ALKERMES INC
Form 425
July 28, 2011
**Table of Contents**

Filed by Antler Science Two Limited

pursuant to Rule 425 of the

Securities Act of 1933 and

deemed filed pursuant to

Rule 14a-12 of the

Securities Exchange Act of 1934

Subject Company: Alkermes, Inc.

Commission File No.: 001-14131

# Elan Corporation, plc

## Half-Year Financial Report

## Six Months Ended 30 June 2011

Table of Contents

**Table of Contents**

Table of Contents

## CHIEF EXECUTIVE OFFICER S STATEMENT

To Our Shareholders:

During the first half of 2011, Elan delivered significant financial advancement, announced a strategic transaction that will lay the foundation for the Company in the years to come and added to the depth and breadth of our discovery/research activities. Adjusted Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) increased by 49% over the same period in 2010 as overall financial results continue to improve (see page 13 for a reconciliation of Adjusted EBITDA to IFRS net income/(loss)). The significant increase in Adjusted EBITDA principally reflects a continuation in revenue growth coupled with an increase in operating margins being driven by a business structure that allows a portfolio approach to costs and investments against expected timelines, results and overall performance.

Revenue increases for the BioNeurology business were driven by growth of *Tysabri*®, which recorded in-market sales of $738.4 million in the first half of 2011, an increase of 25% over the $589.4 million recorded in the same period of 2010. At the end of June 2011, approximately 61,500 patients were on therapy worldwide, an increase of 15% over the 53,300 (revised) who were on therapy at the end of June 2010.

We continue to work closely with our collaborator on *Tysabri*, Biogen Idec, Inc. (Biogen Idec), as well as the clinical and scientific communities, to create significant understanding in both efficacy and safety of the therapy so it may be best positioned to the maximum clinical benefit of patients. Importantly, in June 2011, the European Commission (EC) approved the inclusion of the anti-JC virus (JCV) antibody status as an additional factor in stratifying patients at risk for developing progressive multifocal leukoencephalopathy (PML) in the survey of Product Characteristics for *Tysabri* in the European Union. In addition, as part of a standard review process, the EC concluded the quality, safety and efficacy of *Tysabri* continue to be adequately demonstrated, and renewed *Tysabri s* five year marketing authorization in the EU. Elan and Biogen have filed for a similar label update with the U.S. Food and Drug Administration (FDA) and expect to hear a response in the second half of 2011.

In May 2011, we announced the signing of an agreement to merge our Elan Drug Technologies (EDT) business with Alkermes, Inc. (Alkermes), a transaction that we believe provides a clear strategic pathway for Elan while, at the same time, providing significant benefit to our shareholders. The newly formed Alkermes plc will have a diversity of assets, a balance of expertise and will be cash flow positive from an operating point of view upon the closing of the transaction. In consideration for this transaction, we will receive $500 million in cash and 31.9 million shares of Alkermes plc common stock upon closing of the transaction. We intend to use the proceeds to further reduce our debt and continue to strengthen our balance sheet and overall capital structure. We expect the EDT transaction to close in the third quarter of 2011.

Also in May 2011, we entered a strategic business relationship with Proteostasis Therapeutics, Inc. (Proteostasis) to advance the discovery and development of disease modifying small molecule drugs and diagnostics for the treatment of neurodegenerative disorders and a broad array of dementia related diseases including Alzheimer s disease. This innovative initiative will combine Proteostasis unique discovery technology, novel targets and compounds that modulate key Proteostasis network pathways with our longstanding strength in proprietary animal models, biology, medicinal chemistry and clinical development. We invested $20 million into the equity capital of Proteostasis and became a 24% shareholder. We will have the opportunity to invest an additional $30 million in collaboration funding over five years and retain the right of first negotiation to exclusively license potential compounds.

As part of our on-going effort to engage best in class business partners, we announced a global technical development and manufacturing agreement for antibody based therapeutics with Boehringer Ingelheim. In addition, we formed a global business collaboration with Pharmaceutical Product Development, Inc. (PPD) to focus the advancement and execution of our clinical development portfolio. Both of these important initiatives will allow us to advance our science and therapeutics in a flexible, cost efficient manner and further combine outstanding science with a business model that allows for flexibility, scale and operating leverage.

We look forward to and expect to make continued progress on all aspects of our business. Elan will remain a company that has as its core distinctive science and an ability to translate that science into possible therapies that may offer the opportunity to help millions of patients around the world. In doing so, we expect to create shareholder value over time and through cycles as we dynamically manage a portfolio of science, clinical assets, cash flows, timelines, risks and capital structure to achieve our goal of attaining clear leadership within the industry.

G. Kelly Martin

*Chief Executive Officer*

1

Table of Contents

**HALF-YEAR MANAGEMENT REPORT**

*In connection with the proposed merger, Alkermes plc has filed with the Securities and Exchange Commission (SEC) a registration statement that includes a preliminary prospectus regarding the proposed merger and Alkermes, Inc. has filed with the SEC a proxy statement in respect of the proposed merger. The definitive proxy statement/prospectus will be mailed to the stockholders of Alkermes, Inc. INVESTORS ARE URGED TO CAREFULLY READ THE REGISTRATION STATEMENT AND THE PROXY STATEMENT/PROSPECTUS AND OTHER MATERIALS REGARDING THE PROPOSED MERGER BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT ALKERMES, INC. AND EDT AND THE PROPOSED TRANSACTION. Investors may obtain a free copy of the registration statement and the proxy statement/prospectus and other documents containing information about EDT and Alkermes, Inc., without charge, at the SEC s website at www.sec.gov. Copies of the proxy statement/prospectus and the filings with the SEC that will be incorporated by reference in the proxy statement/prospectus can also be obtained, without charge, from Elan s website www.elan.com.*

*This communication does not constitute an offer to sell, or the solicitation of an offer to sell, or the solicitation of an offer to subscribe for, or buy, any securities, nor shall there be any sale, issuance or transfer of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.*

**Introduction**

This Half-Year Financial Report for the six months ended 30 June 2011 meets the reporting requirements pursuant to the Transparency (Directive 2004/109/EC) Regulations 2007 and the related Transparency Rules of the Republic of Ireland s Financial Regulator.

This half-year management report includes the following:

Business overview, including important events that have occurred during the half-year;

Selected financial data;

Principal risks and uncertainties relating to the remaining six months of the year;

Results of operations for continuing and discontinued operations for the first half 2011, compared to the first half of 2010;

Reconciliation of net income/(loss) to Adjusted EBITDA non-GAAP financial information;

Liquid resources and shareholders equity;

Cash flows summary;

Debt facilities;

Related party transactions; and

Directors.

**Business Overview**

Elan Corporation, plc, an Irish public limited company (also referred to hereafter as we , our , us , Elan and the Company ), is a neuroscience-b biotechnology company, listed on the Irish and New York Stock Exchanges, and headquartered in Dublin, Ireland. We were incorporated as a private limited company in Ireland in December 1969 and became a public limited company in January 1984. Our registered office and principal executive offices are located at Treasury Building, Lower Grand Canal Street, Dublin 2, Ireland and our telephone number is +353-1-709-4000. As of 30 June 2011, we employed over 1,000 people and our principal research and development (R&D), manufacturing and marketing facilities are located in Ireland and the United States.

Our operations are organised into two business units; BioNeurology and EDT. BioNeurology engages in research, development and commercial activities primarily in the areas of Alzheimer s disease, Parkinson s disease and multiple sclerosis (MS). EDT is an established, profitable, integrated drug delivery business unit of Elan, which has been applying its skills and knowledge in product development and drug delivery technologies to enhance the performance of dozens of drugs that have been marketed worldwide.

Table of Contents

***EDT Transaction***

On 9 May 2011, Alkermes and Elan announced the execution of a definitive agreement under which Alkermes will merge with EDT in a cash and stock transaction valued at approximately $960 million as of the date of announcement. Alkermes and EDT will be combined under a new holding company incorporated in Ireland. This newly created company will be named Alkermes plc.

In connection with the transaction, at closing, we will receive $500 million in cash and 31.9 million ordinary shares of Alkermes plc common stock. Existing shareholders of Alkermes will receive one ordinary share of Alkermes plc in exchange for each share of Alkermes they own at the time of the merger. Alkermes plc shares will be registered in the United States and are expected to trade on the NASDAQ exchange.

On the closing of the transaction, we will hold approximately 25% of the equity of Alkermes plc, with the existing shareholders of Alkermes holding the remaining 75% of the equity. We will account for our equity investment in Alkermes plc as an investment in an associate and expect to record a substantial gain on the disposal of EDT when the transaction closes. We intend to use the net cash proceeds from the transaction to retire debt.

The transaction is subject to approval by Alkermes stockholders and the satisfaction of customary closing conditions and regulatory approvals. The transaction is expected to close during the third quarter of 2011. We refer to this transaction as the EDT Transaction in this Half-Year Financial Report.

Following the approval of the EDT Transaction by the Board of Elan on 8 May 2011, the EDT business met the criteria to be classified as held for sale and the assets and liabilities of EDT have been classified as held for sale on the half-year balance sheet at 30 June 2011. The results of EDT are presented as a discontinued operation in the half-year income statement for the first half of 2011 and the comparative amounts have been restated to reflect this classification.

***Summary of Operating Performance***

Our continuing operations solely relate to the BioNeurology business. Total revenue for the BioNeurology business increased by 12% to $324.9 million in the first half of 2011, compared to the same period in 2010. The increase was driven by the growth of *Tysabri* revenue where total in-market sales were $738.4 million in the first half of 2011, an increase of 25% over the $589.4 million recorded in the same period of 2010, and resulted in recorded *Tysabri* revenue of $321.7 million (2010: $250.3 million). The growth in in-market sales reflects increased patient demand across global markets and a higher price in the United States, along with favourable foreign currency movements in the rest of world (ROW). At the end of June 2011, approximately 61,500 patients were on therapy worldwide, including approximately 28,500 commercial patients in the United States and approximately 32,300 commercial patients in ROW, representing an increase of 15% over the 53,300 patients (revised) who were on therapy at the end of June 2010.

For a reconciliation of operating profit/(loss) before other charges to operating profit/(loss), refer to page 8. We believe this reconciliation is meaningful because it provides additional information when analysing certain items. The principal items classified as other charges include transaction costs, severance, restructuring and other costs, facilities charges and net loss on divestment of business.

In July 2010, we announced that we reached an agreement in principle with the U.S. Attorney s Office for the District of Massachusetts with respect to the previously disclosed U.S. Department of Justice s investigation of sales and marketing practices for Zonegran®, which we divested in 2004. During the first half of 2010, we recorded a $206.3 million provision charge for the settlement, interest and related costs. The agreement was finalised in December 2010. Consistent with the terms of the agreement-in-principle announced in July 2010, we paid $203.5 million pursuant to the terms of a global settlement resolving all U.S. federal and related state Medicaid claims. The resolution of the Zonegran investigation could give rise to other investigations of litigation by state government entities or private parties.

Excluding other charges, the BioNeurology business recorded an operating profit for the first half of 2011 of $44.0 million compared to an operating profit, excluding the settlement provision and other charges, of $7.1 million recorded in the first half of 2010. This improvement reflects the 12% increase in revenue, improved operating margins and a 11% reduction in combined SG&A and R&D expenses (excluding other charges).

Table of Contents

The net income from discontinued operations of $103.1 million in the first half of 2011 as compared to $21.1 million in the first half of 2010 relates to the EDT business. The net income from discontinued operations in the first half of 2011 includes legal settlement gains of $84.5 million, which are further discussed on page 12. Including the net income from continuing and discontinued operations, total net income for the first half of 2011 was $50.1 million compared to a net loss of $219.8 million in the same period of 2010.

In the first half of 2011, BioNeurology Adjusted EBITDA increased to $73.2 million from $35.9 million for the same period in 2010. The increase principally reflects the increase in revenue, improved operating margins and the reduction in combined SG&A and R&D expenses (excluding other charges). For a reconciliation of net loss to Adjusted EBITDA, refer to page 13.

For additional discussion of the results of operations for the first half of 2011, refer to pages 6 to 12 of this half-year management report.

***BioNeurology R&D Update***

In June 2011, the EC approved the inclusion of anti-JCV antibody status as an additional factor to aid in stratifying patients at risk for developing PML in the Summary of Product Characteristics (SmPC) for *Tysabri* in the European Union. In addition, as part of a standard review process, the EC concluded the quality, safety and efficacy of *Tysabri* continue to be adequately demonstrated and renewed the EU five-year Marketing Authorisation.

The new SmPC language states that patients who are anti-JCV antibody positive are at an increased risk of developing PML compared to patients who are anti-JCV antibody negative. Recent studies suggest that irrespective of MS treatment, approximately 55% of MS patients are anti-JCV antibody positive. The SmPC language also states that patients who are anti-JCV antibody positive, have received prior immunosuppressant (IS) therapy, and received treatment with *Tysabri* for more than two years have the highest risk of developing PML.

This update to the SmPC was based on analysis of data from Biogen and Elan s quantitative risk stratification algorithm, which was presented at a number of recent major, international medical meetings. In the analysis, patients who were anti-JCV antibody negative were at a lower risk for developing PML. Patients who were anti-JCV antibody positive had varying degrees of risk for developing PML depending on prior IS use and *Tysabri* treatment duration.

In May 2011, we announced a strategic business relationship with Proteostasis to leverage Proteostasis platform for the discovery and development of disease-modifying, small molecule drugs and diagnostics for the treatment of neurodegenerative disorders such as Parkinson s, Huntington s, MS and amyotrophic lateral sclerosis (ALS), and a broad array of dementia-related diseases including Alzheimer s. This innovative initiative will bring together Proteostasis unique discovery technology, novel targets and compounds that modulate key Proteostasis Network pathways with our recent scientific advances in Parkinson s disease and long-standing strength in proprietary animal models, biology and medicinal chemistry as well as our current development expertise.

Under the terms of the agreement, we invested $20 million into the equity capital of Proteostasis and will have an opportunity to provide an additional $30 million in collaboration funding over five years. As part of the agreement, we became an approximate 24% shareholder in Proteostasis, obtained a right of first negotiation to exclusively license compounds emerging from the combined initiative, and have the right to a seat on the Proteostasis board of directors as well as its scientific advisory board. By mutual agreement, the relationship can be extended for a further five years. Elan s CEO, Kelly Martin, has joined the board of directors of Proteostasis and Elan s chief scientific officer, Dale Schenk, has joined its Scientific Advisory Board.

Neotope Biosciences Limited (Neotope Biosciences) is a wholly owned subsidiary of Elan that was created in 2010. Its focus is on creating novel monoclonal antibodies to neo-epitope amyloid related targets for the treatment of a broad range of therapeutic indications. These indications cover many different diseases from neurodegeneration to cancer to diabetes.

With progress being made in our lead programme against AL amyloidosis, we will begin the process of forming a separate and initially wholly owned subsidiary dedicated to advancing oncology related therapeutics. This business structure enables Neotope Biosciences and our Parkinson s Disease Genetics (PDG) group to continue to follow the science, reinforcing our focus, expertise and operating discipline in the broad field of neurology while simultaneously benefiting from possible therapeutic advancements in non-neurology fields.

Table of Contents

During the second quarter of 2011, we discontinued our ELND007 gamma secretase programme.

In July 2011, we presented data from the Phase 2 clinical trial of ELND005 (Scyllo-inositol) in mild to moderate Alzheimer s disease patients, at the Alzheimher s Association International Conference 2011.

Poster presentations on the safety and efficacy results of the Phase 2 randomised, placebo-controlled, dose-ranging study of ELND005 in mild to moderate Alzheimer s disease and on the population pharmacokinetic analysis of plasma, cerebrospinal fluid, and brain ELND005 in patients with mild to moderate Alzheimer s disease were presented. An oral presentation on imaging and cerebrospinal fluid biomarker results of a Phase 2 dose-ranging study of ELND005 in mild to moderate Alzheimer s disease was also presented.

**Selected Financial Data**

The selected financial data set forth below is derived from our unaudited condensed consolidated half-year financial statements (half-year financial statements) in this Half-Year Financial Report and our 2010 Annual Report, and should be read in conjunction with, and is qualified by reference to, our half-year financial statements and related notes thereto.

| **Six Months Ended 30 June,** | **2011** | **2010** |
|---|---|---|
| ***Income Statement Data (in $m, except for per share and number of shares data):*** | | |
| **Continuing operations** | | |
| Total revenue | 324.9 | 291.1 |
| Settlement provision charge | | 206.3 |
| Operating profit/(loss) | 32.5 | (203.1) |
| Net loss from continuing operations | (53.0) | (240.9) |
| Adjusted EBITDA continuing operations[(1)] | 73.2 | 35.9 |
| **Discontinued operations** | | |
| Net income from discontinued operations | 103.1 | 21.1 |
| Adjusted EBITDA discontinued operations[(1)] | 49.8 | 46.5 |
| Net income/(loss) | 50.1 | (219.8) |
| Adjusted EBITDA[(1)] | 123.0 | 82.4 |
| **Basic earnings/(loss) per Ordinary Share** | | |
| From continuing operations | (0.09) | (0.41) |
| From discontinued operations | 0.18 | 0.04 |
| Basic weighted-average shares outstanding (in millions) continuing and discontinued operations | 586.4 | 584.6 |
| **Diluted earnings/(loss) per Ordinary Share** | | |
| From continuing operations | (0.09) | (0.41) |
| From discontinued operations | 0.17 | 0.04 |
| Diluted weighted-average shares outstanding (in millions) continuing operations | 586.4 | 584.6 |
| Diluted weighted-average shares outstanding (in millions) discontinued operations | 591.4 | 587.3 |

| | **30 June 2011** | **31 December 2010** |
|---|---|---|
| ***Balance Sheet Data (in $m):*** | | |
| Cash and cash equivalents | 491.9 | 422.5 |
| Restricted cash and cash equivalents current and non-current | 17.6 | 223.1 |
| Available-for-sale investments current | 1.2 | 2.0 |
| Assets held for sale | 349.4 | |
| Total assets | 1,881.3 | 1,999.1 |
| Liabilities held for sale | 23.4 | |
| Long-term debt | 1,251.8 | 1,249.1 |
| Total shareholders equity | 295.4 | 214.0 |

*Refer to page 13 for a reconciliation of Adjusted EBITDA to net income/(loss) and our reasons for presenting this non-GAAP measure.*

(1)

Table of Contents

**Principal Risks and Uncertainties**

Our operating performance in the second half of 2011 is subject to risks and uncertainties. These include, but are not limited to, the following principal items:

- In respect of *Tysabri*, at the end of June 2011, approximately 61,500 patients were on therapy worldwide, including approximately 28,500 commercial patients in the United States and approximately 32,300 commercial patients in the ROW, representing an increase of 15% over the 53,300 patients (revised) who were on therapy at the end of June 2010. While we expect sales of *Tysabri* to continue to grow in the second half of 2011, the potential of *Tysabri* may be severely constrained by increases in the incidence of serious adverse events (including deaths) associated with *Tysabri* (in particular, if there are increases in the incidence rate for cases of PML, or by competition from existing or new therapies (in particular, oral therapies approved or filed for U.S. and European approvals);

- In May 2011, we announced that we had entered into an agreement with Alkermes to sell our EDT business unit in a cash and stock transaction valued at approximately $960 million, as of the date of announcement. While we expect the transaction to close in the third quarter of 2011, there are conditions to closing that must be satisfied or waived before the deal can close. There can be no assurance that such conditions will be satisfied or waived and thus there can be no assurance that the transaction will be consummated in the third quarter of 2011 or at all; and

- Johnson & Johnson is our largest shareholder with an 18.4% interest in our outstanding Ordinary Shares and is in control of our remaining interest in the Alzheimer s Immunotherapy Program (AIP). Johnson & Johnson s interest in Elan and the AIP may discourage others from seeking to work with or acquire us.

Additionally, the pharmaceutical industry is highly competitive and subject to significant and changing regulation by international, national, state and local government entities; thus we face a number of other risks and uncertainties, which are discussed in more detail in our 2010 Annual Report.

**Results of Operations for the Six Months Ended 30 June 2011 and 2010**

| | 2011 $m | 2010 $m | % increase/ (decrease) |
|---|---|---|---|
| **Continuing Operations** | | | |
| Product revenue | 324.9 | 290.1 | 12% |
| Contract revenue | | 1.0 | (100%) |
| Total revenue | 324.9 | 291.1 | 12% |
| Cost of sales | 121.8 | 105.1 | 16% |
| Gross profit | 203.1 | 186.0 | 9% |
| Selling, general and administrative expenses | 73.0 | 79.4 | (8%) |
| Research and development expenses | 97.6 | 103.4 | (6%) |
| Settlement provision charge | | 206.3 | (100%) |
| Operating profit/(loss) | 32.5 | (203.1) | (116%) |
| Interest expense | 59.5 | 60.7 | (2%) |
| Interest income | (1.4) | (1.7) | (18%) |
| Investment gains | (2.3) | (13.9) | (83%) |
| Net loss on investments in associates | 25.9 | | 100% |

| | | | |
|---|---|---|---|
| Net interest and investment gains and losses | 81.7 | 45.1 | 81% |
| Loss before tax | (49.2) | (248.2) | (80%) |
| Income tax expense/(benefit) | 3.8 | (7.3) | (152%) |
| Net loss from continuing operations | (53.0) | (240.9) | (78%) |
| **Discontinued Operations** | | | |
| Net income from discontinued operations | 103.1 | 21.1 | 389% |
| Net income/(loss) | 50.1 | (219.8) | (123%) |

Table of Contents

**Results of Continuing and Discontinued Operations**

The results of our continuing operations exclude the EDT business and relate to the operations of BioNeurology only. The EDT business is presented as a discontinued operation in the half-year income statement for the first half of 2011 and the comparative amounts have been restated to reflect this classification. A discussion of the results of the BioNeurology and EDT businesses in the first half of 2011 is set out below.

**Operating Review of Continuing Operations BioNeurology**

***Revenue***

Total revenue from BioNeurology increased 12% to $324.9 million in the first half of 2011 from $291.1 million in the same period of 2010. The increase was driven by growth in *Tysabri* sales.

| | Six Months Ended 30 June | |
|---|---|---|
| | **2011 $m** | **2010 $m** |
| Product revenue: | | |
| *Tysabri* | 321.7 | 250.3 |
| Maxipime® | 0.7 | 5.4 |
| Azactam® | 0.4 | 27.4 |
| Prialt® | | 6.2 |
| Royalties | 2.1 | 0.8 |
| Total product revenue | 324.9 | 290.1 |
| Contract revenue | | 1.0 |
| Total revenue from BioNeurology | 324.9 | 291.1 |

*Tysabri*

The *Tysabri* collaboration is a jointly controlled operation in accordance with International Accounting Standards (IAS) 31, *Financial Reporting of Interests in Joint Ventures* , (IAS 31). A jointly controlled operation is an operation of a joint venture (as defined by IAS 31) that involves the use of the assets and other resources of the venturers rather than establishing a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer uses its own property, plant and equipment and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finance, which represent its own obligations.

The *Tysabri* collaboration operating profit or loss is calculated excluding R&D expenses (we record our share of the total *Tysabri* collaboration R&D expenses within our R&D expenses). In accordance with IAS 31, we recognise as revenue our share of the collaboration profit from the sale of *Tysabri*, plus our directly-incurred collaboration expenses on these sales. Our actual operating profit or loss on *Tysabri* differs from our share of the collaboration operating profit or loss because certain *Tysabri*-related expenses are not shared through the collaboration, and certain unique risks are retained by each party.

Global in-market net sales of *Tysabri* for MS, which we market in collaboration with Biogen Idec, were as follows:

| | Six Months Ended 30 June | |
|---|---|---|
| | **2011 $m** | **2010 $m** |
| United States | 353.0 | 280.1 |
| ROW | 385.4 | 309.3 |

| | | |
|---|---|---|
| Total *Tysabri* in-market net sales | 738.4 | 589.4 |

Table of Contents

*Tysabri* in-market net sales increased 25% to $738.4 million in the first half of 2011 from $589.4 million in the same period of 2010. The increase reflects increased patient demand across global markets and a higher price in the United States, along with favourable foreign currency movements in ROW.

The *Tysabri* revenue of $321.7 million in the first half of 2011 (2010: $250.3 million) was calculated as follows:

| | Six Months Ended 30 June | |
|---|---|---|
| | 2011 $m | 2010 $m |
| *Tysabri* in-market sales | 738.4 | 589.4 |
| Operating expenses incurred by Elan and Biogen Idec (excluding R&D expenses) | (336.9) | (283.1) |
| *Tysabri* collaboration operating profit | 401.5 | 306.3 |
| Elan s 50% share of *Tysabri* collaboration operating profit | 200.8 | 153.2 |
| Elan s directly incurred costs | 120.9 | 97.1 |
| Net *Tysabri* revenue | 321.7 | 250.3 |

*Other BioNeurology Products*

Elan ceased distributing Azactam as of 31 March 2010 and Maxipime as of 30 September 2010. Revenue for Maxipime and Azactam for the first half of 2011 was $0.7 million and $0.4 million, respectively, and relates to adjustments to discounts and allowances associated with sales prior to the cessation of distribution. Elan divested its Prialt assets and rights in May 2010 and revenue for the first half of 2010 was $6.2 million.

***Other Charges Reconciliation***

The following table shows a reconciliation of BioNeurology operating profit/(loss) before other charges to operating profit/(loss):

| | Six Months Ended 30 June 2011 | | | Six Months Ended 30 June 2010 | | |
|---|---|---|---|---|---|---|
| | Before Other Charges $m | Other Charges $m | IFRS $m | Before Other Charges $m | Other Charges $m | IFRS $m |
| Product revenue | 324.9 | | 324.9 | 290.1 | | 290.1 |
| Contract revenue | | | | 1.0 | | 1.0 |
| Total revenue | 324.9 | | 324.9 | 291.1 | | 291.1 |
| Cost of sales | 122.1 | (0.3) | 121.8 | 104.8 | 0.3 | 105.1 |
| Gross margin | 202.8 | 0.3 | 203.1 | 186.3 | (0.3) | 186.0 |
| Selling, general and administrative expenses | 62.0 | 11.0 | 73.0 | 75.9 | 3.5 | 79.4 |
| Research and development expenses | 96.8 | 0.8 | 97.6 | 103.3 | 0.1 | 103.4 |
| Settlement provision charge | | | | 206.3 | | 206.3 |
| Operating profit/(loss) | 44.0 | (11.5) | 32.5 | (199.2) | (3.9) | (203.1) |

***Cost of Sales***

BioNeurology cost of sales decreased to $121.8 million in the first half of 2011 from $105.1 million in the first half of 2010. Included within cost of sales was an other charges credit of $0.3 million (2010: $0.3 million expense), as described in Note 5 to the half-year financial statements. Excluding other charges, the BioNeurology gross margin on revenue was 62% in 2011 and 64% in 2010.

Table of Contents

Included within total cost of sales is $115.2 million of directly incurred collaboration expenses related to *Tysabri* for 2011 (2010: $88.4 million), resulting in a reported *Tysabri* gross margin of 64% in 2011 (2010: 65%). The reported *Tysabri* gross margin is impacted by the collaboration profit-sharing, commercial spend and operational arrangements.

***Selling, General and Administrative Expenses***

BioNeurology selling, general and administrative (SG&A) expenses decreased to $73.0 million in the first half of 2011 from $79.4 million in the first half of 2010. Included within SG&A expenses were other charges of $11.0 million (2010: $3.5 million), as described in Note 5 to the half-year financial statements. Excluding other charges, SG&A expenses decreased 18% to $62.0 million in 2011 from $75.9 million in 2010. The decrease principally reflects lower support costs in the first half of 2011 as a result of the realignment and restructuring of the R&D organisation within BioNeurology in 2010, partially offset by increased commercial spending for *Tysabri*.

***Research and Development Expenses***

BioNeurology R&D expenses decreased to $97.6 million in the first half of 2011 from $103.4 million in the first half of 2010. Included within R&D expenses were other charges of $0.8 million (2010: $0.1 million), as described in Note 5 to the half-year financial statements. Excluding other charges, R&D expenses decreased 6% to $96.8 million in 2011, compared to $103.3 million in 2010. The decrease primarily relates to the realignment and restructuring of the R&D organisation within Elan s BioNeurology business in 2010, partially offset by increased investment in development activities related to *Tysabri*.

***Settlement Provision Charge***

In July 2010, we announced that we reached an agreement in principle with the U.S. Attorney s Office for the District of Massachusetts with respect to the previously disclosed U.S. Department of Justice s investigation of sales and marketing practices for Zonegran, which we divested in 2004. During the first half of 2010, we recorded a $206.3 million provision charge for the settlement, interest and related costs. The agreement was finalised in December 2010. Consistent with the terms of the agreement-in-principle announced in July 2010, we paid $203.5 million pursuant to the terms of a global settlement resolving all U.S. federal and related state Medicaid claims. The resolution of the Zonegran investigation could give rise to other investigations of litigation by state government entities or private parties.

***Net Interest and Investment Gains and Losses***

Net interest and investment gains and losses amounted to a net expense of $81.7 million for the first half of 2011, compared to a net expense of $45.1 million for the same period of 2010. The increase in net interest and investment gains and losses is primarily attributable to the net loss on investment in associates of $25.9 million (2010: $Nil) in the first half of 2011. For further discussion of investments in associates, refer to Note 8 to the half-year financial statements. In addition, we recorded net investment gains of $2.3 million in the first half of 2011 (2010: $13.9 million), relating to the disposal of non-current investments.

***Taxation***

The income tax expense was $3.8 million in the first half of 2011, compared to a $7.3 million benefit in the first half of 2010. The income tax expense for the first half of 2011 includes deferred expense of $2.1 million (2010: $8.1 million benefit) primarily related to the deferred tax asset (DTA) recognised in 2008, as the underlying loss carryforwards and other DTAs are utilised to shelter taxable income in the United States.

Table of Contents

**Operating Review of Discontinued Operations EDT**

| | Six Months Ended 30 June | |
|---|---|---|
| | 2011 $m | 2010 $m |
| Product revenue | 124.4 | 124.3 |
| Contract revenue | 4.4 | 8.1 |
| Total revenue | 128.8 | 132.4 |
| Cost of sales | 49.6 | 58.9 |
| Gross margin | 79.2 | 73.5 |
| Operating expenses: | | |
| Selling, general and administrative expenses | 19.8 | 20.6 |
| Research and development expenses | 37.8 | 27.1 |
| Gain on legal settlements | (84.5) | |
| Operating profit | 106.1 | 25.8 |
| Net interest expense | 0.4 | 0.2 |
| Net income before tax | 105.7 | 25.6 |
| Income tax expense | 2.6 | 4.5 |
| Net income from discontinued operations | 103.1 | 21.1 |

***Revenue***

Revenue from the EDT business unit decreased to $128.8 million in 2011 from $132.4 million in the first half of 2010.

| | Six Months Ended 30 June | |
|---|---|---|
| | 2011 $m | 2010 $m |
| Product revenue: | | |
| Manufacturing revenue and royalties: | | |
| TriCor® 145 | 24.0 | 25.0 |
| Ampyra® | 22.4 | 20.8 |
| Focalin XR®/Ritalin LA® | 18.2 | 16.6 |
| *Verelan*® | 13.2 | 11.9 |
| Skelaxin® | | 5.2 |
| Other | 46.6 | 44.8 |
| Total product revenue manufacturing revenue and royalties | 124.4 | 124.3 |
| Contract revenue: | | |
| Research revenue | 3.9 | 3.7 |
| Milestone payments | 0.5 | 4.4 |
| Total contract revenue from EDT | 4.4 | 8.1 |

| | | |
|---|---|---|
| Total revenue from EDT | 128.8 | 132.4 |

Manufacturing revenue and royalties comprise revenue earned from products we manufacture for clients and royalties earned principally on sales by clients of products that incorporate our technologies. Except as noted above, no other product accounted for more than 10% of total manufacturing revenue and royalties in the first half of 2011 or the first half of 2010.

Table of Contents

Manufacturing revenue and royalties increased slightly to $124.4 million in the first half of 2011 from $124.3 in the first half of 2010.

The increase in manufacturing revenue and royalties in the first half of 2011, compared to the first half 2010, is primarily attributable to increased revenue from Ampyra, Rapamune®, Invega®Sustenna® and Focalin XR/Ritalin LA, partially offset by decreased revenue from *Naprelan®,* Diltiazem and Skelaxin.

The manufacturing and royalty revenue recorded for Ampyra in the first half of 2010 of $20.8 million principally reflected shipments to Acorda Therapeutics, Inc. (Acorda) of $18.9 million in the first quarter of 2010 to satisfy Acorda s initial stocking requirements for the launch of the product as well as build-up of safety stock supply. Elan records revenue upon shipment of Ampyra to Acorda, as this revenue is not contingent upon ultimate sale of the shipped product by Acorda or its customers. Consequently, revenue varies with shipments and is not based directly on in-market sales.

Potential generic competitors have challenged the existing patent protection for several of the products from which we earn manufacturing revenue and royalties. We and our clients defend the parties intellectual property rights vigorously. However, if these challenges are successful, EDT s manufacturing revenue and royalties will be materially and adversely affected. As a result of the approval and launch of a generic form of Skelaxin in April 2010, EDT s royalty revenue from this product has ended.

***Contract Revenue***

Contract revenue decreased to $4.4 million in the first half of 2011 from $8.1 million for the same period in 2010. The decrease in contract revenue in the first half of 2011 compared to the first half of 2010 was primarily due to the timing of recognition of milestones, partially offset by development fees from clients.

***Other Charges Reconciliation***

The following table shows a reconciliation of the EDT operating profit before other charges to operating profit:

| | Six Months Ended 30 June 2011 | | | Six Months Ended 30 June 2010 | | |
|---|---|---|---|---|---|---|
| | Before Other Charges $m | Other Charges $m | IFRS $m | Before Other Charges $m | Other Charges $m | IFRS $m |
| Product revenue | 124.4 | | 124.4 | 124.3 | | 124.3 |
| Contract revenue | 4.4 | | 4.4 | 8.1 | | 8.1 |
| Total revenue | 128.8 | | 128.8 | 132.4 | | 132.4 |
| Cost of sales | 49.4 | 0.2 | 49.6 | 58.5 | 0.4 | 58.9 |
| Gross margin | 79.4 | (0.2) | 79.2 | 73.9 | (0.4) | 73.5 |
| Selling, general and administrative expenses | 18.1 | 1.7 | 19.8 | 20.6 | | 20.6 |
| Research and development expenses | 24.6 | 13.2 | 37.8 | 27.1 | | 27.1 |
| Gain on legal settlements | (84.5) | | (84.5) | | | |
| Operating profit | 121.2 | (15.1) | 106.1 | 26.2 | (0.4) | 25.8 |

***Cost of Sales***

Total EDT cost of sales decreased to $49.6 million in the first half of 2011 from $58.9 million in the first half of 2010. Included within cost of sales were other charges of $0.2 million (2010: $0.4 million), as described in Note 10 to the half-year financial statements. Excluding other charges, the EDT gross margin on revenue was 62% in 2011 and 56% in 2010. The decrease in cost of sales in the first half of 2011 is primarily due to decreased amortisation expense on the *Verelan* intangible asset, which was fully amortised in December 2010.

11

Table of Contents

***Selling, General and Administrative Expenses***

Total EDT SG&A expenses were $19.8 million in the first half of 2011 from $20.6 million in the first half of 2010. Included within SG&A expenses were other charges of $1.7 million (2010: $Nil), as described in Note 10 to the half-year financial statements. Excluding other charges, SG&A expenses decreased 12% to $18.1 million in 2011 from $20.6 million in 2010. The decrease primarily relates to lower legal costs.

***Research and Development Expenses***

Total EDT R&D expenses were $37.8 million in the first half of 2011 from $27.1 million in the first half of 2010. Included within R&D expenses were other charges of $13.2 million (2010: $Nil), as described in Note 10 to the half-year financial statements. Excluding other charges, R&D expenses decreased 9% to $24.6 million in 2011, compared to $27.1 million in 2010. The decrease is primarily due to timing of R&D spending on proprietary projects.

***Gain on Legal Settlements***

In May 2011, we entered into an agreement with Alcon Laboratories, Inc. (Alcon) to settle litigation in relation to the application of its *NanoCrystal*® technology. As part of the settlement agreement with Alcon, we received $6.5 million in May 2011 in full and final settlement.

In June 2008, a jury ruled in the U.S. District Court for the District of Delaware that Abraxis (since acquired by Celgene Corporation) had infringed a patent owned by Elan in relation to the application of its *NanoCrystal* technology to Abraxane®. We were awarded $55 million, applying a royalty rate of 6% to sales of Abraxane from 1 January 2005 through 13 June 2008 (the date of the verdict). This award and damages associated with the continuing sales of the Abraxane product were subject to interest. In February 2011, we entered into an agreement with Abraxis to settle this litigation. As part of the settlement agreement with Abraxis, we received $78.0 million in full and final settlement of the litigation in March 2011. We will not receive future royalties in respect of Abraxane.

***Net Interest***

Net interest expense of $0.4 million (2010: $0.2 million) for the first half of 2011 is primarily related to foreign exchange losses.

***Taxation***

The income tax expense was $2.6 million in the first half of 2011, compared to a $4.5 million expense in the first half of 2010. The income tax expense in the first half of 2011 includes a deferred tax expense of $2.0 million (2010: $3.9 million) primarily related to the DTA recognised in 2008, as the underlying loss carryforwards and other DTAs are utilised to shelter taxable income in the United States.

Table of Contents

**Reconciliation of Net Income/(Loss) to Adjusted EBITDA Non-GAAP Financial Information**

| | Continuing Operations Six Months Ended 30 June | | Discontinued Operations Six Months Ended 30 June | | Total Six Months Ended 30 June | |
|---|---|---|---|---|---|---|
| | 2011 $m | 2010 $m | 2011 $m | 2010 $m | 2011 $m | 2010 $m |
| Net income/(loss) | (53.0) | (240.9) | 103.1 | 21.1 | 50.1 | (219.8) |
| Adjustments: | | | | | | |
| Interest expense | 59.5 | 60.7 | 0.4 | 0.2 | 59.9 | 60.9 |
| Interest income | (1.4) | (1.7) | | | (1.4) | (1.7) |
| Income tax expense/(benefit) | 3.8 | (7.3) | 2.6 | 4.5 | 6.4 | (2.8) |
| Depreciation and amortisation | 15.3 | 15.9 | 8.6 | 16.3 | 23.9 | 32.2 |
| Amortised fees | (0.3) | (0.2) | (0.2) | (0.2) | (0.5) | (0.4) |
| EBITDA | 23.9 | (173.5) | 114.5 | 41.9 | 138.4 | (131.6) |
| Share-based compensation expense[1] | 14.2 | 13.1 | 4.7 | 4.2 | 18.9 | 17.3 |
| Gain on legal settlement | | | (84.5) | | (84.5) | |
| Settlement provision charge | | 206.3 | | | | 206.3 |
| Other charges | 11.5 | 3.9 | 15.1 | 0.4 | 26.6 | 4.3 |
| Net losses on investments in associates | 25.9 | | | | 25.9 | |
| Net investment gains | (2.3) | (13.9) | | | (2.3) | (13.9) |
| Adjusted EBITDA | 73.2 | 35.9 | 49.8 | 46.5 | 123.0 | 82.4 |

(1) *Share-based compensation expense excludes $0.6 million included in other charges in the first half of 2011 (2010: $0.2 million credit).*

Adjusted EBITDA is a non-GAAP measure of operating results. Elan s management uses this measure to evaluate our operating performance and it is among the factors considered as a basis for our planning and forecasting for future periods. We believe that Adjusted EBITDA is a measure of performance used by some investors, equity analysts and others to make informed investment decisions.

Adjusted EBITDA is defined as net income or loss plus or minus net interest expense, income tax expense, depreciation and amortisation of costs and revenue, share-based compensation, gain on legal settlements, settlement provision charge, other charges or gains, net losses on investments in associates and net investment gains and losses. Adjusted EBITDA is not presented as, and should not be considered an alternative measure of, operating results or cash flows from operations, as determined in accordance with International Financial Reporting Standards (IFRS). A reconciliation of Adjusted EBITDA to net income/(loss) is set out in the table above.

In the first half of 2011, we reported Adjusted EBITDA of $123.0 million, compared to Adjusted EBITDA of $82.4 million in the first half of 2010. The improvement reflects the 12% increase in revenue, improved operating margins and the 11% decrease in combined SG&A and R&D expenses (excluding other charges).

**Liquid Resources and Shareholders Equity**

Our liquid resources and shareholders equity were as follows:

| | 30 June 2011 $m | 31 December 2010 $m | % increase /(decrease) |
|---|---|---|---|
| Cash and cash equivalents | 491.9 | 422.5 | 16% |
| Restricted cash and cash equivalents current | 2.6 | 208.2[1] | (99%) |

| | | | |
|---|---|---|---|
| Available-for-sale investments current | 1.2 | 2.0 | (40%) |
| Total liquid resources | 495.7 | 632.7 | (22%) |
| Shareholders equity | 295.4 | 214.0 | 38% |

(1) *Current restricted cash included $203.7 million held in an escrow account in relation to the Zonegran settlement, which was subsequently paid in March 2011.*

Table of Contents

We have historically financed our operating and capital resource requirements through cash flows from operations, sales of investment securities and borrowings. We consider all highly liquid deposits with a maturity on acquisition of three months or less to be cash equivalents. Our primary source of funds as at 30 June 2011 consisted of cash and cash equivalents of $491.9 million, which excludes current restricted cash of $2.6 million, and current investment securities of $1.2 million. Cash and cash equivalents primarily consist of bank deposits and holdings in U.S. Treasuries funds.

At 30 June 2011, our shareholders equity was $295.4 million, compared to $214.0 million at 31 December 2010. The increase is primarily due to the net income in the first half of 2011 of $50.1 million. The net income in the first half of 2011 includes legal settlement gains of $84.5 million.

**Cash Flows Summary**

**Continuing and Discontinued Operations:**

| | Six Months Ended 30 June | |
|---|---|---|
| | **2011 $m** | **2010 $m** |
| Net cash provided by/(used in) operating activities | (100.5) | 46.1 |
| Net cash provided by investing activities | 167.5 | 0.1 |
| Net cash provided by financing activities | 2.3 | 0.8 |
| Effect of foreign exchange rate changes on cash | 0.1 | (0.3) |
| Net increase in cash and cash equivalents | 69.4 | 46.7 |
| Cash and cash equivalents at beginning of period | 422.5 | 836.5 |
| Cash and cash equivalents at end of period | 491.9 | 883.2 |

***Operating Activities***

The components of net cash used in operating activities were as follows:

| | Six Months Ended 30 June | |
|---|---|---|
| | **2011 $m** | **2010 $m** |
| Adjusted EBITDA | 123.0 | 82.4 |
| Net interest and tax | (58.1) | (56.8) |
| Gain on legal settlements | 84.5 | |
| Other charges | (20.9) | (3.7) |
| Working capital decrease/(increase) | (22.7) | 24.2 |
| Decrease in other liabilities relating to Zonegran settlement | (206.3) | |
| Net cash provided by/(used in) operating activities | (100.5) | 46.1 |

Net cash used in operating activities was $100.5 million in the first half of 2011 (2010: $46.1 million).

The improvement in net cash inflow from Adjusted EBITDA from $82.4 million in 2010 to $123.0 million in the first half of 2011 is discussed on page 13.

Net interest and tax of $58.1 million in the first half of 2011, was primarily comprised of debt interest expense and was higher than the $56.8 million incurred in the first half of 2010, as further discussed on page 9 and page 12. The legal settlement gains of $84.5 million in the first half of 2011 is discussed in Note 10 to the half-year financial statements. The settlement provision charge of $206.3 million which was paid in the first half of 2011, is discussed in Note 6 to the half-year financial statements. The other net charges of $20.9 million in the

Table of Contents

first half of 2011 (adjusted to exclude net non-cash other charges of $5.7 million) was primarily comprised of severance, restructuring charges, and EDT Transaction costs. The other charges of $3.7 million in the first half of 2010 (adjusted to exclude non-cash other charges of $0.6 million) was also primarily comprised of severance and restructuring charges.

The working capital increase of $22.7 million in the first half of 2011 was primarily driven by the increase in trade receivables. This is mainly due to higher revenues from *Tysabri* in the first half of 2011 compared to the first half of 2010.

The working capital decrease of $24.2 million was primarily due to the reduction in revenues from Azactam and Skelaxin following the launch of generic competitors during the first half of 2010, offset by increased revenues from *Tysabri*.

***Investing Activities***

Net cash provided by investing activities was $167.5 million in the first half of 2011. The primary component of cash provided by investing activities is the decrease in restricted cash. The restricted cash and cash equivalents movement includes the $203.7 million that was held in escrow in relation to the Zonegran settlement. This settlement amount was paid in March 2011. The cash provided by investing activities was partially offset by the purchase of an equity method investment in Proteostasis in the first half of 2011 and the payment of $9.0 million to Transition Therapeutics, Inc. (Transition) in January 2011 in relation to the modification of our Collaboration Agreement with Transition in December 2010. In connection with this modification, Transition elected to exercise its opt-out right under the original agreement. Under this amendment, we agreed to pay Transition $9.0 million, which has been capitalised in acquired in process research and development (IPR&D).

Net cash provided by investing activities was $0.1 million in the first half of 2010. The primary components of cash provided by investing activities were capital expenditures of $23.8 million offset by investment and business disposal proceeds of $21.0 million.

***Financing Activities***

Net cash provided by financing activities totaled $2.3 million in the first half of 2011 (2010: $0.8 million), primarily reflecting the net proceeds from employee share issuances.

***Discontinued Operations***

The operating and investing net cash flows for the first half of 2011 and the first half of 2010 discussed above include the discontinued operations of the EDT business. There were no cash flows from financing activities attributable to EDT in the first half of 2011 or 2010. The net cash flows attributable to EDT are set out below:

| | Six Months Ended 30 June | |
|---|---|---|
| | **2011 $m** | **2010 $m** |
| Net operating cash inflows | 133.4 | 56.9 |
| Net investing cash outflows | (5.1) | (6.5) |
| Total net cash inflows | 128.3 | 50.4 |

Table of Contents

**Debt Facilities**

At 30 June 2011, we had outstanding debt of $1,285.0 million in aggregate principal amount (excluding unamortised financing costs and original issue discount), which consisted of the following:

| | Original Maturity | $m |
|---|---|---|
| 8.875% Notes | December 2013 | 449.5 |
| Floating Rate Notes due 2013 | December 2013 | 10.5 |
| 8.75% Notes issued October 2009 | October 2016 | 625.0 |
| 8.75% Notes issued August 2010 | October 2016 | 200.0 |
| Total | | 1,285.0 |

As at 30 June 2011, and as of the date of filing of this Half-Year Financial Report, we were not in violation of any of our debt covenants. For additional information regarding our outstanding debt, please refer to Note 15 to the half-year financial statements.

**Related Party Transactions**

We have related party relationships with our subsidiaries, associates, directors and executive officers. All transactions with subsidiaries eliminate on consolidation and are not presented in accordance with revised IAS 24, *Related Party Disclosures* (IAS 24).

There were no related party transactions that have taken place in the six months ended 30 June 2011 that materially affected the financial position or the performance of the Company during that period and there were no changes in the related party transactions described in the 2010 Annual Report that could have a material effect on the financial position or performance of the Company in the same period.

**Directors**

The names and functions of the directors are shown on pages 62 to 65 of our 2010 Annual Report. On 26 May 2011, Jonas Frick retired from the Board.

Table of Contents

**UNAUDITED CONDENSED CONSOLIDATED HALF-YEAR INCOME STATEMENT**

**For the Six Months Ended 30 June**

| | Notes | 2011 $m | 2010 $m |
|---|---|---|---|
| **Continuing operations** | | | |
| Product revenue | | 324.9 | 290.1 |
| Contract revenue | | | 1.0 |
| Total revenue | **3** | 324.9 | 291.1 |
| Cost of sales | **5** | 121.8 | 105.1 |
| Gross profit | | 203.1 | 186.0 |
| Selling, general and administrative expenses | **5** | 73.0 | 79.4 |
| Research and development expenses | **5** | 97.6 | 103.4 |
| Settlement provision charge | **6** | | 206.3 |
| Operating profit/(loss) | | 32.5 | (203.1) |
| Interest expense | **7** | 59.5 | 60.7 |
| Interest income | **7** | (1.4) | (1.7) |
| Investment gains | **7** | (2.3) | (13.9) |
| Net loss on investments in associates | **8** | 25.9 | |
| Net interest and investment gains and losses | | 81.7 | 45.1 |
| Net loss before tax | | (49.2) | (248.2) |
| Income tax expense/(benefit) | **9** | 3.8 | (7.3) |
| Net loss from continuing operations | | (53.0) | (240.9) |
| **Discontinued operations** | | | |
| Net income from discontinued operations (net of tax) | **10** | 103.1 | 21.1 |
| Net income/(loss) | | 50.1 | (219.8) |
| **Basic earnings/(loss) per Ordinary Share** | | | |
| From continuing operations | **11** | $ (0.09) | $ (0.41) |
| From discontinued operations | **11** | $ 0.18 | $ 0.04 |
| Basic weighted-average shares outstanding (in millions) continuing and discontinued operations | **11** | 586.4 | 584.6 |
| **Diluted earnings/(loss) per Ordinary Share** | | | |
| From continuing operations | **11** | $ (0.09) | $ (0.41) |
| From discontinued operations | **11** | $ 0.17 | $ 0.04 |
| Diluted weighted-average shares outstanding (in millions) continuing operations | **11** | 586.4 | 584.6 |
| Diluted weighted-average shares outstanding (in millions) discontinued operations | **11** | 591.4 | 587.3 |

The net income/(loss) for the six months ended 30 June 2011 and 30 June 2010 are wholly attributable to the owners of the Parent Company.
The accompanying notes are an integral part of these unaudited condensed consolidated half-year financial statements.

Table of Contents

**UNAUDITED CONDENSED CONSOLIDATED HALF-YEAR**

**STATEMENT OF COMPREHENSIVE INCOME**

**For the Six Months Ended 30 June**

| | 2011 $m | 2010 $m |
|---|---|---|
| Net income/(loss) for the period | 50.1 | (219.8) |
| *Other comprehensive income:* | | |
| Foreign currency translation | | (0.2) |
| Available-for-sale investments | (0.1) | 2.2 |
| Net gain on available-for-sale investments transferred to the income statement | | (4.8) |
| Other comprehensive loss for the period | (0.1) | (2.8) |
| Total comprehensive income/(loss) for the period | 50.0 | (222.6) |

The total comprehensive income/(losses) for the six months ended 30 June 2011 and 30 June 2010 are wholly attributable to the owners of the Parent Company.

| | | |
|---|---|---|
| Total comprehensive income/(loss) arises from: | | |
| Continuing operations | (53.1) | (243.7) |
| Discontinued operations | 103.1 | 21.1 |
| Total comprehensive income/(loss) for the period | 50.0 | (222.6) |

The accompanying notes are an integral part of these unaudited condensed consolidated half-year financial statements.

Table of Contents

**UNAUDITED CONDENSED CONSOLIDATED HALF-YEAR BALANCE SHEET**

| | Notes | 30 June 2011 $m | 31 December 2010[1] $m |
|---|---|---|---|
| **Non-Current Assets** | | | |
| Goodwill and other intangible assets | **13** | 147.9 | 225.7 |
| Property, plant and equipment | | 77.9 | 287.5 |
| Investments in associates | **8** | 203.1 | 209.0 |
| Available-for-sale investments | | 9.8 | 8.9 |
| Deferred tax asset | **9** | 345.3 | 336.7 |
| Restricted cash and cash equivalents | | 15.0 | 14.9 |
| Other non-current assets | | 29.3 | 34.6 |
| Total Non-Current Assets | | 828.3 | 1,117.3 |
| **Current Assets** | | | |
| Inventory | **14** | 20.1 | 39.0 |
| Accounts receivable | | 171.4 | 191.6 |
| Other current assets | | 13.5 | 15.4 |
| Income tax prepayment | | 2.9 | 3.1 |
| Available-for-sale investments | | 1.2 | 2.0 |
| Restricted cash and cash equivalents | | 2.6 | 208.2 |
| Cash and cash equivalents | | 491.9 | 422.5 |
| Assets held for sale | **10** | 349.4 | |
| Total Current Assets | | 1,053.0 | 881.8 |
| Total Assets | | 1,881.3 | 1,999.1 |
| **Non-Current Liabilities** | | | |
| Long-term debt | **15** | 1,251.8 | 1,249.1 |
| Other liabilities | **16** | 35.8 | 40.1 |
| Income tax payable | | 14.4 | 14.2 |
| Total Non-Current Liabilities | | 1,302.0 | 1,303.4 |
| **Current Liabilities** | | | |
| Accounts payable | | 38.5 | 39.2 |
| Accrued and other liabilities | **16** | 220.3 | 235.5 |
| Provisions | **17** | 0.7 | 207.0 |
| Income tax payable | | 1.0 | |
| Liabilities held for sale | **10** | 23.4 | |
| Total Current Liabilities | | 283.9 | 481.7 |
| Total Liabilities | | 1,585.9 | 1,785.1 |
| **Shareholders Equity** | | | |
| Share capital | | 36.0 | 35.9 |
| Share premium | | 7,089.5 | 7,087.3 |
| Share-based compensation reserve | | 235.8 | 235.0 |
| Foreign currency translation reserve | | (11.2) | (11.2) |

| | | |
|---|---|---|
| Available-for-sale investment reserve | 0.8 | 0.9 |
| Retained loss | (7,055.5) | (7,133.9) |
| Total Shareholders Equity | 295.4 | 214.0 |
| Total Shareholders Equity and Liabilities | 1,881.3 | 1,999.1 |

(1) *Amounts as at 31 December 2010 are derived from the 31 December 2010 audited financial statements.*

The accompanying notes are an integral part of these unaudited condensed consolidated half-year financial statements.

Table of Contents

**UNAUDITED CONDENSED CONSOLIDATED HALF-YEAR**

**STATEMENT OF CASH FLOWS**

**For the Six Months Ended 30 June**

| | 2011 $m | 2010 $m |
|---|---|---|
| Net income/(loss) | 50.1 | (219.8) |
| **Adjustments to reconcile net income/(loss) to net cash provided by/(used in) operating activities:** | | |
| Depreciation and amortisation | 23.9 | 32.2 |
| Gain on sale of investments | (2.3) | (12.7) |
| Impairment of property, plant and equipment and intangible assets | 5.1 | |
| Settlement provision charge | | 206.3 |
| Share-based compensation expense | 19.5 | 17.1 |
| Net loss on investments in associates | 25.9 | |
| Net loss on divestment of business | | 0.8 |
| Debt interest expense | 59.0 | 60.2 |
| Interest income | (0.3) | (0.5) |
| Income tax expense | 6.4 | (2.8) |
| Other | (0.5) | (3.0) |
| | 186.8 | 77.8 |
| Decrease/(increase) in accounts receivable | (32.4) | 15.3 |
| Decrease/(increase) in prepayments and other assets | (1.5) | 3.0 |
| Decrease in inventory | 0.8 | 17.2 |
| Increase/(decrease) in accounts payable and accrued and other liabilities | 8.8 | (6.7) |
| Decrease in other liabilities relating to Zonegran settlement | (206.3) | |
| Cash provided by operations | (43.8) | 106.6 |
| Interest received | 0.3 | 0.7 |
| Interest paid | (56.2) | (59.7) |
| Income taxes paid | (0.8) | (1.5) |
| Net cash provided by/(used in) operating activities | (100.5) | 46.1 |
| **Investing activities** | | |
| Decrease in restricted cash | 205.5 | 3.2 |
| Purchase of property, plant and equipment | (10.0) | (22.4) |
| Purchase of intangible and other assets | (10.1) | (1.4) |
| Purchase of available-for-sale investments | (0.5) | (0.3) |
| Proceeds from disposal of current available-for-sale investments | | 8.3 |
| Proceeds from disposal of non-current available-for-sale investments | 2.6 | 8.0 |
| Purchase of investment in associate | (20.0) | |
| Proceeds from divestment of business | | 4.7 |
| Net cash provided by investing activities | 167.5 | 0.1 |
| **Financing activities** | | |
| Proceeds from issue of share capital | 2.3 | 0.8 |
| Net cash provided by financing activities | 2.3 | 0.8 |
| Effect of foreign exchange rate changes | 0.1 | (0.3) |
| Net increase in cash and cash equivalents | 69.4 | 46.7 |

| | | |
|---|---|---|
| Cash and cash equivalents at the beginning of the period | 422.5 | 836.5 |
| Cash and cash equivalents at the end of the period | 491.9 | 883.2 |

The accompanying notes are an integral part of these unaudited condensed consolidated half-year financial statements.

Table of Contents

**UNAUDITED CONDENSED CONSOLIDATED HALF-YEAR STATEMENT**

**OF CHANGES IN SHAREHOLDERS EQUITY**

| | Number of Shares m | Share Capital $m | Share Premium $m | Share-Based Compensation Reserve $m | Foreign Currency Translation Reserve $m | Available-for-sale Investment Reserve $m | Retained Loss $m | Total Amount $m |
|---|---|---|---|---|---|---|---|---|
| Balances at 1 January 2010 | 583.9 | 35.8 | 7,085.6 | 237.2 | (11.1) | 5.1 | (6,838.2) | 514.4 |
| *Comprehensive income:* | | | | | | | | |
| Net loss | | | | | | | (219.8) | (219.8) |
| *Other comprehensive income/(loss):* | | | | | | | | |
| Foreign currency translation | | | | | (0.2) | | | (0.2) |
| Available-for-sale investments | | | | | | (2.6) | | (2.6) |
| Total other comprehensive loss | | | | | | | | (2.8) |
| Total comprehensive loss | | | | | | | | (222.6) |
| *Transactions with owners of the Company, recognised directly in equity:* | | | | | | | | |
| Issue of share capital, net of issue costs | 0.9 | | 0.8 | | | | | 0.8 |
| Share-based compensation cost | | | | 17.1 | | | | 17.1 |
| Share-based compensation deferred tax | | | | (7.1) | | | | (7.1) |
| Transfer of exercised and expired share-based awards | | | | (16.6) | | | 16.6 | |
| Balances at 30 June 2010 | 584.8 | 35.8 | 7,086.4 | 230.6 | (11.3) | 2.5 | (7,041.4) | 302.6 |
| *Comprehensive income:* | | | | | | | | |
| Net loss | | | | | | | (102.8) | (102.8) |
| *Other comprehensive income/(loss):* | | | | | | | | |
| Foreign currency translation | | | | | 0.1 | | | 0.1 |
| Available-for-sale investments | | | | | | (1.6) | | (1.6) |
| Total other comprehensive loss | | | | | | | | (1.5) |
| Total comprehensive loss | | | | | | | | (104.3) |
| *Transactions with owners of the Company, recognised directly in equity:* | | | | | | | | |
| Issue of share capital, net of issue costs | 0.4 | 0.1 | 0.9 | | | | | 1.0 |
| Share-based compensation cost | | | | 14.3 | | | | 14.3 |
| Share-based compensation deferred tax | | | | 0.4 | | | | 0.4 |
| Transfer of exercised and expired share-based awards | | | | (10.3) | | | 10.3 | |
| Balances at 1 January 2011 | 585.2 | 35.9 | 7,087.3 | 235.0 | (11.2) | 0.9 | (7,133.9) | 214.0 |
| *Comprehensive income:* | | | | | | | | |
| Net income | | | | | | | 50.1 | 50.1 |
| *Other comprehensive income/(loss):* | | | | | | | | |
| Available-for-sale investments | | | | | | (0.1) | | (0.1) |
| Total other comprehensive loss | | | | | | | | (0.1) |
| Total comprehensive income | | | | | | | | 50.0 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *Transactions with owners of the Company, recognised directly in equity:* | | | | | | | | |
| Issue of share capital, net of issue costs | 1.8 | 0.1 | 2.2 | | | | | 2.3 |
| Share-based compensation cost | | | | 19.5 | | | | 19.5 |
| Share-based compensation deferred tax | | | | 9.6 | | | | 9.6 |
| Transfer of exercised and expired share-based awards | | | | (28.3) | | | 28.3 | |
| Balance at 30 June 2011 | 587.0 | 36.0 | 7,089.5 | 235.8 | (11.2) | 0.8 | (7,055.5) | 295.4 |

The accompanying notes are an integral part of these unaudited condensed consolidated half-year financial statements.

Table of Contents

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED**

**HALF-YEAR FINANCIAL STATEMENTS**

**1. BASIS OF PREPARATION**

These unaudited half-year financial statements, which should be read in conjunction with our 2010 Annual Report, have been prepared by Elan Corporation, plc in accordance with IAS 34, *Interim Financial Reporting* (IAS 34), as adopted by the European Union. In addition, these half-year financial statements have been prepared in accordance with the Transparency (Directive 2004/109/EC) Regulations 2007 and the related Transparency Rules of the Republic of Ireland s Financial Regulator. They do not include all of the information required for full annual financial statements, and should be read in conjunction with our 2010 Annual Report.

These half-year financial statements are presented in U.S. dollars, which is the functional currency of the parent company and the majority of the group companies. They are prepared on the historical cost basis, except for certain financial assets and derivative financial instruments, which are stated at fair value.

The half-year financial statements include the accounts of Elan and all of our 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 half-year financial statements.

Following the approval of the EDT Transaction by the Board of Elan on 8 May 2011, the EDT business met the criteria to be classified as held for sale and the assets and liabilities of the EDT business have been classified as held for sale on the half-year balance sheet at 30 June 2011. The results of EDT are presented as a discontinued operation in the half-year income statement for the first half of 2011 and the comparative amounts have been restated to reflect this classification.

The preparation of half-year 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 half-year financial statements, the critical 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 2010, and described on pages 114 to 119 of the 2010 Annual Report.

The comparative amounts included for the year ended 31 December 2010 do not constitute statutory financial statements of Elan within the meaning of Regulation 40 of the European Communities (Companies; Group accounts) Regulations, 1992. Statutory financial statements for the year ended 31 December 2010 have been filed with the Companies Office. The auditor s report on those financial statements was unqualified and did not contain an emphasis of matter paragraph.

Although profitable in the current half-year, we have incurred significant losses during the last number of fiscal years. However, our directors believe that we have adequate resources to continue in operational existence for the foreseeable future and that it is appropriate to continue to prepare our condensed consolidated half-year financial statements on a going concern basis.

These half-year financial statements were approved by the directors on 25 July 2011.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies applied in these half-year financial statements are consistent with those applied in our Consolidated Financial Statements as at and for the year ended 31 December 2010, as set out on pages 106 to 114 of the 2010 Annual Report, except for the impact of the standards described below.

The following new interpretations and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011.

Revised IAS 24, *Related Party Disclosures* ;

IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* ;

IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement ;*

Amendment to IAS 32, *Financial instruments: Presentation* , on classification of rights issues.

Table of Contents

The adoption of these amendments to standards and interpretations did not impact on our financial position or results from operations.

**3. REVENUE**

Revenue from continuing operations for the six months ended 30 June 2011 and 2010 is comprised of BioNeurology revenue only, as the results of the EDT business are presented as a discontinued operation in the half-year financial statements for the first half of 2011 and 2010.

Revenue from the BioNeurology business can be further analysed as follows:

| | Six Months Ended 30 June | |
|---|---|---|
| | 2011 $m | 2010 $m |
| Product revenue: | | |
| *Tysabri* | 321.7 | 250.3 |
| Maxipime | 0.7 | 5.4 |
| Azactam | 0.4 | 27.4 |
| Prialt | | 6.2 |
| Royalties | 2.1 | 0.8 |
| Total product revenue | 324.9 | 290.1 |
| Contract Revenue | | 1.0 |
| Total revenue from BioNeurology | 324.9 | 291.1 |

The *Tysabri* collaboration is a jointly controlled operation in accordance with IAS 31. A jointly controlled operation is an operation of a joint venture (as defined by IAS 31) that involves the use of the assets and other resources of the venturers rather than establishing a corporation, partnership or other entity, or a financial structure that is separate from the venturers themselves. Each venturer uses its own property, plant and equipment and carries its own inventories. It also incurs its own expenses and liabilities and raises its own finance, which represent its own obligations.

The *Tysabri* collaboration operating profit or loss is calculated excluding R&D expenses (we record our share of the total *Tysabri* collaboration R&D expenses within our R&D expenses). In accordance with IAS 31, we recognise as revenue our share of the collaboration profit from the sale of *Tysabri* plus our directly incurred collaboration expenses on these sales, which are primarily comprised of royalties, that we incur and are payable by us to third parties and are reimbursed by the collaboration. Our actual operating profit on *Tysabri* differs from our share of the collaboration operating profit because certain *Tysabri*-related expenses are not shared through the collaboration, and certain unique risks are retained by each party.

Global in-market net sales of *Tysabri* were as follows:

| | Six Months Ended 30 June | |
|---|---|---|
| | 2011 $m | 2010 $m |
| United States | 353.0 | 280.1 |
| ROW | 385.4 | 309.3 |
| Total *Tysabri* global in-market net sales | 738.4 | 589.4 |

Table of Contents

For the first half of 2011, we recorded net *Tysabri* revenue of $321.7 million which was calculated as follows:

| | Six Months Ended 30 June 2011 | | |
|---|---|---|---|
| | U.S. $m | ROW $m | Total $m |
| *Tysabri* in-market sales | 353.0 | 385.4 | 738.4 |
| Operating expenses incurred by Elan and Biogen Idec (excluding R&D expenses) | (160.5) | (176.4) | (336.9) |
| *Tysabri* collaboration operating profit | 192.5 | 209.0 | 401.5 |
| Elan s 50% share of *Tysabri* collaboration operating profit | 96.3 | 104.5 | 200.8 |
| Elan s directly incurred costs | 63.9 | 57.0 | 120.9 |
| Net *Tysabri* revenue | 160.2 | 161.5 | 321.7 |

For the first half of 2010, we recorded net *Tysabri* revenue of $250.3 million which was calculated as follows:

| | Six Months Ended 30 June 2010 | | |
|---|---|---|---|
| | U.S. $m | ROW $m | Total $m |
| *Tysabri* in-market sales | 280.1 | 309.3 | 589.4 |
| Operating expenses incurred by Elan and Biogen Idec (excluding R&D expenses) | (138.7) | (144.4) | (283.1) |
| *Tysabri* collaboration operating profit | 141.4 | 164.9 | 306.3 |
| Elan s 50% share of *Tysabri* collaboration operating profit | 70.7 | 82.5 | 153.2 |
| Elan s directly incurred costs | 53.5 | 43.6 | 97.1 |
| Net *Tysabri* revenue | 124.2 | 126.1 | 250.3 |

Please refer to Note 10 for an analysis of revenue from the EDT business for the first half of 2011 and 2010.

**4. SEGMENT INFORMATION**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (CODM). Our CODM has been identified as Mr. G. Kelly Martin, chief executive officer. Our business is organised into two business units: BioNeurology and EDT, and our chief executive officer reviews the business from this perspective.

Following the approval of the EDT Transaction by the Board of Elan on 8 May 2011, the assets and liabilities of the EDT business are classified as held for sale on the Elan half-year balance sheet and the results of EDT are presented as a discontinued operation in the half-year income statement for the first half of 2011 and the comparative amounts have been restated to reflect this classification. The EDT Transaction is expected to close in the third quarter of 2011. Until the close of this transaction, our CODM will continue to review the performance of the business by evaluating the performance of the BioNeurology and EDT business units.

Segment performance is evaluated based on operating profit/(loss) and Adjusted EBITDA. Interest income, interest expense, investments and income tax expense are managed on a group basis. Therefore, these items are not allocated between operating segments for the purposes of the information presented to the CODM, and are accordingly omitted from the measure of segment profit or loss and Adjusted EBITDA.

BioNeurology engages in research, development and commercial activities primarily in Alzheimer s disease, Parkinson s disease and MS. EDT is an established, profitable, integrated drug delivery business unit of Elan, which has been applying its skills and knowledge in product development and drug delivery technologies to enhance the performance of dozens of drugs that have been marketed worldwide.

Table of Contents

The same accounting principles used for the group as a whole are applied to segment reporting. There has been no change in the basis of segmentation or in the basis of measurement of segment profit or loss in the period. Inter-segment pricing is determined on an arm s length basis.

| | BioNeurology Six Months Ended 30 June | | EDT Six Months Ended 30 June | | Total Six Months Ended 30 June | |
|---|---|---|---|---|---|---|
| | 2011 $m | 2010 $m | 2011 $m | 2010 $m | 2011 $m | 2010 $m |
| **Segment revenue** | | | | | | |
| Segment revenue | 324.9 | 291.1 | 128.9 | 133.0 | 453.8 | 424.1 |
| Less intersegment sales | | | (0.1) | (0.6) | (0.1) | (0.6) |
| Total revenue from external customers | 324.9 | 291.1 | 128.8 | 132.4 | 453.7 | 423.5 |
| Cost of sales | 121.8 | 105.1 | 49.6 | 58.9 | 171.4 | 164.0 |
| Gross margin | 203.1 | 186.0 | 79.2 | 73.5 | 282.3 | 259.5 |
| Operating expenses: | | | | | | |
| Selling, general and administrative expenses | 73.0 | 79.4 | 19.8 | 20.6 | 92.8 | 100.0 |
| Research and development expenses | 97.6 | 103.4 | 37.8 | 27.1 | 135.4 | 130.5 |
| Gain on legal settlements | | | (84.5) | | (84.5) | |
| Settlement provision charge | | 206.3 | | | | 206.3 |
| Total operating expenses | 170.6 | 389.1 | (26.9) | 47.7 | 143.7 | 436.8 |
| Segment operating profit/(loss) | 32.5 | (203.1) | 106.1 | 25.8 | 138.6 | (177.3) |
| Segment Adjusted EBITDA | 73.2 | 35.9 | 49.8 | 46.5 | 123.0 | 82.4 |

**Reconciliation of segment results to net income/(loss):**

| | BioNeurology Six Months Ended 30 June | | EDT Six Months Ended 30 June | | Total Six Months Ended 30 June | |
|---|---|---|---|---|---|---|
| | 2011 $m | 2010 $m | 2011 $m | 2010 $m | 2011 $m | 2010 $m |
| Segment Adjusted EBITDA | 73.2 | 35.9 | 49.8 | 46.5 | 123.0 | 82.4 |
| Depreciation and amortisation | (15.3) | (15.9) | (8.6) | (16.3) | (23.9) | (32.2) |
| Amortised fees | 0.3 | 0.2 | 0.2 | 0.2 | 0.5 | 0.4 |
| Share-based compensation expense[(1)] | (14.2) | (13.1) | (4.7) | (4.2) | (18.9) | (17.3) |
| Gain on legal settlements | | | 84.5 | | 84.5 | |
| Settlement provision charge | | (206.3) | | | | (206.3) |
| Other charges | (11.5) | (3.9) | (15.1) | (0.4) | (26.6) | (4.3) |
| Segment operating profit/(loss) | 32.5 | (203.1) | 106.1 | 25.8 | 138.6 | (177.3) |
| Net interest and investment gains and losses | | | | | 82.1 | 45.3 |
| Income tax expense/(benefit) | | | | | 6.4 | (2.8) |
| Net income/(loss) | | | | | 50.1 | (219.8) |

(1) *Share-based compensation expense excludes $0.6 million included in other charges in the first half of 2011 (2010: $0.2 million credit).*

The segment total assets for BioNeurology and EDT as at 31 December 2010 of $1,549.2 million and $449.9 million, respectively, did not materially change as at 30 June 2011, therefore this segmental disclosure has been omitted in accordance with IAS 34.

Table of Contents

**5. OTHER CHARGES**

The principal items classified as other charges include transaction costs, severance, restructuring and other costs, facilities charges and a net loss on divestment of business. We believe that disclosure of significant other charges is meaningful because it provides additional information when analysing certain items.

For the first half of 2011, included within cost of sales, SG&A expenses, and R&D expenses for our continuing operations were total other charges of $11.5 million (2010: $3.9 million) consisting of the following:

***2011***

| | Cost of Sales $m | SG&A $m | R&D $m | Total $m |
|---|---|---|---|---|
| EDT Transaction costs | | 6.9 | | 6.9 |
| Severance, restructuring and other costs | (0.3) | 1.4 | 0.8 | 1.9 |
| Facilities charges | | 2.7 | | 2.7 |
| Total other charges from continuing operations | (0.3) | 11.0 | 0.8 | 11.5 |

***2010***

| | Cost of Sales $m | SG&A $m | R&D $m | Total $m |
|---|---|---|---|---|
| Severance, restructuring and other costs | 0.3 | 2.7 | 0.1 | 3.1 |
| Net loss on divestment of business | | 0.8 | | 0.8 |
| Total other charges from continuing operations | 0.3 | 3.5 | 0.1 | 3.9 |

Transaction costs of $6.9 million were incurred during the first half of 2011 relating to the EDT Transaction.

During the first half of 2011 and 2010, we incurred severance and restructuring charges of $1.9 million and $3.1 million, respectively, principally associated with realignment and restructuring of the R&D organisation within the BioNeurology business and a reduction of related support services.

As a direct result of the realignment of the BioNeurology business, we incurred facilities charges of $2.7 million in the first half of 2011 relating to a consolidation of facilities in South San Francisco.

During the first half of 2010, we divested of our Prialt assets and rights to Azur Pharma International Limited (Azur), which resulted in a net loss of $0.8 million.

Please refer to Note 10 for an analysis of other charges from the EDT business for the six months ended 30 June 2011 and 30 June 2010.

**6. SETTLEMENT PROVISION CHARGE**

In July 2010, we announced that we reached an agreement in principle with the U.S. Attorney s Office for the District of Massachusetts with respect to the previously disclosed U.S. Department of Justice s investigation of sales and marketing practices for Zonegran, which we divested in 2004. During the first half of 2010, we recorded a $206.3 million provision charge for the settlement, interest and related costs. The agreement was finalised in December 2010. Consistent with the terms of the agreement-in-principle announced in July 2010, we paid $203.5 million pursuant to the terms of a global settlement resolving all U.S. federal and related state Medicaid claims. The resolution of the Zonegran

investigation could give rise to other investigations of litigation by state government entities or private parties.

Table of Contents

## 7. NET INTEREST AND INVESTMENT GAINS AND LOSSES

For the first half of 2011, net interest and investment gains and losses from continuing operations were $81.7 million (2010: $45.1 million), consisting of the following:

| | Six Months Ended 30 June | |
|---|---|---|
| | 2011 $m | 2010 $m |
| **Interest expense (including amortisation of deferred financing costs):** | | |
| Interest on 8.75% Notes issued October 2009 | 28.6 | 28.4 |
| Interest on 8.875% Notes | 20.6 | 21.3 |
| Interest on 8.75% Notes issued August 2010 | 9.5 | |
| Interest on Floating Rate Notes due 2011 | | 7.0 |
| Interest on Floating Rate Notes due 2013 | 0.3 | 3.5 |
| Total debt interest expense | 59.0 | 60.2 |
| Other financial charges | 0.5 | 0.5 |
| Interest expense | 59.5 | 60.7 |
| **Interest income:** | | |
| Interest income | (0.3) | (0.5) |
| Net foreign exchange gains | (0.9) | (1.2) |
| Other financial gains | (0.2) | |
| Interest income | (1.4) | (1.7) |
| **Investment gains:** | | |
| Gain on auction rate securities recovery | | (7.9) |
| Gains on disposal of investments | (2.3) | (4.8) |
| Derivative fair value gains | | (1.2) |
| Investment gains | (2.3) | (13.9) |
| Net loss on investments in associates (refer to Note 8) | 25.9 | |
| Net interest and investment gains and losses | 81.7 | 45.1 |

## 8. INVESTMENTS IN ASSOCIATES

| | Janssen AI $m | Proteostasis $m | Total 30 June 2011 $m |
|---|---|---|---|
| 1 January 2011 | 209.0 | | 209.0 |
| Addition | | 20.0 | 20.0 |
| Net loss on investments in associates | (25.5) | (0.4) | (25.9) |
| At 30 June 2011 | 183.5 | 19.6 | 203.1 |

***Janssen AI***

In September 2009, Janssen AI, a newly formed subsidiary of Johnson & Johnson, acquired substantially all of the assets and rights related to our AIP collaboration with Wyeth (which has been acquired by Pfizer Inc. (Pfizer)). Johnson & Johnson also committed to fund up to $500.0 million towards the further development and commercialisation of the AIP to the extent the funding is required by the collaboration. Any required additional expenditures in respect of Janssen AI s obligations under the AIP collaboration in excess of $500.0 million will be funded by Elan and Johnson & Johnson in proportion to their respective shareholdings up to a maximum additional commitment of $400.0 million in total. Based on current spend levels, we anticipate that we may be

Table of Contents

called upon to provide funding to Janssen AI commencing in 2012. In the event that further funding is required beyond the $400.0 million, such funding will be on terms determined by the board of Janssen AI, with Johnson & Johnson and Elan having a right of first offer to provide additional funding. In the event that either an AIP product reaches market and Janssen AI is in a positive operating cash flow position, or the AIP is terminated, before the $500.0 million has been drawn down, Johnson & Johnson is not required to contribute the full $500.0 million.

In consideration for the transfer of these assets and rights, we received a 49.9% equity interest in Janssen AI. In general, we are entitled to a 49.9% share of all net profits generated by Janssen AI beginning from the date Janssen AI becomes net profitable and certain royalty payments upon the commercialisation of products under the AIP collaboration. Johnson & Johnson has also committed to fund up to an initial $500.0 million towards the further development and commercialisation of the AIP to the extent the funding is required by the collaboration. Our equity interest in Janssen AI is recorded as an investment in associate on the half year balance sheet at 30 June 2011, at a carrying value of $183.5 million (31 December 2010: $209.0 million). The carrying value is comprised of our proportionate 49.9% share of Janssen s AIP assets (30 June 2011: $117.3 million; 31 December 2010: $117.3 million) and our proportionate 49.9% interest in the Johnson & Johnson contingent funding commitment (30 June 2011: $66.2 million; 31 December 2010: $91.7 million).

Our proportionate interest in the Johnson & Johnson contingent funding commitment was remeasured as of 30 June 2011 and 31 December 2010 to reflect changes in the probability that the cash will be spent and thereby give rise to the expected cash flows under the commitment, and to reflect the time value of money. As at 30 June 2011, the range of assumed probabilities applied to the expected cash flows was 95%-57% (31 December 2010: 95%-43%). The range of discount rates applied remained at 1%-1.5% (31 December 2010: 1%-1.5%), which was also the range used for initial recognition. The remeasurement of our proportionate interest in the Johnson & Johnson contingent funding commitment as at 30 June 2011 resulted in an increase in the carrying value of our investment in associate during the first half of 2011 of $25.2 million (2010: $41.4 million).

The following table sets forth the computation of the net loss on the investment in Janssen AI for the periods ended 30 June 2011 and 2010:

| | Six Months Ended 30 June | |
|---|---|---|
| | 2011 $m | 2010 $m |
| Net loss reported by Janssen AI | 101.7 | 82.9 |
| Elan s 49.9% proportionate interest of Janssen AI s reported net loss | 50.7 | 41.4 |
| Remeasurement of Elan s 49.9% proportionate interest in Johnson & Johnson funding commitment | (25.2) | (41.4) |
| Net loss on investment in Janssen AI associate | 25.5 | |

As at 30 June 2011, the remaining unspent amount of the initial Johnson & Johnson $500.0 million funding commitment was $173.9 million (31 December 2010: $272.0 million).

***Proteostasis***

On 20 May 2011, we entered into a strategic business relationship with Proteostasis to advance Proteostasis platform for the discovery and development of disease-modifying, small molecule drugs and diagnostics for the treatment of neurodegenerative disorders such as Parkinson s, Huntington s, MS, ALS, and a broad array of dementia-related diseases including Alzheimer s.

Under terms of the agreement, we invested $20.0 million into equity capital of Proteostasis and became a 24% shareholder. We will have the opportunity to invest an additional $30 million in collaboration funding over five years and obtained a right of first negotiation to exclusively license potential compounds. Elan CEO, Kelly Martin, has joined the Board of Directors of Proteostasis and Elan Chief Scientific Officer, Dale Schenk, has joined its Scientific Advisory Board.

Table of Contents

Our $20.0 million equity interest in Proteostasis has been recorded as an investment in an associate on the balance sheet. The net loss recorded on the equity method investment in the first half of 2011 was $0.4 million, representing our share of the net losses of Proteostasis from the date of acquisition of the equity interest on 20 May through 30 June 2011.

**9. INCOME TAX**

The total tax expense of $6.4 million (2010: $2.8 million benefit) arises from and is presented in the half-year income statement as follows:

| | Six Months Ended 30 June | |
|---|---|---|
| | **2011 $m** | **2010 $m** |
| **Continuing Operations** | | |
| Current tax expense | 1.7 | 0.8 |
| Deferred tax expense/(benefit) origination and reversal of timing differences | 2.1 | (8.1) |
| Income tax expense/(benefit) continuing operations | 3.8 | (7.3) |
| **Discontinued Operations** | | |
| Current tax expense | 0.6 | 0.6 |
| Deferred tax expense | 2.0 | 3.9 |
| Income tax expense discontinued operations | 2.6 | 4.5 |
| **Total Operations** | | |
| Current tax expense | 2.3 | 1.4 |
| Deferred tax expense/(benefit) origination and reversal of timing differences | 4.1 | (4.2) |
| Total income tax expense/(benefit) | 6.4 | (2.8) |

The total income tax expense for continuing and discontinued operations of $6.4 million in the first half of 2011 (2010: $2.8 million benefit) reflects tax at standard rates in the jurisdictions in which we operate, the availability of tax losses and foreign withholding tax. The income tax benefit for the first half of 2010 reflects changes to U.S. net income, in addition to one-off tax benefits, recorded during the period.

The income tax expense in the first half of 2011 includes a deferred tax charge of $4.1 million (2010: $4.2 million benefit) primarily as a result of deferred tax expense related to the DTA previously recognised in 2008, as the underlying loss carryforwards and other DTAs are utilised to shelter taxable income in the United States.

| | **Balance 1 January 2011 $m** | **Recognised In Income $m** | **Recognised In Equity $m** | **Reclassified as held for sale liability $m** | **Balance 30 June 2011 $m** |
|---|---|---|---|---|---|
| Deferred taxation liabilities | (4.4) | | | 3.1 | (1.3) |
| Deferred taxation assets | 341.1 | (4.1) | 9.6 | | 346.6 |
| Net deferred taxation asset | 336.7 | (4.1) | 9.6 | 3.1 | 345.3 |

**10. DISCONTINUED OPERATIONS AND HELD FOR SALE ASSETS AND LIABILITIES**

On 9 May 2011, Alkermes and Elan announced the execution of a definitive agreement under which Alkermes will merge with EDT in a cash and stock transaction valued at approximately $960 million as of the date of announcement. Alkermes and EDT will be combined under a new holding company incorporated in Ireland. This newly created company will be named Alkermes plc. The EDT Transaction is expected to close in the third quarter of 2011. When the deal closes, we will receive $500 million in cash and 31.9 million ordinary shares of Alkermes plc common stock. We will hold approximately 25% of the equity of Alkermes plc, with the existing shareholders of Alkermes, holding the remaining 75% of the equity. We will account for our investment in Alkermes plc as an associate investment.

Table of Contents

Non-current assets and liabilities are classified as assets and liabilities held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. Intangible assets and property, plant and equipment classified as held for sale are not amortised or depreciated. The results of a component of an entity that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations and is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations are presented as a discontinued operation in the financial statements.

Following the approval of the EDT Transaction by the Board of Elan on 8 May 2011, the EDT business met the criteria to be classified as held for sale and the assets and liabilities of the EDT business have been classified as held for sale on the half-year balance sheet at 30 June 2011. The results of EDT are presented as a discontinued operation in the half-year income statement for the first half of 2011 and the comparative amounts have been restated to reflect this classification.

**(a) Income statement**

The income statement financial information relating to the EDT business for the first half of 2011 and 2010 is set out below.

| | Six Months Ended 30 June | |
|---|---|---|
| | 2011 $m | 2010 $m |
| Product revenue | 124.4 | 124.3 |
| Contract revenue | 4.4 | 8.1 |
| Total revenue | 128.8 | 132.4 |
| Cost of sales | 49.6 | 58.9 |
| Gross margin | 79.2 | 73.5 |
| Operating expenses: | | |
| Selling, general and administrative expenses | 19.8 | 20.6 |
| Research and development expenses | 37.8 | 27.1 |
| Gain on legal settlements | (84.5) | |
| Operating profit | 106.1 | 25.8 |
| Net interest expense | 0.4 | 0.2 |
| Net income before tax of discontinued operation | 105.7 | 25.6 |
| Income tax expense | 2.6 | 4.5 |
| Net income of discontinued operation | 103.1 | 21.1 |

**(b) Cash flows**

There were no cash flows from financing activities attributable to EDT in the first half of 2011 and 2010. The net cash flows attributable to the operating and investing activities of EDT for the first half of 2011 and 2010 are set out below:

| | Six Months Ended 30 June | |
|---|---|---|
| | 2011 $m | 2010 $m |
| Net operating cash inflows | 133.4 | 56.9 |
| Net investing cash outflows | (5.1) | (6.5) |

| | | |
|---|---|---|
| Total net cash inflows | 128.3 | 50.4 |

Table of Contents

**(c) Revenue**

Revenue from the EDT business for the first half of 2011 and 2010 is set out below:

| | Six Months Ended 30 June | |
|---|---|---|
| | 2011 $m | 2010 $m |
| Product revenue: | | |
| Manufacturing revenue and royalties: | | |
| TriCor 145 | 24.0 | 25.0 |
| Ampyra | 22.4 | 20.8 |
| Focalin XR/Ritalin LA | 18.2 | 16.6 |
| *Verelan* | 13.2 | 11.9 |
| Skelaxin | | 5.2 |
| Other | 46.6 | 44.8 |
| Total product revenue manufacturing revenue and royalties | 124.4 | 124.3 |
| Contract revenue: | | |
| Research revenue | 3.9 | 3.7 |
| Milestone payments | 0.5 | 4.4 |
| Total contract revenue | 4.4 | 8.1 |
| Total revenue from the EDT business | 128.8 | 132.4 |

**(d) Other charges**

Other charges from the EDT business for the first half of 2011 and 2010 are set out below:

***2011***

| | Cost of Sales $m | SG&A $m | R&D $m | Total $m |
|---|---|---|---|---|
| Severance, restructuring and other costs | 0.2 | 1.7 | 8.1 | 10.0 |
| Asset impairment charges | | | 5.1 | 5.1 |
| Total other charges from discontinued operations | 0.2 | 1.7 | 13.2 | 15.1 |

***2010***

| | Cost of Sales $m | SG&A $m | R&D $m | Total $m |
|---|---|---|---|---|
| Severance, restructuring and other costs | 0.4 | | | 0.4 |
| Total other charges from discontinued operations | 0.4 | | | 0.4 |

During the second quarter of 2011, we decided to close our King of Prussia, Pennsylvania site and consequently, EDT recorded a non-cash asset impairment of $5.1 million and severance and restructuring charges of $10.0 million for the first half of 2011. It is expected that the closure will take place in the second half of 2011.

Other charges for the first half of 2010 of $0.4 million relate to severance, restructuring and other costs, arising from the realignment of resources to meet our business structure.

Table of Contents

**(e) Legal settlement gains**

In May 2011, we entered into an agreement with Alcon to settle litigation in relation to the application of our *NanoCrystal* technology. As part of the settlement agreement with Alcon, we received $6.5 million in May 2011 in full and final settlement.

In June 2008, a jury ruled in the U.S. District Court for the District of Delaware that Abraxis (since acquired by Celgene Corporation) had infringed a patent owned by Elan in relation to the application of its *NanoCrystal* technology to Abraxane. We were awarded $55 million, applying a royalty rate of 6% to sales of Abraxane from 1 January 2005 through 13 June 2008 (the date of the verdict). This award and damages associated with the continuing sales of the Abraxane product were subject to interest. In February 2011, we entered into an agreement with Abraxis to settle this litigation. As part of the settlement agreement with Abraxis, we received $78.0 million in full and final settlement of the litigation in March 2011. We will not receive future royalties in respect of Abraxane.

**(f) Held for sale assets and liabilities**

The assets and liabilities related to EDT business have been classified as held for sale following the Elan Board approval of the EDT Transaction. The EDT Transaction is expected to close in the third quarter of 2011. The carrying amounts of the EDT assets were less than the fair value less costs to sell when the assets were reclassified to held for sale and accordingly, no remeasurements of the assets were necessary.

The assets and liabilities of the EDT disposal group classified as held for sale are as follows:

| | 30 June 2011 $m |
|---|---|
| **Assets held for sale** | |
| Property, plant and equipment | 200.4 |
| Goodwill (note 13) | 45.2 |
| Other intangible assets (note 13) | 23.4 |
| Inventory | 18.1 |
| Other current and non current assets | 62.3 |
| Total assets held for sale | 349.4 |
| **Liabilities held for sale** | |
| Accounts payable | 2.1 |
| Deferred tax liability | 3.1 |
| Accrued and other liabilities | 18.2 |
| Total liabilities held for sale | 23.4 |
| Total net assets held for sale | 326.0 |

**11. NET EARNINGS/(LOSS) PER SHARE**

Basic earnings/(loss) per share is computed by dividing the net income/(loss) for the period available to ordinary shareholders by the weighted average number of Ordinary Shares outstanding during the period. Diluted earnings/(loss) per share is computed by dividing the net income/(loss) for the period by the weighted average number of Ordinary Shares outstanding and, when dilutive, adjusted for the effect of all potentially dilutive shares, including share options and Restricted Stock Units (RSUs).

Table of Contents

The following table sets forth the computation for basic and diluted net loss per share:

| | | Six Months Ended 30 June | |
|---|---|---|---|
| | | 2011 | 2010 |
| **Numerator (amounts in $m):** | | | |
| Basic and diluted net loss from continuing operations | | $ (53.0) | $ (240.9) |
| Basic and diluted net income from discontinued operations | | $ 103.1 | $ 21.1 |
| **Basic earnings/(loss) per share** | | | |
| **Denominator (amounts in millions):** | | | |
| Basic weighted-average shares outstanding (in millions) | continuing and discontinued operations | 586.4 | |