



## Announcement

27.04.2011

### NeuroSearch A/S – Interim report for Q1 2011

Today, the Board of Directors of NeuroSearch A/S (NEUR) considered and approved the company's interim report for the period 1 January to 31 March 2011.

An operating loss of DKK 82 million (a loss of DKK 80 million in the same period 2010) was reported. The financial net income after tax showed a loss of DKK 93 million (a loss of DKK 57 million in the same period 2010). In connection with the restructuring of NeuroSearch that was announced in January this year, a one-off charge of DKK 15 million is included in the Q1 results. This primarily relates to the costs incurred with respect to those employees who left the company.

The company's capital resources, including securities, totalled DKK 412 million at 31 March 2011 (DKK 767 million at 31 March 2010). The securities primarily consist of highly liquid short-term bonds. In addition, NeuroSearch has contingent future payments from the company's collaboration partners, Lilly and Janssen, of DKK 64 million, and unused credits of DKK 29 million.

#### Important events and activities in the first quarter of 2011 and until today:

- Restructuring of the organisation

- In January 2011, NeuroSearch announced a restructuring of the company. The restructuring has been carried out in order for NeuroSearch to pursue the strategic objective of becoming a profitable CNS specialty pharma business. In connection with the restructuring, the company's ion channel drug discovery and existing partner alliances were pooled in a single business unit, NsDiscovery.
- NeuroSearch is steadily building up commercial competences to prepare for the marketing of Huntexil<sup>®</sup> (pridopidine), our drug candidate for the treatment of patients suffering from Huntington's disease.
- Cost reductions, including the staff reduction of approximately 20%, is expected to reduce the company's total annual costs with full effect as of 2012. The staff reductions were actioned as planned, and we are pleased to learn that many of our former colleagues have already found alternative employment. The remaining employees have dealt with the changes in a professional way and have contributed to the successful implementation of the new structure.
- The Management has been restructured to reflect the company's challenges.

- Huntexil<sup>®</sup> (pridopidine) – Huntington's disease

- During March 2011, NeuroSearch held an End of Phase II meeting with the US authorities (FDA), following the closing of the North American Phase II study. NeuroSearch presented the full data package for Huntexil<sup>®</sup> (pridopidine) and the feedback from the FDA, which has now been received in writing, was that confirmatory clinical data, including a confirmatory Phase III programme, will be required for a submission for marketing authorisation in the US.



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- NeuroSearch has submitted a data package to the European health authorities (EMA) with a view to obtaining scientific counsel, and expect feedback from the EMA during Q2.
- To ensure the optimal continued clinical development programme for Huntexil<sup>®</sup>, the responses from both the FDA and EMA to the Huntexil<sup>®</sup> data package will form the basis for the company's decision regarding selection of one of our prepared development scenarios.
- At the beginning of April, NeuroSearch announced that the first patient had been enrolled in the open extension study, Open HART. The extension study is open to patients who participated in the HART study, the North American Phase IIb study, and will contribute further data in support of the safety profile of Huntexil<sup>®</sup>.
- Ordopidine and seridopidine
  - NeuroSearch has other drug candidates belonging to the class of dopidines. These drug candidates are characterised by their ability to stabilise the dopamine dependant functions in the brain.
  - Ordopidine is under evaluation in a clinical Phase Ib study that is investigating the safety and tolerability of the compound in Parkinsons patients with L-DOPA induced dyskinesia. During the second half of 2011, we expect to conclude the current study and then decide upon a possible initiation of a Phase II programme.
  - Seridopine is being evaluated in a Phase I study which we expect will be concluded in the second quarter of 2011, after which the data will be evaluated in order to decide upon design and possible start of a Phase II study by the end of 2011.
- Tesofensine – For the treatment of overweight and obesity
  - The Phase II study of tesofensine demonstrated a placebo-corrected weight loss of up to 10% over a period of six months. This is acknowledged to be one of the most significant reductions in weight that has been reported among weight reducing compounds used as monotherapy. Compounds for the treatment of overweight and obesity have faced increasing safety requirements from the authorities, and this has led to requirements for extensive safety studies with respect to effect on the cardiovascular system. Discussions are ongoing with both the US and the European health authorities as to the design and extent of the Phase III programme. The final result of these discussions will be available in Q2 2011.
  - The considerable costs involved in undertaking a Phase III study have led NeuroSearch to ready the programme for collaboration with a partner.
- Drug discovery and development alliances with Lilly and Janssen
  - The drug discovery programmes under the NeuroSearch-Lilly collaboration progress satisfactorily. Together with Lilly, we have agreed upon focusing our efforts on fewer drug discovery and development programmes. It is our intention that this focus combined with the results we have already achieved, will speed up the selection of drug candidates under the collaboration agreement that was initiated in February 2009. It exploits both partners' joint experience within the field of drug discovery and drug development and provides NeuroSearch with a total contingent financing of USD 30 million, inclusive of an equity investment of USD 17 million.
  - The collaboration with Janssen progresses as planned, and it is our expectation that the first clinical development candidate under the alliance will be selected this year.



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The collaboration was initiated in August 2009 and is based on joint experience within neuroscientific drug discovery and drug development. The agreement provides NeuroSearch a total contingent financing of EUR 32 million which includes an equity investment of EUR 15 million.

**Outlook for 2011**

NeuroSearch maintains the company's financial expectations for the full financial year 2011, with an expected loss before financials and other shares of result in the region of DKK 325 million.

In connection with the announcement of the Q1 interim report for 2011, CEO of NeuroSearch Patrik Dahlen, stated:

*"Following feedback from the FDA, we now await the advice of the European health authorities in order to determine the best possible clinical development programme for Huntexil<sup>®</sup>. The authorities have been very constructive in their approach and also in their clarification of requirements for NeuroSearch to obtain approval of Huntexil<sup>®</sup>. We remain highly committed to the development and marketing of Huntexil<sup>®</sup> for the benefit of patients, society and shareholders."*

Having completed the first quarter, Thomas Varming, EVP of NsDiscovery, said:

*"NsDiscovery was established on the foundation of many years of research, which has contributed important findings regarding the role of ion channels in relation to disease and health. With their understanding of the modulation of ion channels, our researchers have succeeded in attracting partnerships from large research based pharmaceutical companies worldwide. We remain committed to distinguishing ourselves as an attractive collaboration partner for these companies. Our present partnerships with Eli Lilly and Janssen run well, and we look forward to our continued collaboration. At the same time, we are optimistic that we will attract new partners."*

Patrik Dahlen  
CEO

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This interim report will be presented at the company's Annual General Meeting, which will be held today at 4.00 pm at the Radisson Blu Falconer Hotel & Conference Center, Falkoner Allé 9, DK-2000 Frederiksberg.

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**About NeuroSearch – Company profile**

NeuroSearch (NEUR) is a European based biopharmaceutical company, specialising in CNS diseases, and listed on NASDAQ OMX Copenhagen A/S. The company has a pipeline of speciality CNS drugs, including Huntexil<sup>®</sup> (pridopidine), a unique orphan drug in Phase III for the treatment of Huntington's disease. NeuroSearch is building commercial competences with a view to commercialising Huntexil<sup>®</sup> through an in-house marketing and sales organisation.



NeuroSearch has a well-established drug discovery division, NsDiscovery, with unique capabilities in the field of ion channels and CNS diseases. The company has strategic drug discovery and development alliances with Janssen Pharmaceutica and Eli Lilly as well as a licence collaboration with Abbott. NeuroSearch also has equity interests in a number of unlisted companies in the Life Science industry.



Interim report for Q1 2011

## Financial review

### Liquidity and capital resources

As of 31 March 2011, cash and cash equivalents including securities totalled DKK 411.5 million (DKK 767.3 million in the same period 2010). Securities primarily consist of highly liquid short-term bonds. In addition, NeuroSearch has contingent future payments from the company's collaboration partners, Lilly and Janssen, of DKK 64 million and unused credits of DKK 29 million.

### Income statement

An operating loss of DKK 82.0 million (a loss of DKK 80.4 million in the same period 2010) was reported. A loss after tax of DKK 92.7 million was posted (a loss of DKK 56.9 million in the same period 2010).

### Revenue

The revenue for the period 1 January to 31 March 2011 of DKK 16.2 million (DKK 17.5 million in the same period 2010) mainly consisted of revenue from the partnership agreements with Lilly and Janssen, which will be recognised during the terms of the agreements.

### Costs

Consolidated costs totalled DKK 98.2 million (DKK 97.9 million in the same period 2010) of which development costs amounted to DKK 40.3 million (DKK 45.0 million in the same period 2010). The development costs were primarily attributable to the Huntexil<sup>®</sup> (pridopidine) development programme. Research costs amounted to DKK 49.2 million (DKK 43.9 million in the same period 2010) and general and administrative costs for the period were DKK 8.7 million (DKK 9.0 million in the same period 2010).

In connection with the restructuring of NeuroSearch announced in January this year, a one-off charge of DKK 15.0 million is included in first quarter result. This primarily relates to the costs incurred with respect to those employees who left the company.

### Net financials

Financials amounted to a net expense of DKK 10.7 million (a net income of DKK 8.7 million in the same period 2010).

The NeuroSearch Group's shares of results of associates – NsGene A/S, Sophion Bioscience A/S and Atonomics A/S – are recognised in the income statement as a combined loss of DKK 2.7 million (a loss of DKK 2.4 million in the same period 2010).

In Q1 2011, financial expense was DKK 8.0 million (an income of DKK 11.1 million in the same period 2010), comprising interest expense for the company's property and lease payments of DKK 2.6 million (DKK 2.7 million in the same period 2010), foreign exchange losses of DKK 1.5 million (an income of DKK 2.0 million in the same period 2010), fair value adjustment of financial assets of DKK 2.9 million (an income of DKK 14.9 million in the same period 2010) and the financial element of contingent consideration relating to NeuroSearch Sweden AB of DKK 1.0 million (DKK 3.1 million in the same period 2010).

### Balance sheet

The balance sheet stood at DKK 1,320.1 million at 31 March 2011 (DKK 1,639.4 million in the same period 2010).

In Q1 2011, the NeuroSearch Group invested DKK 1.2 million (DKK 2.4 million in the same period 2010) in tangible assets and DKK 1.8 million (DKK 1.8 million in the same period 2010) in associates.



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**Subsidiaries and associated companies**

At 30 March 2011, NeuroSearch held equity interests in the following companies: NeuroSearch Sweden AB (100%), NsExplorer A/S (100%), Poseidon Pharmaceuticals A/S (100%), Sophion Bioscience A/S (30.1%), NsGene A/S (26.8%) and Atonomics A/S (18.8%).

Except for NeuroSearch Sweden AB, which is based in Sweden, all other subsidiaries and associated companies are based in Denmark.

**Organisation**

NeuroSearch has its head office in Ballerup, Denmark, and the total number of employees for the group was 202 as of 31 March 2011.

NeuroSearch is looking for a senior person with international management experience to take up the position as Executive Vice President, International Marketing & Sales.

**NsDiscovery**

The NsDiscovery division, which was established in January 2011, has the strategic goal of generating cash through alliances and partnerships to cover operational expenses and to become profitable in the longer term. With the current agreements with Lilly and Janssen this is not the case. NeuroSearch is currently establishing internal segment reporting and expects to be able to report on this in connection with the interim report for H1 2011.

**Outlook for 2011**

NeuroSearch expects a loss before financials and other shares of results in the region of DKK 325 million.



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**FINANCIAL HIGHLIGHTS AND PER SHARE RATIOS**

(DKK million )	GROUP		
	Q1 2011 (3 months)	Q1 2010 (3 months)	2010 (12 months)
<b>Income statement:</b>			
Revenue	16.2	17.5	69.3
Research costs	49.2	43.9	202.4
Development costs	40.3	45.0	153.5
Operating profit/(loss)	(82.0)	(80.4)	(328.0)
Net financials	(10.7)	8.7	21.8
Profit/(loss) before taxes	(92.7)	(71.8)	(306.2)
Net profit/(loss) for the period	(92.7)	(56.9)	(259.0)
Other total income for the period	6.8	21.5	42.3
Total income for the period	(85.9)	(35.4)	(216.7)
<b>Balance sheet:</b>			
Total assets	1,320.1	1,639.4	1,391.5
Cash and cash equivalents, securities and investments	**411.5	767.3	480.6
Equity	915.4	1,167.1	994.1
Investments in tangible assets	1.2	2.4	10.8
<b>Per share ratios (DKK):</b>			
Earnings per share*	(3.78)	(2.28)	(10.56)
Diluted earnings per share	(3.78)	(2.28)	(10.56)
Net asset value	37.28	41.88	40.49
Market price at end of period	57.0	169.0	95.0
Market price/net asset value	1.53	4.0	2.35
Average number of employees	198	232	235

\* Per share of DKK 20 nominal value.

\*\* Capital resources, including future contingent payments from the collaboration partners Lilly and Janssen of DKK 63.9 million and unused credits of DKK 29.0 million, total DKK 504.4 million.

The ratios are stated in accordance with "Recommendations and Financial Ratios" issued by the Danish Society of Financial Analysts.



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**CONDENSED TOTAL INCOME STATEMENT**

(DKK million)	GROUP		
	Q1 2011 (3 months)	Q1 2010 (3 months)	2010 (12 months)
<b>Income statement:</b>			
Revenue	16.2	17.5	69.3
Research costs	49.2	43.9	202.4
Development costs	40.3	45.0	153.5
General and administrative costs	8.7	9.0	41.4
Total costs	98.2	97.9	397.3
<b>Operating profit/(loss)</b>	<b>(82.0)</b>	<b>(80.4)</b>	<b>(328.0)</b>
Share of profit/(loss) of associates	(2.7)	(2.4)	(1.6)
Net other financials	(8.0)	11.1	23.4
Tax on income	-	14.8	47.2
<b>Net profit/(loss)</b>	<b>(92.7)</b>	<b>(56.9)</b>	<b>(259.0)</b>
<b>Statement of comprehensive income:</b>			
Net profit/(loss)	(92.7)	(56.9)	(259.0)
<i>Other comprehensive income:</i>			
Fair value adjustment of hedging instruments	1.5	(1.5)	(2.1)
Exchange rate adjustment of new investment in foreign subsidiary	2.6	28.2	58.9
Fair value adjustment of hedge of net investment in foreign subsidiary	2.7	(5.2)	(14.5)
<b>Total other comprehensive income</b>	<b>6.8</b>	<b>21.5</b>	<b>42.3</b>
<b>Total comprehensive income</b>	<b>(85.9)</b>	<b>(35.4)</b>	<b>(216.7)</b>
Earnings per share, DKK	<b>(3.78)</b>	<b>(2.28)</b>	<b>(10.56)</b>
Diluted earnings per share, DKK	<b>(3.78)</b>	<b>(2.28)</b>	<b>(10.56)</b>

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### CONDENSED BALANCE SHEET

Balance sheet (DKK million)	GROUP		
	31 March 2011	31 March 2010	31 December 2010
Intangible assets	674.8	642.5	669.6
Property, plant and equipment	198.6	203.4	200.9
Investments	8.3	6.0	9.6
Receivables	26.9	20.2	30.8
Cash and cash equivalents and securities	411.5	767.3	480.6
<b>Total assets</b>	<b>1,320.1</b>	<b>1,639.4</b>	<b>1,391.5</b>
Equity	915.4	1,167.1	994.1
Non-current liabilities	203.4	172.8	203.9
Current liabilities	201.3	299.5	193.5
<b>Total equity and liabilities</b>	<b>1,320.1</b>	<b>1,639.4</b>	<b>1,391.5</b>

### CONDENSED CASH FLOW STATEMENT

Cash flow statement (DKK million)	GROUP		
	Q1 2011 (3 months)	Q1 2010 (3 months)	2010 (12 months)
Cash flows from operating activities	(56.0)	(74.7)	(358.5)
Cash flows from investing activities	74.1	62.4	307.6
Cash flows from financing activities	(4.4)	28.1	48.5
Net cash flow	13.7	15.8	(2.4)
Unrealised gain/(loss) on securities	(5.6)	10.3	(0.3)
Net change in cash and cash equivalents	8.1	26.1	(2.7)
Cash and cash equivalents at beginning of period	26.3	28.7	28.7
Foreign exchange adjustments of cash and cash equivalents	-	0.2	0.3
Cash and cash equivalents at end of period	34.4	55.0	26.3
Securities at the end of period	377.1	712.3	454.3
<b>Capital resources at end of period</b>	<b>411.5*</b>	<b>767.3</b>	<b>480.6</b>

\* Capital resources, including future contingent payments from the collaboration partners Lilly and Janssen of DKK 63.9 million and unused credits of DKK 29.0 million, total DKK 504.4 million.

For a breakdown of "cash and cash equivalents" and "securities" as of 31 March 2011, see notes 2 and 3.



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**MOVEMENTS IN EQUITY**

<b>2011 GROUP (DKK million)</b>	Share capital	Share premium	Currency translation reserve	Other re-serves	Retained earnings	Total
Equity at 1 January 2011	491.1	0	9.3	(3.0)	496.7	994.1
Total recognised income for the period	-	-	5.3	1.5	(92.7)	(85.9)
Right issue	-	-	-	-	-	0
Employee warrant programme	-	-	-	-	7.2	7.2
Transfer	-	-	-	-	-	0
<b>Equity at 31 March 2011</b>	<b>491.1</b>	<b>0</b>	<b>14.6</b>	<b>(1.5)</b>	<b>411.2</b>	<b>915.4</b>

<b>2010 GROUP (DKK million)</b>	Share capital	Share premium	Currency translation reserve	Other re-serves	Retained earnings	Total
Equity at 1 January 2010	487.6	0	(35.1)	(0.9)	722.2	1,173.8
Total recognised income for the period	-	-	23.0	(1.5)	(56.9)	(35.4)
Right issue	-	-	-	-	-	0
Employee warrant programme	3.5	23.6	-	-	1.6	28.7
Transfer	-	(23.6)	-	-	23.6	0
<b>Equity at 31 March 2010</b>	<b>491.1</b>	<b>0</b>	<b>(12.1)</b>	<b>(2.4)</b>	<b>690.5</b>	<b>1,167.1</b>

Interim report for Q1 2011

## NOTES

### 1. Accounting estimates and judgments

#### Basis of preparation

The interim financial statements contain a condensed of the consolidated financial statements for NeuroSearch A/S. The interim consolidated financial statements are presented in accordance with IAS 34 about interim financial statements and additional Danish interim financial reporting requirements for listed companies.

This interim report has not be audited or reviewed by the company's independent auditor.

#### Accounting policies

The accounting policies in the interim consolidated financial statements are consistent with those applied in the Annual Report 2010. The Annual Report 2010 has been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. For further information please see the Annual Report 2010, pages 42-45.

#### Estimates and judgments

The preparation of interim consolidated financial statements in accordance with IAS 34 requires the making of estimates and judgments that affect the reporting of assets, liabilities and expenses. The estimates and judgments are reviewed on an ongoing basis. Estimates and judgments are based on historical experience and on various other assumptions which NeuroSearch believes to be reasonable under the circumstances. However, the actual results may differ significantly from the estimates.

The principles used to make estimates and judgments in the interim consolidated financial statements have been consistently applied in the interim financial statements and the Annual Report 2010. The principles are described in the Annual Report 2010 in note 1 to the financial statements (page 50).

### 2. Cash and cash equivalents

Cash and cash equivalents can be specified as follows:

(DKK million)	31 March 2011	31 March 2010	31 December 2010
Money market accounts	34.4	55.0	26.3
<b>Cash and cash equivalents end of period</b>	<b>34.4</b>	<b>55.0</b>	<b>26.3</b>

NeuroSearch is subject to credit risk with respect to bank deposits. The maximum credit risk corresponds to the carrying amount. The credit risk involved in cash is handled by only collaborating with financial institutions with satisfactory creditworthiness. No credit risk is considered to exist in relation to cash as the counterparties are Nordea, Danske Bank and Handelsbanken.

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### 3. Securities

Securities can be specified as follows:

(DKK million)	31 March 2011	31 March 2010	31 December 2010
Danish mortgage bonds	377.1	712.3	454.3
<b>Total securities end of period</b>	<b>377.1</b>	<b>712.3</b>	<b>454.3</b>

### 4. Treasury shares

(DKK thousand)	Number of shares	Nominal value	Percentage of share capital	Market value DKK million
1 January 2011	265,946	5,318,920	1.08	25.3
Additions	-	-	-	-
Disposals	-	-	-	-
Adjustments	-	-	-	(10.1)
<b>Treasury shares at 31 March 2011</b>	<b>265,946</b>	<b>5,318,920</b>	<b>1.08</b>	<b>15.2</b>

The acquisition of own shares is part of the company's share buy-back programme which was initiated in May 2009 with the objective of contributing to any future milestone payments to the sellers of Carlsson Research, which NeuroSearch A/S acquired in 2006.



Interim report for Q1 2011

## MANAGEMENT STATEMENT

The Board of Directors and Executive Management today considered and approved the interim report for the period 1 January to 31 March 2011. The interim report has not been audited or reviewed by the company's independent auditor.

The interim report which contains an abstract of the full consolidated financial statement for NeuroSearch A/S is presented in accordance with IFRS as adopted by the EU, IAS 34 and additional Danish interim financial reporting requirements for listed companies.

We consider the accounting policies to be appropriate and the overall presentation in the interim report to be adequate.

Therefore, in our opinion, the interim report gives a true and fair view of the Group's assets and liabilities and financial position as at 31 March 2011 and of the results of operations and cash flows for the period 1 January to 31 March 2011. Furthermore, in our opinion, the management report gives a true and fair statement of the developments in the Group's activities and financial affairs, as well as a description of the significant risks and uncertainties the Group faces.

Copenhagen, 27 April 2011

## Executive Management

Patrik Dahlen  
CEO

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## Board of Directors

Thomas Hofman-Bang  
Chairman

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Allan Andersen

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Torbjörn Bjerke

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Ian Talmage

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Anders Ullman

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Torben Skov

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Lars Siim Madsen

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Mads Peder Gersdorff Korsgaard

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