no longer exists or may have decreased. The Group will estimate the recoverable amount, if any, of that asset as of the first subsequent reporting date after entry into the contract and will reverse the previous impairment loss, to the extent of any such recoverable amount. The agreement with Wyeth is a subsequent event that arose after balance sheet date and consequently has no impact on the 2007 financial statements. Instead, this reversal will be included in our financial statements as of and for the year ended December 31, 2008.

The intangible assets were impaired for the in-process R&D of the Tetra vaccine. In February 2006 Crucell acquired Berna Biotech, including rights to the Tetra vaccine. Management decided to stop the development of Tetra after Quinvaxem received approval by the WHO. Consequently the carrying value of Tetra was impaired for the total amount of € 10,848 in 2006.

Goodwill is reviewed annually for impairment or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Where the recoverable amount of the cash-generating unit is less than the carrying amount of the cash-generating unit to which goodwill has been allocated an impairment loss is recognized.

In 2007 Crucell established two segments, a vaccines segment and a proteins segment, which affected

the reporting structure of the Company. This also changed the composition of units to which goodwill had previously been allocated. Management exercised significant judgment in determining the segments and the subsequent reallocation of the goodwill. Normally a reallocation is performed using a relative value approach, unless some other method better reflects the goodwill associated with the reporting units. Management demonstrated that an alternative allocation better reflected the goodwill and accordingly, the Company allocated all goodwill to the vaccines segment and no goodwill to the proteins segment based on the following considerations:

- The vast majority of the acquired entities is part of the vaccines segment.
- During the purchase price allocation process in 2006, goodwill recognized was mostly attributed to the acquired workforce, the vast majority of which still operates in the vaccines segment.

Valuation of defined benefit plans

Under defined benefit plans, the pension entitlements are calculated using the projected unit credit actuarial method. The pension liability recognized in the balance sheet is the present value of the defined benefit obligation at the balance sheet date, less the fair value of the plan assets after adding or subtracting unrecognized actuarial gains or losses and past-service costs.

The defined benefit obligation is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value and any unrecognized past service costs and the fair value of any plan assets are deducted.

The weighted average of the principal assumptions used in determining the employee benefit obligations for the defined benefit plans of the Company are shown below:

	2007	2006
Discount rate	3.40%	3.32%
Expected return on plan assets	4.53%	4.55%
Future salary increases	1.22%	1.19%
Future pension increases	0.78%	0.66%

Prior to the acquisition of Berna Biotech and SBL the Company did not operate any defined benefit plans.

Share based payments

Option plans

Employees (including senior executives) of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The Company accounts for its employee stock options under the fair value method. The fair value of options was estimated at the date of grant using the Black-Scholes option-pricing model.

The following weighted average assumptions were used in determining the fair value of the stock options.

Year ended December 31	2007	2006	2005
Risk free interest rate	4.1%	3.6%	4.1%
Expected dividend yield	—	—	—
Expected volatility	33.3%	41.8%	52.8%
Expected life (years)	4.25	4.25	4.31

Market based performance conditions

Our long-term incentive plan includes specific market-based conditions that are estimated at the time of the grant. IFRS 2 does not allow updates to the original estimate for market-based conditions during the vesting period. Significant estimates of market based conditions in our long-term incentive plan include the absolute share price growth on the stock markets and our Total Shareholder Return ('TSR'). TSR reflects the return received by a shareholder, taking into account both the change in share price and dividends received, while assuming dividends are re-invested in us. The absolute share price growth serves as a hurdle which must be overcome to qualify for any possible vesting of the shares. After the share price hurdle is met, the TSR performance measurement is twofold: relative to a peer group of the Goldman Sachs European Biotech Index and relative to the Nasdaq Biotech Index. The conditionally awarded shares vest subject to the Company's ranking within the aforementioned indexes.

Recognition of provisions for litigations and claims

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The Company is subjected to (potential) lawsuits and other legal proceedings, resulting from the ordinary course of business. The current status of any pending proceedings has been reviewed with a legal counsel. Upon consideration of known relevant facts and circumstances, provisions were recognized for losses that are considered to be more likely than not and that can be reasonably estimated as of the balance sheet date.

The Company uses significant judgment in determining the provision for litigations and exposure to contingent liabilities related to pending litigation or other outstanding claims. Judgment is used in assessing the likelihood that a pending claim will succeed or a liability will arise and to quantify the possible range of the final settlement.

Valuation of inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventories includes expenditures for materials acquired, directly attributable costs and related production overhead expenses. Allowances are made for obsolete inventory. Management exercises judgment in determining the allowance for obsolete inventory. Inventories are usually written down to net realizable value item by item. In some circumstances, however, it may be appropriate to group similar or related items. In these cases, the Company considers numerous items, which include test results by quality testing, review by local supply chain, historic scrapping and rejection percentages per product and the current product portfolio. The allowance recognized in 2007 is € 6,428 (2006: € 4,722).

Results of operations

Revenues

The table below shows our revenues for each of the years in the three-year period ended December 31, 2007 and the percentage change between these periods.

In thousands of Euro

	Year ended December 31,			% -Change	
	2007	2006	2005	07 vs. 06	06 vs. 05
Product sales	177,569	103,918	—	70.9	—
License revenues	12,211	16,955	20,848	(28.0)	(18.7)
Service fees	14,006	10,694	11,881	31.0	(10.0)
Total revenues	203,786	131,567	32,729	54.9	302.0

Total revenues grew € 72,219 in 2007 or 54.9 % from € 131,567 in 2006 to € 203,786 in 2007. The increase is primarily attributable to increases in sales of paediatric vaccines by € 41.4 million or 115.3 % and travel vaccines by € 24.2 million or 104.9% and higher revenues related to the acquisitions made in the second half of 2006.

In 2006, total revenues increased to € 131,567 from € 32,729 in 2005, an increase of 302%. The increase in total revenues was mainly attributable to product sales after the acquisition of our product portfolio as a result of our acquisitions of Berna Biotech in February 2006 and SBL in November 2006.

Reference is made to note 4.4 'Geographical segments' in the Financial Statements for the breakdown of our revenues by geographic segment.

Product sales

Our product sales by type of product in 2007 and 2006, as well as the percentage change between the periods are shown below:

In thousands of Euro

	Year ended December 31,			% -Change	
	2007	2006	2005	07 vs. 06	06 vs. 05
Paediatric vaccines	77,371	35,933	—	115.3	—
Respiratory vaccines	33,188	40,386	—	(17.8)	—
Travel vaccines	47,282	23,072	—	104.9	—
Other vaccines	15,703	3,933	—	299.3	—
Proteins	4,025	594	—	577.6	—
	177,569	103,918	—	70.9	—

In 2007, product sales grew by € 73,651 or 70.9%. The growth in revenue from product sales was mainly due to increased revenue from sales of paediatric vaccines of € 41,438 or 115.3%; travel vaccines of € 24,210 or 104.9% and sales of other vaccines of € 11,770 or 299.3%. The increase in product sales is partly offset by a decrease in respiratory vaccines by € 7,198, mainly caused by lower influenza vaccine sales as a result of a mild flu-season.

In 2007, sales to our two largest customers, which are in the paediatric vaccines area, amounted to € 45,480 or 25.6% and € 23,457 or 13.2% of net product sales. In 2006, sales to these customers accounted for € 14,262 or 13.7% and € 10,399 or 10.0% of net product sales, respectively.

Our core product portfolio contains of six vaccines, Quinvaxem, Hepavax-Gene (paediatric vaccines), Inflflexal V (Respiratory), Dukoral, Epaxal and Vivotif (travel vaccines). The aggregated revenues for our core product portfolio amounted to € 149,297 in 2007 compared to € 91,664 in 2006 and represented 84.1% (2006: 88.2%) of our total product sales.

Other vaccines contain the sales of legacy-SBL vaccine trade goods. Our results in 2006 only included one month of revenue derived from these legacy-SBL vaccine trade goods. Other vaccines also include the sales of conjugates to Wyeth under our contract manufacturing arrangements.

The increase in revenue from sale of proteins relates to sales of Prolastin that we began in 2007 under our distribution agreement with Talecris and also relates to sales of legacy-SBL protein trade goods. Our results in 2006 only included one month of revenue derived from these legacy-SBL protein trade goods.

License revenues

In 2007, our license revenues decreased to € 12,211, a reduction of € 4,744 or 28% compared to 2006. Recognized license issuance fees decreased in 2007 by € 10.5 million compared to 2006 because the issuance fees included in contracts with DSM and sanofi pasteur in 2006 were not duplicated in 2007. The underlying agreements with DSM and sanofi pasteur are still in effect. The decrease is partly offset by recognized issuance fees on contracts signed in 2007 with MedImmune, ADImmune and Wyeth that total € 4.3 million and numerous smaller contracts.

In December 2007, we signed an exclusive collaboration and commercialization agreement with sanofi pasteur related to our rabies monoclonal antibodies. We received a payment of € 10.0 million, which will be recognized as license revenues over the period that the development activities are performed. We will be eligible for additional potential milestone payments of up to € 66.5 million. No license revenue on this collaboration agreement was recognized in 2007.

In 2006 license revenues decreased by € 3,893 to a total of € 16,955 compared to 2005. The decrease is mainly caused by developments under the following contracts. Total license revenues generated on IAVI (International AIDS Vaccine Initiative) contracts decreased by € 2.6 million; license revenues on DSM contracts decreased by € 1.4 million; license revenues on sanofi contracts decreased by € 1 million. This reduction was partially offset by several contracts with other parties such as Merck and Ferring.

Service fees

In 2007 service fees amount to € 14,006, an increase of € 3,312 or 31.0% compared to 2006. This increase was mainly attributable to consulting services provided to ADImmune and increased service fees in Sweden realized on miscellaneous projects.

In 2006 service fees amounted to € 10,694, a decrease of € 1,187 or 10% compared to 2005. This decrease was mainly due to lower service fees generated on contracts related to the National Institute of Allergy and Infectious Diseases (NIAID).

Cost of goods sold

The following table shows our cost of goods sold for each of the years in the three-year period ended December 31, 2007 and the percentage change between these periods.

In thousands of Euros

	Year ended December 31,			% -Change	
	2007	2006	2005	07 vs. 06	06 vs. 05
Cost of product sales	124,557	83,518	—	49.1	—
Cost of service fees	10,327	6,971	7,156	48.1	(2.6)
Total cost of goods sold	134,884	90,489	7,156	49.1	1164.5

Cost of product sales

Costs of product sales comprise direct labour, materials, and overhead costs incurred in performing work under various collaboration agreements directly related to product sales. The cost of product sales increased mainly due to the increase in product sales of 70.9%. This increase was partly offset by the reduction in purchase price allocation charges in 2007. The 2007 cost of product sales include additional expenses of € 10,191 (2006: € 16,186) relating to the purchase price allocations of the acquired businesses. The gross margin on product sales amounts to 29.8% (2006: 19.6%). The percentage increase in gross margin is mainly due to the reduction in purchase price allocation charges in 2007.

Cost of service fees

Cost of service fees comprise direct labour, materials and overhead costs related to work under various collaboration agreements, excluding collaboration agreements related to product sales.

In 2007 the cost of service fees increased by € 3,356 or 48.1% compared to 2006, which is primarily attributable to the increase of the service fee revenues by 31.0%. The gross margin on service fees was 26.3% in 2007 compared to 34.8% in 2006.

In 2006 the cost of service fees decreased by € 185 or 2.6% compared to 2005. The decrease reflects the lower level of services fee revenues, which reduced our expenses. The gross margin on service fees was 34.8% in 2006 compared to 39.8% in 2005.

Other operating income

The following table shows our other operating income for each of the years in the three-year period ended December 31, 2007 and the percentage change between these periods.

In thousands of Euro

	Year ended December 31,			% -Change	
	2007	2006	2005	07 vs. 06	06 vs. 05
Government grants	7,086	6,901	4,137	2.7	66.8
Other income	2,244	2,455	703	(8.6)	249.2
Total other operating income	9,330	9,356	4,840	(0.3)	93.3

Government grants

In 2007, government grants are stable compared to 2006. The most significant grants in 2007 were received from NIAID for further research on HIV and from SenterNovem, an agency of the Dutch ministry of economic affairs, for numerous research projects.

Revenues generated from government grants increased 66.8% in 2006 to € 6,901 after increasing by 20.2% in 2005. The increase in 2006 was primarily the result of additional subsidies from NIAID for further research on HIV.

Other income

Other income results from non-core business transactions and mainly consists of the sale of tangible and intangible assets incidental to the business, and reimbursement of development costs.

The amount in 2007 is stable compared to 2006. The increase in 2006 compared to 2005 is due to the other income generated in the acquired subsidiaries.

Other operating expenses

The following table shows our other operating expenses for each of the years in the three-year period ended December 31, 2007 and the percentage change between these periods.

In thousands of Euro

	Year ended December 31,			% -Change	
	2007	2006	2005	07 vs. 06	06 vs. 05
Research and development	63,995	67,606	34,048	(5.3)	98.6
Selling, general and administrative	65,621	47,199	13,689	39.0	244.8
Restructuring	—	3,120	—	—	—
Impairment	171	30,416	—	(99.4)	—
Total other operating expenses	129,787	148,341	47,737	(12.5)	210.7

Research and development expenses

Research and development expenses consist of personnel expenses, laboratory expenses, technology purchases, patent related fees, technology license fees, depreciation and amortization of tangible and intangible assets related to research and development, and lease expenses for lab space and equipment lease. Research and development expenses also include fees we pay to third parties who conduct research on our behalf.

Research and development expenses decreased in 2007 by € 3,611 or 5.3% compared to 2006, which is primarily attributable to the effect of the restructuring program that took place in 2006 to centralize research and development activity in Leiden and phasing out work on a vaccine candidate and on programs at the Center of Mammalian Cell Culture.

Research and development expenses increased in 2006 by € 33,558 or 98.6% compared to 2005. € 27,339 of this increase can be attributed to the research and development programs of businesses we acquired during 2006. The remaining increase of € 6,219 is the result of the increased number of development programs progressing into the clinical phase.

Research and development expenses comprised 49.3% of total other operating expenses in 2007 (2006: 45.6%). We expect that research and development expenses will continue to be a significant portion of our overall expenses. The expenses of our R&D activities support the development of our technology platforms and research on potential new products.

Selling, general and administrative expenses

Selling, general and administrative expenses consist of personnel expenses and other operating expenses in marketing and sales, finance, human resources, investor relations, legal and general management.

These expenses increased in 2007 by € 18,422 or 39.0% compared to 2006. This increase is primarily due to increased costs related to the sales force and other selling costs of the companies acquired in 2006. General and administrative expenses also include additional costs relating to compliance with the internal control over financial reporting requirements under U.S. law.

Selling, general and administrative expenses amounted to € 47,199 in 2006, compared to € 13,689 in 2005. Selling costs increased as a result of the cost base of the companies acquired in 2006. General and administrative expenses also included integration costs of the 2006 acquisitions and additional costs relating to compliance with the internal control over financial reporting requirements under U.S. law.

Restructuring

There were no restructuring expenses in 2007.

The restructuring expense in 2006 is related to centralizing R&D functions in Leiden and phasing out R&D projects in Switzerland, including Aerugen, a candidate vaccine, and the Center of Mammalian Cell Culture. The decision to concentrate R&D in Leiden was made to increase efficiency in R&D spending. The provision was recognized in 2006 as recognition criteria were met at that time. The actual reduction in the number of staff employed was effected in the first quarter of 2007.

Impairment

In 2007 the Company recognized an impairment charge of € 171 for a warehouse in Korea that was demolished to make way for the construction of a light railway. See 'Risk factors – We rely on our manufacturing facilities in Korea to produce all of our supplies of Quinvaxem, and any events or disputes concerning that facility that interrupt, reduce or terminate production there may harm our business'.

In 2006 the Company recognized a total impairment of € 30,416. The impairment relates to two buildings in Switzerland including installed equipment, for an amount of € 19,568 and to acquired in-process research and development related to the Tetra vaccine for an amount of € 10,848. See – 'Critical accounting policies – Impairment reviews of property, plant and equipment, intangible assets and goodwill' above for more details.

Operating loss

The following table shows our operating loss, net for each of the years in the three-year period ended December 31, 2007 and the percentage change between these periods.

	Year ended December 31,			% -Change	
	2007	2006	2005	07 vs. 06	06 vs. 05
Operating loss	(51,555)	(97,907)	(17,324)	(47.3)	(465.2)

The movements in operating loss are explained by the operating results discussed above.

Financial income and expense, net

The following table shows our financial income and expenses, net for each of the years in the three-year period ended December 31, 2007 and the percentage change between these periods.

	Year ended December 31,			% -Change	
	2007	2006	2005	07 vs. 06	06 vs. 05
Financial income	13,190	13,453	2,332	(2.0)	476.9
Financial expenses	(11,812)	(11,706)	(131)	0.9	8835.9
Results investments non-consolidated companies	(996)	(1,956)	(455)	(49.1)	329.9
Gain on disposal of non-consolidated companies	(2,186)	—	—	—	—
Total Financial income/(expense), net	(1,804)	(209)	1,746	763.2	(112.0)

Financial income

Financial income mainly consists of interest income and currency gains.

In 2007 financial income decreased by € 263 or 2.0%. The decrease is primarily attributable to lower foreign exchange gains of € 2.0 million as the foreign currencies in which we traded lost value compared to the Euro. The decrease was largely offset by increased interest income of € 1.8 million resulting primarily from higher interest rates.

In 2006 financial income increased by € 11,121 or 476.9% primarily due to an increase in the foreign exchange gains and an increase in interest income. Total currency gains amounted to € 9.5 million in 2006. Prior to 2006 the Company had limited transactions denominated in foreign currencies. In 2006 interest income totalled € 3,718, an increase of € 1,753 compared to 2005. This was primarily due to higher cash balances resulting from proceeds from share issuances and cash acquired in business combinations.

The 2005 financial income consisted primarily of interest income primarily due to higher cash balance resulting from the private share placement in May 2005.

Financial expense

Financial expense consists mainly of interest expenses, currency losses and other financial expenses.

In 2007 our financial expenses increased by € 106 or 0.9%. Negative currency results decreased by € 0.8 million due to the first full year effect of our 2006 acquisitions, which was partly offset by currency losses as foreign currencies in which we traded overall lost value compared to the Euro. In 2007 interest expenses increased by € 0.5 million as a result from additional charges relating to leasing and the full year effect of our 2006 acquisitions. In addition other financial expenses increased by € 0.4 million, which is primarily due to factoring arrangements engaged in during 2007.

In 2006 interest expense increased by € 1,737 compared to 2005. The increase is due to the mortgage loan in the Netherlands, which is being used to finance the new production facility, and the loan obligations of the companies acquired in 2006. Total foreign currency expenses amounted to € 9.6 million in 2006.

Results of investments in associates and joint ventures

At December 31, 2007, we had two associates, Kenta Biotech AG and ADImmune Corp and one joint venture, Percivia. In 2007, we sold our investment in Pevion Biotech AG. The results of these companies are accounted for under the equity method and amount to a total loss of € 996 (2006: € 1,956). The decrease compared to previous year is mainly due to the reduced losses in Pevion Biotech AG and Kenta Biotech AG

by € 730 and an increase in the result of Percivia by € 230. For further details we refer to note 5.9 'Investments in associates and joint venture' in the Financial Statements.

The loss in 2005 of € 455 reflected the result of the investment in Galapagos B.V. until it was designated as an available-for-sale-investment. In May 2005, our holding in Galapagos decreased to 11.7% of its share capital. Since then, the investment has been treated as an available-for-sale-investment.

Gain on disposal of non-consolidated companies

On November 5, 2007 the Company sold all of the 2.9 million shares it owned in Pevion Biotech AG, Switzerland for an amount of € 6,081 to other shareholders of Pevion Biotech. The Company realized a gain of € 2,186 on the sale.

Income tax

Change in deferred taxes

Deferred income tax is provided by using the asset and liability method on temporary differences between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Changes in the underlying timing differences in 2007 resulted in a taxation income of € 3,856 (2006: € 11,022).

Tax loss carry forwards

We have tax carry forward losses of € 254,511 (2006: € 222,238; 2005: € 103,714) that are available, with certain restrictions in time, for offset against future taxable profits of the companies in which the losses arose. In the Netherlands anti abuse laws are applicable that may limit the ability to set off tax losses against future profits when the beneficial ownership of a company changes. This law may limit our ability to realize certain tax carry forward losses for an amount up to € 26,170.

The unrecognized carry forward losses expire as follows:

2009	2010	2011	After 2011	Unlimited	Total
€3,062	€4,086	€81,744	€163,198	€2,421	€254,511

We evaluated evidence impacting the recoverability of these deferred tax assets, which consist principally of tax loss carry forwards. We recognized a deferred tax asset of € 678 for the carry forward losses of SBL.

Liquidity and capital resources

Liquidity

We have a strong cash position, which we believe makes it possible to continue financing important development programs. We believe that the Company's working capital is sufficient for the Company's present requirements. Our cash and cash equivalents amounted to € 163,248 and € 157,837 as of December 31, 2007 and 2006, respectively.

Cash flows

The following table shows our cash flow statement for each of the years in the three-year period ended December 31, 2007 and the percentage changes between these periods.

In thousands of Euro	Year ended December 31			% Change	
	2007	2006	2005	07 vs. 06	06 vs. 05
Loss of the period	(45,947)	(87,565)	(15,578)	(47.5)	462.1
Adjustments for non-cash items	47,630	58,872	9,616	(19.1)	512.2
Changes in net working capital	24,208	(23,174)	(8,915)	(204.5)	159.9
Interest and taxes paid	(3,697)	(2,087)	(132)	77.1	1,481.1
Net cash flows from/ (used in) operating activities	22,194	(53,954)	(15,009)	(141.1)	259.5
Net cash flows from/(used in) investing activities	(24,241)	23,159	(15,273)	(204.7)	(251.6)
Net cash flows from financing activities	11,244	78,731	65,305	(85.7)	20.6
Effect of exchange rates on cash and cash equivalent	(3,786)	(1,833)	—	106.5	—
Net increase/(decrease) in cash and cash equivalents	5,411	46,103	35,023	(88.3)	31.6
Cash and cash equivalents at beginning of the period	157,737	111,734	76,711	41.2	45.7
Cash and cash equivalents at end of the period	163,248	157,837	111,734	3.4	41.3

Net cash flows from/(used in) operating activities

In 2007 our net cash flow from operating activities increased by € 76,148 or 141.1%. The increase resulted from a reduction of our net loss by € 41.6 million and a reduction of our working capital by € 47.3 million. The increase is partly offset by a decrease in the adjustments for non-cash items by € 11.2 million.

In 2007 the most significant adjustments for non-cash items were:

- one-off restructuring and impairment charges in 2006 for € 30.4 million that related to two Swiss buildings and equipment for € 19.6 million and the Tetra vaccine for € 10.9 million,
- the reduction of the fair value write-downs on inventory by € 2.8 million, as inventory levels with a step-up to fair value as a result from the business acquisitions were already reduced significantly in 2006 and
- the non-cash adjustment for the accounting gain on the sale of Pevion for € 2.2 million in 2007.

The decrease was partly offset by:

- an increase in non-current deferred revenue of € 7.5 million, which is the non-current portion of the € 10 million payment by sanofi pasteur for the development of rabies monoclonal antibodies,
- an increase in non-current deferred revenue of € 4.0 million related to the non-current portion of the ADImmune technology license,
- a reduction of the non-cash tax gains by € 7.5 million compared to 2006, which included the tax impact on the write-down of the buildings in Switzerland and a reduction of the nominal tax rate in Korea and
- increased amortization expenses of € 4.3 million as 2007 is the first year in which the intangible assets that were acquired during 2006 were amortized for a full year.

In 2007, the positive cash flow relating to changes in the net-working capital for € 24.2 million mainly resulted from the increase in the accounts payable by € 16.3 million, the reduction in accounts receivable by € 8.6 million and the increase in other current liabilities by € 8.2 million. The increase is partly offset as a result of inventory increases for € 6.1 million and the increase in short-term provisions for € 2.2 million.

The net cash flows used in operating activities increased in 2006 by € 38,945 or 259.5% compared to 2005. This is mainly due to increase of the operations resulting from the business acquisitions made in 2006.

Net cash flows from/(used in) investing activities

Our cash flow from/ (used in) investing activities amounted to (€ 24,241) in 2007, compared to € 23,159 in 2006 and (€ 15,273) in 2005.

In 2007, the most significant cash flows used in investing activities were from the following transactions:

- Investments made in property, plant and equipment for an amount of € 27,156 in 2007. The investments in 2007 mainly related to our new GMP production facility in Leiden, the Netherlands and investments in our facilities in Bern, Switzerland that will improve current production processes and allow in-house production of materials currently acquired from third parties.
- The Company acquired a 20% equity-stake in Taiwan based ADImmune Corp. in March 2007 for € 8.9 million.

In 2007, the most significant cash flows from investing activities were from the following transactions:

- The sale of all shares owned by the Company in Pevion Biotech AG, Switzerland for € 6,081 to other shareholders of Pevion Biotech.
- Interest received of € 5,274 in 2007 (2006: € 3,075).

In 2006, the most significant cash flows from investing activities were from the following transactions:

- The acquisition of Berna Biotech caused a net cash in-flow of € 67.8 million. Although the acquisition itself was completed by a share exchange and the cash used for acquisition costs amounted to € 10.1 million, we acquired € 77.9 million cash in the acquisition.
- The sale of Berna Biotech's veterinary division, which included Dr. E. Graub AG and Berna Veterinary AG and the divestment of the biopharmaceutical and vaccine manufacturer Rhein Biotech caused a cash in-flow of € 11,772.

- Reduction of restricted cash at Berna Biotech accounted for a net cash inflow of € 7,627.
- Interest received of € 3,075 in 2006 (2005: € 1,864).

The increase is partly offset by cash flows used in investing activities:

- The acquisition of SBL caused a net cash-outflow of € 33.4 million. The acquisition price, including acquisition costs, amounted to € 40.5 million. Crucell acquired € 7.1 million cash in the acquisition.
- Investments made in property, plant and equipment for an amount of € 20,337 in 2006. Investments were mainly related to building and equipping our new GMP production facility in Leiden, the Netherlands.
- Acquisitions of intangible assets in 2006 for € 12,371 related to the acquisition of the business of BPC.

In 2005, the Company used € 17,137 cash to invest in property, plant and equipment, in particular in the new production and development facility in Leiden. This expenditure was partially offset by the receipt of interest of € 1,864 on cash deposits.

Net cash flows from financing activities

Our cash flow from financing activities amounted to € 11,244 in 2007, € 78,731 in 2006 and € 65,305 in 2005.

In 2007, the cash flow from financing activities decreased by 85.7% as we limited the use of additional financing and funded our operations and investments with own resources. The cash-flow inflow from financing activities in 2007 mainly related to:

- Factoring of trade accounts receivable in Italy for an amount of € 5.7 million, and
- Finance leases with proceeds of € 3.1 million. These finance leases mainly relate to equipment for the new production and development facility in Leiden.

In 2006 we had a cash-flow inflow from financing activities of € 78,731 that mainly related to the following:

- Proceeds of € 76,835 from the private placement of ordinary shares in November 2006.
- Proceeds from the issuance of ordinary shares in relation to the exercise of employee stock options of € 5,962.

- The Company drew € 8,109 under the terms of the mortgage loan for financing the new GMP production facility in Leiden, Netherlands.
- The Company entered into new finance lease contracts in 2006 with proceeds of € 6,493. These finance leases mainly relate to equipment for the new production and development facility in Leiden.

The increase was partly offset by repayments of financial liabilities of Berna Biotech of € 17,834.

In 2005, the Company received proceeds from a private placement of ordinary shares of € 50,112. Together with the issuance of ordinary shares in relation to the exercise of employee stock options in the amount of € 7,423, the total proceeds from the issuance of share capital in 2005 amounted to € 57,535. In addition we entered into a mortgage loan to finance the new GMP production facility in Leiden, the Netherlands. The Company drew € 8,982 under this loan.

Tabular disclosure of contractual obligations

Future minimum payments for all contractual obligations for years subsequent to December 31, 2007 are as follows:

In thousands of Euro

	Total	Less than one year	1-3 years	3-5 years	More than five years
Contractual Obligations					
Debt obligations (excluding finance lease obligations)	42,715	23,345	3,660	821	14,889
Finance lease obligations ⁽¹⁾	10,080	1,420	3,108	5,552	—
Interest payments on debt obligations	11,084	1,430	2,515	1,946	5,193
Derivative financial instruments	12,553	12,553	—	—	—
Accounts payable	50,970	50,970	—	—	—
Other liabilities	30,489	29,960	529	—	—
Recognized obligations	157,891	119,678	9,812	8,319	20,082
Commitments					
Operating lease obligations ⁽²⁾	34,261	4,798	8,157	5,998	15,308
Capital expenditure commitments ⁽³⁾	4,696	4,696	—	—	—
Total commitments	38,957	9,494	8,157	5,998	15,308
Total recognized obligations and commitments	196,848	129,172	17,969	14,317	35,390

⁽¹⁾ Finance lease obligations

Certain of the Company's fixtures and equipment are finance leases. The finance leases mainly relate to equipment for the new production facility in Leiden, the Netherlands. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. The fair value of the company's lease obligations approximates their carrying amount.

⁽²⁾ Operating lease obligations

The operating lease obligations include rental obligations. Crucell concluded long-term rental agreements for premises in Sweden and the Netherlands. In addition, Crucell leases certain motor vehicles and items of machinery and equipment.

⁽³⁾ Capital expenditure commitments

The remaining contractual commitments for purchases of property, plant and equipment amount to approximately € 4,696 (2006: € 11,693). These commitments mainly relate to our new production facility in Leiden, the Netherlands.

See note 5.19 'Short and long-term financial liabilities' in the notes to the financial statements for details on the maturity profile and the interest rate environment of our financial liabilities.

Off-balance sheet arrangements

As of December 31, 2007, we have no unconsolidated special purpose financing or partnership entities or other off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition or lead to changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources, that is material to investors.

The Company has investments in two associates and in one joint venture. Further details are provided in note 5.9 'Investments in associates and joint venture' in the financial statements.

Quantitative and qualitative disclosure about market risk

Market risk is the risk of loss related to adverse changes in market prices, including currency risk, interest rate risk, of financial instruments. During the ordinary course of business, the Company is exposed to various financial market risks, primarily from foreign exchange and interest rates and credit risk. Further details on our market risks are disclosed in note 3 'Financial risk management' in our financial statements.

Impact of inflation

Crucell does not operate subsidiaries in countries with hyperinflation. Sales to customers in hyperinflation countries are made in hard currency, mainly Euro, USD and CHF.