



Merrion Pharmaceuticals plc

Interim Report

For the six months ended 30 June 2008



Merrion Pharmaceuticals plc

Directors' report and consolidated financial statements

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Merrion Pharmaceuticals plc

Interim management report

Six months ended 30 June 2008

The condensed consolidated financial statements for the six months ended 30 June 2008 are unaudited but have been reviewed by the auditor whose report is set out on page 16.

Corporate developments

Merrion Pharmaceuticals plc (“Merrion”) recently announced the next stage of its oral drug delivery research collaboration programme with Novo Nordisk. This follows on from the completion of several oral feasibility studies combining Merrion's Gastrointestinal Permeation Enhancement Technology (GIPET) oral drug delivery technology with Novo Nordisk compounds. In continuation of this collaboration, Merrion has completed the development of solid dosage forms with GIPET for additional testing. The majority of the revenue recognised during the first six months of the year has been generated by this collaboration.

Clinical studies

Merrion is engaged in the development of oral forms (tablets/capsules) of drugs that have poor absorption and are generally given by injection. Merrion's patented drug delivery technologies increase bioavailability, by improving absorption in the gastrointestinal tract, of drugs that are otherwise poorly absorbed. Merrion utilises its technology to develop new oral drugs in two ways; it develops its own proprietary drugs using GIPET® and partners with other pharmaceutical companies in developing oral GIPET® formulations of their products.

Merrion currently has four internal product development programs based on its GIPET® technology. MER 101, which we recently renamed ‘Orazol’ is an oral bisphosphonate for oncology indications. This product aims to allow cancer patients with bone metastases to take a weekly tablet to get the gold standard treatment in this area, rather than an IV infusion. In 2007 we commenced a Phase II study in the United States for Orazol, in a hormone refractory prostate cancer population. We are continuing this trial and have recently opened five additional sites in Europe in addition to the eight US sites. The study is intended to determine the best dosing regimen for Orazol.

MER 102 an oral anticoagulant is in preclinical testing. This programme aims to be the first oral product in this class of drugs, and to offer patients the alternative to daily injections. Merrion recently obtained positive results from a pre-clinical study on this oral anticoagulant drug. The study was based on the compound Fondaparinux, currently marketed by GlaxoSmithKline, as an injectable product. The programme shows considerable promise in providing a tablet/capsule solution for patients and healthcare professionals, where currently this excellent anticoagulant is only available by daily injection.

MER 103 which is also an oral bisphosphonate, for the treatment of osteoporosis, has completed Phase II clinical trials. Based on the market leading drug, this programme aims to provide similar absorption with just 8% of the current dose, with a simplified dosing regimen and an improved side effect profile. The Company continues to seek a collaborative partner for this product.

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Interim management report *(continued)*

Six months ended 30 June 2008

MER 104 is an oral GnRH analogue, which is in Phase I clinical testing. This programme aims to be the first oral product in this area. GnRH antagonists are used as hormone suppressive agents and have current or potential future indications in treating prostate cancer, endometriosis, uterine fibroids, prostate hypertrophy and in fertility treatment. Currently all marketed products are given by parenteral (injectable) means. Merrion obtained positive results from a recent preclinical study. The study was aimed to find further, improved formulations of the drug using Merrion's GIPET® technology. Results showed the best performing GIPET® formulation delivered a 32 fold increase in bioavailability against the drug dosed alone. This gives further evidence that we can develop an oral GnRH antagonist and builds on the clinical proof of concept achieved with earlier formulations, which could bring benefit to patients suffering from several conditions.

Personnel changes

Merrion recently announced the appointment of Dr John Fox as Chief Development Officer. Dr Fox will be responsible for Merrion's Dublin based development operations. Dr Fox has over 20 years experience in the pharmaceutical industry, and joins Merrion from Hunter Fleming where, as Chief Operating Officer, he was chiefly responsible for pharmaceutical development of new medicines, regulatory compliance, valuations, portfolio planning and IP maintenance. Prior to the formation of Hunter Fleming, Dr Fox held a variety of positions in Shire Pharmaceuticals ("Shire"). As Group Planning Director he covered planning and new project evaluation for constituent companies within Shire and was responsible for project implementation in the United States, Europe and Japan. Dr Fox's vast experience in this sector will provide a crucial link between research, design, development, regulatory and licensing.

Merrion also recently appointed Paddy O'Sullivan to the Board of Directors. Mr O'Sullivan is currently chairman of the Board of Trustees of the Beacon Hospital. Before retiring in 2006, he spent over 30 years as Chief Executive Officer of the LEO Pharma Group of companies in Ireland. He was also a Board Member of the parent company of the LEO Pharma Group in Denmark. He brings to the board a wealth of industry knowledge and a long track record of success. His skills and experience are a vital asset in the further development of Merrion and in achieving the significant goals set for this Company.

Mr O'Sullivan replaces Mr Pat Wall who resigned as a director of the Company, due to other work commitments. Mr Wall served as a director of Merrion, from the Company's founding through its successful Initial Public Offering, on the Irish Stock Exchange in December 2007. We would like to thank Pat Wall for his guidance and his unwavering support of this developing company over the past four years. His wisdom and expertise were invaluable in setting a firm foundation for the Company.

Financial review

The financial information for the six months ended 30 June 2008 has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Merrion reported a net loss of €1,173,000 or €0.13 per basic and diluted share for the six months ended 30 June 2008, compared to a net loss of €1,872,000 or €0.70 per basic and diluted shares for the six months ended 30 June 2007. The operating loss was €3,328,000 for the six months ended 30 June 2008 compared to an operating loss of €2,236,000 for the same period last year.

Merrion Pharmaceuticals plc

Interim management report *(continued)*

Six months ended 30 June 2008

Revenues and Cost of Sales. Revenues relate to development fees from partner agreements. Total revenues were approximately €354,000 for the six months ended 30 June 2008 compared to approximately €13,000 for the six months to 30 June 2007. The majority of revenue recognised for the period was from the agreement with Novo Nordisk, with whom we completed certain phases of work during the period.

Our costs of sales consist of direct third-party expenditures and allocated salaries related to our development fees recognised in the period. We had approximately €6,000 of direct costs associated with our revenues generated for the six months ended 30 June 2008 compared to approximately nil for the same period last year.

Research and Development Expenses. Research and development, or R&D, expenses are comprised of salaries, overhead and consumables, patent costs, and clinical trial costs. R&D expenses increased by 5% to €1,679,000 for the six months ended 30 June 2008 compared to €1,600,000 for the same period last year. The increase was due primarily to increases in clinical trial costs offset by a small reduction in patent costs. Clinical trial costs increased as a result of increased spending on clinical trials related to Orazol (MER 101).

Administrative Expenses. Administrative expenses are comprised of salaries, professional fees, office overhead, stock-based compensation expense, and other support costs. Administrative expenses increased by 44% to €36,000 for the six months ended 30 June 2008 compared to €49,000 for the same period last year. The increase was primarily due to increased professional fees. Professional fees increased due to increased audit, accounting and legal consulting costs being charged to the income statement (as opposed to written off against share premium) on the basis that a portion of the initial public offering costs related to existing shares and not to the issue of new shares.

Net Finance Income/Expense. Net finance income was €154,000 for the six months ended 30 June 2008 compared to a net finance expense of €2,636,000 for the same period last year. The reversal was principally a result of the elimination of interest expense and finance costs associated with the April and November 2006 loan note issues. This prior year non-cash charge was eliminated when the loan notes were converted into ordinary shares on the Company's initial public offering in December 2007 and therefore no further charges were required to be recorded from the IPO date onwards.

Net Loss. Our net loss was €2,173,000 for the six months ended 30 June 2008 compared to €4,872,000 for the same period last year. The decreased net loss resulted primarily from the elimination of finance expenses associated with loan notes issued by the Company in 2006 along with an increases in administrative expenses.

Balance sheet

Cash and cash equivalents as at 30 June 2008 were €7,452,000, a decrease of 31% as compared to €10,870,000 as of 31 December 2007. The decrease of €3,418,000 resulted from an operating loss of €2,173,000 adjusted to €1,701,000 to reflect non cash operating items and decrease in working capital of €1,701,000. A decrease in working capital arose from the decrease in current liabilities following the payment of 2007 initial public offering related expenses in 2008 and an increase in trade and other receivables.

Merrion Pharmaceuticals plc

Interim management report *(continued)*

Six months ended 30 June 2008

Principal risks and uncertainties

As with any drug development company, Merrion has a number of business risks. The principal risks are outlined below:

Development risks

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

Commercialisation risks

A key element of the business strategy is to collaborate, particularly with leading pharmaceutical companies, to develop and commercialise product candidates. Merrion currently has no such arrangements with collaborators and may not be able to negotiate acceptable arrangements with collaborators, if at all. Moreover, such arrangements may involve sharing of profits from sales, requirements to relinquish certain of the rights to Merrion's products or marketing territories and impositions of other limitations on operations. These arrangements may not be scientifically or commercially successful. The termination of any of these arrangements might adversely affect Merrion's ability to develop and commercialise its product candidates.

Intellectual Property risks

ORAZOL (MER 101), MER 102 and MER 103 combine Merrion's GIPET delivery system with certain drug compounds currently protected by patents held by others that are scheduled to expire in the coming years. Merrion will not be able to commercialise the product candidates before such patents expire without obtaining a license, and such license may not be available on acceptable terms, if at all. In addition, the owners of the patents may be able to obtain extensions on the exclusivity period afforded by such patents, which would further delay the commercialisation of the product candidates unless Merrion is able to obtain a license. Merrion may also be challenged on its own patent filings which may further delay the commercialisation of our product candidates. This would have a material adverse effect on Merrion's business, financial condition and prospects.

Merrion Pharmaceuticals plc

Directors' Responsibility Statement

Six months ended 30 June 2008

Statement of the directors in respect of the half year financial report

We confirm our responsibility for the half yearly financial statements and that to the best of our knowledge:

- the condensed set of financial statements comprising the condensed consolidated income statement, the condensed consolidated statement of recognised income and expense, the condensed consolidated balance sheet and the related notes have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the IEX Rules for Companies as issued by the Irish Stock Exchange;
- the interim management report includes a fair review of the following information:
 - (i) an indication of the important events that have occurred during the six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
 - (ii) related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

On behalf of the Board

Fintan Maher
Director

John Lynch
Director

10 September 2008

Merrion Pharmaceuticals plc

Condensed Consolidated Income Statement for the six months ended 30 June 2008

	<i>Note</i>	6 months ended 30 June 2008 (Unaudited) €	6 months ended 30 June 2007 (Unaudited) €
Continuing operations			
Revenue		353,516	13,490
Cost of sales		(65,770)	-
		<hr/>	<hr/>
Gross profit		287,746	13,490
Administrative expenses		(936,136)	(648,960)
Research and development expenses		(1,679,409)	(1,600,161)
		<hr/>	<hr/>
Results from operating activities		(2,327,799)	(2,235,631)
Finance income	5	154,588	219,197
Finance expense	6	(232)	(2,855,194)
		<hr/>	<hr/>
Net finance income/ (expense)		154,356	(2,635,997)
Loss before income tax		(2,173,443)	(4,871,628)
Income tax expense		-	-
		<hr/>	<hr/>
Net loss for the period attributable to equity holders of the company		(2,173,443)	(4,871,628)
		<hr/> <hr/>	<hr/> <hr/>
Basic and diluted loss per ordinary share		(0.13)	(0.70)
Weighted average number of ordinary shares		16,556,398	7,001,794
Weighted average number of diluted shares		17,433,288	7,001,794

Merrion Pharmaceuticals plc

Condensed Consolidated Balance Sheet

as at 30 June 2008

	<i>Note</i>	30 June 2008 (Unaudited) €	31 Dec 2007 (Audited) €	30 June 2007 (Unaudited) €
Assets				
Non-current assets				
Property, plant and equipment	7	688,024	786,780	789,642
Intangible assets	8	90,000	180,000	270,000
		<hr/>	<hr/>	<hr/>
Total non-current assets		778,024	966,780	1,059,642
Current assets				
Trade and other receivables		800,292	429,332	2,048,783
Cash and cash equivalents	9	7,452,496	10,869,699	5,223,910
		<hr/>	<hr/>	<hr/>
Total current assets		8,252,788	11,299,031	7,272,693
		<hr/>	<hr/>	<hr/>
Total assets		9,030,812	12,265,811	8,332,335
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Equity				
Share capital	10	166,262	165,838	166,300
Share premium	10	58,791,651	58,781,971	3,849,522
Reverse acquisition reserve	10	(25,318,907)	(25,318,907)	(51,471)
Share option reserve	10	423,071	319,336	163,419
Retained losses	10	(25,834,398)	(23,813,217)	(16,608,995)
		<hr/>	<hr/>	<hr/>
Attributable to equity holders	10	8,227,679	10,135,021	(12,481,225)
		<hr/>	<hr/>	<hr/>
Total equity		8,227,679	10,135,021	(12,481,225)
		<hr/>	<hr/>	<hr/>
Liabilities				
Non-current liabilities				
Other payables		4,318	11,485	18,654
Interest bearing loans and borrowings		-	-	19,134,835
		<hr/>	<hr/>	<hr/>
Total non-current liabilities		4,318	11,485	19,153,489
		<hr/>	<hr/>	<hr/>
Current liabilities				
Trade and other payables		798,815	2,119,305	1,660,071
		<hr/>	<hr/>	<hr/>
Total current liabilities		798,815	2,119,305	1,660,071
		<hr/>	<hr/>	<hr/>
Total liabilities		803,133	2,130,790	20,813,560
		<hr/>	<hr/>	<hr/>
Total equity and liabilities		9,030,812	12,265,811	8,332,335
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2008

	<i>Note</i>	6 months ended 30 June 2008 (Unaudited) €	6 months ended 30 June 2007 (Unaudited) €
Loss for the period		(2,173,443)	(4,871,628)
Adjustments to reconcile net income to net cash generated from operating activities:			
Depreciation and amortisation of intangible assets		209,470	262,998
Grant amortisation		7,167	7,164
Equity settled share based payment charge		255,997	55,364
Non cash finance costs		-	2,733,357
		<hr/>	<hr/>
Operating cash outflow before changes in working capital		(1,700,809)	(1,812,745)
Change in trade and other receivables		(370,960)	(861,687)
Change in trade and other payables		(1,320,492)	168,921
		<hr/>	<hr/>
Net cash outflow from operating activities		(3,392,261)	(2,505,511)
Investing activities			
Acquisitions of property, plant and equipment		(24,850)	(83,400)
		<hr/>	<hr/>
Net cash used in investing activities		(24,850)	(83,400)
Cash flows from financing activities			
Proceeds from exercise of options		10,104	-
Repayment of interest bearing loan and borrowings		-	(1,097,533)
		<hr/>	<hr/>
Net cash provided by/ (used in) financing activities		10,104	(1,097,533)
Net decrease in cash and cash equivalents		(3,407,007)	(3,686,444)
		<hr/>	<hr/>
Effect of exchange rate movements on cash		(10,196)	(56,436)
Cash and cash equivalents at start of the period		10,869,699	8,966,790
		<hr/>	<hr/>
Cash and cash equivalents at end of the period	9	7,452,496	5,223,910
		<hr/> <hr/>	<hr/> <hr/>

Merrion Pharmaceuticals plc

Condensed Consolidated Statement of Recognised Income and Expense *for the six months ended 30 June 2008*

	6 months ended 30 June 2008 (Unaudited) €	6 months ended 30 June 2007 (Unaudited) €
Items of income and expense recognised directly in equity	-	-
Net income / (expense) recognised directly in equity	-	-
Loss for the period	(2,173,443)	(4,871,628)
Total recognised income and expense for the period attributable to equity holders of the company	(2,173,443)	(4,871,628)

Merrion Pharmaceuticals plc

Notes to the condensed consolidated interim financial statements

For the six months ended 30 June 2008

1. Basis of preparation

These interim financial statements have been prepared in accordance with International Financial Reporting Standard, IAS 34 *Interim Financial Reporting*, as adopted by the EU and in accordance with the IEX Rules for Companies as issued by the Irish Stock Exchange.

The same accounting policies and methods of computation are followed in these condensed consolidated financial statements as were applied in the consolidated financial statements for the year ended 31 December 2007 which are prepared in accordance with International Financial Reporting Standards as adopted by the EU (EU IFRS). The International Accounting Standards Board and the International Financial Reporting Interpretations Committee (IFRIC) have issued the following interpretations which are effective for the Company's financial statements for the year ended 31 December 2008:

- IFRIC Interpretation 11 *Group and Treasury Share Transactions*
- IFRIC Interpretation 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

These are not expected to have any material effect on the Group's financial statements.

The financial information presented herein does not amount to statutory financial statements that are required by section 7 of the Companies (Amendment) Act, 1986, to be annexed to the annual return of the Company. The statutory financial statements for the financial year ended 31 December 2007 were annexed to the annual return and filed with the Registrar of Companies. The audit report on those statutory financial statements was unqualified and did not contain any matters to which attention was drawn by way of emphasis.

2. Seasonality

The results of the Company's operations are not materially impacted by seasonal factors.

3. Estimates

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these consolidated interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended 31 December 2007 and are included in the following notes to those financial statements:

- Note 10 – measurement of intangible assets
- Note 14 – accounting for convertible preference shares and convertible loan stock
- Note 17 – measurement of share-based payments

Merrion Pharmaceuticals plc

Notes to the condensed consolidated interim financial statements (*continued*)

For the six months ended 30 June 2008

4. Segmental Information

Geographical Segment Information

	6 months ended 30 June 2008			6 months ended 30 June 2007		
	Ireland	United States	Total	Ireland	United States	Total
	€	€	€	€	€	€
Segment revenue	353,516	-	353,516	13,490	-	13,490
Segment result	(1,839,567)	(488,232)	(2,327,799)	(1,655,378)	(670,253)	(2,235,631)
Unallocated net finance income/expense			<u>154,356</u>			<u>(2,635,997)</u>
Loss before income tax			<u>(2,173,443)</u>			<u>(4,871,628)</u>

	30 June 2008	31 December 2007	30 June 2007
	€	€	€
Total assets			
Ireland	8,809,764	12,108,425	8,249,771
United States	<u>221,048</u>	<u>157,386</u>	<u>82,564</u>
Total	<u>9,030,812</u>	<u>12,265,811</u>	<u>8,332,335</u>

5. Finance Income

Finance income during the period related solely to interest earned on cash on deposit (2007: €8,665). During the six month period ended 30 June 2007, the Company also recorded fair value adjustments on embedded derivatives of €120,532. As these embedded derivatives no longer exist, no such income arose in the current period.

6. Finance expense

During the six month period ended 30 June 2007, the Company recorded finance expenses of €2,805,127 on convertible loan stock and €48,762 as interest on preference share capital. Following the Company's Initial Public Offering on 18 December 2007, the convertible loan stock and convertible preference shares were converted to ordinary shares and no such expense arose in the period ended 30 June 2008. The balance for the six month period ended 30 June 2007, related to interest on loans and borrowings.

7. Property, plant and equipment

Acquisitions and disposals

During the six month period ended 30 June 2008, the Group acquired assets with a cost of €24,850 (six months ended 30 June 2007 and year ended 31 December 2007: €133,728 and €192,830 respectively). There were no disposals of property, plant and equipment during the period.

Merrion Pharmaceuticals plc

Notes to the condensed consolidated interim financial statements *(continued)*

For the six months ended 30 June 2008

8. Reconciliation of movement in intangible assets

	Intangible Assets €
Balance at 1 July 2007	270,000
Amortisation charged during the period	90,000
	<hr/>
Balance at 1 January 2008	180,000
Amortisation charged during the period	90,000
	<hr/>
Balance at 30 June 2008	90,000
	<hr/> <hr/>

Intangible assets consist of in process research and development acquired from a shareholder pharmaceutical company (Elan Corporation Plc) in February 2004. The acquired research and development is being amortised over its expected useful life which is 5 years.

9. Cash and cash equivalents

	30 June 2008	31 December 2007	30 June 2007
Cash on hand	147,884	373,025	103,632
Cash held in 30 day notice bank deposit accounts	7,304,612	10,496,674	5,120,278
	<hr/>	<hr/>	<hr/>
Total cash and cash equivalents	7,452,496	10,869,699	5,223,910
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Merrion Pharmaceuticals plc

Notes to the condensed consolidated interim financial statements *(continued)*

For the six months ended 30 June 2008

10. Reconciliation of movement in Shareholders' Equity

	Share Capital Amount €	Share Premium €	Reverse Acquisition Reserve €	Share Option Reserve €	Retained Losses €	Total €
Balance at 1 July 2007	166,300	3,849,522	(51,471)	163,419	(16,608,995)	(12,481,225)
Effect of group reorganisation						
Transfer of Merrion Pharmaceuticals Holdings Limited Shares to Merrion Pharmaceuticals plc	(166,300)	(3,849,522)	51,471	-	-	(3,964,351)
Shares of Merrion Pharmaceuticals plc issued to former Merrion Pharmaceuticals Holdings Limited Shareholders	72,304	29,210,954	(25,318,907)	-	-	3,964,351
Shares issued on exercise of option by shareholder	7,942	781,532	-	-	-	789,474
Share issue costs	-	(1,848,622)	-	-	-	(1,848,622)
Issue of ordinary shares in initial public offering	19,753	7,980,248	-	-	-	8,000,001
Issue of ordinary shares on conversion of Series A preference shares	3,367	1,360,268	-	-	-	1,363,635
Restricted shares issued to employees at par value	9,565	-	-	-	-	9,565
Shares issued to third party pharmaceutical company	190	-	-	-	-	190
Shares issued in lieu of convertible loan notes	52,717	21,297,591	-	-	-	21,350,308
Stock compensation expense	-	-	-	155,917	-	155,917
Recognised income and expense						
Net loss for the period		-	-		(7,204,222)	(7,204,222)
Balance at 31 December 2007	165,838	58,781,971	(25,318,907)	319,336	(23,813,217)	10,135,021

Merrion Pharmaceuticals plc

Notes to the condensed consolidated interim financial statements *(continued)*

For the six months ended 30 June 2008

10. Reconciliation of movement in Shareholders' Equity *(continued)*

	Share Capital Amount €	Reverse Share Acquisition Premium €	Share Acquisition Reserve €	Option Reserve €	Retained Losses €	Total €
Balance at 1 January 2008	165,838	58,781,971	(25,318,907)	319,336	(23,813,217)	10,135,021
Recognised income and expense; Net loss for the period	-	-	-	-	(2,173,443)	(2,173,443)
Options exercised during the period	424	9,680	-	-	-	10,104
Stock compensation expense	-	-	-	103,735	152,262	255,997
Balance at 30 June 2008	166,262	58,791,651	(25,318,907)	423,071	(25,834,398)	8,227,679

11. Share Based Payments

In 2005, the Company adopted an equity settled Share Option Plan pursuant to which the Compensation Committee of the Board may grant options to non – employees, employees and senior executives and the Company, or its subsidiaries for the purchase of ordinary shares. The terms and conditions of the share option programme are disclosed in the consolidated financial report as at and for the year ended 31 December 2007. There were no grants made during the six month period ended 30 June 2008.

The basis for measuring fair value is consistent with that disclosed in the consolidated financial report for and at the year ended 31 December 2007.

12. Related party transactions

A former Director, Patrick Wall, is a partner in the accounting firm PriceWaterhouseCoopers, or PWC. The Group retains PWC to provide tax and accounting advice. In the six month periods ended 30 June 2008 and 30 June 2007, the Group paid PWC fees of €25,410 and €28,500 respectively. Patrick Wall does not provide services to the Company in his capacity as a partner in PWC.

The Group has entered into a consulting agreement with a shareholder, Growcorp Group Limited where that shareholder provides advice to the Group for a fee of €4,167 per month. The cost to the Group of this arrangement for the six month periods ended 30 June 2008 and 30 June 2007 was €25,000 and €25,000 respectively.

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

Merrion Pharmaceuticals plc

Notes to the condensed consolidated interim financial statements *(continued)*

For the six months ended 30 June 2008

12. Related party transactions *(continued)*

Key management personnel receive compensation in the form of short term employee benefits, post employment benefits and share based payments. Total compensation for the period was €435,650 (2007: €440,333).

13. Post balance sheet events

There were no significant post balance sheet events.

Independent Review Report to Merrion Pharmaceuticals plc

Introduction

We have been engaged by the company to review the condensed set of consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2008 which comprises the condensed consolidated statement of income, the condensed consolidated statement of recognised income and expense, the condensed consolidated balance sheet, the condensed consolidated cash flow statement and the related explanatory notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated set of financial statements in the half-yearly report for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU and the IEX Rules for Companies as issued by the Irish Stock Exchange.

KPMG
Chartered Accountants
10 September 2008