

Merrion Pharmaceuticals plc **Interim Results for the six months ended 30 June 2009**

Dublin, Ireland 4 September 2009

Merrion Pharmaceuticals plc, (“Merrion” or the “company”) (IEX: MERR) an international specialty pharmaceutical company, announced today its interim results for the six month period ended 30 June 2009.

Operating highlights

- Positive final results on a key multi centre Phase II(b) cancer patient study on its Orazol™ drug (MER 101). These results show that weekly therapy with 20mg Orazol™ (tablet) is as therapeutically effective as monthly treatment with the intravenous drug Zometa® (4mg), from the first treatment, based on movements in observed levels of critical bone biomarkers. Based on the results obtained, Orazol™ has been shown to be effective, safe and it has the potential to improve the quality of life for users. We believe that it can be a substantial improvement to the current ‘standard of care’ in cancer patients with bone metastases.
- The signing of a second development and licence agreement with Novo Nordisk A/S, a world leader in diabetes medicine, for another major class of diabetes medicines, worth US\$58 million in milestones as well as significant development fees and future royalties.
- The acquisition of a new 28,891 sq.ft. purpose built facility with a view to significantly expanding our current Research and Development (“R&D”) capabilities and developing more products. Due to the difficult trading conditions in the Irish commercial property market, Merrion was able to secure the facility at a significant discount from its original cost.
- Mr. Patrick O’Sullivan was appointed Chairman of the Board of Directors in February 2009.

Financial Highlights

- 378% increase in revenues to €1,691,000 from €354,000 in the same period of the previous year.
- Net loss of €2,335,000 compared to €2,173,000 in the same period of the previous year.
- R&D expenses of €2,569,000 (2008: €1,679,000)
- Administration expenses of €1,139,000 (2008: €936,000).
- Net finance income of €127,000 compared to €154,000 for the same period in the prior year.
- Loss per ordinary share of €0.14 (2008: €0.13)
- Cash and cash equivalents of €8,453,000 compared to €8,140,000 at 31 December 2008.

Commenting on the interim results, John Lynch, Chief Executive Officer said:

‘These results reflect the strong performance of our team during the first half of the year. We worked hard at maintaining positive and productive partner programmes and our success is evidenced by the signing of a second development and licence agreement with Novo Nordisk A/S in January 2009. We were particularly pleased with the very positive results from our Phase II(b) study for Orazol™, which beat our expectations. We will now work towards identifying a partner to complete Phase III development and market the product.’

Outlook

Commenting further on the outlook for the remainder of 2009, John Lynch added:

‘Over the next six months, Merrion will continue to provide high quality delivery to our partners and expect this to generate revenue broadly in line with the first six months. We were delighted to announce the acquisition of a new facility in July. This facility provides us with the much needed capacity to undertake our rapidly expanding opportunities. Work has already begun preparing this facility for future Merrion operations and achieving an Irish Medical Board GMP (Good Manufacturing Practice) license to manufacture. We remain committed to our internal R&D projects and to expanding our pipeline.’

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Merrion Pharmaceuticals plc

Interim Management Report

for the six months ended 30 June 2009

This interim management report includes the following:

- Business overview, including important events that have occurred during the first six months of the current financial year;
- Results of operations for the six months ended 30 June 2009, compared to the six months ended 30 June 2008;
- Principal risks and uncertainties relating to the remaining six months of the year; and
- Related party transactions.

The condensed consolidated interim financial statements for the six months ended 30 June 2009 included in the half-yearly financial report are unaudited; however have been reviewed by the auditor whose report is set out on page 17.

Business overview

Merrion Pharmaceuticals plc (“Merrion”, “the company”) (www.merrionpharma.com) is a publicly listed (IEX: MERR) specialty pharmaceutical company engaged in the development of oral forms (tablets/capsules) of drugs that have poor absorption and are generally given by injection. Merrion was established in 2004 to commercialise various technologies acquired from Elan Corporation, plc. Merrion's patented drug delivery technologies increase bioavailability, by improving absorption in the gastrointestinal tract. This can provide substantial benefit in patient convenience and safety, substantial economic benefits and might also provide enhanced drug efficacy. Merrion utilises its technology to develop new oral drugs in two ways; it develops its own proprietary drugs using Gastrointestinal Permeation Enhancement Technology (GIPET®) and partners with other pharmaceutical companies in developing oral GIPET® formulations of their products. Merrion currently has four internal product development programmes based on its GIPET® technology and has agreements with several pharmaceutical companies. Merrion has operations in Dublin, Ireland and Wilmington, NC, USA.

Review of operating performance

Clinical trials

Merrion has four internal product development programs based on its GIPET® technology, as follows:

Orazol™ (MER 101) is an oral bisphosphonate for oncology indications. Orazol™ is a once weekly tablet form of zoledronic acid, which is currently only available as an intravenous infusion (Zometa® and other trademarks, Novartis). Zoledronic acid is a very potent and thoroughly investigated bisphosphonate compound, which has been used to treat over 3 million patients worldwide. Orazol™, as a weekly tablet formulation offers many new potential advantages to patients, physicians and healthcare providers.

Merrion recently announced positive final results on a key multi centre Phase II(b) study on its Orazol™ oncology drug (tag line “Orazol™ improving the standard of care in bone metastases.”). These results show that weekly therapy with 20mg Orazol™ (tablet) is as therapeutically effective as monthly treatment with the intravenous drug Zometa® (4mg), from the first week, based on movements in observed levels of critical bone biomarkers. Based on the results obtained, Orazol™ has proven to be effective, safe and it has the potential to improve the quality of life for users. Changes in important bone biomarkers, like NTX, have been correlated with improvement in the key clinical outcomes such as skeletal related events (e.g. fractures and death). Two oral (Orazol™) dosing regimens were evaluated in this study and compared to the current standard Zometa® infusion treatment. The purpose of the study was to show therapeutic equivalence between the Orazol™ weekly tablet and the Zometa® (4mg) infusion monthly. The conclusions were as follows:

- Based on the biomarkers of bone resorption (breakdown) both the Orazol™ treatment regimens were therapeutically equivalent to the Zometa® regimen.
- The Orazol™ tablet was well tolerated by the patients in the trial.

The Company is currently seeking potential licensees for Phase III development.

Almerol (MER 103) which is also an oral bisphosphonate, for the treatment of osteoporosis, has completed Phase II(b) clinical trials. Based on the market leading drug, Fosamax®, this programme aims to provide similar absorption with just

8% of the current dose, and a simplified dosing regimen with an improved side effect profile. The company continues to seek a collaborative partner for this product.

Acylone (MER 104) is a second oral oncology product for the treatment of prostate cancer, which is in Phase I clinical testing. This programme aims to be the first oral product in the area of Gonadotropin-releasing hormone (GnRH) analogues. Products in this class also have several other male/female health indications.

MER 102, an oral anticoagulant, is in preclinical testing. This programme aims to be the first oral product in low molecular weight heparin (LMWH) class of drugs, and to offer patients the alternative to daily injections.

Partner programmes

In January 2009, Merion announced the signing of a development and license agreement with Novo Nordisk A/S, a world leader in diabetes medicine, to develop and commercialise oral formulations of a Novo Nordisk proprietary GLP-1 receptor agonist, using Merion's proprietary (GIPET®) oral delivery technology. This is the second development and license agreement with Novo Nordisk; the first was signed in November 2008 and it focuses on the development of oral insulin analogues. Under these agreements, Merion may receive up to US\$58 million each in milestone payments, for the first product developed which reaches the market based on the achievement of certain development, regulatory and sales milestones, as well as potential future development fees and royalties on sales.

Facility changes

On 22 July 2009, Merion successfully acquired a 28,891 sq. ft. pharmaceutical facility in Citywest, Co. Dublin. This facility was previously used for oral formulation development and manufacturing and its custom built design and high level specification makes it an ideal site for Merion. Merion paid a total of €3.75 million for the facility and its pharmaceutical equipment, all of which is relevant to Merion's current activities. This purchase will provide much needed additional research and development space for our team to undertake our existing workload and to exploit further the expanding potential of Merion's technologies.

Consideration for this Citywest facility amounted to €3.75 million. This was satisfied by €0.9 million in cash and €2.85 million in secured borrowings. €2.1 million of the €2.85 million secured borrowings is in the form of a 15 year mortgage with an additional €0.75 million in the form of a four-year finance lease for the equipment component.

Financial review

The financial data set forth below is derived from our condensed consolidated interim financial statements (the "interim financial statements") in this half-yearly financial report and our 2008 Annual Report and should be read in conjunction with, and is qualified by reference to, our interim financial statements and related notes thereto.

Merion reported a net loss of €2,335,000 or €0.14 loss per basic and diluted shares for the six months ended 30 June 2009, compared to a net loss of €1,173,000 or €0.13 loss per basic and diluted shares for the six months ended 30 June 2008. The operating loss was €2,461,000 for the six months ended 30 June 2009 compared to an operating loss of €2,328,000 for the same period last year.

Revenues and cost of sales. Revenues relate to upfront, milestone and development fees from partner agreements. Upfront payments are deferred and amortised over the development period of the project. Total revenues were approximately €1,691,000 for the six months ended 30 June 2009 compared to approximately €354,000 for the six months to 30 June 2008. The majority of revenue recognised for the period was from the development work associated with the partner agreement with Novo Nordisk.

Our cost of sales consists of direct third-party expenditures, royalty fees and allocated salaries related to our development fees recognised in the period. We had approximately €44,000 of direct costs associated with our revenues generated for the six months ended 30 June 2009 compared to approximately €5,000 for the same period last year. We incurred royalty fees of €210,000 on development and license agreements, not incurred in the same period last year.

Research and development expenses. Research and development, or R&D, expenses are comprised of salaries, overhead and consumables, patent costs, and clinical trial costs. R&D expenses increased by 53% to €2,569,000 for the six months ended 30 June 2009 compared to €1,679,000 for the same period last year. The increase was due primarily to increases in clinical trial costs and headcount. Clinical trial costs increased primarily due to costs associated with the Orazol™ (MER

101) Phase II(b) oncology trial. At 30 June 2009, we had 22 research and development staff compared to 16 in the period ended 30 June 2008.

Administrative expenses. Administrative expenses are comprised of salaries, professional fees, office overhead, share-based compensation expense, and other support costs. Administrative expenses increased by 22% to €1,139,000 for the six months ended 30 June 2009 compared to €936,000 for the same period last year. The increase was primarily due to an increase in salaries and share-based compensation costs.

Net finance income. Net finance income was €127,000 for the six months ended 30 June 2009 compared to a net finance income of €154,000 for the same period last year. Finance income for the periods ended 30 June 2008 and 2009 related solely to interest earned on cash on deposit. The finance expense for the period related to interest on finance leases entered into during the period.

Net loss. Our net loss for the period was €2,335,000 for the six months ended 30 June 2009 compared to €2,173,000 for the same period last year. Despite increased revenue during the period, the increase in net loss arose primarily as a result of increased direct costs and expenses, in particular increased R&D expenses in line with increased operating activity and costs associated with our Phase II(b) Orazol™ clinical trial.

Balance sheet

Cash and cash equivalents as at 30 June 2009 were €8,453,000, an increase of 4% compared to €8,140,000 as of 31 December 2008. The increase of €313,000 was primarily attributable to proceeds from the issue of share capital of €900,000, offset by operating cash outflows of €538,000 and the acquisition of property, plant and equipment of €439,000; (€394,000 of which were acquired under financed lease). The primary components of cash used in operating activities comprised the net loss for the period (adjusted to exclude non-cash items), a decrease in working capital balances and an increase in net interest income. Significant balance sheet movements period over period comprise an increase of 78% in trade and other receivables and a 92% increase in deferred income (current and non-current). Both increases are primarily attributable to the increase in activity with Novo Nordisk.

Principal risks and uncertainties

As with any drug development company, the company has a number of business risks as outlined in our 2008 Annual Report. Our operating performance in the second half of 2009 is subject to certain risks and uncertainties including, but not limited to the following principal items outlined below:

Development risks

The company currently has four internal product candidates based on the GIPET® oral delivery-enabling technology. The business depends primarily on the company's ability to develop commercially viable formulations utilising its technologies, successfully complete clinical trials, obtain required regulatory approvals and successfully commercialise the product candidates. If these clinical trials or any further clinical trials fail, if the company does not obtain required regulatory approvals, or if it fails to commercialise any of the product candidates, Merrion may be unable to generate sufficient revenues to attain profitability or continue business operations and Merrion's reputation in the industry and in the investment community would likely be significantly damaged, each of which would cause the share price to decline and investors to lose all or part of their investment.

Commercialisation risks

A key element of the business strategy is to collaborate, particularly with leading pharmaceutical companies, to develop and commercialise product candidates. The company currently has license agreements with Novo Nordisk but may not be able to negotiate acceptable arrangements with other collaborators. Moreover, such arrangements may involve sharing of profits from sales, requirements to relinquish certain of the rights to the company's products or marketing territories and impositions of other limitations on operations. These arrangements may not be scientifically or commercially successful. The termination of any of these arrangements might adversely affect Merrion's ability to develop and commercialise its product candidates.

Intellectual property risks

Some of the company's product candidates combine the company's GIPET® delivery system with certain drug compounds currently protected by patents held by others that are scheduled to expire in the coming years. The company will not be able to commercialise the product candidates before such patents expire without obtaining a license, and such license may not be available on acceptable terms, if at all. In addition, the owners of the patents may be able to obtain

extensions on the exclusivity period afforded by such patents, which would further delay the commercialisation of the product candidates unless the company is able to obtain a license.

The company's ability to commercialise its products will depend, in part, on its or its collaborators' ability to obtain patents, to enforce those patents and preserve trade secrets, and to operate without infringing on the proprietary rights of others. Any such inability to achieve meaningful protection could have a material adverse effect on the company by, for example, making it easier for other pharmaceutical companies to enter target markets and compete with future products.

The company may also be challenged on its own patent filings. The company could incur substantial costs in proceedings, including interference or re-examination proceedings before patent and trademark agencies in connection with any claims that may arise in the future. These proceedings could result in adverse decisions about the patentability of it as well as about the enforceability, validity or scope of protection afforded by the patents. Any adverse decisions about the patentability of patents covering the company's product candidates could cause it to either lose rights to develop and commercialise its product candidates or to profitably license such rights at substantial cost to it.

Financing risks

The company is a development stage enterprise. It is loss making and has negative operating cash flows. This is common for development companies in the life sciences industry. Up until June 2009, the company has financed its operations and internal growth principally through private placements of debt and equity, and to a significantly lesser extent through revenues under service and license arrangements with pharmaceutical companies. As at 30 June 2009 the company had cash and cash equivalents in excess of €8 million and continues to manage and contain expected future operating costs in order to ensure that sufficient medium term funding is available. In July 2009, the company entered into new mortgage and finance lease arrangements in connection with its acquisition of the Citywest facility. It is anticipated that new finance costs will arise in the second half of the year in connection with the mortgage and finance lease on the new Citywest facility.

Related party transactions

Details of related party transactions that have taken place in the first six months of the current financial year and any changes in the related party transactions described in the 2008 Annual Report are set forth in note 9 to the interim financial statements included in this half-yearly financial report.

Unaudited Condensed Consolidated Interim Income Statement

for the six months ended 30 June 2009

	<i>Note</i>	6 months ended 30 June 2009 €	6 months ended 30 June 2008 €
Revenue – continuing operations	4	1,691,302	353,516
Cost of sales		<u>(444,465)</u>	<u>(65,770)</u>
Gross profit		1,246,837	287,746
Administrative expenses		(1,138,869)	(936,136)
Research and development expenses		<u>(2,569,214)</u>	<u>(1,679,409)</u>
Loss from operating activities – continuing operations		(2,461,246)	(2,327,799)
Finance income		131,762	154,588
Finance expense		<u>(5,209)</u>	<u>(232)</u>
Net finance income		<u>126,553</u>	<u>154,356</u>
Loss before income tax		(2,334,693)	(2,173,443)
Income tax		<u>-</u>	<u>-</u>
Net loss for the period - all attributable to equity holders of the company		<u>(2,334,693)</u>	<u>(2,173,443)</u>
Basic and diluted loss per ordinary share		(0.14)	(0.13)
Weighted average number of ordinary shares		16,930,170	16,556,398
Weighted average number of diluted shares		16,930,170	16,556,398

The accompanying notes are an integral part of these financial statements.

Unaudited Condensed Consolidated Interim Statement of Comprehensive Income
for the six months ended 30 June 2009

	6 months ended 30 June 2009 €	6 months ended 30 June 2008 €
Net loss for the period	<u>(2,334,693)</u>	<u>(2,173,443)</u>
Total comprehensive income for the period	<u>(2,334,693)</u>	<u>(2,173,443)</u>

The accompanying notes are an integral of these financial statements.

Unaudited Condensed Consolidated Interim Balance Sheet
at 30 June 2009

	<i>Note</i>	30 June 2009 €	31 Dec 2008 ⁽¹⁾ €
Non-current assets			
Property, plant and equipment	5	<u>996,922</u>	<u>787,606</u>
Total non-current assets		996,922	787,606
Current assets			
Trade and other receivables	4	<u>1,341,093</u>	752,562
Cash and cash equivalents		<u>8,453,225</u>	<u>8,140,085</u>
Total current assets		9,794,318	8,892,647
Total assets		<u>10,791,240</u>	<u>9,680,253</u>
Non-current liabilities			
Finance leases		<u>303,427</u>	-
Deferred income	6	<u>3,178,259</u>	<u>1,686,241</u>
Total non-current liabilities		3,481,686	1,686,241
Current liabilities			
Trade payables		<u>671,682</u>	663,526
Deferred income	6	<u>1,458,859</u>	729,572
Accrued and other payables		<u>716,160</u>	<u>929,512</u>
Total current liabilities		<u>2,846,701</u>	<u>2,322,610</u>
Total liabilities		6,328,387	4,008,851
Shareholders' equity			
Share capital		<u>169,662</u>	166,592
Share premium		<u>59,690,926</u>	58,791,974
Reverse acquisition reserve		<u>(25,318,907)</u>	(25,318,907)
Share based compensation reserve		<u>985,005</u>	764,853
Retained loss		<u>(31,063,833)</u>	<u>(28,733,110)</u>
Total shareholders' equity		<u>4,462,853</u>	<u>5,671,402</u>
Total liabilities and shareholders' equity		<u>10,791,240</u>	<u>9,680,253</u>

The accompanying notes are an integral part of these financial statements.

⁽¹⁾ Amounts at 31 December 2008 are derived from the 31 December 2008 audited financial statements

Unaudited Condensed Consolidated Statement of Cash Flows
for the six months ended 30 June 2009

	6 months ended 30 June 2009 €	6 months ended 30 June 2008 €
Cash flows from operating activities		
Net loss for the period	<u>(2,334,693)</u>	<u>(2,173,443)</u>
Adjustments to reconcile net income to net cash generated from operating activities:		
Depreciation and amortisation of intangible assets	235,550	209,470
Grant amortisation	-	7,167
Share-based compensation expense	224,122	255,997
Finance income	<u>(126,553)</u>	<u>(154,356)</u>
	(2,001,574)	(1,855,165)
Change in trade and other receivables	(588,531)	(370,960)
Change in trade and other payables	(295,404)	(1,085,334)
Change in deferred income	<u>2,221,305</u>	<u>(235,158)</u>
Cash used in operations	(664,204)	(3,546,617)
Interest received	131,762	154,588
Interest paid	<u>(5,209)</u>	<u>(232)</u>
Net cash used in operating activities	(537,651)	(3,392,261)
Investing activities		
Acquisitions of property, plant and equipment	<u>(438,752)</u>	<u>(24,850)</u>
Net cash used in investing activities	(438,752)	(24,850)
Cash flows from financing activities		
Proceeds from borrowings under finance lease	393,635	-
Proceeds from exercise of options	2,022	10,104
Proceeds from issue of share capital	<u>900,000</u>	<u>-</u>
Net cash provided by financing activities	1,295,657	10,104
Net increase/(decrease) in cash and cash equivalents	319,254	(3,407,007)
Effect of exchange rate movements on cash	(6,114)	(10,196)
Cash and cash equivalents at beginning of the period	<u>8,140,085</u>	<u>10,869,699</u>
Cash and cash equivalents at end of the period	<u>8,453,225</u>	<u>7,452,496</u>

Unaudited Condensed Consolidated Interim Statement of Changes in Shareholders' Equity

for the six months ended 30 June 2009

	Share capital €	Share premium €	Reverse acquisition reserve €	Share option reserve €	Retained losses €	Total €
Balance at 1 January 2008	165,838	58,781,971	(25,318,907)	319,336	(23,813,217)	10,135,021
<i>Comprehensive income:</i>						
Net loss for the period	-	-	-	-	(2,173,443)	(2,173,443)
Options exercised during the period	424	9,680	-	-	-	10,104
Share-based compensation expense	-	-	-	255,997	-	255,997
Transfer of exercised and expired share-based awards	-	-	-	(152,262)	152,262	-
Balance at 30 June 2008	166,262	58,791,651	(25,318,907)	423,071	(25,834,398)	8,227,679
<i>Comprehensive income:</i>						
Net loss for the period	-	-	-	-	(2,888,883)	(2,888,883)
Options exercised during the period	330	323	-	-	-	653
Share-based compensation expense	-	-	-	331,953	-	331,953
Transfer of exercised and expired share-based awards	-	-	-	9,829	(9,829)	-
Balance at 31 December 2008	166,592	58,791,974	(25,318,907)	764,853	(28,733,110)	5,671,402
<i>Comprehensive income:</i>						
Net loss for the period	-	-	-	-	(2,334,693)	(2,334,693)
Issue of share capital	3,000	897,000	-	-	-	900,000
Options exercised during the period	70	1,952	-	-	-	2,022
Share-based compensation expense	-	-	-	224,122	-	224,122
Transfer of exercised and expired share-based awards	-	-	-	(3,970)	3,970	-
Balance at 30 June 2009	169,662	59,690,926	(25,318,907)	985,005	(31,063,833)	4,462,853

Notes to the Unaudited Condensed Consolidated Interim Financial Statements

for the six months ended 30 June 2009

1. Basis for preparation

These unaudited condensed consolidated interim financial statements (the “interim financial statements”), which should be read in conjunction with the 2008 Annual Report, have been prepared by Merrion Corporation plc (“Merrion”, the “company”) in accordance with IAS 34 - *Interim Financial Reporting* (“IAS 34”), as adopted by the EU. In addition, these interim financial statements have been prepared in accordance with the IEX Rules for Companies as issued by the Irish Stock Exchange. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the company as at and for the year ended 31 December 2008, which are available upon request from the company’s registered office at Third Floor, Biotechnology Building, Trinity College, Dublin 2 or at www.merrionpharma.com.

These interim financial statements are presented in Euro, which is the functional currency of the parent company and its subsidiaries. They are prepared on the historical cost basis, except for share-based payments, which are based on fair value determined at the grant date of the relevant share option.

The interim financial statements include the results and financial position of the company and all of its subsidiary undertakings. All significant intercompany account balances, transactions, and any unrealised gains and losses or income and expenses arising from intercompany transactions have been eliminated in preparing the interim financial statements.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results could differ materially from these estimates. In preparing these interim financial statements, the significant judgements made by management in applying the company’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2008.

The comparative figures included for the year ended 31 December 2008 do not constitute statutory financial statements of Merrion within the meaning of Regulation 40 of the European Communities (Companies; Group accounts) Regulations, 1992. Statutory financial statements for the year ended 31 December 2008 have been filed with the Companies’ Office. The auditor’s report on those financial statements was unqualified.

These interim financial statements were approved by the Board of Directors on 3 September 2009.

2. Significant accounting policies

The accounting policies applied in these interim financial statements are the same as those applied in the consolidated financial statements as at and for the year ended 31 December 2008, as set out on pages 32 to 38 of the 2008 Annual Report, except for the application of new standards as explained below.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2009.

- IFRS 8 - *Operating Segments* (“IFRS 8”). We adopted IFRS 8 which replaces IAS 14 - *Segmental Reporting* (“IAS 14”), during the six months ended 30 June 2009. IFRS 8 requires a “management approach” under which segment information is presented on the same basis as that used for internal reporting purposes. IAS 14 required identification of two sets of segments — one based on business units and the other on geographical areas. IFRS 8 requires additional disclosures around identifying segments and their products and services. Our operations are organised into one business unit, the development of oral dosage forms of drugs that are poorly absorbed. There has been no change to the operating segment as a result of the adoption of IFRS 8 and the reportable segment is consistent with that previously reported under the primary business segment format of the segment reporting under IAS 14. The additional disclosures around identifying segments and their products and services will be disclosed in the 2009 annual financial statements.

- IAS 1 (revised) - *Presentation of Financial Statements*. The revised standard prohibits the presentation of items of income and expenses (that is “non owner changes in equity”) in the statement of changes in equity, requiring “non owner changes in equity” to be presented separately from owner changes in equity. All “non owner changes in equity” are required to be shown in a performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and the statement of comprehensive income). We have elected to present two statements: an income statement and a statement of comprehensive income. Also, the revised standard includes the statement of changes in shareholders’ equity as a primary statement, rather than as a note to the financial statements.

The following EU endorsed amendments to IFRS standards, IFRIC interpretations and improvements to IFRSs are mandatory for the first time for the financial year beginning 1 January 2009, but are not currently relevant to the company.

- Amendments to IFRS 1 and IAS 27 “*Cost of an Investment in a Subsidiary, Jointly-Controlled Entity or Associate*”;
- Amendment to IFRS 2, “*Share-based Payment – Vesting Conditions and Cancellations*”;
- Amendment to IAS 23, “*Borrowing Costs*”;
- Amendments to IAS 32 and IAS 1 regarding puttable financial instruments and obligations arising on liquidation;
- IFRIC 13, “*Customer Loyalty Programmes*”;
- IFRIC 15, “*Agreements for the Construction of Real Estate*”;
- IFRIC 16, “*Hedges of a Net Investment in a Foreign Operation*”;
- ‘*Improvements to IFRSs*’ (issued by the International Accounting Standards Board on 22 May 2008).

The following EU endorsed standards, amendments to IFRS standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2009 and have not been early adopted by the company:

- IFRS 3 (revised) - *Business Combinations* and consequential amendments to IAS 27 - *Consolidated and Separate Financial Statements*, IAS 28 - *Investments in Associates* and IAS 31 – *Interests in Joint Ventures*, effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the minority interest in the acquiree either at fair value or at the minority interest’s proportionate share of the acquiree’s net assets. All acquisition-related costs should be expensed. This is not currently applicable to the company, as it has not made any business combinations. However, we will apply IFRS 3 (revised) to any business combinations from 1 January 2010.

3. Seasonality

The results of the company’s operations are not materially impacted by seasonal factors.

4. Segment information

All of the company's operating results arise from the development of pharmaceutical products. Accordingly, the company only operates in one reportable segment.

All revenue is derived from external customers and as the company operates in one reportable segment, intersegment revenue is zero. The company has reported all costs and revenues and attributed all assets and liabilities to this single reportable segment. Accordingly, information about reportable segment revenues, profit or loss, assets and liabilities is as set forth in the condensed consolidated interim income statement and balance sheet.

The following provides geographical information with respect to the attribution of revenue from external customers and non-current assets between the company's country of domicile and all foreign locations. Revenues are attributed to countries on the basis of country of origin. Non-current assets are attributed to countries based on the location of the non-current assets.

	Revenues – all external		Non-current assets	
	6 months ended 30 June 2009	6 months ended 30 June 2008	30 June 2009	31 December 2008
	€	€	€	€
Country of domicile -Ireland	1,691,302	353,516	988,341	781,456
Foreign locations -United States	-	-	8,581	6,150
Total	1,691,302	353,516	996,922	787,606

Revenues from one customer, Novo Nordisk A/S, represent approximately 100% (six months ended 30 June 2008: 85%) of the company's total revenues.

Novo Nordisk A/S also accounts for 100% of our trade receivables at 30 June 2009, (31 December 2008: 97%).

5. Property, plant and equipment

Acquisitions and disposals

During the six month period ended 30 June 2009, the company acquired assets with a cost of €438,752 (six months ended 30 June 2008: €24,850). There were no disposals of property, plant and equipment during the current or prior period. Included in asset acquisitions during the period ended 30 June 2009, was laboratory equipment with a cost of €93,635 acquired under finance lease.

6. Deferred income

	30 June 2009 €	31 December 2008 €
<i>Non-current</i>		
Deferred operating income	3,178,259	1,686,241
<i>Current</i>		
Deferred operating income	1,447,374	718,087
Government grant	11,485	11,485
	1,458,859	729,572
<i>Total deferred income</i>	4,637,118	2,415,813

Deferred operating income arises primarily in respect of two development and license arrangements entered into with Novo Nordisk A/S in November 2008 and January 2009.

7. Share-based payments

In 2005, the company adopted an equity-settled Share Option Plan (the “Plan”) pursuant to which the Compensation Committee of the Board may grant options to employees, non-employees, and senior executives of the company or its subsidiaries for the purchase of ordinary shares. The terms and conditions of the Plan are disclosed in the 2008 Annual Report.

415,000 share options were granted, on similar terms, to employees and directors of the company during the six month period ended 30 June 2009. There were no grants during the interim period ended 30 June 2008

The fair value of services received in return for share options granted during the six month period ended 30 June 2009 was measured based on the fair value of share options granted, using the Black-Scholes Merton (“BSM”) option-pricing model, using the following assumptions:

Expected volatility ⁽¹⁾	60%
Dividend yield	Nil
Risk-free interest rate ⁽²⁾	2.71%
Expected term (years) ⁽³⁾	4.7 years

⁽¹⁾The expected volatility is based on the volatility of similar companies in their early years.

⁽²⁾The risk-free rate is based on a zero coupon Eurozone Treasury gilt yield rate at the date of grant.

⁽³⁾Two thirds of the overall term to expiry.

The fair value per award granted ranged from €1.69 to €2.14 per award and the prevailing market price of shares at the dates of grant ranged from €3.30 to €4.14 per share.

During the six month period ended 30 June 2009, the company revised its method of measuring the fair value of its share option grants, from a binomial option-pricing model to the BSM option-pricing model. This change in the measurement basis of estimating the fair value of share option grants does not result in any substantive difference in the expected term assumption as previously provided under the binomial option-pricing model.

This change in estimate has been applied prospectively, effective 1 January 2009. Had the company applied the BSM option-pricing model in estimating the fair value of share options awarded in prior periods the financial statement impact would have resulted in a lower share-based compensation expense in the six month period ended 30 June 2008 of €5,182 and in a higher cumulative share-based compensation reserve (in shareholders’ equity) at 31 December 2008 of €10,846 in aggregate for all awards granted prior to 1 January 2009.

Total share-based compensation expense of €224,122 relating to equity settled share-based awards was recognised during the six months ended 30 June 2009 (six months ended 30 June 2008: €255,997) in the following line items in the condensed consolidated interim income statement:

	Six months ended 30 June 2009	Six months ended 30 June 2008
	€	€
Administrative expenses	168,598	132,478
Research & development expenses	55,524	123,519
Total	224,122	255,997

8. Issue of share capital

Effective 20 January 2009, 300,000 new ordinary shares in Merrion, at a price of €3 per share, were issued and allotted to Novo Nordisk A/S, for total consideration of €900,000. These shares were admitted to trading on the Irish Stock Exchange on the same date. This investment by Novo Nordisk A/S represents a 1.8% shareholding in Merrion.

9. Related party transactions

On 16 February 2004, the company acquired four platform drug delivery technologies, together with certain equipment used solely in the research and development of those technologies from a shareholder pharmaceutical company, Elan Corporation, plc (“Elan”). Part of one of the drug delivery platforms was licensed from Elan as opposed to being acquired outright. As part of this purchase agreement, Merrion has an obligation to pay Elan royalties of 10%, less applicable costs, in connection with revenue attributable to the patents purchased or licensed under the agreement. These payments will be made until the later of (a) the expiration of the relevant patent or (b) 15 years from the completion of the purchase agreement. At 30 June 2009, €471,539 (30 June 2008: Nil) was payable to Elan in this respect.

On 23 December 2003, the company entered into an equipment lease agreement with Elan pursuant to which it leases certain laboratory equipment from Elan for a rental fee of €2,083 a month for a period of four years and nine months from the date of the agreement. This agreement was extended for an additional five years on 29 January 2007, and now expires on 31 December 2013. At 30 June 2009 €2,530 was payable to Elan in relation to leasing costs (June 2008: €5,041).

Pursuant to the terms of a consulting agreement with a shareholder, Growcorp Group Limited, this shareholder provides advice and services to the company for a fee of €4,167 per month. The cost to the company of this arrangement for the six month period ended 30 June 2009 was €25,000 (six month period ended 30 June 2008: €25,000).

Key management personnel receive compensation in the form of short term employee benefits, post employment benefits and share based payments. Total compensation for the six month period ended 30 June 2009 was €633,934 (six months ended 30 June 2008: €435,650).

10. Subsequent events

The company acquired a 28,891 square foot pharmaceutical freehold facility in Citywest, Co. Dublin on 22 July 2009 for total consideration of €3.75 million. This acquisition was financed by €0.9 million in cash and €2.85 million in secured borrowings; (€2.1 million in the form of a 15 year mortgage and €0.75 million in the form of a four year equipment lease).

Merrion Pharmaceuticals plc

Directors' Responsibility Statement

for the six months ended 30 June 2009

Statement of the directors in respect of the half-yearly financial report:

Each of the directors, whose names and functions are listed on pages 8 and 9 of our 2008 Annual Report, confirm that, to the best of our knowledge and belief:

- a) the unaudited condensed consolidated interim financial statements, comprising the condensed consolidated interim income statement, the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim balance sheet, the condensed consolidated interim statement of cash flows, the condensed consolidated interim statement of changes in shareholders' equity and the related notes thereto, have been prepared in accordance with IAS 34 - *Interim Financial Reporting* ("IAS 34"), as adopted by the EU.
- b) the interim management report includes a fair review of the following information:
 - (i) an indication of important events that have occurred during the six months ended 30 June 2009 and their impact on the condensed consolidated interim financial statements; and a description of the principal risks and uncertainties for the six months ending 31 December 2009; and
 - (ii) related party transactions that have taken place in the six months ended 30 June 2009 and that have materially affected the financial position or performance of the company during that period; and any changes in the related party transactions described in the 2008 Annual Report that could do so.

On behalf of the Board

Peter Thornton
Director

John Lynch
Director

3 September 2009

Independent Auditor's Review Report to Merrion Pharmaceuticals plc

Introduction

We have been engaged by Merrion Pharmaceuticals plc (the "company") to review the condensed consolidated interim financial statements for the six months ended 30 June 2009, which comprises the condensed consolidated interim income statement, the condensed consolidated interim statement of comprehensive income, the condensed consolidated interim balance sheet, the condensed consolidated interim statement of cash flows, the condensed consolidated interim statement of changes in shareholders' equity and the related notes thereto. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial statements.

This report is made solely to the company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly financial report, including the condensed consolidated interim financial statements contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half yearly financial report in accordance with the IEX Rules for Companies as issued by the Irish Stock Exchange.

As disclosed in note 1 – basis of preparation, the annual consolidated financial statements of the company are prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU"). The condensed consolidated interim financial statements included in this half-yearly financial report has been prepared in accordance with IAS 34 - *Interim Financial Reporting*, ("IAS 34"), as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed consolidated interim financial statements in the half-yearly financial report, based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 - *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in Ireland and the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently, does not enable us to obtain assurance that we would not become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements in the half-yearly financial report for the six months ended 30 June 2009 are not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the IEX Rules for Companies as issued by the Irish Stock Exchange.

KPMG
Chartered Accountants
Dublin
3 September 2009