



Vernalis plc Interim report and accounts 2004



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Vernalis has made sustained progress during 2004. Losses are almost halved, with significant cost savings realised following last year's restructuring. Three major collaborations have been secured with Biogen Idec, Novartis and, most importantly, Endo Pharmaceuticals. The pipeline has achieved important progress. As a result, Vernalis has transformed its cash position and has significant growth potential through a combination of sales of frovatriptan, the successful development and commercialisation of its product pipeline candidates and through further participation in the consolidation of the biotechnology sector.

# Building a competitive new biotechnology company

## Highlights

### Financial

- Revenue: £5.1 million (2003: £7 million).
- Loss almost halved for the period of £13.1 million (2003: £26 million). Significant cost savings realised from 2003 restructuring.
- Cash and short term investments of £11 million at 30 June 2004 increased to £37.2 million at 31 August 2004 after receipt of the amounts due under the Biogen Idec and Endo collaborations. During September a further £6 million will be received from Novartis in relation to their collaborative programme.

### Frovatriptan

- Reacquisition of North American rights to frovatriptan in May 2004 for \$50 million.
- Re-licensing of North American rights to frovatriptan to Endo Pharmaceuticals, announced on 15 July 2004 and completed on 17 August 2004, for payments that could exceed \$400 million.
- Relaunch of Frova™ in USA by Endo in September 2004.
- Early repayment of amounts due to Elan saving \$6 million using \$50 million loan from Endo.
- Regulatory Approval for frovatriptan for acute treatment of migraine in Canada.
- Completion of recruitment for Phase III safety study of frovatriptan for the short-term prophylaxis of menstrually-related migraine (MRM).
- Constructive dialogue with FDA for the remaining confirmatory efficacy trial to support a label for prophylaxis of menstrually-related migraine.

### Product portfolio

- Positive results from an initial Phase II proof of concept study of V10153 in acute myocardial infarction patients. Its further development will continue with a Phase II study in stroke beginning in Q1 2005.
- Positive data from a Phase I study of V2006 a novel treatment for Parkinson's disease.
- Phase II trials of V140 in pain indications are expected to begin in H1 2005.

### Collaborations

- **Biogen Idec (June 2004):** Collaboration to advance V2006 and supporting A<sub>2A</sub> receptor antagonist programme which targets Parkinson's disease and other central nervous system disorders for payments that could exceed \$100 million. Biogen Idec made an initial payment of \$10 million and an equity investment of \$6 million.
- **Novartis (August 2004):** Extension of cancer research collaboration on Hsp90. Novartis to make an equity investment of \$9 million and an initial payment of \$1.5 million.

## Chief Executive Officer's review of operations

### Strategy

During the six months to 30 June 2004, Vernalis made substantial progress towards its objective of creating a competitive, sustainable biotechnology company by building a novel portfolio of discovery programmes and products in clinical development focused particularly in the areas of cancer and neurological disorders. This is being achieved by internal R&D, in-licensing and through the acquisition of, or merger with, other companies.

### Operational review

During 2004, Vernalis reacquired the North American rights to frovatriptan from Elan and subsequently re-licensed these rights to Endo who we believe are an ideal partner to exploit fully the potential of frovatriptan. Two other significant value adding collaborations have been secured: the first with Biogen Idec on V2006 and other A<sub>2A</sub> receptor antagonists; and the second with Novartis on Hsp90. These collaborations underpin Vernalis' research activities in neuroscience and oncology, respectively.

### Product portfolio

#### Frovatriptan

##### Background

Frovatriptan was launched in the US in the second quarter of 2002, where it is marketed as Frova™ as a treatment for migraine. Vernalis reacquired the North American rights to frovatriptan from Elan on 19 May 2004 for a total consideration of \$50 million. In Europe, frovatriptan is marketed by Menarini in Germany, Austria, Eire, Holland and the UK. In Germany, where frovatriptan is known as Allegro®, the drug's share of the overall triptan market in July 2004 was 9.5%. Frovatriptan is now approved

in 15 European territories and is expected to be launched in further of these in the second half of 2004.

#### Licence Agreement with Endo

The agreement to license North American sales and marketing rights to frovatriptan to Endo was announced on 15 July 2004 and completed on 17 August 2004. Under the terms of the licence agreement, Endo will make unconditional payments totalling \$60 million to Vernalis, including \$30 million which was paid at closing and two further payments of \$15 million on the first and second anniversary of closing. Endo will make a significant immediate promotional investment behind frovatriptan while Vernalis retains financial and operational responsibility for the MRM clinical development programme. On FDA approval of the MRM indication, Endo will make an additional payment of \$40 million to Vernalis. Endo will also make various milestone payments to Vernalis upon the achievement of certain sales thresholds starting with a milestone of \$10 million upon reaching \$200 million net annual sales. Endo will make royalty payments to Vernalis which will be tiered at 20% or higher following FDA approval of the MRM indication.

Importantly, Vernalis has retained an option to co-promote frovatriptan in North America. Endo will establish, train and fund a Vernalis sales force for a period of up to five years. The Vernalis specialty sales force will be trained to call on neurologists, primarily in the United States, and will form Vernalis' core commercial operations in North America for the future sale of ethical pharmaceuticals.

In August 2004, Vernalis drew down the \$50 million loan from Endo Pharmaceuticals agreed as part of the Frova™ licensing deal. The proceeds of the loan were first used to make full and final settlement of the amounts due to Elan of \$45 million in total. This sum was to be repayable as to \$20 million on 31 December 2004 and \$25 million on 31 December 2005. Vernalis received a discount of \$6 million for early repayment of these amounts. The payment to Elan was \$43.5 million which included \$4.5 million for inventory. The balance of the loan from Endo, \$6.5 million, is available for Vernalis' general corporate purposes.

Endo began its promotional efforts, including detailing the product to physicians, in September 2004. Also in September Vernalis received a Notice of Compliance (NOC) from the Canadian Health Authorities indicating that Frova™ has been approved for the acute treatment of migraine in Canada. The approval follows a successful dialogue with Health Canada regarding the product label, and permits the national pricing approval process to commence.

### Sales of frovatriptan North America

Up to 19 May 2004 Vernalis received royalties from Elan from sales of frovatriptan in North America which amounted to £0.4 million. In the period from 19 May 2004 to 17 August 2004, the date of completion of the licence agreements with Endo, Vernalis received the full benefit of the sales of frovatriptan. In the period to 30 June 2004 these amounted to £2.1 million with a gross margin of £2 million. In the period from 1 July 2004 to 17 August 2004 sales of frovatriptan amounted to £3.7 million with a gross margin of £3.5 million.

From 19 May 2004 until 17 August 2004, frovatriptan was not actively marketed in North America. During this period weekly prescriptions were approximately 5,500 per week, only 10% lower than peak levels prior to 19 May, evidence of strong customer satisfaction with frovatriptan.

### Europe

Vernalis' revenues from Menarini in respect of European sales of frovatriptan amounted to £0.5 million for the six months ended 30 June 2004.

### Achieving a distinct label for frovatriptan for prophylaxis of menstrually-related migraine

In April 2003 data were presented from an initial clinical study into the efficacy of frovatriptan as a preventive treatment for menstrually-related migraine (MRM), which affects over 50 per cent of all women who suffer migraine. The data demonstrated a statistically highly

significant improvement in the numbers of patients who were headache-free during the peri-menstrual period for both the studied dose regimens of frovatriptan compared to placebo ( $p < 0.0001$ ). These data were published in full in July 2004 by a leading journal, *Neurology*.

Two further trials are required to complete the data package for a supplemental New Drug Approval application in the United States to permit Frova™ to be marketed as a short-term prophylaxis for menstrually-related migraines. The first, a long-term safety study, is fully recruited and will complete in the summer of 2005. Discussions have been held with the FDA on the design and protocol for the second trial, a study to confirm the efficacy observed in the initial study. This study will start in Q3 2004. If the positive initial results are confirmed, these studies will lead to regulatory submissions for the new indication in the US and Europe in the first half of 2006.

### New distribution agreement for frovatriptan in Korea

On 16 September 2004, Vernalis signed an agreement with SK Chemicals Co., Ltd of Korea, granting SK exclusive distribution rights for frovatriptan in the Korean market. Vernalis received an upfront fee on signature and is due a further payment on receipt of Korean marketing authorisation, in addition to revenues from future product supply. SK will be responsible for managing and funding the regulatory approval process and the subsequent marketing of the product in Korea.

### V10153

V10153 is a novel recombinant thrombolytic protein which is being developed for the treatment of ischaemic stroke. It was initially evaluated by a consortium of cardiologists in the US and Europe (the TIMI Study Group) in a Phase IIa ascending dose study to establish proof-of-concept (i.e. that it can dissolve clots and restore coronary bloodflow) in patients who have suffered acute myocardial infarction (AMI). The study also evaluated the safety of treatment with V10153, especially with respect to bleeding.

This study has now successfully completed. V10153 was well tolerated throughout the dose range of 1–10 mg/kg to patients with AMI. Full restoration of bloodflow was observed in blocked coronary arteries in around 40 per cent of patients after 60 minutes following doses of 5 mg/kg and greater. This is comparable to the efficacy reported for other marketed thrombolytic therapies using a similar experimental protocol. Importantly, initial analysis of safety (episodes of bleeding) was encouraging with no spontaneous bleeds.

The next stage in the development of V10153 is to conduct a Phase II study in approximately 100 patients with acute ischaemic stroke which is expected to start in H1 2005. In parallel, work will be undertaken to improve the production process prior to manufacturing material for Phase III studies.

## V2006

V2006 is an adenosine A<sub>2A</sub> receptor antagonist in development as a potential novel treatment for Parkinson's disease. A<sub>2A</sub> receptor antagonists may possess advantages over conventional dopaminergic strategies, helping to restore motor function in patients with Parkinson's disease with fewer of the side effects such as nausea and dyskinesia (uncontrolled movements) associated with conventional dopaminergic treatments.

The initial Phase I study of V2006, a single ascending dose study in healthy male volunteers designed to investigate the drug's safety and pharmacokinetics has been successfully completed. Single oral doses of V2006 were administered to groups of male volunteers in the dose range 5–100 mg. The drug was safe and well tolerated in this range and exposure increased with dose. Potentially therapeutic blood levels (based on predictions from pre-clinical studies) were achieved following the lowest dose of 5 mg, which provides reassurance that a wide therapeutic ratio might be achieved in patients. Furthermore, the plasma half-life of V2006 in normal subjects was in the region of 18 hours, which would be consistent with a simple, once-daily dosing regimen.

On 24 June 2004 Vernalis entered into an agreement with Biogen Idec to advance Vernalis' adenosine A<sub>2A</sub> receptor research antagonist programme, which is targeting both Parkinson's disease and other central nervous system

disorders. (See Research section below).

Under the agreement, Biogen Idec received exclusive worldwide rights to develop and commercialise Vernalis' lead compound, V2006. In addition, Biogen Idec has the right to develop one back-up compound to V2006 and has option rights over the entire Vernalis' A<sub>2A</sub> antagonist research programme. Initially, the collaboration will focus on completing the Phase I programme for V2006, with the goal to begin Phase II proof-of-concept studies of V2006 in Parkinson's disease patients in 2005. Vernalis has an option to co-promote products arising out of this collaboration in the United States.

In June 2004, Biogen Idec made an equity investment of £3.3 million (\$6 million) through the subscription for 6,218,487 new Vernalis ordinary shares. In July 2004, Biogen Idec paid an initial licence fee of \$10 million to Vernalis.

## V140

V140 is a GABA<sub>A</sub> agonist targeting the treatment of pain in cancer patients. The compound entered a Phase I clinical programme in September 2003 to evaluate its safety and pharmacokinetic properties in single and multiple dose studies. The initial Phase I studies in which V140 was administered to healthy volunteers in single and multiple doses for five days were completed successfully.

A Phase I(c) study to initially investigate the analgesic properties of V140 in healthy volunteers produced inconclusive results, because of methodological

issues. In the study V140 was compared to both placebo and a positive control, gabapentin, which had previously shown to be effective in a similar study. On this occasion, no clear differences were seen between either of the active treatments and placebo. It is now intended to evaluate V140 directly in patients, in Phase II studies, which are expected to start in H1 2005. Additional preclinical studies are also being conducted, to assist in guiding the design of these further clinical studies.

### **5HT<sub>2c</sub> receptor agonists – Roche Collaboration**

Vernalis' 5HT<sub>2c</sub> receptor agonist research programme for obesity is being undertaken in collaboration with Roche. A development candidate has been selected by Roche which is undergoing pre-clinical studies. Upon successful completion of pre-clinical testing, further development would also be undertaken by Roche.

### **Metalloenzyme inhibitors – Serono Collaboration**

A collaboration with Serono is focused upon identifying selective metalloenzyme inhibitors (MEI) for the treatment of inflammatory/immune disorders, including multiple sclerosis. Serono has informed Vernalis that it is in the process of selecting a number of candidates for further development. In this event, Serono will undertake the development of these compounds, with Vernalis receiving milestone and royalty

payments. Phase I studies are due to commence in H1 2005.

### **Research**

Following the portfolio review in 2003, Vernalis' internal research programmes are now focused on oncology and CNS disorders. Vernalis conducts approximately half of its research programmes under collaboration agreements.

### **Oncology**

#### **Hsp90 inhibitors**

Hsp90 is a novel drug target, inhibition of which is believed to have significant potential in the treatment of a broad range of cancers. This programme is utilising state-of-the-art structure-based design technology to identify highly potent and specific inhibitors of Hsp90.

In December 2003 Vernalis formed a research collaboration with the Novartis Institutes for BioMedical Research, Inc., (Novartis) in Cambridge, MA, USA, to investigate inhibitors of Hsp90. Under the agreement Vernalis provided elements of its ongoing oncology research to Novartis for an initial six-month evaluation period after which Novartis had the right to enter a longer-term research and development collaboration.

On 9 August 2004 Vernalis announced that Novartis had exercised its option to license exclusive worldwide rights to Hsp90. The Companies will conduct a joint research programme under which Novartis will provide research funding to Vernalis over an initial three year period. In addition, Novartis is responsible for funding and conducting the preclinical development of product candidates, and for commercialisation. The agreement was executed on 16 September 2004 following which Novartis will pay Vernalis a signature fee of \$1.5 million and make an equity investment of £5 million (\$9 million) through the subscription for 7,106,344 new Vernalis ordinary shares.

### CNS disorders

#### A<sub>2A</sub> receptor antagonists

A programme is under way to identify and evaluate potent, selective A<sub>2A</sub> receptor antagonists for the treatment of depression. Biogen Idec has option rights over this programme under the collaboration agreed on 24 June 2004.

#### CB1 receptor antagonists

Selective cannabinoid CB1 receptor antagonists are being evaluated as novel treatments for obesity. They also have potential in other clinical indications including smoking cessation. The programme aims to identify a lead candidate during 2004.

### Expected progress

- Frovatriptan: Southern European launches (Menarini) H2 04
- V10153: initiate Phase II in stroke patients H1 05
- V140: initiate Phase II in post-operative pain H1 05
- MEI: Initiate Phase I (Serono) H1 05
- V2006: Initiate Phase II (Biogen Idec) 2005
- Frovatriptan: MRM regulatory submission (Endo) H1 06

### Directorate

Peter Worrall, Corporate Development Director will be retiring from the Board and leaving the Company on 31 October 2004. The Board wishes to thank him for his valuable contribution, particularly during the Company's recent progress and development.

#### Simon Sturge

Chief Executive Officer

### Profit and loss account

The loss for the six months ended 30 June 2004 was £13.1 million (October 2003: £26 million). The decrease is mainly due to realisation of the cost savings anticipated at the time of the business combinations in 2003 and the inclusion, in 2003, of a higher level of one-off costs associated with the business combinations and related restructuring.

Turnover was £5.1 million (October 2003: £7 million) and comprised £3 million in respect of frovatriptan (October 2003: £1.5 million) and £2.1 million in respect of revenue recognised under collaboration and similar agreements (October 2003: £5.5 million). In 2004, the frovatriptan income of £3 million comprised European revenues of £0.5 million and North American revenues of £2.5 million. North American revenues comprised royalties of £0.4 million for the period to 18 May 2004 and sales of £2.1 million for the period from 19 May 2004 to 30 June 2004.

Research and development expenditure decreased to £11 million (October 2003: £19.7 million) due to cost reduction

initiatives and lower expenditure on the product portfolio. In 2004, expenditure of £8.5 million was incurred on internally funded R&D (October 2003: £12 million) and £2.5 million on external costs associated with development of the product portfolio (October 2003: £6.2 million). In addition, intangible assets were written down, in 2003, by £1.8 million following the portfolio review.

Administrative expenses increased to £8 million (October 2003: £7.7 million) and comprised goodwill amortisation of £2.3 million (October 2003: £2.3 million), restructuring costs of £0.9 million (October 2003: £2.3 million), one-off sales and marketing costs associated with Frova™ of £1 million (October 2003: £nil), professional fees associated with one-off transactions of £0.4 million (October 2003: £nil) and other costs of £3.4 million (October 2003: £2.8 million).

As a result, the operating loss for the period was reduced to £14.3 million (October 2003: £20.5 million).

The provision for loss on disposal of fixed assets of £0.4 million (2003: £2.5 million) reflects an additional write-down of the

plant and machinery at the Oxford location, which was vacated in November 2003. The Oxford property is not required within the business and is being divested.

Merger transaction expenses of £5.4 million, in 2003, relate to the combination of British Biotech and Vernalis Group and have been charged in the profit and loss account in line with the requirements for merger accounting.

Interest receivable decreased to £1.1 million (October 2003: £1.6 million) due to reduced average cash balances. Amounts written off investments in collaborators reduced to £0.1 million (October 2003: £0.8 million) and reflect the fall in value of biotechnology stocks.

The tax credit of £0.9 million (October 2003: £2.2 million) represents amounts that are expected to be received under current legislation on research and development tax credits for small and medium-sized companies.

## Balance sheet

Intangible assets increased to £44.2 million (December 2003: £22.9 million) and comprised goodwill of £5.8 million and other intangibles of £38.4 million. The increase is due to the reacquisition of the North American rights to frovatriptan from Elan. Other intangibles represent the reacquisition cost of frovatriptan of £24.2 million and the capitalisation of payments conditionally due to GlaxoSmithKline (GSK) to buy out royalties due to GSK on sales of frovatriptan. Tangible assets decreased to £6.5 million

(December 2003: £7.5 million) due to the provision against the Oxford facility described above and regular depreciation charges.

Debtors increased to £18 million (December 2003: £11 million) with the principal amounts being £5.5 million (\$10 million) due from Biogen Idec which was received in July, £5.5 million in respect of research and development tax credits (of which £0.5 million was received in August 2004) and £2 million in respect of VAT recoverable which was received in July.

Cash and short-term investments were £11 million (December 2003: £24.2 million). The reduction in cash and short term investments in the half-year of £13.2 million included the initial payment of \$5 million (£2.8 million) to Elan relating to the reacquisition of frovatriptan and offset by the \$6 million (£3.3 million) equity investment by Biogen Idec. Restructuring costs and one-off professional fees paid in the period amounted to £1.1 million.

After the period end the cash balances have been enhanced substantially through: the receipt in July of the signature fee of \$10 million from Biogen Idec; the receipt in August of the signature fee of \$30 million from Endo; and the expected receipt in September of the signature fee and equity subscription of \$10.5 million from Novartis. In addition, in August Vernalis drew down the \$50 million loan facility from Endo and settled all amounts due to Elan of \$43.5 million. The payment to Elan comprised \$39 million, in full

and final settlement of the outstanding purchase consideration for frovatriptan of \$45 million (thereby securing a \$6 million discount for early repayment), and \$4.5 million for inventory. At 31 August 2004 Vernalis' cash balance (excluding the receipt of \$10.5 million from Novartis) was £37.2 million.

Creditors falling due within one year increased to £30.2 million (December 2003: £19.8 million) of which £1.4 million were non-cash items at the period end. The balance at 30 June 2004 included £13.2 million to Elan in respect of the reacquisition of rights to frovatriptan (settled in August following draw down of the Endo loan – see above), £4.1 million due to GSK, £1.5 million in respect of unpaid transaction and restructuring costs and £1.4 million of deferred income, being the non-cash item referred to above.

Creditors falling due after more than one year increased to £23.6 million (December 2003: £8.1 million) due to inclusion of the amount due to Elan of £12.9 million in respect of the reacquisition of rights to frovatriptan (settled in August following draw down of the Endo loan – see above) and £4.1 million of deferred income. Provisions for liabilities and charges decreased to £3.8 million (December 2003: £4.1 million) and primarily relate to properties.

### **Tony Weir**

Chief Financial officer

# Independent auditors' review report to Vernalis plc

## Introduction

We have been instructed by the Company to review the financial information which comprises the unaudited consolidated profit and loss account, the unaudited consolidated balance sheet, the unaudited consolidated cash flow statement and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

## Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

## Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for and only for the Company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

## Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2004.

## PricewaterhouseCoopers LLP

Chartered Accountants  
London

17 September 2004

### Notes:

- a) The maintenance and integrity of the Vernalis plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the interim report since it was initially presented on the website.
- b) Legislation in the United Kingdom governing the preparation and dissemination of financial information may differ from legislation in other jurisdictions.

## Unaudited consolidated profit and loss account

for the half-year ended 30 June 2004

	Note	6 months ended 30 June 2004 £000	6 months ended 31 October 2003 £000	8 months ended 31 December 2003 £000
<b>Turnover</b>	2	<b>5,093</b>	6,976	8,631
Cost of sales		<b>(423)</b>	(156)	(228)
<b>Gross profit</b>		<b>4,670</b>	6,820	8,403
Research and development expenditure		<b>(11,019)</b>	(19,665)	(26,890)
Administrative expenses		<b>(7,972)</b>	(7,682)	(10,901)
<b>Operating loss</b>		<b>(14,321)</b>	(20,527)	(29,388)
Provision for loss on disposal of fixed assets		<b>(379)</b>	(2,538)	(2,988)
Merger transaction expenses		<b>–</b>	(5,396)	(5,396)
<b>Loss on ordinary activities before interest and taxation</b>		<b>(14,700)</b>	(28,461)	(37,772)
Interest receivable and similar income		<b>1,091</b>	1,553	2,314
Amounts written off investments		<b>(83)</b>	(836)	(862)
Interest payable and similar charges		<b>(313)</b>	(423)	(544)
<b>Loss on ordinary activities before taxation</b>		<b>(14,005)</b>	(28,167)	(36,864)
Tax on loss on ordinary activities		<b>875</b>	2,184	2,645
<b>Loss for the period</b>		<b>(13,130)</b>	(25,983)	(34,219)
Loss per share (basic and diluted)	5	<b>(9.2)p</b>	(19.2)p	(24.9)p

There are no recognised gains and losses other than the losses above and therefore no separate statement of recognised gains and losses has been presented.

# Unaudited consolidated balance sheet

As at 30 June 2004

	Note	At 30 June 2004 £000	At 31 October 2003 £000	At 31 December 2003 £000
<b>Fixed assets</b>				
Intangible assets	3	44,176	23,921	22,925
Tangible assets		6,485	7,808	7,508
Investments		–	109	83
		<b>50,661</b>	31,838	30,516
<b>Current assets</b>				
Stock		1,933	31	49
Debtors		17,952	10,231	10,991
Short-term deposits and investments		9,934	39,421	22,329
Cash at bank and in hand		1,113	308	1,885
		<b>30,932</b>	49,991	35,254
<b>Current liabilities</b>				
Creditors: amounts falling due within one year		(30,212)	(27,834)	(19,773)
<b>Net current assets</b>		<b>720</b>	22,157	15,481
<b>Total assets less current liabilities</b>				
Creditors: amounts falling due after more than one year		(23,555)	(8,632)	(8,119)
Provision for liabilities and charges		(3,872)	(3,313)	(4,089)
<b>Net assets</b>		<b>23,954</b>	42,050	33,789
<b>Capital and reserves</b>				
Share capital		39,124	38,813	38,813
Share premium account		301,210	298,251	298,226
Merger reserve		101,985	101,985	101,985
Other reserves		50,776	50,776	50,776
Profit and loss account		(469,141)	(447,775)	(456,011)
<b>Total shareholders' funds</b>		<b>23,954</b>	42,050	33,789
<b>Analysis of shareholders' funds</b>				
Equity		(7,753)	10,343	2,082
Non-equity		31,707	31,707	31,707
		<b>23,954</b>	42,050	33,789

Approved by the Board of Directors

17 September 2004

# Unaudited consolidated cash flow statement

For the half-year ended 30 June 2004

	<b>6 months ended 30 June 2004 £000</b>	6 months ended 31 October 2003 £000	8 months ended 31 December 2003 £000
<b>Net cash outflow from operating activities</b>	<b>(11,947)</b>	(26,586)	(34,089)
Return on investments and servicing of finance	<b>144</b>	1,269	659
Taxation	<b>648</b>	2,785	2,783
Capital expenditure	<b>(4,841)</b>	92	(16)
<b>Cash utilised by operations</b>	<b>(15,996)</b>	(22,440)	(30,663)
Management of liquid resources	<b>12,395</b>	8,693	25,786
Financing	<b>2,737</b>	13,717	6,478
<b>(Decrease)/increase in cash in the period</b>	<b>(864)</b>	(30)	1,601
<b>Reconciliation of net cash flow to movement in net funds</b>			
(Decrease)/Increase in cash in the period	<b>(864)</b>	(30)	1,601
Cash outflow from decrease in debt and lease financing	<b>558</b>	742	7,955
Cash inflow from movement in liquid resources	<b>(12,395)</b>	(8,693)	(25,786)
Exchange adjustment	<b>92</b>	-	(55)
<b>Movement in net funds in the period</b>	<b>(12,609)</b>	(7,981)	(16,285)
Net funds at start of the period	<b>21,973</b>	38,258	38,258
Net funds at end of the period	<b>9,364</b>	30,277	21,973
Net funds comprise:			
Cash	<b>1,113</b>	308	1,885
Short term deposits and investments	<b>9,934</b>	39,421	22,329
Loans due in more than one year	<b>(1,080)</b>	(1,215)	(1,215)
Loans due in less than one year	<b>(270)</b>	(7,270)	(270)
Finance leases	<b>(333)</b>	(967)	(756)
	<b>9,364</b>	30,277	21,973

# Notes to the financial information

For the half-year ended 30 June 2004

**1** The interim financial information on the Group set out above has been prepared on the basis of the accounting policies set out in the Group's statutory accounts for the 8 months ended 31 December 2003. This interim financial information has not been audited and does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985 but has been reviewed by the auditors in accordance with bulletin 1999/4 issued by the Auditing Practices Board; their report to the Company is set out on page 11. The Company's statutory accounts for the year ended 31 December 2003 have been delivered to the Registrar of Companies; the report of the auditors on these accounts was unqualified and did not contain a statement under Section 237 (2) or (3) of the Act.

## 2 Turnover

a) A geographical analysis of turnover by destination according to the country of registration of the fee-paying parties is as follows:

	<b>6 months ended 30 June 2004 £000</b>	6 months ended 31 October 2003 £000	8 months ended 31 December 2003 £000
United Kingdom	<b>48</b>	49	49
North America	<b>4,047</b>	2,820	2,937
Europe	<b>998</b>	4,107	5,645
	<b>5,093</b>	6,976	8,631

b) The Group derives turnover from a variety of revenue streams including out-licencing agreements and sale of product.

	<b>6 months ended 30 June 2004 £000</b>	6 months ended 31 October 2003 £000	8 months ended 31 December 2003 £000
<b>Pharmaceutical research and development</b>			
Product sales	<b>2,642</b>	487	487
Royalties	<b>437</b>	1,018	2,105
Collaboration agreements	<b>2,014</b>	5,471	6,039
	<b>5,093</b>	6,976	8,631

## Notes to the financial information continued

### 3 Intangible fixed assets

	Goodwill £000	Other intangibles £000	Total £000
<b>Cost</b>			
At 1 January 2004	17,223	17,177	34,400
Additions	–	24,444	24,444
At 30 June 2004	17,223	41,621	58,844
<b>Amortisation</b>			
At 1 January 2004	9,209	2,266	11,475
Charge for the period	2,274	919	3,193
At 30 June 2004	11,483	3,185	14,668
Net book value 30 June 2004	5,740	38,436	44,176
Net book value 31 December 2003	8,014	14,911	22,925

### 4 Post balance sheet events

On 12 July 2004, the Company announced it had licensed the North American sales and marketing rights to frovatriptan. This transaction completed on 17 August 2004 at which time the initial payment of \$30 million was received from Endo. On 23 August 2004 the \$50 million loan facility from Endo was drawn down and payment made to Elan of \$39 million in full settlement of the amounts originally due to Elan of \$20 million at 31 December 2004 and \$25 million at 31 December 2005.

On 6 August 2004 the company announced that Novartis had exercised its option in respect of Hsp90. The agreement was executed on 16 September 2004 following which Novartis will make an initial payment of \$1.5 million and subscribe £5 million (\$9 million) for 7,106,344 new Vernalis ordinary shares at 70.18p per share.

**5** Loss per share is based on the loss attributable to shareholders on 142.3 million shares being the weighted average number of shares in issue for the half year.

**6** The directors do not propose a dividend for the period.

## Addresses and advisers

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