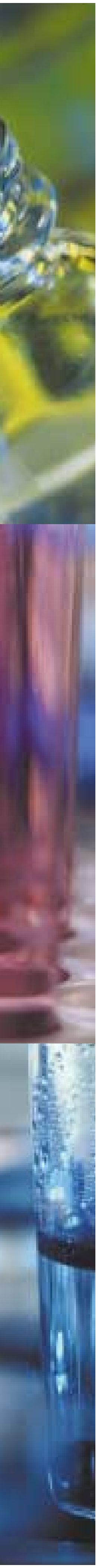


2000 Annual Report & Form 20-F

Elan Corporation, plc

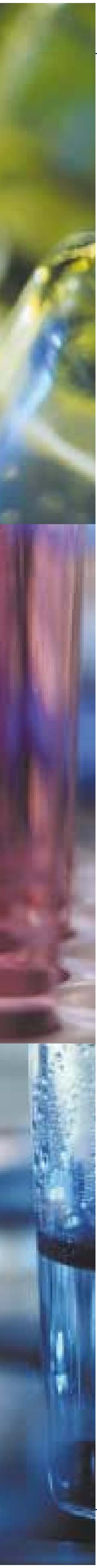


Table of Contents

Cautionary Statement Regarding Forward Looking Statements

In order to utilise the "safe harbour" provisions of the United States ("US") Private Securities Litigation Reform Act of 1995, Elan Corporation, plc is providing the following cautionary statement. This Annual Report and Form 20-F 2000 contains certain forward-looking statements. Forward-looking statements give Elan's current expectations and forecasts of future events. These statements can be identified by the fact that they do not relate strictly to historical or current facts. They use words such as "anticipate", "estimate", "expect", "project", "intend", "plan", "believe" and other words and terms of similar meaning in connection with any discussion of future operating or financial performance. In particular, these include statements relating to future actions, prospective products, sales efforts, expenses, the outcome of contingencies such as legal proceedings, anticipated effects of acquisitions such as the acquisition of Dura Pharmaceuticals, Inc. and financial results. From time to time, Elan may also provide oral or written forward-looking statements in other materials it releases to the public. These statements are based on management's current expectations and are naturally subject to uncertainty and changes in circumstances. Although Elan believes its expectations are based on reasonable assumptions, any forward-looking statements may be influenced by factors that could cause actual results to vary materially from the expectations contained herein. These forward-looking statements are subject to numerous risks and uncertainties. Important factors that could cause actual results to differ materially from those in forward-looking statements, certain of which are beyond the control of Elan, include, among other things: the risks related to the integration of acquired companies on a timely basis and the realisation of related synergies, the risk that research and development activities will not be successful, the risk that Elan will not obtain regulatory approval for products or that products will not be commercially successful, the impact of competition including generic competition, price controls and pricing pressures, the risk of substantial product liability claims, the risk of changes in governmental regulation and intellectual property legal protections and other economic, competitive, business and/or regulatory factors affecting Elan's business generally.

Statements of Competitive Position

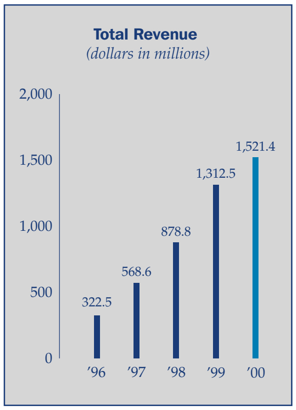
Except as otherwise stated, market information in this Annual Report and Form 20-F 2000 regarding the position of Elan's business or products relative to its or their competition is based upon published statistical data obtained from IMS Health Incorporated (noted as "1" in text) and Scott-Levin Inc. (noted as "2" in text), leading suppliers of statistical data to the pharmaceutical industry. Except as otherwise stated, this market share and industry data from IMS Health Incorporated and Scott-Levin Inc. has been derived by comparing Elan's sales revenue to competitors' and total market sales revenue.

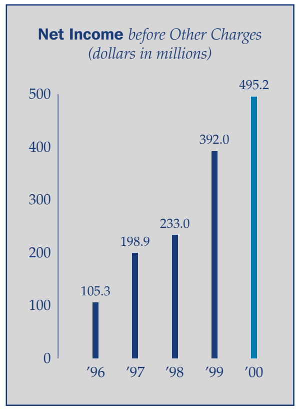
Financial Data

Except as otherwise stated, financial data in this Annual Report and Form 20-F 2000 is presented based on Irish generally accepted accounting principles ("Irish GAAP"). Irish GAAP differs in certain significant respects from US generally accepted accounting principles ("US GAAP"). Differences between Irish GAAP and US GAAP and the impact of such differences on Elan's financial results and position are set out in detail on pages 106–119.

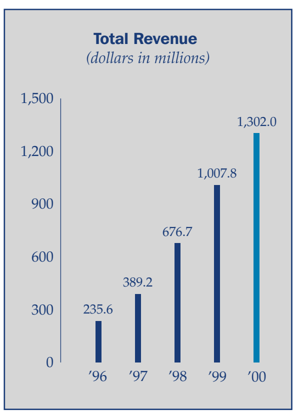
Financial Highlights*

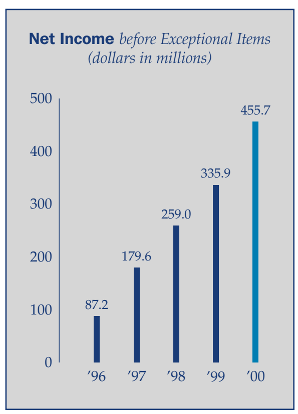
US GAAP





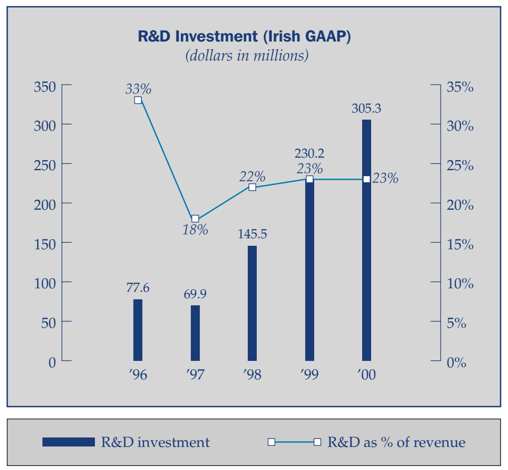
IRISH GAAP

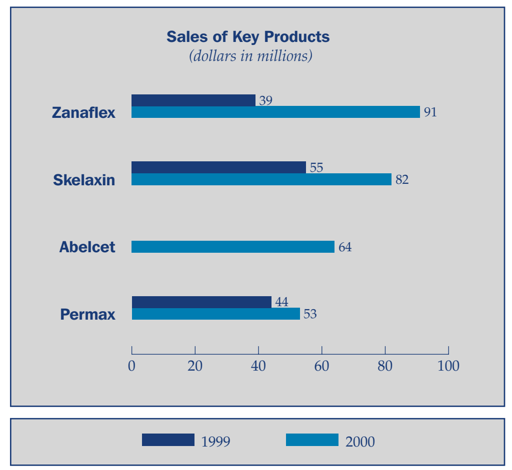


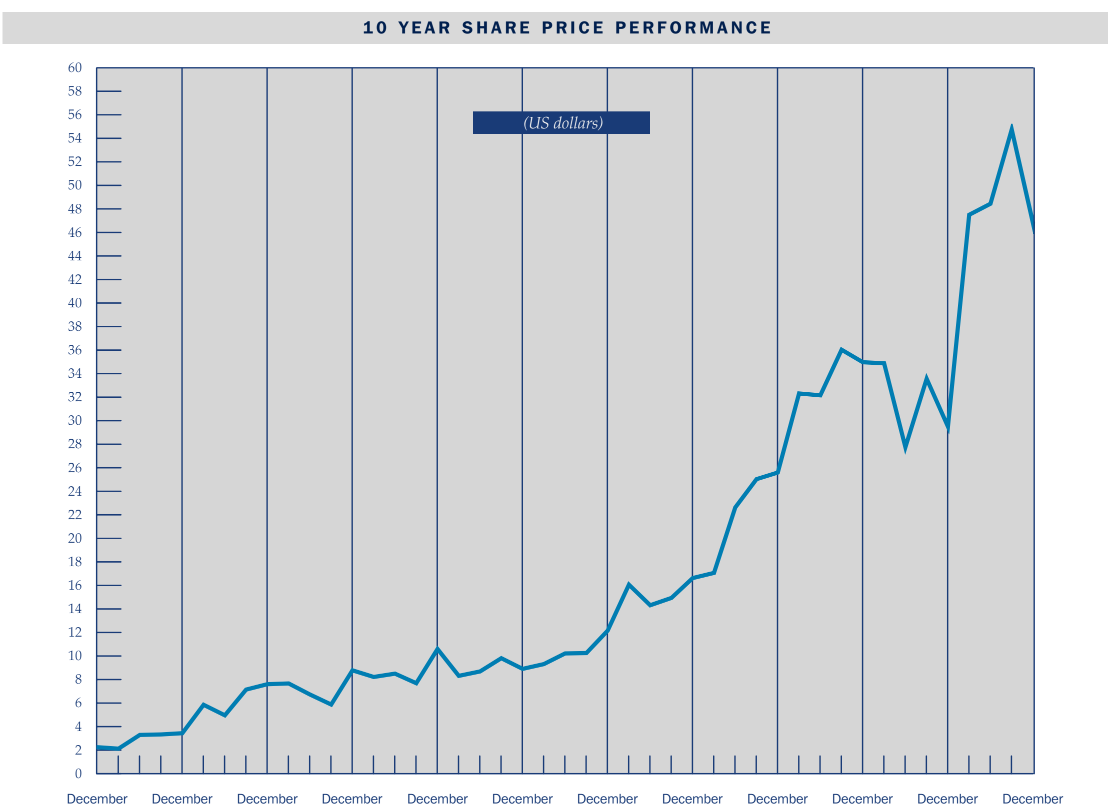


** 1996 data represents the nine month period ended 31 December 1996.*

Financial Highlights







Dear Shareholders

This Annual Report is the first combined Annual Report and Form 20-F that we have prepared as a consolidated document. In prior years, we prepared and circulated to shareholders an Annual Report prepared under Irish company law and then subsequently filed an Annual Report on Form 20-F with the US Securities and Exchange Commission. Although this document was not circulated to shareholders, it was available on request. We have decided that because of the growth in the size of Elan's operations, the diversity of our shareholder base and the divergence in accounting policies between Ireland and the US, it is desirable to prepare a combined Annual Report which will be circulated to all of our shareholders. As I am sure you will appreciate, this has been a major logistical exercise. I hope that you will find this comprehensive document useful and informative.

The major challenges which I identified at the start of 2000 included progress on our transition to a fully integrated pharmaceutical company; building our US and European infrastructure; recruiting key new managers for critical parts of our business; advancing our research and development programmes; and meeting our earnings targets. Although the highlights of 2000 are dealt with comprehensively elsewhere, I am pleased to report that we comfortably exceeded the markets' earnings expectations for fiscal 2000. This was the result of continued growth in product revenue, where, by the fourth quarter, product revenue exceeded 73% of total revenue, a record for Elan.

John Groom retired as president and chief operating officer at the end of 2000. I wish John every success in his retirement. We will continue to have the benefit of his counsel as a non-executive director. In October, Daniel Welch joined as president, Elan Pharmaceuticals. Dan has a distinguished track record in the pharmaceutical industry with experience in Europe and the US, and has also successfully implemented a number of business combinations where acquired entities were merged together into one business. I am pleased that we were in a position to recruit Dr Lars Ekman as president, research and development of Elan Pharmaceuticals and Robert Whitehead as president, Americas of Elan Pharmaceuticals. Dan, Bob and Lars will bring significant management capability to our pharmaceutical division.

We considerably strengthened our US sales and marketing infrastructure through the acquisition of Dura Pharmaceuticals, Inc. in November. We believe this acquisition will provide us with the necessary reach to fully exploit the benefits that our product portfolio provides and we believe we will be in a position to derive significant synergies from this acquisition. These synergies will be reflected in enhanced revenue from our products and cost savings through a realignment of the US operating business. I am pleased to report that substantial progress has been made in achieving our three year synergy goals. In addition, we extended our therapeutic reach through the acquisition of The Liposome Company, Inc. in May which represents a first step in building a presence in oncology and anti-fungals. Elan has sought to enter this key therapeutic area for a number of years and we believe that the acquisition of Liposome represents a good start. Finally, in December, we completed the acquisition of Quadrant Healthcare, plc, a company that will enable us to expand the range of services of our drug delivery division.

We made significant progress on our product pipeline during 2000. In March and December we received approval for Zonegran™ and Myobloc™ for the treatment of epilepsy and cervical dystonia, respectively. These important new treatments will provide Elan with an opportunity for significant revenue growth. We also received approvable letters for ziconotide, for chronic severe pain, and for Frovelan™, for migraine. We hope to be in a position to launch these important products in 2001. They represent real breakthroughs for patients with these debilitating conditions.

With respect to our research and development activity, I was particularly encouraged by the initiation of four major development collaborations for drugs in our development pipeline. These included two collaborations with American Home Products Corporation in the area of Alzheimer's disease and diseases caused by cell trafficking. We also entered into a collaboration with Pharmacia Corporation in the area of Alzheimer's disease. Finally, we are working with Biogen, Inc. to jointly develop Antegren™, our internally developed monoclonal antibody, for multiple sclerosis and Crohn's disease. In particular, we will benefit from Biogen's expertise in the manufacture of monoclonal antibodies and its experience in the multiple sclerosis markets in the US and Europe. I believe that these collaborations endorse the quality of Elan's science and provide a real opportunity to enable us to better exploit our research capability.

In development, AN-1792, the lead compound in our immunotherapeutic approach for the prevention and treatment of Alzheimer's disease, is progressing through Phase I clinical trials and we hope to be in a position to advance to the next stage of development later this year. With respect to Antegren, we concluded Phase II clinical trials in late 2000 and reported the positive outcomes in January 2001. I am pleased to report that Antegren will now advance into Phase III clinical trials for both multiple sclerosis and Crohn's disease during 2001.

Five years ago, our drug delivery technology was used by the pharmaceutical industry principally for life cycle management, essentially to extend the life of a drug beyond expiration of patents on the active ingredient. We commenced a programme of transitioning our drug delivery technology from mainly life cycle management projects to being an important part of the drug discovery and development process. We continue to work with industry clients and internally in

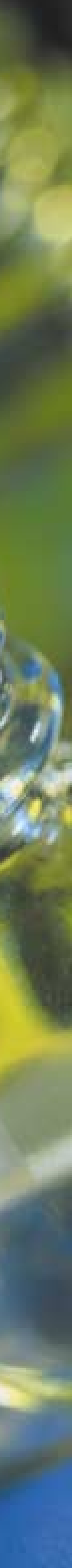
Elan Pharmaceuticals on life cycle management projects. However, I was particularly pleased to see the approval of the oral form of Rapamune™, which incorporates our NanoCrystal™ technology, as the first new chemical entity entering the market incorporating this technology. Our drug delivery division has an extensive clinical pipeline, with six drugs in registration or in pre-launch phases; over fifteen drugs in Phase II or III clinical development; and over twenty-five drugs in Phase I studies.

Our drug delivery division collaborates widely in the pharmaceutical industry and has an extensive range of collaborations with biotechnology and other drug delivery companies. We have made substantial progress in enhancing our drug delivery pipeline and I would expect to see this rewarded with significant growth in royalties as these important medicines come to the marketplace.

In December, the board approved a major expansion and redevelopment of our principal manufacturing facility in Athlone, Ireland. This expansion, which is estimated to cost approximately $175 million over a four year period, is designed to meet the needs of our pharmaceutical business and our clients.

Finally, I would like to thank all of my colleagues in the Elan family for the tremendous effort they have made during the course of 2000 to progress our key business objectives. In addition, I thank you, our shareholders, for your support, interest and commitment to Elan and am pleased to report that we enhanced the value of your investment throughout the course of 2000. The current fiscal year has started well and I look forward to executing on our new goals for the 2001/2005 period. In this context, it is our objective that we grow our revenue base towards $5 billion by 2005; that up to 90% of this revenue comes from product sales; and that we continue as a world leader in drug delivery and significantly enhance our presence in the therapeutic areas of neurology, oncology and pain management. These goals are a great challenge for our entire company but in achieving them, I believe, we will create real value for our employees, our shareholders and most importantly, the patients that will benefit from the new products which we will bring to the market. I look forward to reporting to you next year on our progress.

Donal Geaney
Chairman and Chief Executive Officer



corporation

2000 Highlights

- Revenue in 2000 was $1,302 million, an increase of 29% over 1999
- Product revenue in 2000 was $826 million, an increase of 46% over 1999
- Strong sales growth of Zanaflex™ and Skelaxin™, up 132% and 49%, to $91 million and $82 million, respectively
- Approval by the US Food and Drug Administration (“FDA”) of Myobloc and Zonegran
- Approvable letters from the FDA for Frovelan and ziconotide
- Strong performance by Elan Pharmaceutical Technologies with the approval by the FDA of two products incorporating Elan’s technologies and filing of four products with the FDA for marketing approval
- Elan Pharmaceutical Technologies pipeline currently includes 19 new product candidates in Phase II and Phase III clinical development and approximately 26 new product candidates in Phase I clinical development
- Partnering of Alzheimer’s disease programs, AN-1792 with American Home Products Corporation and beta-secretase inhibitors with Pharmacia Corporation
- Partnering of Antegren with Biogen, Inc.
- Positive Phase II data for Antegren in both multiple sclerosis and Crohn’s disease
- Acquisitions of Dura Pharmaceuticals, Inc., The Liposome Company, Inc., Quadrant Healthcare, plc and Neuralab Limited
- Continued expansion of Elan’s European presence in Italy and Spain

Elan Corporation, plc

Company Overview

Elan Corporation, plc (collectively with its subsidiary and associated undertakings, the “Company”, “Elan” or the “Group”) is a worldwide pharmaceutical company, headquartered in Dublin, Ireland. Elan was incorporated as a private limited company in Ireland on 18 December 1969. Elan became a public limited company on 3 January 1984. Elan’s principal executive offices are located at Lincoln House, Lincoln Place, Dublin 2, Ireland, telephone number 353-1-709-4000. Elan’s principal research and development, manufacturing and marketing facilities are located in Ireland, the US and the United Kingdom (“UK”).

Elan conducts its operations through two primary business units: Elan Pharmaceuticals (“EP”) and Elan Pharmaceutical Technologies (“EPT”). EP is engaged in the discovery, development and marketing of products in the therapeutic areas of neurology, pain management, oncology, infectious diseases and dermatology. Clinical development programs are ongoing in the fields of Alzheimer’s disease, multiple sclerosis (“MS”), inflammatory bowel disease, Parkinson’s disease, spasticity and oncology.

EPT is engaged in the development, licencing and marketing of drug delivery products, technologies and services to pharmaceutical industry clients on a worldwide basis. EPT has developed 20 products, including 10 products that are marketed in the US. EPT has over 40 projects in clinical development.

Company Mission and Goals

Elan is committed to improving the health and quality of life for its patients and their families, and providing innovative medicines to the healthcare professionals who treat them. Elan believes in serving its patients, customers, shareholders, employees and the community.

Elan is continuing its development into a fully integrated, worldwide pharmaceutical company, with a significant commercial presence in selected world markets and therapeutic areas. It is committed to developing and marketing innovative pharmaceutical products, researching new therapies and maintaining its leadership position in the drug delivery industry.

Corporate Acquisitions

Elan made four significant corporate acquisitions in 2000.

On 9 November 2000, Elan acquired Dura Pharmaceuticals, Inc. (“Dura”), a specialty pharmaceutical company engaged in the marketing and sale of prescription products for the treatment of infectious diseases and respiratory conditions. In connection with the acquisition of Dura, each outstanding share of Dura common stock was exchanged for 0.6715 of an Elan Ordinary Share, resulting in the issuance of approximately 30.6 million Elan Ordinary Shares. In addition, all outstanding options and warrants to purchase Dura common stock were converted into options and warrants to purchase Elan Ordinary Shares. An aggregate of approximately 5.5 million Elan Ordinary Shares are issuable upon exercise of these options and warrants. The total consideration for the acquisition of Dura was approximately $1,591 million.

The Dura acquisition added over 500 hospital and primary care sales representatives to Elan's sales and marketing infrastructure, increasing the size of Elan's US sales force to approximately 1,000 representatives. The acquisition broadened Elan's portfolio of marketed products by adding drugs such as Maxipime™, Azactam™ and Nasarel™.

On 12 May 2000, Elan acquired The Liposome Company, Inc. ("Liposome"), a biotechnology company engaged in the development, manufacturing and marketing of therapeutic products to treat cancer and related diseases. In connection with the acquisition, each outstanding share of Liposome common stock was exchanged for 0.385 of an Elan Ordinary Share, resulting in the issuance of approximately 15.6 million Elan Ordinary Shares, and one Contingent Value Right ("CVR") for each Liposome share, option and warrant. Options and warrants granted by Liposome prior to the acquisition date were converted into options and warrants to acquire approximately 1.9 million Elan Ordinary Shares. The agreement governing the CVRs provides for a cash payment by Elan to the holders of the CVRs of up to $98 million less certain costs incurred by Elan, with $54 million contingent on Myocet™ receiving marketing and pricing approval in certain countries of the European Union ("EU") and $44 million contingent on Myocet reaching certain sales milestones outside the US. The total consideration of approximately $732 million includes an accrual of $54 million for the initial CVR payment. Elan announced on 28 March 2001 that the conditions necessary for this payment had been met, and payment will be made during April 2001. There can be no assurance that the sales milestones required for the second payment of $44 million will be achieved. Myocet is a proprietary liposomal formulation of doxorubicin which has been developed for the treatment of metastatic breast cancer.

On 5 December 2000, Elan completed the acquisition of Quadrant Healthcare, plc ("Quadrant"). Quadrant is a UK based drug delivery company with proprietary formulation technology that can be applied to pulmonary, oral and parenteral routes of administration. The total consideration, paid in cash, was approximately $86 million.

On 31 January 2000, Elan completed the acquisition of Neuralab Limited ("Neuralab") pursuant to a purchase option to purchase all, but not less than all, of the outstanding common shares of Neuralab. The purchase price, paid in cash, was approximately $76 million. Neuralab was formed in August 1997 and is engaged in research and development programmes in the field of Alzheimer's disease.

World Pharmaceutical Market

Global pharmaceutical sales increased by 10%[1] in 2000 to $319 billion[1], compared to an increase of 11%[1] in 1999. Sales are increasing due to the introduction of new innovative products and the ageing of the population, among other factors. Pharmaceutical sales in the therapeutic areas in which Elan operates increased in the US as follows:

	2000 $bn	1999 $bn	% Growth
Neurology	**4.9**	4.0	22%
Pain Management	**15.2**	12.6	21%
Oncology, Antineoplast and Immunomodulators	**9.3**	8.7	7%
Infectious Diseases	**15.8**	14.7	8%
Dermatological	**4.3**	3.9	10%

Source: IMS Health[1]

The US, Japan and Western Europe account for approximately 85%[1] of global pharmaceutical sales.

The US is Elan's most important market. For this reason, the factors discussed below, such as Government Regulation and Product Approval Process, focus primarily on US requirements.

Government Regulation

Pharmaceutical product registration is primarily concerned with the safety, efficacy and quality of new medicines, and, in some countries, their pricing. A product must undergo extensive clinical trials before it can be approved for marketing. The process of developing a new pharmaceutical product, from idea to commercialisation, can take in excess of ten years. This period varies considerably from case to case and country to country.

An application for product registration includes specific details concerning the manufacturing plant and procedures involved in the production of the product. The time taken from submission of an application to commercialisation of the product is typically two years or longer. After a product has been approved by the regulatory authorities and has been launched, it is a condition of the product licence that all aspects relating to its safety, efficacy and quality are kept under review.

Governmental authorities, including the FDA and comparable regulatory authorities in other countries, regulate the design, development, testing, manufacturing and marketing of pharmaceutical products and devices. For example, the US Federal Food, Drug and Cosmetic Act (the "FDCA"), the US Controlled Substances Act and other US Federal statutes and regulations impose requirements on the testing, safety, effectiveness, manufacturing, labelling, storage, record-keeping, advertising, marketing and approval of Elan's products in the US. Non-compliance with applicable requirements can result in fines and other judicially imposed sanctions, including the initiation of product seizures, import restrictions, injunctive actions and criminal prosecutions. In addition, administrative remedies can involve requests to recall violative products, the refusal of the US government to enter into supply contracts and/or the refusal to approve pending product approval applications (such as New Drug Applications ("NDAs") and Abbreviated New Drug Applications ("ANDAs") for drugs; Biologic Licence Applications ("BLAs") for biological products; or Premarket Approval Applications ("PMAs") and "510(k)s" for medical devices), until manufacturing or other alleged deficiencies are brought into compliance. The FDA also has the authority to withdraw a product approval in accordance with statutory due process procedures.

Certain in-vitro diagnostic products and certain delivery systems, such as EPT's Medipad™, are regulated or potentially regulated in the US under the FDCA as medical devices. These products are subject to premarketing and postmarketing requirements. The failure to adhere to these requirements can result in a refusal of permission to market, a withdrawal of permission to market and the imposition of sanctions, including seizure, recall notification, injunction and civil and criminal penalties. Additionally, as a condition to marketing or continued marketing, the FDA may impose certain postmarket surveillance and/or tracking requirements which may significantly increase the regulatory costs associated with a product. Under the FDCA, it is also possible for a given product to be regulated both as a drug and a medical device or as a biologic and a medical device.

The pricing of pharmaceutical products is regulated in many countries. The mechanism of price regulation varies. For example, certain countries regulate the price of individual products while in other countries prices are controlled by limiting overall company profitability as measured by the rate of return on capital employed.

In the US, while there are currently no government price controls over private sector purchases of drugs, there have been ongoing discussions on potential reforms of the healthcare system, including the pricing of pharmaceuticals, which could result, directly or indirectly, in the implementation of price controls on pharmaceutical products. It is not possible to predict future regulatory action on the pricing of pharmaceutical products.

Product Approval Process

The stages of testing required before a pharmaceutical product may be marketed in the US are as follows:

Phase of Development	*Description*
Pre-clinical	Laboratory evaluation of product chemistry and animal studies
Phase I	Clinical studies conducted with a small number of subjects to test early safety profile and pattern of drug distribution and metabolism
Phase II	Clinical studies conducted with groups of patients afflicted with a specific disease in order to determine preliminary efficacy, optimal dosages and expanded evidence of safety
Phase III	Larger scale, controlled clinical studies conducted in patients with a specific disease in order to provide sufficient data for statistical proof of efficacy and safety

Pre-clinical tests assess the potential safety and efficacy of a product candidate. The results of these studies must be submitted to the FDA as part of an Investigational New Drug ("IND") application. The IND must be filed with the FDA for its review at least 30 days prior to the proposed initiation of clinical studies and the FDA can, if it believes that the IND does not provide reasonable assurance that the drug is safe for testing in humans, impose a clinical hold against the initiation of clinical testing until adequate assurance is provided. Typically, clinical testing involves a three-phase process, Phase I, Phase II and Phase III as set out above.

For ethical, scientific and legal reasons, animal studies are required in the discovery and safety evaluation of new medicines. Elan's policy is to seek alternatives to animal studies through the replacement of animal models with non-animal models. Alternatives used include various in-vitro cell culture assays. If animal studies are unavoidable, Elan seeks to refine the animal models used to either reduce the number of animals utilised or to eliminate or lessen animal discomfort.

The results of the pre-clinical and clinical testing, along with information regarding the manufacturing of the product and proposed product labelling, are submitted to the FDA through a licence application such as an NDA. In certain cases, an ANDA may be filed in lieu of filing an NDA. An ANDA relies on bioequivalency tests that compare the applicant's drug with an already approved reference drug, rather than on clinical studies. An ANDA might be available to Elan for a new formulation of a drug for which bioequivalent forms have already been approved by the FDA. In responding to licence applications for approval, the FDA may grant marketing approval, approve the product for a narrower indication, impose labelling restrictions, request additional information, require post-approval (Phase IV) studies or deny the application. If, subsequent to approval, new information becomes available concerning the safety of any of Elan's products, this could result in the need to revise the labelling for the product or in the withdrawal of the marketing approval of that product. Similar systems are in place for the testing and approval of biologics and medical devices.

There can be no marketing in the US of any drug or biologic for which a licence application is required until the application is approved by the FDA. Until an application is actually approved, there can be no assurance that the information requested and submitted will be considered adequate by the FDA. Additionally, any significant change in the approved product or in how it is manufactured, including changes in formulation or the site of manufacture, may require prior FDA approval. The packaging and labelling of all products developed by Elan are also subject to FDA approval and ongoing regulation.

Whether or not FDA approval has been obtained, approval of a pharmaceutical product by comparable regulatory authorities in other countries outside the US must be obtained prior to the marketing of the product in those countries. The approval procedure varies from country to country. It can involve additional testing and the time required may differ from that required for FDA approval. Although there are procedures for unified filings for EU countries, in general, most other countries have their own procedures and requirements.

Elan is pursuing marketing approval for a number of its products from regulatory authorities, including the FDA. Elan has received approvable letters from the FDA for certain of its products such as Frovelan and ziconotide. An approvable letter does not constitute regulatory or marketing approval.

Manufacturing

Elan has manufacturing facilities in the US, Ireland, Switzerland and Italy. The Group employs approximately 1,000 people in its manufacturing and logistical activities. Elan's facility in Athlone, Ireland, is the primary location for the manufacture of oral controlled release dosage and oral microparticulate products. Elan's facility in Georgia, US, also provides oral controlled release dosage product manufacturing capability and is registered with the US Drug Enforcement Administration for the manufacture, packaging and distribution of Schedule II controlled drugs. Elan's facility in Florida, US, is the location for the manufacture of transdermal dosage products. Elan's facility in Indiana, US, is the location for filling and packaging of parenterals. Elan's facility in Mezzovico, Switzerland, is the primary location for the manufacture of effervescent and fast melt oral dosage products. Elan's facility in Pomezia, Italy, manufactures tablets, liquids, creams, ointments and powders.

Elan generally retains manufacturing rights to the drug delivery products it develops. Elan manufactures a range of products for licencees and distributors. Elan generally utilises outside manufacturers for its pharmaceutical products, and in the short term expects to continue to rely on outside manufacturers. Elan plans to establish additional internal manufacturing capabilities for its pharmaceutical products, including the ability to formulate, fill, label, package and distribute products in order to meet its clinical trial and commercial manufacturing needs. External manufacturers will continue to be utilised to provide dual sourcing where appropriate.

All facilities and manufacturing techniques used for the manufacture of products and devices for clinical use or for sale in the US must be operated in conformity with current Good Manufacturing Practices ("cGMP") regulations. These are FDA regulations governing the production of pharmaceutical products. Elan's facilities are also subject to periodic regulatory inspections to ensure ongoing compliance with cGMP regulations.

Intellectual Property

Intellectual property is a vital asset for Elan. Elan's competitive position depends on its ability to obtain patents and trademarks on its current and future technologies and products, to defend its patents and trademarks, to protect its trade secrets and to operate without infringing the proprietary rights of others. In addition, under a number of licence agreements for its drug delivery products, Elan's failure to obtain relevant patents would reduce the royalty rate.

Elan's policy is to seek out all opportunities for patenting, trademark registration and other intellectual property protection which support its lead identification and discovery, product development, marketing, manufacturing and other business activities. Elan has filed numerous product patent applications in several countries. Patents have been issued, or applied for, covering most of Elan's products and technologies including those that are under development with third parties.

As part of its normal business activity, Elan monitors competitor activity carefully and will enforce its intellectual property rights fully whenever appropriate. It also vigorously defends any unwarranted challenges to its intellectual property rights.

Competition

The pharmaceutical industry is characterised by intense competition and rapid technological change. In recent years, competition has increased in the drug delivery business as pharmaceutical companies have become increasingly interested in the development and commercialisation of products incorporating advanced or novel drug delivery systems and in the research, development and marketing of pharmaceutical products in areas in which Elan competes.

The launch of new products into one of the Company's therapeutic areas can adversely affect Elan. For example, the launch of a new product class, COX II inhibitors, caused a decline of Naprelan™ product revenue in 1999 and 2000. Certain of Elan's products face exposure from generic competition during the next several years. For example, a generic form of Ceclor™ CD was approved in January 2001. Generic competition generally results in significant declines in a product's revenue, market share and profitability.

Elan's ability to earn sufficient returns on its products depends, in part, on the availability of reimbursement from third party payors, such as government health administration authorities, private health insurers and other organisations such as health maintenance organisations. Third party payors are increasingly challenging the price and cost-effectiveness of medical products and services. In addition, global efforts to contain healthcare costs, particularly among managed care organisations, continue to exert downward pressure on product pricing. Furthermore, a number of regulatory and legislative proposals aimed at changing the healthcare industry in the US and other countries have been proposed.

Employees

On 31 December 2000, Elan had 4,472 employees, of whom 1,092 were engaged in research and development activities, 968 were engaged in manufacturing activities, 1,740 were engaged in sales and marketing activities and the remainder worked in general and administrative areas.

Strategic Collaborations

Elan has a strategic licencing programme with the objective of significantly expanding its business relationships with emerging pharmaceutical and biotechnology companies. The programme provides Elan with the opportunity to leverage its research, development and technology assets and also offers the potential for new products developed by strategic collaborators.

Strategic licencing transactions generally involve licencing drug delivery technologies, or pharmaceutical research and development assets, to a subsidiary (the "strategic licencee") of an emerging pharmaceutical or biotechnology company (the "strategic collaborator"). Elan generally has an option to acquire up to 50% of the strategic licencee. Elan's strategic licencee is generally responsible for research and development on the licenced assets or technologies.

The product pipeline in development by strategic licencees is as follows:

Stage of Development	*Number of Compounds*
FDA approvable letter	1
Phase III	2
Phase II	10
Phase I	14
Pre-clinical	24

To date, Elan is generally satisfied by the progress of the products under development in its strategic licencing programme. As the development cycle in the pharmaceutical industry can last in excess of ten years, Elan expects these products will be launched over the next decade. No assurance can be given, however, that any of the products under development in the strategic licencing programme will receive marketing approval.

Elan retains a continuing involvement with many of its strategic collaborators. While it has no contractual obligation to do so, it may provide subsequent financial support or research and development services to strategic licencees. Typically, the earlier the stage of development, the more likely that Elan will provide research and development services. Research and development services are charged to the strategic licencee at predetermined rates. Elan received research revenue from strategic licencees in the amounts of $15.4 million, $8.8 million and $6.2 million in 2000, 1999 and 1998, respectively.

While the primary motivations for Elan in its strategic licencing programme are the leveraging of its research, development and technology assets and the potential for new products developed by strategic collaborators, it also provides a significant investment opportunity in emerging pharmaceutical and biotechnology companies. Elan licences research, development and technology assets to strategic licencees and contemporaneously makes an investment in such companies and their parent companies, usually in the form of equity and convertible debt. Investments in strategic licencees and their parent companies are made at fair value. Elan invested approximately $378 million in emerging pharmaceutical and biotechnology companies in 2000. The fair value of these investments was approximately $465 million on 31 December 2000. The fair value of investments is determined by marking publicly quoted securities to market and by valuing non-quoted securities using methodologies such as option pricing and discounted cash flows.

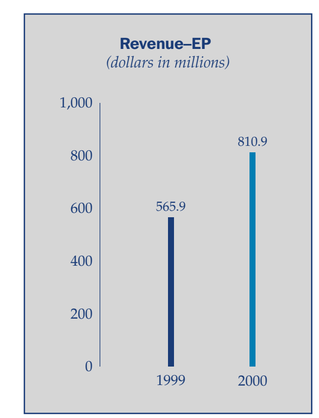
Principal Properties

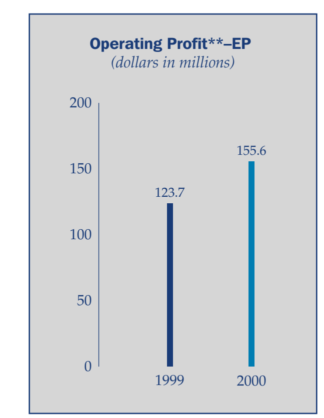
The following table lists the location, use, size and ownership interest of Elan's principal properties:

Location	Use	Size	Ownership
Dublin, Ireland	Corporate administration	21,600 Sq. Ft.	Leased
Athlone, Ireland	Research and development, manufacturing and administration	255,500 Sq. Ft.	Owned
South San Francisco, California, US	Research and development, sales and administration	315,700 Sq. Ft.	Leased
San Diego, California, US	Research and development, sales and administration	314,000 Sq. Ft.	Owned
Cedar Knolls, New Jersey, US	Sales and administration	127,500 Sq. Ft.	Owned
Princeton, New Jersey, US	Research and development, sales and administration	85,800 Sq. Ft.	Leased
Indianapolis, Indiana, US	Manufacturing	56,000 Sq. Ft.	Owned
Gainesville, Georgia, US	Manufacturing and administration	52,100 Sq. Ft.	Owned
Pomezia, Italy	Manufacturing, sales and administration	205,200 Sq. Ft.	Owned

pharmaceuticals

EP Highlights*





** Under Irish GAAP*
*** Operating Profit before Exceptional Items*

Products

KEY MARKETED PRODUCTS

Therapeutic area	Trademark	Compound	Indication
Neurology	Zanaflex	Tizanidine hydrochloride	Spasticity
	Zonegran	Zonisamide	Epilepsy
	Permax™	Pergolide mesylate	Parkinson's disease
	Myobloc	Botulinum toxin type B	Cervical dystonia
Pain Management	Skelaxin	Metaxalone	Acute painful musculoskeletal conditions
	Naprelan	Naproxen sodium	Rheumatoid arthritis and osteoarthritis
Infectious Diseases and Oncology	Abelcet™	Amphotericin B	Systemic fungal infections
	Maxipime	Cefepime hydrochloride	Life-threatening infections
	Azactam	Aztreonam	Pneumonia, post-surgical infections and septicemia
	Ceclor CD	Cefaclor extended release	Bronchitis
Dermatology	Cutivate™	Fluticasone propionate	Inflammatory skin disease
	Temovate™	Clobetasol propionate	Severe inflammatory skin disease

Products

KEY RESEARCH AND DEVELOPMENT PRODUCT PIPELINE

Therapeutic area	Compound	Indication	Status
Neurology			
Alzheimer's Disease	AN-1792	Alzheimer's disease	Phase I clinical trials. Collaboration with American Home Products Corporation ("AHP")
	Inhibitors of beta-secretase	Alzheimer's disease	Pre-clinical. Collaboration with Pharmacia Corporation ("Pharmacia")
MS and Crohn's Disease	Cell trafficking	Asthma and MS	Pre-clinical. Collaboration with AHP
	Antegren	MS and Crohn's disease	Phase II studies completed. Phase III studies expected to commence this year. Collaboration with Biogen, Inc. ("Biogen")
Parkinson's Disease	Zelapar™	Parkinson's disease	NDA being prepared for filing
Pain Management	Ziconotide	Severe chronic pain and neuropathic pain	FDA issued approvable letter in June 2000
	Frovelan	Migraine	FDA issued approvable letter in May 2000

Elan Pharmaceuticals

Overview

EP is engaged in the discovery, development and marketing of products in the therapeutic areas of neurology, pain management, oncology, infectious diseases and dermatology. EP markets its products through four focused sales forces totalling approximately 1,000 sales representatives in the US and approximately 300 sales representatives in Europe. EP has over 450 employees engaged in pharmaceutical research and development activities. EP's research and development activities include a leading research effort in Alzheimer's disease, as well as research efforts in oncology, cell trafficking, pain management, stroke, Parkinson's disease and other neurological disorders. Clinical development programs are ongoing in the fields of Alzheimer's disease, MS, inflammatory bowel disease, Parkinson's disease, spasticity and oncology.

Ongoing Operations—2000 Compared with 1999

All narrative in this section refers to revenue growth rates assuming the Dura acquisition took place on 1 January 1999, rather than on 9 November 2000. The directors consider that pro forma information for 2000 and 1999 provides a more meaningful basis by which to assess Elan's business during 2000.

EP US Key Product Revenue

	2000 $m	1999 $m	Percentage Increase
Neurology	**199**	117	70
Pain Management	**125**	117	7
Infectious Diseases and Oncology	**230**	158	46
Diagnostics	**70**	52	35

Neurology

Central nervous system ("CNS") diseases are classified into two types: neurological disorders, which includes Alzheimer's disease, MS and epilepsy; and psychiatric disorders, which includes depression, anxiety disorders and schizophrenia. Elan's focus on CNS is concentrated on the neurological conditions and currently encompasses Alzheimer's disease, epilepsy, MS, Parkinson's disease and spasticity. Elan's US neurology revenue increased by 70% to $199 million in 2000.

EP US Neurology Major Product Revenue

	2000 $m	1999 $m
Total Neurology	**199**	117
Major Products		
Zanaflex	**91**	39
Permax	**53**	44
Zonegran	**13**	—
Mysoline™	**23**	22
Diastat™	**19**	12

Products

Zanaflex. Elan licenced Zanaflex for the US, Irish and the UK markets from Novartis Pharma A.G. It is approved by the FDA as a short-acting drug for the management of spasticity. Zanaflex has the unique mechanism of action allowing it to be used as a monotherapy as well as in combination with other treatments.

Zanaflex was launched in the US during 1997. Zanaflex has grown rapidly in the US since its launch and generated in excess of one million[2] prescriptions during 2000. US revenue for 2000 increased by 132% to $91 million.

Spasticity is a symptom of a wide range of illnesses including MS, spinal cord injury, cerebral palsy and stroke. Spasticity has been cited as a problem among 67% of patients with spinal cord injury and has been estimated to affect up to 60% of patients with MS. Spinal cord injury is estimated to affect 250,000 people in the US. It is estimated that between 250,000 and 350,000 people in the US suffer from MS.

Permax. Elan licenced Permax for the US market from Eli Lilly and Company ("Lilly"). It is approved by the FDA as an adjunctive treatment to levodopa/carbidopa in the management of Parkinson's disease. US revenue for 2000 amounted to approximately $53 million, an increase of 20% over 1999. Permax had a 4%[2] share of the US Parkinson's disease market in 2000.

Parkinson's disease is a progressive disorder of the CNS affecting over one million people in the US.

Zonegran. Elan licenced Zonegran for the US and European markets from Dainippon Pharmaceuticals Co., Ltd. ("Dainippon"). It was launched in the US in May 2000 as an adjunctive therapy in the treatment of epilepsy in adults.

Zonegran's total prescriptions have grown each month in the US since launch. In the fourth quarter of 2000, total Zonegran prescriptions were over 100%[2] higher than in the previous quarter. US revenue for 2000 was approximately $13 million.

Epilepsy affects approximately 2.5 million people in the US and over seven million worldwide. Zonegran is the third most widely prescribed anti-epilepsy drug in Japan. It has been marketed by Dainippon in Japan since 1989.

Myobloc. Myobloc (Neurobloc™ in Europe) was developed by Elan. It is a sterile liquid formulation of a purified neurotoxin that acts at the neuromuscular junction to produce flaccid paralysis. Myobloc was approved by the FDA for the treatment of patients with cervical dystonia to reduce the severity of abnormal head position and neck pain. Myobloc was launched in the US in December 2000. The EU launch of Neurobloc occurred in March 2001.

Cervical dystonia is a painful and sometimes debilitating neurological movement disorder characterised by involuntary muscle contractions. This results in a person's neck and shoulder muscles being forced into abnormal positions, thereby making it difficult to function normally. Myobloc is also being developed for the treatment of other indications.

Neurology Research and Development

Alzheimer's disease is a degenerative disease of the brain that ultimately leads to profound dementia. There are approximately four million cases of Alzheimer's disease reported in the US and 15 million worldwide. Elan currently has various proprietary programmes dedicated to Alzheimer's disease as well as a significant intellectual property estate.

In April 2000, Elan announced an alliance with AHP to develop an immunotherapy (AN-1792) that may be used in the treatment of mild to moderate Alzheimer's disease and possibly to prevent the onset of the disease. Elan's pre-clinical research has shown in transgenic mice, that AN-1792 reduces and prevents the development of amyloid plaque, a substance that is believed to be associated with Alzheimer's disease. AN-1792 is progressing through Phase I clinical trials in Alzheimer's disease patients.

In August 2000, Elan entered into a research collaboration with Pharmacia focused on the discovery of small molecule inhibitors of beta-secretase for the treatment of Alzheimer's disease. Beta-secretase is an enzyme associated with a cleavage event that leads to the development of amyloid plaques.

Elan also has a research collaboration in cell trafficking with AHP. This collaboration includes research pertaining to MS, asthma, rheumatoid arthritis and tissue transplantation.

In August 2000, Elan entered into an alliance with Biogen focusing on Antegren. In January 2001, Elan announced positive results from preliminary analyses of two Phase II clinical studies with Antegren, for the treatment of MS and Crohn's disease.

Antegren, which was discovered by Elan, is a humanised monoclonal antibody and the first in a new class of potential therapeutics known as alpha-4 integrin inhibitors. Antegren may be useful in the treatment of a range of inflammatory and non-inflammatory diseases. Elan expects that the companies will initiate Phase III clinical studies with Antegren for the treatment of both MS and Crohn's disease during 2001.

Elan is developing Zelapar for the US market and an NDA is being prepared for filing. This is a fast melt formulation of selegiline for the treatment of Parkinson's disease. Zelapar was licenced from a subsidiary of R.P. Scherer Corporation.

Pain Management

It is estimated that at least 25% of the US population experience serious pain each year. Pain is a highly subjective condition and relies heavily upon self-description for assessment. The prescription pharmaceutical pain market can be divided into three segments: peripherally acting (non-opioid) analgesics, opioid analgesics and centrally-acting analgesics. These market segments represent 39%, 31% and 30% of the prescription pain market respectively. There is also a significant adjunctive treatment market. The US pain management market was worth approximately $15 billion[1] in 2000, an increase of 21%[1] over 1999. Elan's US pain management revenue increased by 7% to $125 million in 2000.

EP US Pain Management Major Product Revenue

	2000 $m	1999 $m
Total Pain Management	125	117
Major Products		
Skelaxin	82	55
Naprelan	42	59

Products

Skelaxin. Elan markets Skelaxin in the US through its primary care sales force. Skelaxin is approved by the FDA as an adjunctive treatment for the relief of discomfort associated with acute, painful musculoskeletal conditions. Skelaxin has shown significant growth in recent years. Skelaxin generated approximately 2.9 million[2] prescriptions in 2000. US revenue for 2000 amounted to approximately $82 million, an increase of 49% over 1999.

Naprelan. Elan developed Naprelan and markets it in the US. Naprelan is a non-steroidal anti-inflammatory agent ("NSAID"), which is used for the treatment of rheumatoid arthritis and osteoarthritis and also for the treatment of mild to moderate pain.

Naprelan utilises Elan's drug delivery technology to reduce gastrointestinal side effects. In common with other NSAIDs, Naprelan has faced increased competition following the launch of COX II inhibitors. Naprelan prescriptions declined by approximately 23%[2] during 2000. US revenue for 2000 amounted to approximately $42 million, a decrease of 29% from 1999.

Pain Management Research and Development

Ziconotide is a new type of analgesic to be used for the treatment of severe chronic pain in cancer and AIDS patients and neuropathic pain resulting from head injuries or stroke. Due to its high selectivity, ziconotide appears to provide much better safety and efficacy than traditional pain medications. In June 2000, Elan announced that it had received an approvable letter from the FDA for ziconotide. Final approval and permission to market ziconotide in the US depends upon the FDA's review of certain additional data that has been submitted by Elan in response to questions raised by the FDA in the approvable letter. Elan expects to receive FDA approval for ziconotide during 2001.

Frovelan is a $5HT_{1B/1D}$ agonist to be used as a migraine therapy. Migraines affect over 23 million people in the US and are the most common complaint treated by neurologists. The value of the US migraine retail dollar market was estimated at $1.5 billion[2] in 2000. Elan licenced exclusive North American sales and distribution rights for the drug from Vernalis Group, plc ("Vernalis"). In May 2000, Elan announced that Vernalis had received an approvable letter from the FDA for Frovelan. Final FDA approval and permission to market Frovelan in the US depends upon the FDA's review of certain additional data that has been submitted in response to questions raised by the FDA in the approvable letter.

Infectious Diseases and Oncology

The global anti-infective market, including anti-bacterial, anti-viral and anti-fungal products, accounts for approximately 14%[1] of total world pharmaceutical sales. Major segments in this market include respiratory infections, hospital-acquired bacterial infections and fungal infections.

Elan's revenue from the sales of infectious disease and oncology products in 2000, increased by 46% to $230 million. Elan markets Abelcet, Maxipime and Azactam through its hospital sales force.

EP US Infectious Diseases and Oncology

Major Product Revenue

	2000 $m	1999 $m
Total Infectious Diseases and Oncology	**230**	158
Major Products		
Abelcet (1)	**64**	—
Maxipime	**51**	39
Azactam	**35**	30
Ceclor CD	**40**	46

(1) Acquired by Elan in May 2000 as part of the Liposome acquisition

Products

Abelcet. Abelcet is primarily marketed to hospital-based oncologists. It is used for the treatment of systemic fungal infections. These infections mainly occur in immuno-compromised patients such as people undergoing chemotherapy.

Amphotericin B, the active ingredient in Abelcet, is a broad-spectrum anti-fungal agent. Abelcet, which is an amphotericin B lipid complex, is able to deliver greater amounts of amphotericin B while significantly reducing the kidney toxicity associated with conventional formulations of this drug. Revenue from 12 May 2000 (the date of Elan's acquisition of Liposome) to 31 December 2000 was approximately $64 million.

Maxipime. Elan markets Maxipime in the US. Elan licenced Maxipime from Bristol-Myers Squibb Company ("Bristol-Myers"). Maxipime is a fourth-generation injectable cephalosporin antibiotic used to treat patients with life-threatening infections. Pulmonologists, infectious disease specialists, internal medicine physicians, hematologists and oncologists prescribe Maxipime for patients with severe hospital-based respiratory and non-respiratory conditions such as pneumonia, urinary tract infection and febrile neutropenia. An important attribute of Maxipime is its broad spectrum of activity, including activity against many pathogens resistant to other antibiotics. Revenue for 2000 amounted to approximately $51 million, an increase of 30% over 1999.

Azactam. Elan markets Azactam in the US. Elan licenced this injectable product from Bristol-Myers. Azactam is a monobactam and is principally used by surgeons, infectious disease specialists and internal medicine physicians to treat pneumonia, post-surgical infections and septicemia. Revenue for 2000 amounted to approximately $35 million, an increase of 14% over 1999.

Ceclor CD. Elan markets Ceclor CD in the US. Ceclor CD is an oral cephalosporin antibiotic used primarily for the treatment of bronchitis. It is prescribed predominantly by primary care physicians and ear, nose and throat specialists. It is approved for the treatment of bacterial bronchitis, uncomplicated skin and skin structure infections, pharyngitis and tonsillitis. Revenue for 2000 amounted to approximately $40 million, a decrease of 14% compared to 1999. A generic form of Ceclor CD was approved by the FDA in January 2001.

Oncology Research and Development

Myocet is a proprietary liposomal formulation of doxorubicin. Doxorubicin is commonly used with other cancer drugs to treat patients with metastatic breast cancer. One of the most debilitating side effects associated with the use of doxorubicin is irreversible damage to the heart. Myocet is designed to enhance the delivery of the drug to tumour cells and to reduce the cardiotoxic side effects associated with conventional formulations of the drug. Myocet has received community marketing authorisation from the EU for use in combination with cyclophosphamide for the first line treatment of metastatic breast cancer.

Dermatology

The three US dermatology markets in which Elan competes are topical corticosteroids ("TCSs"), topical anti-fungals and topical anti-infectives.

TCSs have the highest growth rate amongst the three market segments and also comprise the largest segment with US revenue of approximately $600 million in 2000. Topical anti-fungals are a relatively stable market segment with US revenue of approximately $520 million annually.

Products

Elan entered into a distribution agreement for five dermatology products with Glaxo Wellcome Inc. in September 2000. Elan currently promotes these five products in three separate dermatology categories in the US market. Cutivate, Temovate and Aclovate™ are all TCSs, each competing in the subcategories of high potency, medium potency and low potency, respectively. Oxistat™ is a topical anti-fungal and Emgel™ is a topical anti-infective.

Cutivate. Cutivate is used to provide relief for corticosteroid-responsive skin disease. Cutivate is the only topical steroid indicated for children under one year of age and older than three months. It has a fast onset of action and quickly relieves inflammation and itching.

Temovate. Temovate is for the treatment of severe inflammatory skin diseases. It relieves the redness, swelling, pain and itching associated with corticosteroid-responsive skin disease. Temovate is effective and safe for the short term treatment of patients with skin diseases that are resistant to lower potency TCSs.

Athena Diagnostics and Elan Diagnostics

Elan operates two distinct diagnostics units—Athena Diagnostics and Elan Diagnostics. These businesses are part of the EP division. Revenue from the diagnostics businesses amounted to approximately $70 million in 2000, an increase of 35% over 1999.

Athena Diagnostics is a laboratory business that receives and analyses samples sent from physicians. It provides testing services in the areas of peripheral nerve disorders, neurogenetic disorders, Alzheimer's disease, paraneoplastic syndromes, movement disorders, neuromuscular disorders and ataxia. This company also offers ApoE genotyping services to contract research organisations and pharmaceutical companies for use in clinical trials, as well as antibody testing services for clinicians treating patients with MS and cervical dystonia. This business is based in Massachusetts, US.

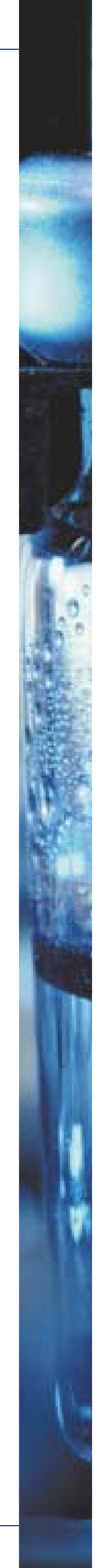
Elan Diagnostics manufactures and distributes equipment, chemistry reagents and test kits used in physicians' offices and clinical laboratories to assay blood specimens. This business is based in Rhode Island, US.

US Integration

An integration team was established in October 2000 to integrate Dura, Liposome and EP's existing operations. The objective of this integration process was to create a business capable of competing effectively in its chosen therapeutic areas. The financial benefits are expected to be substantial with estimated annualised synergies of $100 million in the third year after integration.

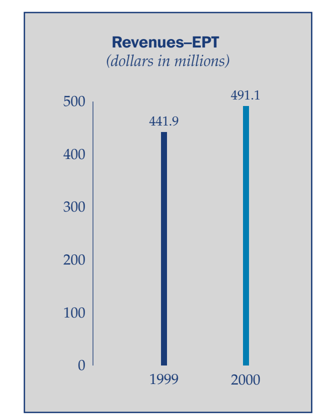
The initial phase of the integration process began in October 2000. EP's US commercial operations have been organised into one business with four business units—neurology, hospital, primary care and specialty/dermatology. Elan's promoted products portfolio is being rationalised to focus on higher potential brands. Sales force activity has been redirected to support this product portfolio.

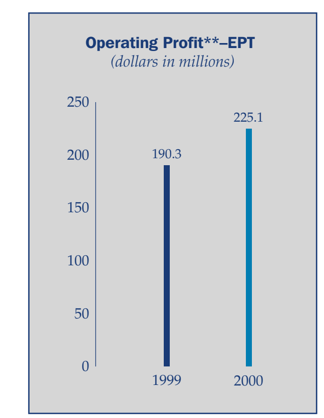
Sales Force	*Primary Care*	*Hospital*	*Neurology*	*Specialty/Dermatology*
Approximate Number of Sales Representatives	550+	200	160	70
Products	Skelaxin Zanaflex	Abelcet Azactam Maxipime	Myobloc Zanaflex Zonegran	Cutivate



drug delivery

EPT Highlights*





** Under Irish GAAP*
*** Operating Profit before Exceptional Items*

Products

KEY MARKETED PRODUCTS

Product	Licencee	Compound	Indication
Rapamune	AHP	Rapamycin	Immunosuppressant
Cardizem™ CD	Aventis S.A.	Diltiazem	Hypertension and angina
Verelan™ and Verelan PM	Schwarz Pharma, Inc.	Verapamil	Hypertension
Herbesser™	Tanabe Seiyaku Company Ltd.	Diltiazem	Hypertension and angina
Nifedipine 30mg	Biovail Corporation	Nifedipine	Hypertension
Nicotine Transdermal	Perrigo Company	Nicotine	Smoking cessation
Ketoprofen	Watson Pharmaceuticals, Inc.	Ketoprofen	Pain and arthritis
Theodur™	Mitsubishi-Tokyo Pharmaceuticals, Inc.	Theophylline	Asthma and chronic bronchitis

KEY RESEARCH AND DEVELOPMENT PRODUCT PIPELINE

Product	Partner	Status	Indication
Morphelan™	Ligand Pharmaceuticals Incorporated	NDA filed	Chronic pain
Undisclosed	Novartis Pharmaceuticals Corporation	NDA filed	Undisclosed
Luvox™	Solvay Pharmaceuticals, Inc.	NDA filed	Obsessive compulsive disorder, depression
Nifedipine 60mg	Biovail Corporation	ANDA filed	Hypertension
Undisclosed	Merck & Co., Inc.	Phase III	Undisclosed
Fampridine	Acorda Therapeutics, Inc.	Phase II	MS and spinal cord injury
Undisclosed	AHP	Phase II	Undisclosed
Undisclosed	Janssen Pharmaceutica, N.V.	Phase II	Undisclosed
Undisclosed	Merck & Co., Inc.	Phase II	Undisclosed

Elan Pharmaceutical Technologies

Overview

EPT is engaged in the development and commercialisation of pharmaceutical products for its clients. EPT offers innovative drug delivery technologies to solve the drug delivery and lifecycle management challenges facing the pharmaceutical industry. EPT's drug delivery technologies can offer a number of benefits to both patients and clients. Benefits to patients include improved compliance as a result of more user-friendly dosage forms, improved clinical efficacy and improved tolerability. Benefits to clients include improved products (improved compliance, efficacy and tolerability), lifecycle management opportunities, product differentiation opportunities and the rescue and development of new compounds that historically have been rejected as development candidates.

EPT has over 550 employees, of whom 460 work in research and development. EPT has developed 20 products, including 10 products that are marketed in the US. EPT's top five drug delivery products had aggregate in-market sales of approximately $500 million in 2000. EPT has over 40 projects in clinical development and has entered into arrangements with a wide variety of clients.

Strategy and Key Technologies

EPT has assembled and is deploying a toolbox of technologies that, when used alone or in combination, create 'intelligent delivery systems', which enable control of the fundamental processes that define a drug's biodisposition, dissolution, transport, distribution and metabolism. These technologies can be employed prospectively to design 'better molecules' or used retrospectively to 'optimise current molecules'.

EPT aims to be the preferred industry partner for drug delivery services to the pharmaceutical industry. EPT continues its development of a comprehensive drug delivery patent portfolio designed to offer strong patent protection for its partners' products. It has large-scale, commercial manufacturing capabilities for the majority of its technological offerings. EPT offers a broad range of proprietary drug delivery technologies. These include oral controlled release, fast melt, Medipad, NanoCrystal, gastroretention, transdermal, pulmonary, liposomal and "biotech" delivery systems. EPT continues to innovate in drug delivery through research and development of new technologies to deliver genes, antisense compounds and emerging molecules from proteomics and genomics.

NanoCrystal Technology

EPT's NanoCrystal technology produces tiny stabilised crystals of drug substance which, because of their small size, dissolve more rapidly, thereby minimising the problems caused by poor water solubility. The technology is applicable to a wide range of dosage forms including oral tablets and capsules, injection, pulmonary, opthalmic drops, intranasal devices and topical applications. The benefits of using this technology can include enhanced bioavailability, faster onset of action, improved dosage form uniformity and proportionality, reduced side effects, higher dose loads and deep-lung pulmonary delivery. The first FDA approval for a product incorporating the NanoCrystal technology, a formulation of AHP's Rapamune, occurred in 2000.

MEDIPAD Technology

Medipad is a lightweight, disposable, patch-like device that contains a microinfusor and integral needle to deliver drugs subcutaneously. An adhesive backing enables the device to be worn similarly to a transdermal patch. This technology provides controlled programmable delivery. The benefits of using Medipad can include improved delivery of drugs with a short half-life and convenient delivery of biotechnology products such as proteins, peptides and antisense oligonucleotides.

Oral Controlled Release Technology

EPT's oral controlled release technologies have been successfully utilised to develop a range of marketed products. Some examples of the type of controlled release products developed by EPT include sustained release, delayed release and pulsatile release.

The most conventional sustained release profile is the sustained release of a drug over 24 hours. Elan's sustained release technologies are utilised in commercial products such as Cardizem CD, Verelan and Herbesser. Elan's drug delivery technology can be tailored to release a drug after a predetermined delay. Verelan PM is a chronotherapeutic product which complements the circadian pattern of blood pressure. Verelan PM incorporates delayed release followed by sustained release. Pulsatile release in drug delivery technologies can imitate the effect of administering the drug at discrete intervals throughout the day, without the inconvenience and non-compliance associated with frequent dosing.

Biotechnology Research

EPT is developing technologies to optimise drug permeability and cellular targeting. EPT is addressing this delivery need, which is common to drugs and genes alike, by developing targeting ligand systems, new particle systems and advanced excipients to enhance oral delivery. In addition to the internal research programs in these key areas, EPT has a number of strategic collaborations with biotechnology companies such as ISIS Pharmaceuticals, Inc. and Targeted Genetics Corporation.

Financial Review

Introduction

This financial review discusses:

- The results for the year ended 31 December 2000 compared to the year ended 31 December 1999;
- The financial position at 31 December 2000; and
- The results for the year ended 31 December 1999 compared to the year ended 31 December 1998.

This financial review discusses Elan's financial performance as prepared under Irish GAAP.

Elan's operating results can be affected by a number of factors. The most important of these factors include new product introductions, company or product acquisitions, the level of sales and marketing support for products, decisions on research and development activities, competition from other pharmaceutical companies, patent expirations and generic competition, general economic conditions and the regulatory environment.

Company Acquisitions

In 2000, Elan acquired Dura, Liposome, Quadrant, Neuralab and other companies. Further details on these acquisitions are contained in Note 22 to the Consolidated Financial Statements.

Segmental Analysis

Elan's business is currently conducted through two segments, consisting of EP's pharmaceuticals business and EPT's drug delivery business. EP's revenue increased by 43% to $810.9 million in 2000 from $565.9 million in 1999 due to increased product revenue, arising from organic growth, and from the company acquisitions made during 2000. EP's operating profit decreased to $88.8 million in 2000 from $123.7 million in 1999 primarily due to exceptional charges in 2000 for the rationalisation of EP's activities and the withdrawal of products containing phenylpropanolamine ("PPA"). EPT's revenues increased by 11% to $491.1 million in 2000 from $441.9 million in 1999 due to higher revenues from milestones and new licence agreements. EPT's operating profit increased to $212.6 million in 2000 from $190.3 million in 1999. See Note 3 to the Consolidated Financial Statements for a more detailed analysis of Elan's reportable segments.

RESULTS OF OPERATIONS FOR THE YEARS ENDED 31 DECEMBER 2000, 1999 AND 1998

	2000 $m Before Exceptional Items	2000 $m Exceptional Items	2000 $m Total	1999 $m Total	1998 $m Total
Product revenue	825.6	—	825.6	566.2	373.7
Contract revenue	476.4	—	476.4	441.6	303.0
Total revenue	1,302.0	—	1,302.0	1,007.8	676.7
Cost of sales	273.5	42.0	315.5	211.2	145.3
Gross profit	1,028.5	(42.0)	986.5	796.6	531.4
Selling, general and administrative expenses	379.6	5.3	384.9	256.9	170.3
Research and development expenses	273.3	32.0	305.3	230.2	145.5
Cash contribution to Axogen Limited	—	—	—	—	67.5
Operating profit	375.6	(79.3)	296.3	309.5	148.1
Share of losses of joint ventures	—	—	—	—	(5.5)
Share of profits of associates	0.1	—	0.1	0.2	0.3
Loss on disposal of fixed assets	—	(33.9)	(33.9)	—	(13.9)
Profit on ordinary activities before interest and tax	375.7	(113.2)	262.5	309.7	129.0
Net interest and other income	89.0	(0.4)	88.6	33.5	21.3
Profit on ordinary activities before tax	464.7	(113.6)	351.1	343.2	150.3
Tax on profit on ordinary activities	(9.0)	—	(9.0)	(7.3)	(3.9)
Retained profit for the year	455.7	(113.6)	342.1	335.9	146.4
Basic earnings per Ordinary Share	$ 1.59	$ (0.40)	$ 1.19	$ 1.26	$ 0.62
Diluted earnings per Ordinary Share	$ 1.46	$ (0.36)	$ 1.10	$ 1.19	$ 0.56

A reconciliation between the above Irish GAAP financial results to financial results prepared in accordance with US GAAP has been provided on pages 106 to 119.

2000 COMPARED TO 1999

Revenue

Total revenue for 2000 increased by 29% to $1,302.0 million from $1,007.8 million for 1999.

Product revenue for 2000 increased by 46% to $825.6 million from $566.2 million for 1999 reflecting the acquisitions of Liposome and Dura, together with increased revenue on products in the existing portfolio, particularly Zanaflex and Skelaxin. Liposome and Dura contributed $67.3 million and $31.9 million, respectively, to product revenue in 2000. Revenue from Zanaflex and Skelaxin increased by 132% and 49% to $91.0 million and $81.5 million, respectively.

Abelcet, Naprelan, Permax, Skelaxin and Zanaflex accounted for 40% of product revenue and 25% of total revenue in 2000. Cardizem CD, Naprelan, Permax, Skelaxin, Verelan and Zanaflex accounted for 51% of product revenue and 29% of total revenue in 1999.

In 2000, Zanaflex accounted for 11% of product revenue. In 1999, Verelan and Naprelan accounted for 13% and 11% of product revenue, respectively. No other product accounted for more than 10% of product revenue in either 2000 or 1999. Elan's remaining revenues were generated from a mix of other products and services.

Further details on product revenue are included in the Operating Review on pages 18 to 24.

Contract revenue for 2000 increased by 8% to $476.4 million from $441.6 million for 1999 primarily reflecting increased licence fees due to the achievement of milestones on existing development agreements and new product development and technology access agreements entered into during 2000, offset by a decline in revenue from Axogen Limited ("Axogen") and Neuralab. Axogen and Neuralab were acquired by Elan in December 1999 and January 2000, respectively. Elan received contract revenue of $1.8 million from Neuralab in 2000. Elan received contract revenue of $128.8 million from Axogen and Neuralab in 1999.

Axogen accounted for approximately 10% of Elan's total revenue for 1999. No other customer accounted for more than 10% of revenue in either 2000 or 1999.

Cost of Sales

Cost of sales, after exceptional items, increased by 49% to $315.5 million for 2000 from $211.2 million for 1999. The increase was 29% before exceptional items of $42.0 million in 2000. The increase, before exceptional items in 2000, primarily reflects the inclusion in 2000 of the product cost of sales arising from the acquisitions of Liposome and Dura and the increased sales volume on other products such as Zanaflex and Skelaxin. The gross margin on total revenue, before exceptional items in 2000, was approximately 79% for both 2000 and 1999. Gross margin, after exceptional items, was 76% in 2000. Gross margin on product revenue, before exceptional items in 2000, increased to 67% in 2000 from 63% in 1999 reflecting the higher revenue from directly marketed products with above average gross margins such as Zanaflex, Skelaxin and Abelcet.

Selling, General and Administrative Expenses

Selling, general and administrative expenses, after exceptional items, increased by 50% to $384.9 million for 2000 from $256.9 million for 1999. The increase was 48% before exceptional items of $5.3 million in 2000. The increase reflects the acquisitions of Dura and Liposome, the expansion of Elan's existing US activities and the building of Elan's European infrastructure. The increases in selling, general and administrative expenses in 2000 that arose from the acquisition of Dura, the acquisition of Liposome, the expansion of Elan's existing US activities and the building of Elan's European infrastructure were $33.2 million, $24.5 million, $22.1 million and $17.4 million, respectively.

Research and Development Expenses

Research and development expenses, after exceptional items, increased by 33% to $305.3 million for 2000 from $230.2 million for 1999. The increase was 19% before exceptional items of $32.0 million in 2000. The increase reflects a higher level of research activity, including the clinical trials on Antegren and AN-1792, and the impact of the acquisitions made in 2000. Research and development costs incurred in respect of Axogen and Neuralab were $115.5 million for 1999. The margin on research and development activities undertaken on behalf of Axogen and Neuralab was 10% for 1999.

Exceptional Items

Elan incurred exceptional charges during 2000 of $113.6 million.

In November 2000, the FDA requested that the pharmaceutical industry voluntarily cease distribution and marketing of products containing PPA. The Company ceased shipment of such products and withdrew these products from customers' warehouses and retail shelves. Elan incurred an exceptional charge of $35.6 million primarily for product returns, the write-off of inventory and product intangible assets, arising from a termination of this activity. Elan incurred charges of $0.6 million arising from the acquisition of Dura. Elan incurred charges of $10.4 million arising from the termination of certain research and development projects and charges of $21.4 million relating to the write-down of certain intangible assets arising from a change in focus of the business. Elan incurred charges of $22.2 million arising from a rationalisation of the pharmaceuticals division, primarily relating to severance costs and a transfer of most pharmaceutical distribution activities and certain inventory to one location in the US, resulting in exceptional inventory write-offs. The remaining exceptional charges primarily relate to asset write-downs.

Further details on the exceptional charges are contained in Note 4 to the Consolidated Financial Statements.

Net Interest

Net interest and other income increased by 164% to $88.6 million for 2000 from $33.5 million for 1999. Income from financial assets increased by 86% to $227.4 million for 2000 from $122.1 million for 1999, primarily reflecting an increase of $107.7 million in realised portfolio gains and interest earned in the current year.

Interest payable and other charges increased by 57% to $138.8 million for 2000 from $88.6 million for 1999, primarily reflecting interest payable on the senior guaranteed notes due 2004 ("9.56% Guaranteed Notes") issued in June 2000 and from the inclusion for the full year of interest payable on the senior guaranteed notes due 2002 ("8.43% Guaranteed Notes") issued in June 1999, and increased financing and other fees.

Further details on indebtedness are contained in Note 16 to the Consolidated Financial Statements.

Taxation

Tax on profit on ordinary activities increased by 23% to $9.0 million for 2000 from $7.3 million for 1999. The effective tax rates of 2.6% and 2.1% in 2000 and 1999, respectively, reflected tax at standard rates in the jurisdictions in which Elan operates, Irish patent derived income which is exempt from tax, tax at a 10% rate on Irish manufacturing operations, foreign withholding tax and the availability of loss carryforwards. Elan's Irish income was largely exempt from taxation pursuant to Irish legislation which exempts from Irish taxation income derived from qualifying patents. Currently, there is no termination date in effect for such exemption. Elan's manufacturing income was taxed at a rate of 10% in Ireland. This rate of taxation will be available to Elan until 31 December 2010.

Further details on taxation are contained in Note 8 to the Consolidated Financial Statements.

Retained Profit

Retained profit for the year, before exceptional items in 2000, increased by 36% to $455.7 million in 2000 from $335.9 million for 1999. After exceptional items, retained profit increased to $342.1 million for 2000 from $335.9 million for 1999. Basic earnings per share, before exceptional items in 2000, increased by 26% to $1.59 for 2000 from $1.26 for 1999. The percentage increase in basic earnings per share was less than the percentage increase in retained profit primarily due to the higher number of Ordinary Shares in issue. Elan issued approximately 46 million Ordinary Shares for the acquisitions of Dura and Liposome during 2000, together with approximately seven million Ordinary Shares issued for the exercise of stock options and warrants. Basic earnings per share, after exceptional items, decreased to $1.19 for 2000 from $1.26 for 1999. Diluted earnings per share, before exceptional items in 2000, increased by 23% to $1.46 for 2000 from $1.19 for 1999. Diluted earnings per share, after exceptional items, decreased to $1.10 for 2000 from $1.19 for 1999.

1999 COMPARED TO 1998

Revenue

Total revenue increased by 49% to $1,007.8 million for 1999 from $676.7 million for 1998.

Product revenue for 1999 increased by 52% to $566.2 million from $373.7 million for 1998 reflecting the inclusion of both company and product acquisitions made in 1998, such as GWC Health, Inc. ("Carnrick"), Mysoline, Naprelan and Verelan, in revenue for the full year during 1999. There were also revenue increases across the product portfolio including significant growth in the diagnostics business. Product revenue from Skelaxin, Verelan, Zanaflex and Naprelan increased by $27.8 million, $21.5 million, $12.9 million and $4.2 million, respectively, for 1999 as compared to 1998. Product revenue in the diagnostics businesses increased by $21.1 million for 1999 as compared to 1998. Product revenue in the transdermal business increased by $17.0 million for 1999 as compared to 1998. Skelaxin, the transdermal business and the marketing rights to Naprelan and Verelan were acquired during 1998. Product revenue from Permax decreased by $3.9 million for 1999 as compared to 1998.

Cardizem CD, Naprelan, Permax, Skelaxin, Verelan and Zanaflex accounted for 51% and 62% of product revenue in 1999 and 1998, respectively. These products accounted for 29% and 34% of total revenue in 1999 and 1998, respectively.

In 1999, Verelan and Naprelan accounted for 13% and 11% of product revenue, respectively. In 1998, Naprelan, Verelan and Permax accounted for 15%, 13% and 13% of product revenue, respectively. No other product accounted for more than 10% of product revenue in either 1999 or 1998. Elan's remaining revenues were generated from a mix of other products and services.

Contract revenue for 1999 increased by 46% to $441.6 million from $303.0 million for 1998 primarily reflecting increased revenues from Axogen and Neuralab, including a higher level of payments for external work done on behalf of Axogen on late stage product candidates in Phase III clinical studies, together with increased licence fees reflecting the achievement of milestones on existing development agreements and new product development and technology access agreements entered into during 1999. Research revenue from Axogen and Neuralab increased to $128.8 million for 1999 from $77.7 million for 1998.

Axogen accounted for approximately 10% and 14% of Elan's total revenue for 1999 and 1998, respectively. No other customer accounted for more than 10% of revenue in either 1999 or 1998.

Cost of Sales

Cost of sales increased by 45% to $211.2 million for 1999 from $145.3 million for 1998. The increase before exceptional items of $7.4 million in 1998 is 53%. The increase primarily reflects increased sales volumes and the inclusion in 1999 of a full year's product cost of sales from the acquisitions of Carnrick, Mysoline and other acquisitions made in 1998. The gross margin, before exceptional items, decreased slightly to 79% for 1999 from 80% for 1998 reflecting the increase in product revenue as a percentage of total revenue, thereby decreasing the overall margin. Gross margin on product revenue increased to 63% in 1999 from 61% in 1998 reflecting the higher margin on sales of directly marketed products, including Mysoline and Skelaxin, offset in part by lower margins on drug delivery products.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for 1999 increased by 51% to $256.9 million from $170.3 million for 1998. The increase before exceptional items of $12.7 million in 1998 is 63%. The increase reflects the scale up of sales and marketing activities in the US, the inclusion of Carnrick for the full twelve months of 1999 and the building of Elan's European infrastructure. The increases in selling, general and administrative expenses in 2000 that arose from the expansion of existing US sales and marketing activities, the full year numbers for Carnrick and increase in Elan's European operations, were $46.5 million, $17.0 million and $7.8 million, respectively.

Research and Development Expenses

Research and development expenses, after exceptional items of $11.1 million in 1998, increased by 58% to $230.2 million for 1999 from $145.5 million for 1998. This reflected a number of significant products in late stage development including ziconotide and Myobloc, and the inclusion for the full year of the asset and company acquisitions made in 1998, including NanoSystems LLC ("NanoSystems") and Neurex Corporation ("Neurex"). Research and development costs incurred in respect of Axogen and Neuralab were $115.5 million and $57.4 million for 1999 and 1998, respectively. The margin on research and development activities undertaken on behalf of Axogen and Neuralab was 10% for 1999 as compared to 26% for 1998.

Exceptional Items

Elan incurred exceptional charges during 1998 of $112.6 million consisting of a charge of $67.5 million related to a cash contribution to Axogen, a charge of $41.8 million mainly relating to the rationalisation and integration of Sano Corporation ("Sano") and a charge of $3.3 million related to a loss on disposal of investments.

Further details on the exceptional charges are contained in Note 4 to the Consolidated Financial Statements.

Net Interest

Net interest and other income increased by 57% to $33.5 million for 1999 from $21.3 million for 1998. Income from financial assets for 1999 increased by 163% to $122.1 million from $46.5 million for 1998 reflecting higher interest and other income due to interest earned on significantly higher cash balances in 1999 following the 3.25% Zero Coupon Subordinated Exchangeable Notes (“LYONs”) offering in late 1998, and an increase in realised portfolio gains.

Interest payable and other charges increased by 252% to $88.6 million for 1999 from $25.2 million for 1998 primarily reflecting the inclusion for the full year of interest payable of $28.3 million, as compared to $1.2 million in 1998, on the LYONs issued in December 1998, interest payable of $14.8 million on the 8.43% Guaranteed Notes issued in June 1999 and increased financing and other fees.

Taxation

Tax on profit on ordinary activities for 1999 increased by 87% to $7.3 million from $3.9 million for 1998. The effective tax rate of 2.1% in 1999 reflected tax at standard rates in the jurisdictions in which Elan operates, Irish patent derived income which is exempt from tax, tax at a 10% rate on Irish manufacturing operations, foreign withholding tax and the availability of loss carryforwards. Elan’s Irish income was largely exempt from taxation pursuant to Irish legislation, which exempts from Irish taxation, income derived from qualifying patents. Currently, there is no termination date in effect for such exemption. Elan’s manufacturing income was taxed at a rate of 10% in Ireland. This rate of taxation will be available to Elan until 31 December 2010.

Further details on taxation are contained in Note 8 to the Consolidated Financial Statements.

Retained Profit

Retained profit for the year, before exceptional items in 1998, increased by 30% to $335.9 million for 1999 from $259.0 million for 1998. After exceptional items, retained profit increased to $335.9 million for 1999 from $146.4 million for 1998. Basic earnings per share, before exceptional items in 1998, increased by 17% to $1.26 for 1999 from $1.08 for 1998. The percentage increase in basic earnings per share was less than the percentage increase in retained profit primarily due to the higher number of Ordinary Shares in issue as a result of the acquisition for shares of Sano and Neurex being included for the full twelve months in 1999 as opposed to a partial period in 1998. Basic earnings per share, after exceptional items in 1998, increased to $1.26 for 1999 from $0.62 for 1998. Diluted earnings per share, before exceptional items in 1998, increased by 20% to $1.19 for 1999 from $0.99 for 1998. Diluted earnings per share, after exceptional items in 1998, increased to $1.19 for 1999 from $0.56 for 1998.

Cash Flow

Cash flow from operating activities amounted to $272.2 million for 2000 compared to $364.5 million for 1999. Cash expended to acquire tangible and intangible fixed assets amounted to $143.9 million for 2000 compared to $198.9 million for 1999. Cash expended to acquire financial assets of $466.5 million for 2000 compared to $556.6 million for 1999, primarily reflected investments in emerging pharmaceutical and biotechnology companies. Cash paid for acquisitions in 2000 of $8.0 million primarily reflected cash paid for the Neuralab and Quadrant acquisitions less cash balances acquired as part of the acquisitions of Dura, Liposome and Quadrant.

During 2000, Elan had cash inflows from financing activities of $225.0 million, reflecting proceeds of $450.0 million from the issuance of the 9.56% Guaranteed Notes, proceeds from the drawdown of the revolving credit facility of $200.0 million and proceeds from the issuance of share capital of $76.9 million, offset in part by the repayment of short term loans of $496.0 million. During 1999, Elan had cash inflows from financing activities of $377.9 million, reflecting proceeds of $350.0 million from the issuance of the 8.43% Guaranteed Notes, proceeds from the drawdown of the revolving credit facility of $125.0 million and net proceeds from the issuance of share capital of $20.4 million, offset in part by the repayment of short term loans of $111.7 million.

Elan estimates that its working capital is sufficient for its current requirements.

Capitalisation

Elan had net debt of $1,367.0 million at 31 December 2000. Cash and liquid resources (excluding managed funds) at 31 December 2000 amounted to $983.9 million. At 31 December 2000, the Group had the following amounts outstanding under borrowing facilities which are unsecured and exchangeable into Ordinary Shares and due for repayment between 2002 and 2018:

- 3.25% Zero Coupon Subordinated Exchangeable Notes due 2018—$900.5 million;
- 4.75% Exchangeable Notes due 2004—$321.9 million; and
- 3.5% Convertible Subordinated Notes due 2002—$62.0 million.

On 8 February 1999, Elan signed a definitive finance document with a syndicate of banks, mainly European lending institutions, for a senior unsecured revolving credit facility. The facility, which expires in 2004, allows for up to $325.0 million in borrowings. Borrowings under the facility bear interest at the London Interbank Offered Rate (“LIBOR”) plus a borrowing margin of between 0.4% and 2.0% depending on Elan’s credit rating at the time of such borrowings or, in certain circumstances, at the time of repayment. On 31 December 2000, $200.0 million of this facility was drawn down.

In June 1999, Elan transferred a portfolio of equity and debt instruments to a special purpose entity, Elan Pharmaceutical Investments Ltd. ("EPIL"). On 29 June 1999, EPIL issued $350.0 million aggregate principal amount of 8.43% Guaranteed Notes in a private placement to a group of financial institutions. The 8.43% Guaranteed Notes are guaranteed on a subordinated basis by Elan.

In June 2000, Elan transferred a portfolio of equity and debt instruments to a special purpose entity, Elan Pharmaceutical Investments II Ltd. ("EPIL II"). On 28 June 2000, EPIL II issued $450.0 million aggregate principal amount of 9.56% Guaranteed Notes in a private placement to a group of financial institutions. The 9.56% Guaranteed Notes are guaranteed on a subordinated basis by Elan.

Elan had other debt of $72.4 million outstanding at 31 December 2000.

On 6 February 2001, Elan announced that it would redeem, prior to maturity, all of the outstanding 4.75% Exchangeable Notes due 2004 at a redemption price equal to 102.7% of their principal amount, together with accrued interest to the redemption date. On 8 March 2001, the 4.75% Exchangeable Notes were redeemed.

In February 2001, Athena Neurosciences Finance, LLC ("Athena Finance"), an indirect wholly owned subsidiary of Elan, raised $650.0 million of 7.25% Senior Notes due 2008. The senior notes are senior unsecured obligations of Athena Finance and are fully and unconditionally guaranteed on a senior unsecured basis by Elan.

See Notes 16 and 17 to the Consolidated Financial Statements for further details on debt.

Shareholders' funds at 31 December 2000 increased to $5,315.5 million from $2,687.6 million at 31 December 1999, an increase of $2,627.9 million. This increase was comprised principally of $2,203.5 million due to Ordinary Shares issued as a result of acquisitions, $342.1 million in retained profit for the year and $98.1 million arising from the exercise of share options and warrants.

Capital Expenditure and Investment

The increase in intangible fixed assets to $4,746.2 million at 31 December 2000 from $2,348.5 million at 31 December 1999 primarily reflects the effect of acquisitions. Goodwill arising on the Dura, Liposome and Neuralab acquisitions amounted to $1,164.6 million, $371.3 million and $86.1 million, respectively. Patents and licences acquired as part of the Dura and Liposome acquisitions amounted to $451.6 million and $263.1 million, respectively. The increase in tangible

fixed assets to $353.5 million at 31 December 2000 from $233.1 million at 31 December 1999 primarily reflects $109.6 million arising from the acquisitions during the year and the growth in assets employed in Elan's development, manufacturing, selling and marketing infrastructure. The increase in financial fixed assets to $1,432.3 million at 31 December 2000 from $903.2 million at 31 December 1999 primarily reflects new investments in emerging pharmaceutical and biotechnology companies.

Elan's capital expenditure during 2000 was $64.4 million. During 2001, Elan expects to spend approximately $150.0 million in capital expenditure.

During 2000, Elan incurred research and development expenditure of $305.3 million. Elan anticipates that its research and development expenditure for 2001 will exceed the amount incurred in 2000.

Elan believes that its current and planned manufacturing, research, product development and corporate facilities are adequate for its current and projected needs. Elan will use its capital to make such capital expenditure as is necessary from time to time and also to make investments in the purchase or licencing of products and technologies, and in marketing and other alliances with third parties to support Elan's long term strategic objectives.

Axogen and Neuralab each positively affected Elan's results of operations and liquidity. Elan acquired these companies in December 1999 and January 2000, respectively. To the extent that Elan would have undertaken the same level of research and development activities in the absence of the third party funding by Axogen and Neuralab, all the revenues received from Axogen and Neuralab have positively affected Elan's results of operations and liquidity. The more rapid than initially expected utilisation of funds by Axogen and Neuralab reflects the greater than expected level of research and development activity undertaken by these entities.

Post Balance Sheet Events

Details on post balance sheet events are contained in Note 27 to the Consolidated Financial Statements.

US GAAP

Elan's financial statements have been prepared under Irish GAAP which differs in certain significant respects from US GAAP. The principal differences in Elan's financial statements under Irish and US GAAP arise due to differences in accounting treatments for business combinations and the implementation under US GAAP of the Securities and Exchange Commission's ("SEC") Staff Accounting Bulletin No. 101 ("SAB 101").

Differences between Irish and US GAAP and the impact of such differences on Elan's financial results and position are set out in greater detail on pages 106 to 119.

2000 Compared to 1999 (US GAAP)

Total revenue for 2000 increased by 16% to $1,521.4 million from $1,312.5 million for 1999.

Product revenue increased by 31% to $1,046.6 million for 2000 from $798.0 million for 1999. This reflects the impact of the acquisition of Liposome, together with increased product revenue from Dura's product portfolio and from Elan's existing product portfolio, particularly Skelaxin and Zanaflex. These contributed increased revenue for 2000 of $67.3 million, $55.7 million, $26.7 million and $51.7 million, respectively. Contract revenue decreased by 8% to $474.8 million for 2000 from $514.5 million for 1999, primarily reflecting the acquisitions of Axogen and Neuralab in December 1999 and January 2000, respectively, and the impact of SAB 101.

SAB 101 requires the deferral and amortisation of up-front licence fees where there is a continuing involvement with the licenced asset through the provision of research and development services, manufacturing services or other such activities. Under Irish GAAP, non-refundable up-front licence fee revenue is recognised when earned and when the licensor has no future legal obligation pursuant to the licence fee. Elan implemented SAB 101 in the fourth quarter of 2000. For the year ended 31 December 2000, Elan recorded a non-cash charge of $344.0 million, under US GAAP, for the cumulative effect of this accounting change, relating to licence fee revenue recognised in periods up to 31 December 1999. Under US GAAP, due to the impact of SAB 101, contract revenue was $70.7 million lower than under Irish GAAP for 2000.

Net income, before the cumulative effect (pre 2000) of the impact of SAB 101, and other charges of $445.7 million and $88.6 million for 2000 and 1999, respectively, increased by 26% to $495.2 million for 2000 compared to 1999. This increase reflects increased revenue and interest and other income, offset in part by higher operating expenses.

Other charges of $445.7 million for 2000 were principally comprised of acquired in-process research and development ("IPR&D") of $246.0 million, Dura merger costs of $35.5 million, product withdrawal costs of $35.6 million and rationalisation and integration costs of $128.6 million.

$131.9 million of IPR&D arose on the acquisition of Liposome. This principally arose on two research and development projects. These projects were estimated to be 71% and 93% complete, respectively. The estimated costs and times to completion were $17.1 million and 2.5 years, and $5.7 million and one year, respectively. The project with an estimated completion time of one year was completed in March 2001. Elan is currently assessing the best approach to further the development of the second project. Elan incurred IPR&D charges relating to the acquisitions of Spiros Development Corporation II, Inc., and Quadrant of $87.9 million and $26.2 million, respectively. Technological feasibility of all projects having an IPR&D value was not established at the date of acquisition. These projects were considered to have no alternative future uses other than the therapeutic indications for which they were in development at the date of acquisition. Elan

will not receive any benefits from IPR&D projects unless such projects successfully complete research and development and receive marketing approval from regulatory agencies. Other charges in 1999 of $88.6 million primarily relate to IPR&D which arose on the acquisition of Axogen.

1999 Compared to 1998 (US GAAP)

Total revenue for 1999 increased by 49% to $1,312.5 million from $878.8 million for 1998.

Product revenue increased by 56% to $798.0 million for 1999 from $509.9 million for 1998. This reflects organic growth, the full year impact of company and product acquisitions made during 1998 and the expansion of Elan's international operations. Contract revenue increased by 40% to $514.5 million for 1999 from $368.9 million for 1998, primarily reflecting revenue received from Axogen and from new licence agreements entered into during 1999.

Net income, before other charges of $88.6 million and $1,423.7 million for 1999 and 1998, respectively, increased by 68% to $392.0 million for 1999 compared to 1998. This increase reflects increased revenue and interest and other income, offset in part by higher operating expenses. Other charges in 1999 of $88.6 million primarily relate to IPR&D which arose on the acquisition of Axogen. Other charges in 1998 of $1,423.7 million primarily relate to IPR&D which arose on the acquisitions of Carnrick, NanoSystems, Neurex and Sano. The IPR&D charges which arose on these acquisitions were $19.9 million, $88.5 million, $787.1 million and $404.9 million, respectively. The substantial majority of the IPR&D charge arising on the acquisition of Neurex related to ziconotide. An approvable letter was received from the FDA in June 2000 for ziconotide. Elan expects to receive final FDA approval during 2001. The substantial majority of the IPR&D charge arising on the acquisition of Sano related to transdermal formulations of buspirone and nicotine/mecamylamine ("Nic/Mec"). Phase III studies for the buspirone and Nic/Mec projects failed to demonstrate sufficient statistical significance for NDA filings. Additional clinical trials on Nic/Mec will commence in 2001.

Cash Flow (US GAAP)

Cash and cash equivalents decreased by $184.5 million in 2000. Net cash of $406.3 million was generated by operating activities. Cash outflows in respect of investing activities were $395.2 million, principally comprised of $97.3 million (net) to purchase investments and marketable investment securities, $131.8 million in additions to intangible assets and $112.1 million on the acquisition of subsidiaries. Financing cash outflows amounted to $195.6 million, principally due to cash outflows of $295.4 million on repayment of bank loans offset by proceeds of $91.4 million from the issuance of share capital.

Cash and cash equivalents decreased by $101.9 million in 1999. Net cash of $476.4 million was generated by operating activities. There were cash outflows in respect of investing activities of $613.9 million, principally comprised of $184.8 million (net) to purchase investments and marketable investment securities, $180.1 million on the acquisition of subsidiaries and $161.0 million in additions to intangible assets. Financing cash inflows amounted to $35.6 million, principally due to proceeds of $29.1 million from the issuance of share capital and cash inflows of $6.9 million on bank loans.

Introduction of the Euro

The introduction of the Euro on 1 January 1999 did not have a material impact on Elan's business.

Inflation

Inflation had no material impact on Elan's operations during the year.

Prospective Information

The launch of a new product into a product class in which Elan competes increases competition and can reduce Elan's product sales. For example, the launch of a new product class, COX II inhibitors, has adversely affected Naprelan revenue. Elan purchased marketing rights to Verelan and Naprelan for $228.0 million in 1998. This amount was capitalised as an intangible and is being amortised over the period expected to benefit from these products. Elan conducted a review of this carrying value in early 2001 and concluded that such carrying value is supported. However, if sales of Verelan or Naprelan decline more quickly than Elan expects, the carrying value of this asset may be affected. In 1996, the Company purchased marketing rights to Ceclor CD. The carrying value of this intangible asset is approximately $95.0 million. A generic form of Ceclor CD was approved by the FDA in January 2001. Elan is currently assessing the impact of such approval. This review will result in a charge to the profit and loss account to reflect an impairment in carrying value. Elan has not yet completed its assessment of the charge required.

Treasury Policy

Elan uses derivative financial instruments primarily to reduce exposures to market fluctuations in foreign exchange rates. Elan does not enter into derivative financial instruments for trading or speculative purposes. The treasury function operates within strict terms of reference which have been approved by Elan's board of directors.

Exchange Risk

Elan is a multinational business operating in many countries. The US dollar is the primary currency in which Elan conducts its business. The US dollar is used for planning and budgetary purposes and as the currency for financial reporting. Elan has revenues, costs, assets and liabilities denominated in currencies other than US dollars. The Group manages its non-US dollar foreign exchange risk through derivative financial instruments.

The US dollar is the base currency against which all identified transactional foreign exchange exposures are managed and hedged. The principal risk to which Elan is exposed is to movements in the exchange rates of the Euro, Sterling, Swiss Franc and Japanese Yen. The main exposures are net costs in Euro arising from a manufacturing and research presence in Ireland and the sourcing of raw materials in European markets.

During 2000, average exchange rates were IR£0.8497 = US$1. Elan sells US dollars to buy Irish pounds (Euro) for costs incurred in Irish pounds (Euro). The expected strengthening of the Irish pound (Euro) against the US dollar will result in a higher reported cost related to Elan's Irish pound (Euro) cost base in 2001 compared to 2000. However, Elan does not expect these costs to be material.

All derivative contracts entered into are in liquid markets with credit approved counterparties.

See Note 21 to the Consolidated Financial Statements for further details on foreign exchange risk.

Interest Rate Risk

Elan's liquid funds are invested primarily in US dollars except for the working capital balances of subsidiaries operating outside of the US. Interest rate risk is mainly confined to the variability of returns on investment funds as the majority of Elan's debt is fixed rate. The Group's exposure to interest rate risk is actively monitored and managed with an average duration of less than three months. By calculating an overall exposure to interest rate risk rather than a series of individual instrument cash flow exposures, the Company can more readily monitor and hedge risks. Duration analysis recognises the time value of money and in particular, prevailing interest rates by discounting future cash flows.

See Note 21 to the Consolidated Financial Statements for further details of interest rate risk.

Credit Risk

Elan's treasury function transacts business with counterparties that are considered to be low investment risk. Credit limits are established commensurate with the credit rating of the financial institution that business is being transacted with. Elan currently does not have concentrated exposures to any one counterparty.

Elan does not currently transact significant business in countries that are subject to political and economic uncertainty. As a result Elan is not materially exposed to any sovereign risk or payment difficulties.

Liquidity Risk

See Note 21 to the Consolidated Financial Statements for details of liquidity risk and for sensitivity analysis information.

Equity Price Risk (US GAAP)

Elan is exposed to equity price risks primarily on its available for sale securities which consist of equity investments in quoted companies. At 31 December 2000, available for sale securities and trading equity securities had a fair value of $413.3 million and had a cost of $395.3 million. These investments are primarily in emerging pharmaceutical and biotechnology companies. A 10% adverse change in equity prices would result in an approximate $41.3 million decrease in the fair value of Elan's available for sale equity securities.

Directors' Report

Introduction

The directors have pleasure in submitting their annual report together with the audited financial statements of Elan for the year ended 31 December 2000.

Review of the Development of the Business

Elan is a worldwide pharmaceutical company, headquartered in Dublin, Ireland, with its principal research and development, manufacturing and marketing facilities located in Ireland, the US and the UK.

A review of the operations and development of the business and the background to its results and position at 31 December 2000 is set out in the Operating Review and Financial Review on pages 7 to 44 of this report.

Future Developments and Post Balance Sheet Events

The Group expects future growth in revenues from products which are currently marketed together with products which are in research and development or for which regulatory approval is being pursued in the US and other major markets.

On 8 March 2001, Athena Neurosciences, Inc. ("Athena"), an indirect wholly owned subsidiary of Elan, redeemed all of its outstanding 4.75% Exchangeable Notes due 2004, together with accrued interest to the redemption date.

On 21 February 2001, Athena Finance, an indirect wholly owned subsidiary of Elan, sold $650.0 million of 7.25% Senior Notes due 2008. The senior notes are senior unsecured obligations of Athena Finance and are fully and unconditionally guaranteed on a senior unsecured basis by Elan.

Research and Development

During the year ended 31 December 2000, the Company's expenditure on research and development amounted to $305.3 million compared to $230.2 million for the year ended 31 December 1999, reflecting the continued commitment of the Company to developing its technologies and product candidates.

Financial Results and Dividends

The results for the year are set out beginning on page 62 of this report. The directors do not propose the payment of a dividend.

Presentation of Financial Statements

The Annual Report on Form 20-F is a requirement for foreign companies with securities registered with the SEC. In previous years, Elan prepared both an Annual Report incorporating financial statements prepared under Irish GAAP and in compliance with Irish company law requirements, and a Form 20-F incorporating financial statements prepared under US GAAP pursuant to the rules and regulations of the SEC.

For the year ended 31 December 2000, the Company has prepared one Annual Report meeting the reporting requirements of the Company pursuant to Irish company law and the rules and regulations of the SEC rather than prepare two separate documents.

Health and Safety

The well being of the Company's employees is safeguarded through the strict adherence to health and safety standards. The Safety, Health and Welfare at Work Act, 1989, imposes certain requirements on employers and the Company has taken the necessary action to ensure compliance with the Act, including the adoption of a safety statement.

Directors

In accordance with the articles of association, Mr Boushel, Mr Crowley, Dr McIntyre and Mr McLaughlin hereby retire, and being eligible, offer themselves for re-election. Ms Gray, who was appointed to the board on 1 February 2001, retires and offers herself for election.

Directors' Interests

The beneficial interests of those persons who were directors of Elan at the year end, including their spouses and children under eighteen years of age, in the Ordinary Shares of the Company were as follows:

	Ordinary Shares; Par Value 5 Euro Cents Each		*Options and Warrants to Purchase Ordinary Shares; Par Value 5 Euro Cents Each*	
	31 December 2000	*31 December 1999*	*31 December 2000*	*31 December 1999*
Garo Armen	20,000	20,000	32,000	32,000
Brendan Boushel	953,698	953,698	102,000	102,000
Laurence Crowley	—	—	32,000	32,000
Donal Geaney	1,248,971	1,248,971	2,639,393	2,489,393
Alan Gillespie	—	—	32,000	32,000
John Groom	420,000	120,000	577,000	827,000
Thomas Lynch	500,000	—	1,212,000	1,632,000
Kieran McGowan	200	200	10,000	10,000
Kevin McIntyre	171,356	171,356	45,000	45,000
Kyran McLaughlin	—	—	10,000	10,000
Dennis Selkoe	163,407	156,237	131,950	139,120
Richard Thornburgh	200	200	32,000	32,000
Daniel Tully	17,548	17,548	10,000	10,000

The following changes in directors' interests occurred between 31 December 2000 and 9 March 2001. On 8 February 2001, Mr Boushel sold 150,000 Ordinary Shares. On 8 February 2001, Dr Selkoe exercised 20,000 options and sold 20,000 Ordinary Shares. On 15 February 2001, Mr Groom exercised 233,280 options and sold 233,280 Ordinary Shares. On 23 February 2001, Mr Lynch exercised and held 300,000 Ordinary Shares. On 27 February 2001, Mr Geaney exercised 30,000 options and sold 160,000 Ordinary Shares.

Directors' Options

	At Date of Appointment or 1 January 2000	Granted	Exercised	At 31 December 2000	Weighted Average Subscription Price of Options Outstanding at 31 December 2000
Garo Armen	32,000	—	—	32,000	$20.23
Brendan Boushel	32,000	—	—	32,000	$20.23
Laurence Crowley	32,000	—	—	32,000	$21.85
Donal Geaney	2,481,893	150,000	—	2,631,893	$17.45
Alan Gillespie	32,000	—	—	32,000	$21.85
John Groom	800,000	50,000	300,000	550,000	$16.34
Thomas Lynch	1,630,000	80,000	500,000	1,210,000	$16.76
Kieran McGowan	10,000	—	—	10,000	$25.81
Kevin McIntyre	32,000	—	—	32,000	$20.23
Kyran McLaughlin	10,000	—	—	10,000	$25.81
Dennis Selkoe	139,120	—	7,170	131,950	$13.48
Richard Thornburgh	32,000	—	—	32,000	$21.85
Daniel Tully	10,000	—	—	10,000	$25.81

The options exercised during the year ended 31 December 2000 were exercised at prices ranging between $7.62 and $14.25 (the market price at date of grant). The closing market prices at the dates of exercise were between $37.19 and $54.50. Options outstanding at 31 December 2000 are exercisable at various dates between January 2001 and February 2010. The closing market price at 29 December 2000, on the New York Stock Exchange ("NYSE"), of the Company's American Depositary Share ("ADS") was $46.81. During the year ended 31 December 2000, the closing market price ranged from $26.00 to $60.13 per ADS. No directors' options lapsed during the year ended 31 December 2000. Warrants held by directors are exercisable at prices ranging from $18.77 to $32.51.

Directors' Remuneration

	Year Ended 31 December					
Executive Directors:	2000 Salary/Fees US$	2000* Annual Bonus US$	2000 Pension US$	2000 Benefit in Kind US$	2000 Total US$	1999 Total US$
Donal Geaney	824,000	563,000	73,000	7,000	1,467,000	1,264,000
John Groom	474,000	250,000	—	—	724,000	775,000
Thomas Lynch	572,000	375,000	91,000	—	1,038,000	966,000
					3,229,000	3,005,000
Average number of executive directors					3	3

Mr Geaney, Mr Groom and Mr Lynch received directors' fees of $24,000 each.

Non-Executive Directors:						
Garo Armen	38,000	—	—	—	38,000	38,000
Brendan Boushel	36,000	—	—	—	36,000	32,000
Laurence Crowley	35,000	—	—	—	35,000	32,000
Alan Gillespie	30,000	—	—	—	30,000	35,000
Kieran McGowan	30,000	—	—	—	30,000	29,000
Kevin McIntyre	53,000	—	—	—	53,000	49,000
Kyran McLaughlin	30,000	—	—	—	30,000	29,000
Dennis Selkoe	38,000	—	—	—	38,000	38,000
Richard Thornburgh	38,000	—	—	—	38,000	38,000
Daniel Tully	38,000	—	—	—	38,000	30,000
					366,000	350,000
Average number of non-executive directors					10	10.3

Payments to Retired Directors:	2000 Total US$	1999 Total US$
Donald Panoz	160,000	160,000
Nancy Panoz	25,000	25,000
James Balog	15,000	26,000
	200,000	211,000

** Bonuses paid are in respect of performance in fiscal 1999.*

BOARD OF DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY

Directors

Donal Geaney (50) holds the positions of chairman and chief executive officer of Elan. Mr Geaney was appointed chairman in January 1997 and chief executive officer in January 1995. In April 1992, Mr Geaney was elected to Elan's board of directors and subsequently assumed the positions of president and chief operating officer. Mr Geaney is chairman of the Irish Aviation Authority, is a director of the Bank of Ireland and is chairman of the National Pensions Reserve Fund Commission.

Thomas Lynch (44) joined Elan in May 1993 as executive vice president and chief financial officer. In June 1997, Mr Lynch was appointed a director. Prior thereto, Mr Lynch was a partner in the international accounting firm of KPMG, where he specialised in the provision of international corporate financial services. Mr Lynch became non-executive chairman of Amarin Corporation, plc in March 2000 and is also a director of Galen Holdings, plc, ICON plc, Nanogen Inc. and IDA Ireland.

Garo Armen, PhD (48) was appointed a director of Elan in February 1994. He has been chairman and chief executive officer of Antigenics, Inc. since its initial public offering in February 2000 and held the same positions in its predecessor, Antigenics, LLC since its incorporation in 1994. Previously, Dr Armen was with Dean Witter Reynolds as a senior vice president of research and with E.F. Hutton & Company as first vice president, research.

Brendan Boushel (70) was appointed a director of Elan in January 1980. From 1966 until his retirement in 1994, Mr Boushel was a partner in the Irish law firm of T.T.L. Overend McCarron & Gibbons. Mr Boushel also holds a number of private company directorships.

Laurence Crowley (64) was appointed a director of Elan in March 1996. He is governor (chairman) of the Bank of Ireland. He is presently a director of Rothmans International, plc and is chairman of PJ Carroll & Co., its Irish subsidiary.

Alan Gillespie, PhD (50) was appointed a director of Elan in March 1996. Since November 1999, he has been chief executive officer of CDC Group, plc and was previously a managing director of Goldman Sachs International. He is presently chairman of the Industrial Development Board for Northern Ireland.

Ann Maynard Gray (55) was appointed a director of Elan in February 2001. She was formerly president of Diversified Publishing Group of Capital Cities/ABC. Ms Gray is a director of Duke Energy Corporation, an advisory trustee of J.P. Morgan Funds and is a member of the board of trustees of Cancer Care.

John Groom (62) joined Elan in July 1996 and served as president and chief operating officer until his retirement in January 2001. Mr Groom was president, chief executive officer and director of Athena prior to its acquisition by Elan in 1996. Mr Groom serves on the boards of Ribozyme Pharmaceuticals, Inc. and Ligand Pharmaceuticals Incorporated, and will continue to serve Elan in an advisory capacity.

Kieran McGowan (57) was appointed a director of Elan in December 1998. From 1990 until his retirement in December 1998, he was chief executive of IDA Ireland. He is a director of CRH, plc, Irish Life and Permanent, plc, United Drug, plc, Enterprise Ireland, An Post National Lottery Company Ltd. and a number of private companies.

Kevin McIntyre, MD (65) was appointed a director of Elan in February 1984. He is an associate clinical professor of medicine at Harvard Medical School and has served as a consultant to the National Academy of Sciences.

Kyran McLaughlin (56) was appointed a director of Elan in January 1998. Since 1985, he has been head of equities and corporate finance at Davy Stockbrokers, Ireland's largest stockbroker firm. He is a director of Riverdeep Group, plc and Ryanair Holdings, plc.

Dennis Selkoe, MD (57) joined the board of directors of Elan in July 1996, following Elan's acquisition of Athena where he served as a director since July 1995. Dr Selkoe was a founder of, and consultant to, Athena. Dr Selkoe, a neurologist, is a professor of neurology and neuroscience at Harvard Medical School. He also serves as co-director of the Centre for Neurologic Disease at Brigham and Women's Hospital.

The Honorable Richard Thornburgh (68) was appointed a director of Elan in March 1996. He served as governor of Pennsylvania for two terms and as attorney general of the US from 1988 to 1991. He is presently of counsel to the law firm of Kirkpatrick & Lockhart LLP in Washington D.C.

Daniel Tully (69) was appointed a director of Elan in February 1999. He is a chairman emeritus of Merrill Lynch & Co., Inc., where he served as chairman of the board from 1993 to 1997, and was its chief executive officer from 1992 to 1996. He served as vice chairman of the New York Stock Exchange from 1994 to 1995, vice chairman of the American Stock Exchange from 1984 to 1986, and chairman of the board of governors of the National Association of Securities Dealers.

One third of the directors (excluding the chairman) retire annually by rotation. Directors serve until they or their successors have been elected and qualified. Officers serve at the discretion of the board of directors. Directors of Elan are compensated with fee payments (with additional payments where directors are members of board committees) and are reimbursed for travel expenses to and from board meetings.

Senior Management

William Clark (56) joined Elan as president, Elan Pharmaceutical Operations in January 1998. He has over thirty years of experience in manufacturing, engineering and operational functions within the pharmaceutical industry. Prior to joining Elan, he held senior management positions with Fisons, plc as director, worldwide technical operations, and as international vice president and vice president, technical operations, for G.D. Searle.

William Daniel (49) joined Elan in March 1994 as group financial controller. In July 1996, he was appointed group vice president, finance, group controller and principal accounting officer. From 1990 to 1992, Mr Daniel was financial director of Xtravision, plc.

John Devane, PhD (45) was appointed as executive vice president, corporate compliance in November 2000 with responsibility for ensuring to the corporation that all of its operations and affiliates are in compliance with prevailing laws and regulations. Dr Devane joined Elan in 1981 and has progressed through a number of management positions, most recently as executive vice president, research and development, Elan Pharmaceutical Technologies.

Lars Ekman, MD, PhD (51) was appointed as president, research and development, Elan Pharmaceuticals, in January 2001. Prior to joining Elan, he was responsible for research and development at Schwarz Pharma AG since 1997. He is a board certified surgeon with a PhD in experimental biology and has held several clinical and academic positions in both the US and Europe. From 1984 to 1997, Dr Ekman was employed in a variety of senior scientific and clinical functions in Pharmacia Corporation.

Campbell Fitch (41) joined Elan as vice president, human resources in April 1999, having spent the previous fifteen years with Schlumberger Limited. Mr Fitch is a Fellow of the Chartered Institute of Personnel and Development.

Ivan Lieberburg, MD, PhD (51) is executive vice president, chief scientific and medical officer of Elan, where he has held a number of positions over the last thirteen years, most recently senior vice president of research, Elan Pharmaceuticals. Prior to joining Athena in 1987, Dr Lieberburg held faculty positions at the Albert Einstein School of Medicine and Mt. Sinai School of Medicine.

Seamus Mulligan (40) was appointed as executive vice president, business and corporate development in October 1999, having held the position of executive vice president, corporate development from April 1999. Prior thereto, he was president, Elan Pharmaceutical Technologies from July 1996. Mr Mulligan joined Elan in 1984.

Lisabeth Murphy (44) was appointed as executive vice president, intellectual property and legal affairs in January 1999. Ms Murphy joined Elan as vice president and general counsel in July 1996 following Elan's acquisition of Athena where she served as vice president, legal affairs, general counsel and secretary since May 1991.

Mark Pearson (47) was appointed as secretary of Elan in December 1996. Mr Pearson is a partner in the Irish law firm of McCann FitzGerald and specialises in the area of company and corporate law. Mr Pearson joined McCann FitzGerald in 1976.

Mary Pendergast (50) joined Elan in January 1998 as executive vice president, government affairs. Prior to joining Elan, Ms Pendergast was the Deputy Commissioner and Senior Advisor to the Commissioner of the FDA, where she had previously served as Associate Chief Counsel for Enforcement. Ms Pendergast is on the boards of the Regulatory Affairs Professional Society and Child Trends.

Larry Sternson, PhD (55) is president, Elan Pharmaceutical Technologies. He has worked in drug development for over 30 years, first as a university professor and researcher, and for the last 17 years in various executive management positions in the pharmaceutical industry. Immediately prior to joining Elan, he was founder and chief executive officer of NanoSystems.

Daniel Welch (44) joined Elan as president, Elan Pharmaceuticals in October 2000. Before joining Elan, Mr Welch spent over 22 years in the pharmaceutical industry. His areas of experience are sales and marketing, business development, international marketing and general management. Most recently he spent seven years with Sanofi-Synthelabo, Inc.

Robert Whitehead (50) was appointed as president, Elan Pharmaceuticals, Americas, in December 2000 following the acquisition of Dura. He joined Dura in 1998 as president, from Trega Biosciences, Inc., where he had served as chairman and chief executive officer.

No director or officer has a family relationship with any other director or officer.

Compensation of Directors and Officers

For the year ended 31 December 2000, all executive officers and directors as a group (19 persons) received total compensation of $5.2 million.

Elan reimburses officers and directors for their actual business-related expenses. For the year ended 31 December 2000, an aggregate of $0.2 million was set aside or accrued by Elan to provide pension, retirement and other similar benefits for directors and officers. Elan maintains certain health and medical benefit plans for its employees in which Elan's officers participate along with other employees generally.

Transactions with Directors

There were no transactions with directors during the year ended 31 December 2000 other than as outlined in Note 25 to the Consolidated Financial Statements.

Significant Shareholdings

As of 31 December 2000, Capital Research and Management Company and Fidelity Management and Research Company owned 25,991,000 and 18,797,000 Elan ADSs, respectively, representing 8% and 6% of the issued share capital of the Company, respectively. Capital Research and Management Company held 8% of the share capital of the Company as at 31 December 1999. Fidelity Management and Research Company held 4% and 7% of the share capital of the Company as at 31 December 1999 and 1998, respectively. Save for these interests, the Company is not aware of any person who, directly or indirectly, holds 3% or more of the issued share capital. The Company is not aware of any changes between 31 December 2000 and 9 March 2001 in these shareholdings. Neither Capital Research and Management Company or Fidelity Management and Research Company have voting rights different from other shareholders.

The following table sets forth certain information regarding the beneficial ownership of Elan's Ordinary Shares at 9 March 2001 by all directors and officers of Elan as a group (either directly or by virtue of ownership of Elan ADSs):

Name of Owner or Identity of Group	*No. of Shares*	*Percent of Class*[1]
All directors and officers as a group (19 persons)[2]	6.3 million	1.9%

(1) Based on 335.1 million Elan Ordinary Shares outstanding on 9 March 2001 and 2.2 million Elan Ordinary Shares issuable upon the exercise of currently exercisable options held by directors and officers as a group as of 9 March 2001.
(2) Includes 2.2 million Elan Ordinary Shares issuable upon exercise of currently exercisable options held by directors and officers of Elan as a group as of 9 March 2001.

The options exercised by executive officers during the year ended 31 December 2000 were exercised at prices ranging from $7.69 to $9.63 (the market price at the date of grant). The closing market prices at the dates of exercise were between $35.81 and $48.50. Options outstanding at 31 December 2000 are exercisable at various dates between January 2001 and October 2010.

Options exercised by executive officers to acquire 50,000 Elan ADSs in the period from 31 December 2000 to 9 March 2001 were exercised at prices ranging from $8.31 to $9.63. The closing market prices at the dates of exercise were between $54.00 and $54.96.

Elan, to its knowledge, is not directly or indirectly owned or controlled by another entity or by any government. Elan does not know of any arrangements, the operation of which might result in a change of control of Elan.

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the Auditors' Report set out on pages 60 and 61, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

Irish company law requires the directors to ensure that financial statements are prepared for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for that year.

With regard to the financial statements on pages 62 to 119, the directors have determined that it is appropriate that they continue to be prepared on a going concern basis and consider that in their preparation:

- suitable accounting policies have been selected and applied consistently;
- judgements and estimates that are reasonable and prudent have been made; and
- applicable accounting standards have been followed.

The directors have a responsibility for ensuring that proper books of account are kept which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Acts, 1963 to 1999, and all regulations to be construed as one with those Acts. They also have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Authority to Purchase Own Shares

At the last annual general meeting, shareholders authorised the Company to make market purchases of shares of the Company up to 15% of the issued share capital. During the year ended 31 December 1999, 621,500 Ordinary Shares were purchased by the Company and these are currently held as treasury shares. No Ordinary Shares were purchased in 2000.

Service Contracts

There are no service contracts in existence between any of the directors and the Company.

Subsidiary Companies

Information relating to significant subsidiary and associated undertakings is set out in Note 30 to the Consolidated Financial Statements.

Auditors

In accordance with Section 160(2) of the Companies Act, 1963, the auditors, KPMG, Chartered Accountants, will continue in office.

On behalf of the board, 9 March 2001

Donal Geaney, *Chairman* **Thomas Lynch,** *Director*

Corporate Governance

Policies

Elan is committed to the highest standards of corporate governance and compliance. The Company complies with the provisions of The Combined Code, which was derived from the Cadbury and Greenbury Reports, save that the board has not deemed it necessary to nominate a senior independent director and in accordance with the articles of association, the chairman does not retire by rotation.

In 1998, the Hempel Committee on Corporate Governance reviewed and brought together the guidelines and codes which had been developed by the Cadbury and Greenbury Committees and produced The Combined Code—Principles of Good Governance and Code of Best Practice. This Combined Code was adopted by the London Stock Exchange in June 1998 and by the Irish Stock Exchange in December 1998. One of the requirements of this Combined Code is that listed companies make a statement in relation to how they have complied with this code.

The directors reviewed the Company's systems of internal control and also examined the full range of risks affecting the Company and the appropriateness of the internal control structures in place to manage and monitor them. This process involved a confirmation that appropriate systems of internal control were in place throughout the financial year and up to the date of signing of these financial statements. It also involved an assessment of the ongoing process for the identification, management and control of individual risks and of the role of the various Group risk management functions and the extent to which various significant challenges facing the Group are understood and are being addressed. No material unaddressed issues emerged from this assessment. The directors confirm that they have reviewed, in accordance with the Turnbull Guidance, the effectiveness of the Company's systems of internal control for the year ended 31 December 2000.

The Board

The roles of chairman and chief executive officer are not separated. However, the board includes eleven non-executive directors who constitute a clear majority of the board. The board regularly reviews its responsibilities and those of its committees and management. All of the directors bring independent judgement to bear on issues of strategy, performance, resources, key appointments and standards. The board meets regularly throughout the year and all directors have full and timely access to the information necessary to enable them to discharge their duties. The board has reserved certain matters to its exclusive jurisdiction, thereby maintaining control of the Company and its future direction.

All directors are appointed by the board, as nominated by its organisation and compensation committee, and subsequently elected by the shareholders. Procedures are in place where directors, in furtherance of their duties, may take independent professional advice, if necessary, at the Company's expense.

Committees of the Board

The board has delegated authority over certain areas of the Company's activities to three committees as more fully explained below.

Executive

The executive committee exercises the management authority of the board during the interval between board meetings. The members of the committee are: Mr Geaney, chairman, Dr Armen, Mr Crowley, Dr Gillespie, Mr Groom and Mr Lynch. In addition, two members of the senior management, Mr Mulligan and Mr Welch, are also members of this committee.

Audit

The audit committee, composed entirely of non-executive directors, helps the board oversee the Company's accounting and reporting practices. The audit committee periodically reviews the effectiveness of the system of internal financial control. It monitors the adequacy of internal accounting practices, procedures and controls, and reviews all significant changes in accounting policies. It also addresses all issues raised and recommendations made by the external auditors. During the year ended 31 December 2000, the audit committee was comprised of Mr Boushel, chairman, Mr McGowan and Mr McLaughlin.

Organisation and Compensation

The organisation and compensation committee, composed entirely of non-executive directors, reviews the compensation philosophy and policies of the Company with respect to executive compensation, fringe benefits and other compensation matters. The committee determines the compensation of the chief executive officer and other executive directors. The committee also considers nominations to the board of directors and makes recommendations thereon, as appropriate. The committee also administers the Company's stock option plans. See pages 58 and 59 for the report of the organisation and compensation committee on behalf of the board. The members of the committee are: Dr McIntyre, chairman, Mr Crowley, Mr Thornburgh and Mr Tully.

Relations with Shareholders

Elan communicates regularly with its shareholders throughout the year, including following the release of quarterly and annual results, and after major developments. All shareholders are given adequate notice of the annual general meeting.

Internal Financial Control

The board of directors has overall responsibility for the Company's system of internal financial control and for monitoring its effectiveness. Management is responsible for the planning and implementation of the system of internal financial control and ensuring that these controls apply throughout the Company. The audit committee reviews the quarterly and annual financial statements and the nature and scope of the external audit. Any significant findings, audit or accounting issues, or other business risks are reported by the committee to the board of directors.

The system of internal financial control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss. The Company's system of internal financial control is designed to provide the directors with reasonable assurance that physical and financial assets are safeguarded, transactions are authorised and recorded properly and material irregularities are either prevented or will be detected with the minimum of delay.

The organisation structure of the Company under the day to day direction of its chief executive officer is clear. Defined lines of responsibility and delegation of authority have been established within which the Company's activities can be planned, executed, controlled and monitored to achieve the strategic objectives which the board has adopted for the Company.

The Company has a comprehensive system for reporting financial results to the board. This includes a budgeting system with an annual budget approved by the board. The board compares actual results with budgeted results regularly. Management accounts are prepared on a timely basis. They include a profit and loss account, balance sheet, cash flow and capital expenditure report, together with an analysis of the performance of key operating divisions and subsidiaries.

The board, through the audit committee, has reviewed the effectiveness of the Company's system of internal financial control.

Going Concern

The directors, having made inquiries, believe that the Company has adequate resources to continue in operational existence for the foreseeable future and that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

REPORT OF THE ORGANISATION AND COMPENSATION COMMITTEE

Composition of Organisation and Compensation Committee

The terms of reference for the committee are to determine the compensation, terms and conditions of employment of the chief executive officer and other executive directors and to review the recommendations of the chief executive officer with respect to the remuneration and terms and conditions of employment of the Company's senior management. The committee considers nominations to the board of directors and makes recommendations thereon as appropriate. The committee also exercises all the powers of the board of directors to issue Ordinary Shares on the exercise of share options and to generally administer the Company's share option plans.

The chief executive officer attends meetings of the committee except when his own remuneration is being considered.

Each member of the committee is nominated to serve for a two year term subject to a maximum of two terms of continuous service.

Details of directors' remuneration, shareholdings and share options are set out in Note 7 to the Consolidated Financial Statements and on pages 47 to 49 of the Directors' Report.

Remuneration Policy

The Company's policy on executive directors' remuneration is to set remuneration levels which are appropriate for its senior executives having regard to their substantial responsibilities, their individual performance and the performance of the Company as a whole. It is the policy of the committee to set remuneration levels after a review of remuneration packages of executives in the pharmaceutical industry. During 2000, the committee took external advice from independent benefit consultants on executive remuneration. In framing remuneration policy, full consideration has been given to Section B of the Code of Best Practice of the Combined Code as issued by the London and Irish Stock Exchanges.

The typical elements of the remuneration package for executive directors include basic salary and benefits, annual cash incentive bonus, pensions and participation in share option plans.

It is the policy of the committee to grant options to management to encourage identification with shareholders' interests and to link performance to the long term share price performance of the Company.

Executive Directors' Basic Salary

The basic salaries of executive directors are reviewed annually having regard to personal performance, company performance and market practice.

Annual Cash Incentive Bonus

An annual cash incentive bonus, which is not pensionable, is paid on the recommendation of the committee to executive directors. Bonus determination is not based on specific financial or operational targets, but on individual and company performance.

Share Option Plans

It is the policy of the committee, in common with other companies operating in the pharmaceutical industry, to award share options to management and employees. The options generally vest between one and five years. These plans do not contain any performance conditions.

Directors' Service Contracts

No director has a service contract.

Auditors' Report

TO THE MEMBERS OF ELAN CORPORATION, PLC

We have audited the financial statements on pages 62 to 119.

Respective Responsibilities of Directors and Auditors in Relation to the Annual Report and Form 20-F

The directors are responsible for having the Annual Report and Form 20-F prepared. As described on pages 54 and 55, this includes responsibility for preparing the financial statements in accordance with applicable Irish Law and accounting standards; the directors have also presented additional information under US requirements. Our responsibilities, as independent auditors, are established in Ireland by statute, the Auditing Practices Board, the Listing Rules of the Irish Stock Exchange and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Acts. As also required by the Acts, we state whether we have obtained all the information and explanations we require for our audit, whether the Company's balance sheet agrees with the books of account and report to you our opinion as to whether:

- the Company has kept proper books of account;
- the directors' report is consistent with the financial statements; and
- at the balance sheet date, a financial situation existed that may require the Company to hold an extraordinary general meeting on the grounds that the net assets of the Company, as shown in the financial statements, are less than half of its share capital.

We also report to you if, in our opinion, information specified by the Listing Rules regarding directors' remuneration and transactions with the Company is not disclosed.

We review whether the statement on page 56 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Irish Stock Exchange, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and Form 20-F, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2000 and of the profit of the Group for the year then ended, and have been properly prepared in accordance with the Companies Acts, 1963 to 1999, and all regulations to be construed as one with those Acts.

Generally accepted accounting principles in Ireland vary in certain significant respects from accounting principles generally accepted in the US. Application of generally accepted accounting principles in the US would have affected results of operations for each of the years in the three year period ended 31 December 2000, and shareholders' equity as at 31 December 2000 and 1999 to the extent summarised on pages 106 to 119 of the financial statements.

We have obtained all the information and explanations we considered necessary for the purposes of our audit. In our opinion, proper books of account have been kept by the Company. The balance sheet of the Company is in agreement with the books of account.

In our opinion, the information given in the Directors' Report on pages 45 to 55 is consistent with the financial statements.

The net assets of the Company, as stated in the balance sheet on page 66, are more than half of the amount of its called-up share capital and, in our opinion, on that basis there did not exist at 31 December 2000 a financial situation which, under Section 40(1) of the Companies (Amendment) Act, 1983, would require the convening of an extraordinary general meeting of the Company.

KPMG
Chartered Accountants
Registered Auditors
Dublin, Ireland
9 March 2001

The above opinion is provided in compliance with Irish requirements. Opinions complying with auditing standards generally accepted in the United States will be included in the Annual Report and Form 20-F filed with the United States Securities and Exchange Commission.

Consolidated Profit and Loss Account

YEAR ENDED 31 DECEMBER

	Notes	2000 $m Before Exceptional Items	2000 $m Exceptional Items	2000 $m Total	1999 $m Total	1998 $m Total
Revenue—continuing operations		1,180.5	—	1,180.5	1,007.8	574.0
Revenue—acquisitions		121.5	—	121.5	—	102.7
	3	1,302.0	—	1,302.0	1,007.8	676.7
Cost of sales	4	273.5	42.0	315.5	211.2	145.3
Gross profit		1,028.5	(42.0)	986.5	796.6	531.4
Selling, general and administrative expenses	4	379.6	5.3	384.9	256.9	170.3
Research and development expenses	4,5	273.3	32.0	305.3	230.2	145.5
Cash contribution to Axogen	4	—	—	—	—	67.5
Operating profit—continuing operations		423.4	(63.3)	360.1	309.5	157.4
Operating (loss)—acquisitions		(47.8)	(16.0)	(63.8)	—	(9.3)
	3	375.6	(79.3)	296.3	309.5	148.1
Share of losses of joint ventures		—	—	—	—	(5.5)
Share of profits of associates	13	0.1	—	0.1	0.2	0.3
Loss on fixed assets	4	—	(33.9)	(33.9)	—	(13.9)
Profit on ordinary activities before interest and tax		375.7	(113.2)	262.5	309.7	129.0
Net interest and other income	4,6	89.0	(0.4)	88.6	33.5	21.3
Profit on ordinary activities before tax	7	464.7	(113.6)	351.1	343.2	150.3
Tax on profit on ordinary activities	8	(9.0)	—	(9.0)	(7.3)	(3.9)
Retained profit for the year		455.7	(113.6)	342.1	335.9	146.4
Basic earnings per Ordinary Share	9	$ 1.59	$ (0.40)	$ 1.19	$ 1.26	$ 0.62
Diluted earnings per Ordinary Share	9	$ 1.46	$ (0.36)	$ 1.10	$ 1.19	$ 0.56
Weighted average number of Ordinary Shares outstanding (millions)		287.1	287.1	287.1	266.6	238.3

The accompanying notes are an integral part of these financial statements

Donal Geaney, *Chairman* **Thomas Lynch,** *Director*

Consolidated Balance Sheet

	Notes	At 31 December 2000 $m	At 31 December 1999 $m
Fixed Assets			
Intangible assets	11	4,746.2	2,348.5
Tangible assets	12	353.5	233.1
Financial assets	13	1,432.3	903.2
		6,532.0	3,484.8
Current Assets			
Stocks	14	155.2	131.0
Debtors	15	331.9	191.7
Financial assets	13	93.8	123.1
Cash and liquid resources	28(c)	983.9	743.6
		1,564.8	1,189.4
Creditors (amounts falling due within one year)	17	(619.8)	(435.7)
Net current assets		945.0	753.7
Total assets less current liabilities		7,477.0	4,238.5
Convertible debt and guaranteed notes	16	(2,078.5)	(1,536.0)
Creditors (amounts falling due after one year)	17	(83.0)	(14.9)
Net Assets	3	5,315.5	2,687.6
Capital and Reserves			
Called-up share capital	18	18.7	16.3
Share premium account		4,750.9	2,479.7
Shares issuable		25.9	18.6
Capital conversion reserve fund		0.1	0.1
Equity adjustment from foreign currency translation		(36.8)	(35.2)
Profit and loss account	19	556.7	208.1
Shareholders' Funds—Equity		5,315.5	2,687.6

The accompanying notes are an integral part of these financial statements

Donal Geaney, *Chairman* **Thomas Lynch,** *Director*

Consolidated Statement of Cash Flows

YEAR ENDED 31 DECEMBER

	Notes	2000 $m	1999 $m	1998 $m
Cash flow from operating activities	28(a)	**272.2**	364.5	50.4
Returns on investments and servicing of finance				
Interest received		**111.8**	76.6	33.3
Interest paid		**(76.4)**	(51.9)	(19.5)
Total returns on investments and servicing of finance		**35.4**	24.7	13.8
Taxation		**(3.6)**	(0.8)	(1.8)
Capital expenditure and financial investment				
Additions to property, plant and equipment		**(64.4)**	(76.7)	(65.5)
Receipts from disposal of property, plant and equipment		**9.8**	11.7	0.5
Payments to acquire intangible assets		**(79.5)**	(122.2)	(189.3)
Receipts from disposal of intangible assets		**—**	—	0.3
Payments to acquire current financial assets		**(54.6)**	(110.1)	(315.0)
Sale and maturity of current financial assets		**100.1**	38.9	420.8
Payments to acquire financial fixed assets		**(411.9)**	(446.5)	(236.8)
Receipts from disposal of financial fixed assets		**6.7**	41.0	64.9
Cash outflow from capital expenditure and financial investment		**(493.8)**	(663.9)	(320.1)
Acquisitions and disposals				
Cash paid on acquisitions	28(d)	**(8.0)**	(178.3)	(264.7)
Cash outflow before use of liquid resources and financing		**(197.8)**	(453.8)	(522.4)
Management of liquid resources	28(b)	**399.1**	203.4	(471.0)
Financing				
Proceeds from issue of share capital		**76.9**	37.8	166.3
Purchase of treasury shares		**—**	(17.4)	—
Issue of exchangeable notes		**—**	—	840.2
Issue of loan notes		**444.1**	344.0	—
Repayment of loans		**(496.0)**	(111.7)	(19.0)
Bank borrowing		**200.0**	125.2	38.1
Cash inflow from financing		**225.0**	377.9	1,025.6
Net increase in cash		**426.3**	127.5	32.2
Reconciliation of net cash flow to movement in net debt				
Increase in cash for the period		**426.3**	127.5	32.2
Cash (inflow)/outflow from movement in liquid resources		**(399.1)**	(203.4)	471.0
		27.2	(75.9)	503.2
Bank borrowing		**(200.0)**	(125.8)	(38.1)
Repayment of loans		**512.4**	112.8	19.0
Issue of exchangeable notes		**—**	—	(841.5)
Issue of loan notes		**(444.1)**	(345.0)	—
Change in net debt resulting from cash flows		**(104.5)**	(433.9)	(357.4)
Liquid resources acquired with subsidiary undertaking		**214.2**	—	—
Loans acquired with subsidiary undertaking		**(363.7)**	(80.2)	(3.6)
Non-cash movement—translation differences		**(1.1)**	(0.3)	(0.1)
Non-cash movement—notes		**(54.4)**	(29.8)	—
Non-cash movement—consideration on acquisition of assets		**—**	—	(148.0)
Non-cash movement—other		**(1.3)**	—	(0.6)
Increase in net debt	28(c)	**(310.8)**	(544.2)	(509.7)

The accompanying notes are an integral part of these financial statements

Consolidated Statement of Changes in Shareholders' Funds

	Number of Shares m	Share Capital $m	Share Premium $m	Shares Issuable $m	Capital Conversion $m	Profit and Loss Account $m	Translation Adjustment $m	Total Amount $m
Balance at 31 December 1997	208.3	13.2	1,044.7	1.9	—	(260.2)	(29.2)	770.4
Exercise of stock options and warrants	19.3	1.1	180.3	—	—	—	—	181.4
Stock issued as a result of acquisitions	36.5	2.0	1,230.2	1.6	—	—	—	1,233.8
Warrant issued as a result of acquisitions	—	—	—	16.4	—	—	—	16.4
Issue costs	—	—	(15.0)	—	—	—	—	(15.0)
Equity adjustment from foreign currency translation	—	—	—	—	—	—	(4.7)	(4.7)
Goodwill on disposal	—	—	—	—	—	3.4	—	3.4
Retained profit	—	—	—	—	—	146.4	—	146.4
Balance at 31 December 1998	264.1	16.3	2,440.2	19.9	—	(110.4)	(33.9)	2,332.1
Exercise of stock options and warrants	5.0	0.2	38.4	—	—	—	—	38.6
Stock issued as a result of acquisitions	—	—	1.3	(1.3)	—	—	—	—
Issue costs	—	—	(0.3)	—	—	—	—	(0.3)
Equity adjustment from foreign currency translation	—	—	—	—	—	—	(1.3)	(1.3)
Repurchase of shares	—	—	—	—	—	(17.4)	—	(17.4)
Capital conversion reserve fund	—	(0.2)	0.1	—	0.1	—	—	—
Retained profit	—	—	—	—	—	335.9	—	335.9
Balance at 31 December 1999	269.1	16.3	2,479.7	18.6	0.1	208.1	(35.2)	2,687.6
Exercise of stock options and warrants	7.2	0.4	97.7	—	—	—	—	98.1
Exchange of 4.75% Exchangeable Notes	—	—	0.3	—	—	—	—	0.3
Stock issued as a result of acquisitions	46.2	2.0	2,194.2	7.3	—	—	—	2,203.5
Issue costs	—	—	(21.0)	—	—	—	—	(21.0)
Equity adjustment from foreign currency translation	—	—	—	—	—	—	(1.6)	(1.6)
Goodwill on disposal	—	—	—	—	—	6.5	—	6.5
Retained profit	—	—	—	—	—	342.1	—	342.1
Balance at 31 December 2000	**322.5**	**18.7**	**4,750.9**	**25.9**	**0.1**	**556.7**	**(36.8)**	**5,315.5**

The accompanying notes are an integral part of these financial statements

Consolidated Statement of Total Recognised Gains and Losses

YEAR ENDED 31 DECEMBER

	2000 $m	1999 $m	1998 $m
Retained profit	**342.1**	335.9	146.4
Equity adjustment from foreign currency translation	**(1.6)**	(1.3)	(4.7)
Total recognised gains	**340.5**	334.6	141.7

The accompanying notes are an integral part of these financial statements

Company Balance Sheet

	Notes	At 31 December 2000 $m	At 31 December 1999 $m
Fixed Assets			
Intangible assets	29	**273.7**	287.5
Tangible assets	29	**21.6**	21.0
Financial assets	29	**7,766.5**	4,994.2
		8,061.8	5,302.7
Current Assets			
Stocks	29	**—**	6.6
Debtors	29	**127.5**	97.3
		127.5	103.9
Creditors (amounts falling due within one year)	29	**(759.4)**	(352.8)
Net current liabilities		**(631.9)**	(248.9)
Total assets less current liabilities		**7,429.9**	5,053.8
Creditors (amounts falling due after one year)	29	**(10.9)**	(21.2)
Net Assets		**7,419.0**	5,032.6
Capital and Reserves			
Called-up share capital	18	**18.7**	16.3
Share premium account		**4,750.9**	2,479.7
Shares issuable		**25.9**	18.6
Capital conversion reserve fund		**0.1**	0.1
Profit and loss account	19	**2,623.4**	2,517.9
Shareholders' Funds—Equity		**7,419.0**	5,032.6

The accompanying notes are an integral part of these financial statements

Donal Geaney, *Chairman* **Thomas Lynch,** *Director*

Notes Relating to Financial Statements

1 SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in US dollars under the historical cost convention and in accordance with Irish GAAP and comply with the financial reporting standards of the Accounting Standards Board, as promulgated by the Institute of Chartered Accountants in Ireland. Where there are significant differences to US GAAP, these have been described in the differences between Irish and US accounting principles section on pages 106 to 119.

(a) Basis of consolidation and presentation of financial information

The consolidated financial statements include the accounts of Elan Corporation, plc and all of its subsidiary undertakings and its share of profits or losses of associated undertakings (the "Company", "Elan" or the "Group"). Associated undertakings are accounted for under the equity method of accounting. All significant intercompany profits, transactions and account balances have been eliminated.

(b) Revenue

Revenue recognised represents goods and services invoiced during the period excluding value added tax and other sales taxes, less trade discounts and rebates.

Elan's revenues are derived from (i) product revenue; and (ii) contract revenue arising from contracts, including research revenues and licence fees, related to research and development activities on behalf of clients and/or technology licencing. Product revenue includes sales of products, royalties, sales of inventory and related product rights, and revenue arising from product co-promotion, marketing and similar activities.

Product revenue is recognised when title passes, net of applicable discounts and allowances. Contract revenue is recognised when earned and non-refundable, and when the Company has no future obligation pursuant to the revenue, in accordance with the terms prescribed in the applicable contract. Refundable contract revenue is treated as deferred revenue until such time as it is no longer refundable.

(c) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation of tangible fixed assets is computed using the straight line method based on estimated useful lives at the following annual rates:

	%
Buildings	2.5–6.7
Leasehold improvements	Lease term or 2.5% if higher
Plant and equipment	10–33

The average amortisation rate for buildings is 4% and for plant and equipment is 14%. All fixed assets are reviewed for impairment when there are indications that the carrying value may not be recoverable and any impairment is charged to the profit and loss account.

(d) Intangible fixed assets

Patents, licences and goodwill are stated at the lower of cost or valuation. Patents and licences are amortised over their expected useful lives, which range between 3 years and 20 years, in line with the benefits accruing. The average amortisation period for patents and licences is approximately 16 years. Goodwill arising on acquisitions since 1998 is capitalised and amortised to the profit and loss account over the period during which the benefits are expected to accrue but in no case greater than 20 years. The average amortisation period for goodwill is 20 years. Prior to 1 January 1998, goodwill was written-off directly to consolidated reserves in the year of acquisition.

Where events or circumstances are present which indicate that the carrying amount of an intangible asset may not be recoverable, the Company estimates the net realisable value or the present value of future cash flows expected to result from use of the asset and its eventual disposition. Where the net realisable value or the present value of future cash flows is less than the carrying amount of the asset, the Company recognises an impairment loss which is charged to the profit and loss account. Otherwise no loss is recognised.

(e) Stocks

Stocks are valued at the lower of cost or market value. Cost in the case of raw materials and supplies is calculated on a first-in, first-out basis and comprises the purchase price, including import duties, transport and handling costs and any other directly attributable costs, less trade discounts. Cost in the case of work-in-process and finished goods comprises direct labour, material costs and attributable overheads.

(f) Research and development

Research and development expenditure is charged to the profit and loss account in the period in which it is incurred.

(g) Taxation

Corporation tax is provided on the results for the year. Deferred taxation is provided under the liability method on timing differences between tax and accounting treatments where these are likely to crystallise in the foreseeable future. Deferred taxation is not provided on undistributed profits which have been retained overseas unless there is reasonable evidence that such deferred taxation will be payable in the foreseeable future.

(h) Foreign currencies and translation of subsidiary and associated undertakings

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at a contracted rate. The resulting monetary assets and liabilities are translated into US dollars at exchange rates prevailing at the balance sheet date or at contracted rates. Profits and losses are dealt with in the profit and loss account and, where material, they are separately disclosed.

The assets and liabilities of subsidiary undertakings are translated using year-end rates and income is translated at average rates. The cumulative effect of exchange differences arising on consolidation of the net investment in overseas subsidiaries, joint ventures and associates are taken directly to reserves via the Statement of Total Recognised Gains and Losses.

(i) Derivative financial instruments

The Company enters into transactions in the normal course of business using a variety of financial instruments in order to hedge against exposures to fluctuating exchange and interest rates.

Derivative financial instruments are utilised to hedge interest rate and currency exposures. Forward currency contracts and options are utilised to hedge against transaction exposures and are recognised in the profit and loss account simultaneously with the net income effect of the related transactions generating such risks. The carrying values of derivative financial instruments are generally reported within current assets or other current liabilities.

(j) Financial asset investments

Financial asset investments, other than associated undertakings are stated at cost less provision for impairment in value. Financial current asset investments held for trading purposes are stated at market value with interest and similar income taken to the profit and loss account on a receivable basis. Other financial current asset investments are accounted for on an amortised cost basis.

(k) Financing costs

Debt finance costs are allocated to financial reporting periods over the term of the related debt at a constant rate on the carrying amount. The carrying amount of debt includes related financing costs.

(l) Pensions

The regular cost of providing benefits under defined benefit plans is charged to the profit and loss account over the service lives of the members of the schemes. The regular costs are determined by independent, external, qualified actuaries. Variations from regular costs, where they arise, are allocated to operating profit over the expected remaining service lives of the members.

The costs of providing defined contribution benefit plans are expensed as incurred.

(m) Leasing

Tangible fixed assets, acquired under a lease which transfers substantially all of the risks and rewards of ownership to Elan, are capitalised as a fixed asset. Amounts payable under such leases (finance leases), net of finance charges, are shown as short or medium term borrowings as appropriate. Finance charges on finance leases are charged to the profit and loss account over the term of the lease to give a constant rate of charge in proportion to the capital balances outstanding. Rentals on operating leases are charged to the profit and loss account as incurred.

(n) Stock compensation

Stock option compensation expense is the difference between the market value of shares at the date of the option grant and the amount of the consideration, if any, that participants may be required to pay for the shares.

(o) Description of business

Elan is a worldwide pharmaceutical company, headquartered in Dublin, Ireland. Elan is engaged in the discovery, development and marketing of products in the therapeutic areas of neurology, pain management, oncology, infectious diseases and dermatology, and in the development, licencing and marketing of drug delivery products, technologies and services. Elan's principal research and development, manufacturing and marketing facilities are located in Ireland, the US and the UK. Elan's shares trade on the New York, London and Irish Stock Exchanges.

(p) Risks and uncertainties

The Company is subject to certain risks and uncertainties arising from a number of factors including competition, government regulation, no assurance of continued successful licencing and marketing, the outcome of litigation, uncertainty of third

party reimbursement, pricing pressure, unpredictability of patent protection, the value of its investments and other assets, unpredictability of product approvals and tax reform.

(q) Use of estimates

The preparation of the consolidated financial statements in conformity with Irish GAAP requires management to make estimates and assumptions that affect reported amounts and disclosures in these financial statements. Actual results could differ from those estimates.

(r) New accounting policies and requirements

The Company has implemented Financial Reporting Standard 15 'Tangible Fixed Assets'. The standard sets out the principles of accounting for initial measurement, valuation and depreciation of tangible fixed assets, with the exception of investment properties. The adoption did not have a material impact on the Company.

The Company has implemented Financial Reporting Standard 16 'Current Tax' which specifies how current tax, in particular withholding tax and credits, should be reflected in financial statements. The adoption did not have a material impact on the Company.

The Company will be required to implement in 2001, Financial Reporting Standard 17 'Retirement Benefits' and Financial Reporting Standard 18 'Accounting Policies' and in 2002, Financial Reporting Standard 19 'Deferred Tax'. These standards are not expected to have a material effect on the Company's results.

2 STOCK SPLIT

The share and per share information and the other related information in the 1998 financial statements presented herein gives effect, retroactively, to a 2 for 1 stock split which became effective on 7 June 1999. The stock split resulted in one new share being issued for each share held by shareholders of record on 27 May 1999.

3 SEGMENT INFORMATION

The analysis of revenue reflects Elan's most significant regional markets.

Elan currently conducts its operations through two business units: Elan Pharmaceuticals and Elan Pharmaceutical Technologies. EP is primarily engaged in the discovery, development and marketing of products in the therapeutic areas of neurology, pain management, oncology, infectious diseases and dermatology. EP incorporates the acquisitions of Dura and Liposome. EPT is engaged in the development, licencing and marketing of drug delivery products, technologies and services to pharmaceutical clients on a worldwide basis.

(a) The analysis of revenue by geographical region was as follows:

	2000 $m	1999 $m	1998 $m
Geographical origin:			
Ireland	**567.0**	409.2	292.3
Rest of Europe	**60.1**	36.4	22.5
United States	**599.3**	546.8	315.2
Other	**75.6**	15.4	46.7
External revenue	**1,302.0**	1,007.8	676.7
Distribution of export revenues from Ireland:			
United States	**303.4**	274.2	188.5
Other	**255.0**	112.0	69.7
External revenue	**558.4**	386.2	258.2

(b) The distribution of operating profit by geographical area was as follows:

	2000 $m	1999 $m	1998 $m
Ireland	**208.6**	204.0	133.6
Rest of Europe	**(13.9)**	(0.5)	1.1
United States	**63.6**	101.2	52.4
Other	**43.1**	9.3	33.8
	301.4	314.0	220.9
Corporate costs	**(5.1)**	(4.5)	(5.3)
Cash contribution to Axogen	**—**	—	(67.5)
Total operating profit	**296.3**	309.5	148.1

(c) The distribution of consolidated net assets by geographical area was as follows:

	At 31 December 2000 $m	At 31 December 1999 $m
Ireland	**4,476.5**	2,209.4
Rest of Europe	**132.7**	131.2
United States	**331.0**	24.5
Bermuda	**365.6**	314.8
Other	**9.7**	7.7
Net assets	**5,315.5**	2,687.6

(d) Analysis by class of business:

	EPT			EP			Total		
	2000 $m	1999 $m	1998 $m	**2000 $m**	1999 $m	1998 $m	**2000 $m**	1999 $m	1998 $m
Total sales	**510.4**	541.7	357.7	**811.0**	565.9	351.0	**1,321.4**	1,107.6	708.7
Intersegment sales	**(19.3)**	(99.8)	(30.6)	**(0.1)**	—	(1.4)	**(19.4)**	(99.8)	(32.0)
Sales to third parties	**491.1**	441.9	327.1	**810.9**	565.9	349.6	**1,302.0**	1,007.8	676.7
Operating profit	**213.3**	247.7	161.8	**65.3**	97.9	60.5	**278.6**	345.6	222.3
Intersegment (profit)/loss	**(0.7)**	(57.4)	(22.0)	**23.5**	25.8	20.6	**22.8**	(31.6)	(1.4)
External operating profit	**212.6**	190.3	139.8	**88.8**	123.7	81.1	**301.4**	314.0	220.9
Depreciation and amortisation	**57.9**	50.2	27.2	**79.4**	31.2	21.3	**137.3**	81.4	48.5
Net assets	**1,174.1**	1,064.0	1,164.1	**3,941.7**	1,672.2	1,255.2	**5,115.8**	2,736.2	2,419.3
Capital expenditure									
(including acquisitions)	**144.8**	111.7	901.8	**2,602.2**	338.1	1,055.9	**2,747.0**	449.8	1,957.7

(i) Reconciliation of operating profit

	2000 $m	1999 $m	1998 $m
Segmental operating profit	**301.4**	314.0	220.9
Corporate costs	**(5.1)**	(4.5)	(5.3)
Cash contribution to Axogen	**—**	—	(67.5)
	296.3	309.5	148.1

(ii) Reconciliation of net assets

	2000 $m	1999 $m	1998 $m
Segmental net assets	**5,115.8**	2,736.2	2,419.3
Corporate net assets	**998.3**	410.1	142.8
Interest bearing assets	**1,591.0**	1,343.3	1,060.3
Interest bearing liabilities	**(2,389.6)**	(1,802.0)	(1,290.3)
	5,315.5	2,687.6	2,332.1

(iii) Reconciliation of depreciation and amortisation

	2000 $m	1999 $m	1998 $m
Segmental depreciation and amortisation	**137.3**	81.4	48.5
Corporate depreciation and amortisation	**3.3**	2.6	1.3
	140.6	84.0	49.8

(iv) Reconciliation of capital expenditure

	2000 $m	1999 $m	1998 $m
Segmental capital expenditure	**2,747.0**	449.8	1,957.7
Corporate capital expenditure	**3.4**	23.1	18.3
	2,750.4	472.9	1,976.0

4 EXCEPTIONAL ITEMS

The costs incurred in 2000 and 1998 are included in the profit and loss account under the following statutory headings:

	2000 $m	1999 $m	1998 $m
Cost of sales	**42.0**	—	7.4
Selling, general and administrative expenses	**5.3**	—	12.7
Research and development expenses	**32.0**	—	11.2
Net interest and other income	**0.4**	—	—
Loss on fixed assets	**33.9**	—	13.8
	113.6	—	45.1

In November 2000, the FDA requested that the pharmaceutical industry voluntarily cease distribution and marketing of products containing PPA. The company ceased shipment of such products and withdrew these products from customers' warehouses and retail shelves. Elan incurred an exceptional charge of $35.6 million primarily for product returns, the write-off of inventory and product intangible assets, arising from a termination of this activity. Elan incurred charges of $0.6 million arising from the acquisition of Dura. Elan incurred charges of $10.4 million arising from the termination of certain research and development projects and $21.4 million relating to the write-down of certain intangible assets arising from a change in focus of the business. Elan incurred charges of $22.2 million arising from a rationalisation of the pharmaceuticals division, primarily relating to severance costs and a transfer of most pharmaceutical distribution activities and certain inventory to one location in the US, resulting in exceptional inventory write-offs. The remaining exceptional charges primarily relate to asset write-downs. These costs have been included under the statutory format headings to which they relate analysed as follows:

	Cost of Sales $m	Selling, General and Administrative $m	Research and Development $m	Net Interest $m	Loss on Fixed Assets $m	Total $m
PPA withdrawal	16.7	—	—	—	18.9	35.6
Dura acquisition	—	—	0.2	0.4	—	0.6
Rationalisation of research and development activities	—	—	10.4	—	—	10.4
Pharmaceutical division reorganisation costs	22.2	—	—	—	—	22.2
Asset write-down and other charges	3.1	5.3	21.4	—	15.0	44.8
Total	42.0	5.3	32.0	0.4	33.9	113.6

During 1998, Elan made a cash contribution to Axogen of $67.5 million, and following the acquisition of Sano incurred other exceptional charges of $45.1 million mainly relating to the Company's plan to integrate and rationalise Elan and Sano's drug delivery business.

5 RESEARCH AND DEVELOPMENT ARRANGEMENTS

(a) Axogen

From November 1996, Elan had a development and licence agreement (the "Development Contract") and a services agreement with Axogen to develop therapeutic products for the treatment of neurological disorders. In November 1996, a public offering of 5,290,000 Axogen units was completed. The proceeds of the offering were used primarily to make payments to Elan under the Development Contract. The Development Contract provided for Elan to conduct clinical development and final product development in respect of designated products. Revenue received by Elan in 2000 pursuant to such arrangements was $Nil (1999: $103.0 million; 1998: $82.6 million).

On 31 December 1999, Elan purchased all of the outstanding common shares of Axogen. See Note 22 to the Consolidated Financial Statements for further details.

(b) Neuralab

From January 1998, Elan had a development and licence agreement (the "Neuralab Development Contract") and a services agreement with Neuralab to identify therapeutic compounds for use in the treatment of Alzheimer's disease. In January 1998, Neuralab completed a private placement of 1,250,000 units. The net proceeds received by Neuralab from the sale of the units was $47.0 million, substantially all of which was used to reimburse Elan under the Neuralab Development Contract. On 14 January 1999, the units separated into the underlying securities. Revenue received by Elan in 2000 pursuant to such arrangements was $1.8 million (1999: $25.8 million; 1998: $18.6 million).

On 31 January 2000, Elan purchased all of the outstanding common shares of Neuralab. See Note 22 to the Consolidated Financial Statements for further details.

6 NET INTEREST

	2000 $m	1999 $m	1998 $m
Income from financial assets:			
Interest income and gain on financial assets	**221.8**	114.1	37.4
Foreign exchange gains	**5.6**	—	0.1
Fee income	**—**	8.0	9.0
	227.4	122.1	46.5
Interest payable and similar charges:			
Bank charges and interest on loans repayable within five years	**9.5**	6.9	3.8
Foreign exchange losses	**1.1**	6.0	1.8
Original issue discount on 3.25% Zero Coupon			
Subordinated Exchangeable Notes	**29.2**	28.3	1.2
Interest on guaranteed and exchangeable notes	**68.2**	30.2	15.5
Amortisation of financing costs	**6.2**	4.0	1.3
Loss on sale of securities	**0.9**	1.6	1.6
Write-down of intangible assets	**3.4**	2.4	—
Other financial charges	**20.3**	9.2	—
	138.8	88.6	25.2
Net interest and other income	**88.6**	33.5	21.3

7 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

The profit on ordinary activities before taxation has been arrived at after charging/(crediting) the following items:

	2000 $m	1999 $m	1998 $m
Auditors' remuneration:			
Audit	**1.2**	0.8	0.7
Non-audit	**0.9**	0.3	0.4
	2.1	1.1	1.1
Directors' emoluments:			
Fees	**0.4**	0.4	0.4
Other emoluments and benefits in kind	**3.0**	2.8	2.2
Pension contributions	**0.2**	0.2	0.1
Payments to retired directors	**0.2**	0.2	0.1
	3.8	3.6	2.8
Amortisation of intangible assets	**99.6**	54.4	28.3
Depreciation of tangible assets	**41.0**	29.6	21.5
(Profit)/loss on disposal of fixed assets	**(0.8)**	(2.1)	0.2
Operating lease rentals:			
Premises	**8.7**	8.1	6.0
Plant and equipment	**3.9**	0.7	1.2
Grants amortised	**(0.3)**	(0.3)	(0.3)

Information in relation to directors' shareholdings, share options and compensation is included in the Directors' Report on pages 47 to 49.

8 TAX ON PROFIT ON ORDINARY ACTIVITIES

The components of the tax expense, all of which are current, were as follows:

	2000 $m	1999 $m	1998 $m
Irish corporation tax	**1.3**	2.9	1.6
Foreign taxes	**7.7**	4.4	2.3
	9.0	7.3	3.9

In the three years ended 31 December 2000, substantially all of Elan's income in Ireland was exempt from taxation by virtue of relief granted on income derived from patents. The effective rate of 2.6% for 2000 reflected tax at standard rates in the jurisdictions in which Elan operates, income derived from Irish patents which is exempt from tax, tax at a 10% rate on Irish manufacturing operations, foreign withholding tax and the availability of loss carryforwards.

Reflecting the exempt nature of Irish income and the availability of loss carryforwards in foreign operations, no liability for deferred tax has arisen to date.

Irish and overseas taxation have been provided at current rates on the profits earned for the periods covered by the Consolidated Financial Statements. No taxes have been provided for unremitted earnings of Group companies overseas as these are, in the main, considered permanently employed in the business of these companies. Cumulative unremitted earnings of overseas subsidiaries and related undertakings totalled approximately $476.2 million at 31 December 2000. Unremitted earnings may be liable to overseas taxes and/or Irish taxation if they were to be distributed as dividends.

The Company's consolidated effective tax rate differed from the statutory rate as follows:

	2000 $m	1999 $m	1998 $m
Taxes at Irish statutory rate of 24% in 2000,			
28% in 1999 and 32% in 1998	**84.3**	96.1	48.1
Irish income at reduced rates	**(9.7)**	(52.6)	(50.1)
Foreign income at reduced rates	**(67.1)**	(40.4)	(0.8)
Share of investments accounted for under the equity method	**—**	0.1	1.7
Other	**1.5**	4.1	5.0
Total provision for income taxes	**9.0**	7.3	3.9

Deferred Taxation

The full potential amounts of deferred taxation and amounts accounted for in the Group balance sheet comprised the following deferred tax assets and liabilities:

	At 31 December 2000 Not Accounted for Deferred Tax $m	At 31 December 1999 Not Accounted for Deferred Tax $m
Deferred taxation liabilities:		
Accelerated capital allowances	(8.3)	(4.4)
Financial assets	(3.7)	—
Intangible assets on acquisition	(161.7)	(62.1)
Other	(3.9)	(0.7)
Deferred interest	(4.7)	—
	(182.3)	(67.2)
Deferred taxation assets:		
Accelerated capital allowances	1.2	—
Net operating losses	268.0	122.1
Timing differences	13.5	—
Tax credits	52.7	38.5
Deferred interest	57.6	35.6
Capitalised items	33.2	—
Other	28.3	3.1
	454.5	199.3
Valuation allowance	272.2	132.1
Deferred tax asset/(liability)	—	—

Under Irish GAAP, the above deferred tax assets and liabilities have not been accounted for in the balance sheet as it is not probable that they will crystallise. Under US GAAP, a valuation allowance has been established in respect of those deferred tax assets where it is more likely than not that some portion will not be realised in the future.

The valuation allowance recorded against the deferred tax assets as at 31 December 2000 was $272.2 million. The net change in the valuation allowance for 2000 was an increase of $140.1 million. Approximately $38.1 million of the valuation allowance at 31 December 2000, included primarily under net operating losses, is expected to be applied directly to contributed capital under US GAAP when deferred tax assets associated with certain stock option exercises are recognised.

At 31 December 2000 and 31 December 1999, certain US subsidiaries had net operating loss carryovers for Federal and state income tax purposes of $886.0 million and $286.3 million, respectively, which will expire from 2001 to 2019 to the extent they are not utilised. In addition, at 31 December 2000 and 31 December 1999, certain US subsidiaries had

credit carryovers for Federal and state income tax purposes of $52.0 million and $27.6 million, respectively, which will expire from 2001 to 2019 to the extent they are not utilised. The Company has had 'changes in ownership' as described in the US Internal Revenue Code Section 382. Consequently, utilisation of Federal and state net operating losses and credits are subject to certain annual limitations.

Tax Balances

	At 31 December 2000 $m	At 31 December 1999 $m
Taxation and social security creditors comprise:		
Corporation tax	37.2	11.1
Value added tax	(0.1)	3.8
Payroll taxes	2.8	0.6
	39.9	15.5

9 EARNINGS PER SHARE

Basic earnings per share is computed by dividing the net profit or loss for the period available to ordinary shareholders by the sum of the weighted average number of Ordinary Shares in issue and ranking for dividend during the period. Diluted earnings per share is computed by dividing the net profit or loss for the period by the weighted average number of Ordinary Shares in issue, adjusted for the effect of all dilutive potential Ordinary Shares that were outstanding during the period.

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

	2000 Before Exceptional Items	2000 Exceptional Items	2000 Total	1999 Total	1998 Total
Numerator (amounts in $m)					
Numerator for basic and diluted EPS—retained profit	455.7	(113.6)	342.1	335.9	146.4
Denominator (amounts in millions)					
Denominator for basic EPS—weighted average shares	287.1	287.1	287.1	266.6	238.3
Effect of dilutive securities—options and warrants	22.5	22.5	22.5	14.6	22.8
Denominator for diluted EPS—weighted average shares	309.6	309.6	309.6	281.2	261.1
Basic EPS	$ 1.59	$ (0.40)	$ 1.19	$ 1.26	$ 0.62
Diluted EPS	$ 1.46	$ (0.36)	$ 1.10	$ 1.19	$ 0.56

10 STAFF NUMBERS AND COSTS

The average number of persons employed by the Company during the year was 3,348 and is analysed over the following categories:

	2000	1999	1998
Research and development	**872**	792	609
Manufacturing	**874**	715	700
Sales	**1,118**	710	504
Administration	**484**	429	329
	3,348	2,646	2,142

The aggregate payroll costs of these persons were as follows:

	2000 $m	1999 $m	1998 $m
Wages and salaries	**208.3**	156.2	109.9
Social security costs	**18.6**	13.1	9.1
Pension costs	**9.6**	4.7	4.3
	236.5	174.0	123.3

11 FIXED ASSETS—INTANGIBLE ASSETS

	Patents & Licences $m	Goodwill $m	Total $m
Cost:			
At 1 January 2000	**884.5**	**1,582.5**	**2,467.0**
Acquisitions	717.9	1,735.8	2,453.7
Additions	65.8	13.7	79.5
Disposals	(0.5)	(1.4)	(1.9)
Write-off	(34.0)	—	(34.0)
At 31 December 2000	**1,633.7**	**3,330.6**	**4,964.3**
Accumulated amortisation:			
At 1 January 2000	**94.5**	**24.0**	**118.5**
Amortised in year	60.1	39.5	99.6
At 31 December 2000	**154.6**	**63.5**	**218.1**
Net book value: 31 December 2000	**1,479.1**	**3,267.1**	**4,746.2**
Net book value: 31 December 1999	790.0	1,558.5	2,348.5

In 1998, Elan acquired Sano, a company engaged in the development of proprietary and generic drug delivery systems with an emphasis on transdermal products. Goodwill and other intangibles arising on acquisition amounted to $414.8 million. Subsequent to acquisition, two of its primary products under development, transdermal formulations of buspirone and Nic/Mec failed to show statistical efficacy in clinical trials. Following a review of the Nic/Mec data and analysis of alternative commercial and regulatory strategies, further clinical trials are scheduled to commence in 2001. A regulatory filing is expected in April 2001 for a Sano developed product. In accordance with the provisions of Financial Reporting Standard 11 "Impairment of Fixed Assets and Goodwill" ("FRS 11"), an impairment review has been carried out. This review indicates that the discounted cash flows forecast to be generated by this business are sufficient to support the carrying value of the intangibles. The discount rate used in the forecast is typical of the rates used for similar late stage drug delivery products. The critical assumptions concern the successful completion of projects under development and estimated future sales. Future reviews of this business, which must take place under the provisions of FRS 11, may result in an impairment loss to goodwill and other intangibles arising from the acquisition of Sano, depending on product pipeline developments.

In accordance with the Company's accounting policy, goodwill is amortised over the period which benefits are expected to accrue. In no case does this exceed 20 years. Goodwill of $1,337 million has not been subject to amortisation in 2000 because the benefits arising from the acquisitions, namely marketed products, are in late stage development and not yet marketed. Amortisation will commence on product launch.

12 FIXED ASSETS—TANGIBLE ASSETS

	Land & Buildings $m	Plant & Equipment $m	Total $m
Cost:			
At 1 January 2000	**92.3**	**228.8**	**321.1**
Acquisitions	73.1	36.5	109.6
Additions	25.5	38.9	64.4
Disposals	(1.6)	(21.1)	(22.7)
Translation adjustment	(0.1)	(0.4)	(0.5)
At 31 December 2000	**189.2**	**282.7**	**471.9**
Accumulated depreciation:			
At 1 January 2000	**17.9**	**70.1**	**88.0**
Charged in year	4.5	36.5	41.0
Disposals	(0.4)	(10.1)	(10.5)
Translation adjustment	—	(0.1)	(0.1)
At 31 December 2000	**22.0**	**96.4**	**118.4**
Net book value: 31 December 2000	**167.2**	**186.3**	**353.5**
Net book value: 31 December 1999	74.4	158.7	233.1

The net book value of tangible assets held under finance leasing arrangements at 31 December 2000 amounted to $70.5 million (1999: $65.5 million) and related depreciation for the period amounted to $15.3 million (1999: $10.8 million; 1998: $10.5 million).

13 FIXED ASSETS—FINANCIAL ASSETS

	At 31 December 2000 $m	At 31 December 1999 $m
Other marketable securities	**135.0**	141.8
Investments in and loans to associates	**11.1**	16.0
Quoted investments	**260.3**	172.1
Unquoted investments and loans	**584.7**	423.6
Securitised investments	**535.0**	272.8
Total	**1,526.1**	1,026.3
Less current financial assets	**(93.8)**	(123.1)
Financial assets	**1,432.3**	903.2

(a) Movements on non-current financial assets for the year were as follows:

	Other Marketable Securities $m	Investments in and Loans to Associates $m	Quoted Investments $m	Unquoted Investments and Loans $m	Securitised Investments $m	Total $m
At 1 January 2000	**18.7**	**16.0**	**172.1**	**423.6**	**272.8**	**903.2**
Additions	38.2	7.9	133.7	471.7	—	651.5
Disposals	—	—	(27.2)	(28.5)	(20.0)	(75.7)
Transfers	—	—	(10.4)	(278.5)	288.9	—
Transfer to current marketable securities	(15.7)	—	—	—	—	(15.7)
Share of profits of associates	—	0.1	—	—	—	0.1
Transfer to investments in group companies	—	(12.9)	(7.9)	(23.6)	(21.5)	(65.9)
Interest income	—	—	—	20.0	14.8	34.8
At 31 December 2000	**41.2**	**11.1**	**260.3**	**584.7**	**535.0**	**1,432.3**

Quoted investments at 31 December 2000 carried at a cost of $260.3 million (1999: $172.1 million) had a market value at that date of $278.3 million (1999: $182.7 million).

(b) Associates

Net operating revenues from associates amounted to $7.1 million during 2000 (1999: $63.1 million). These associates are subsidiaries of unrelated companies. Revenues arose under licence agreements whereby Elan has licenced rights to drug delivery technologies, products and development pharmaceutical compounds to these associates in return for licence fees, future milestone payments and royalties on sales. In certain cases, Elan may provide contract research and development services billable on a cost plus basis in line with normal commercial terms, and Elan may provide additional funding to associates. At 31 December 2000, balances owed to the Company from associates amounted to $1.6 million (1999: $2.3 million).

(c) Significant additions

Total additions to quoted and unquoted investments made in 2000 were $605.4 million. The most significant component of such amounts were additional investments in pharmaceutical and biotechnology companies.

(d) Securitised investments

The securitised investments at 31 December 2000, carried at a cost of $535.0 million, had a fair value at that date of $741.2 million. These investments are held as security against guaranteed notes issued in securitisation transactions. See Note 16 to the Consolidated Financial Statements for further details.

(e) Disposals

In 2000, Warner Chilcott plc was acquired by Galen Holdings, plc in a share-for-share transaction.

14 STOCKS

	At 31 December 2000 $m	At 31 December 1999 $m
Raw materials	**46.2**	47.8
Work-in-process	**20.2**	12.2
Finished goods	**88.8**	71.0
	155.2	131.0

The replacement cost of stock does not differ materially from its carrying value.

15 DEBTORS

	At 31 December 2000 $m	At 31 December 1999 $m
Trade debtors	**271.3**	155.1
Less amounts provided for doubtful debts	**(9.1)**	(6.2)
	262.2	148.9
Other debtors	**43.4**	16.0
Prepayments	**26.3**	26.8
	331.9	191.7

Other debtors include an amount of $31.9 million (1999: $10.5 million) due after one year.

Provisions for doubtful debts:

	2000 $m	1999 $m
Balance at 1 January	**6.2**	3.0
Profit and loss account charge	**5.7**	4.8
Amounts utilised and other movements	**(2.8)**	(1.6)
Balance at 31 December	**9.1**	6.2

16 CONVERTIBLE DEBT AND GUARANTEED NOTES

	Repayment Dates	At 31 December 2000 $m	At 31 December 1999 $m
9.56% Guaranteed Notes	2004	**445.5**	—
8.43% Guaranteed Notes	2002	**348.6**	345.0
3.25% Zero Coupon Subordinated Exchangeable Notes	2003/2018	**900.5**	870.1
4.75% Exchangeable Notes	2004	**321.9**	320.9
3.5% Convertible Subordinated Notes	2002	**62.0**	—
Debt due after more than one year		**2,078.5**	1,536.0

9.56% Guaranteed Notes

In June 2000, the Company transferred a portfolio of equity and debt instruments to a special purpose entity, EPIL II, a wholly owned subsidiary. On 28 June 2000, EPIL II issued $450.0 million aggregate principal amount of senior guaranteed notes due 2004 in a private placement to a group of financial institutions. The investments and cash in EPIL II are held as security against the EPIL II 9.56% Guaranteed Notes. These assets are not available for distribution outside EPIL II. The senior notes and related interest are guaranteed on a subordinated basis by Elan and consequently, in accordance with the provisions of Financial Reporting Standard 5 “Reporting the Substance of Transactions” (“FRS 5”), the investments and related loan are both included separately on the balance sheet. The interest rate attaching to these notes is 9.56% per annum, payable in cash. Issue costs associated with the financing amounted to $5.9 million.

Interest charged in the year ended 31 December 2000 amounted to $21.9 million (1999: $Nil). The liability outstanding as at 31 December 2000, net of financing costs, was $445.5 million (1999: $Nil).

8.43% Guaranteed Notes

In June 1999, the Company transferred a portfolio of equity and debt instruments to a special purpose entity, EPIL, a wholly owned subsidiary. On 29 June 1999, EPIL issued $350.0 million aggregate principal amount of senior guaranteed

notes due 2002 in a private placement to a group of financial institutions. The investments and cash in EPIL are held as security against the EPIL 8.43% Guaranteed Notes. These assets are not available for distribution outside EPIL. The senior notes and related interest are guaranteed on a subordinated basis by Elan and consequently, in accordance with the provisions of FRS 5, the investments and related loan are both included separately on the balance sheet. The interest rate attaching to these notes is 8.43% per annum, payable in cash. Issue costs associated with the financing amounted to $6.0 million.

Interest charged in the year ended 31 December 2000 amounted to $29.7 million (1999: $14.8 million). The liability outstanding as at 31 December 2000, net of financing costs, was $348.6 million (1999: $345.0 million).

3.25% Zero Coupon Subordinated Exchangeable Notes

In December 1998, Elan Finance Corporation Limited, a wholly owned subsidiary of Elan, issued, at a substantial discount, LYONs due 2018 in the principal amount of $1,643.5 million at maturity. The gross proceeds to the Company amounted to $862.5 million issued at a price of $524.78 per $1,000 principal amount at maturity. The expenses associated with this transaction amounted to $23.1 million. The securities are exchangeable at any time at the option of the holder into 13.75 Elan Ordinary Shares per each $1,000 principal amount at maturity, representing an initial exchange price of $38.17. The securities will be redeemable for cash at any time on or after 14 December 2003. The original issue discount charged to income in the year to 31 December 2000 amounted to $29.2 million (1999: $28.3 million). At 31 December 2000, the liability represented a price of $560.54 per $1,000 principal amount at maturity.

The liability outstanding as at 31 December 2000, net of financing costs, was $900.5 million (1999: $870.1 million).

4.75% Exchangeable Notes

In November 1997, Athena, a wholly owned subsidiary of Elan, issued 4.75% Exchangeable Notes due 2004 in the principal amount of $325.0 million. Expenses associated with this transaction amounted to $8.6 million. In March 2001, Athena redeemed this debt. See Note 27 to the Consolidated Financial Statements for further details.

Interest charged in the year ended 31 December 2000 amounted to $15.4 million (1999: $15.4 million). The liability outstanding as at 31 December 2000, net of financing costs, was $321.9 million (1999: $320.9 million).

3.5% Convertible Subordinated Notes

As part of the acquisition of Dura, Elan acquired $287.5 million principal amount of 3.5% Convertible Subordinated Notes (the “Dura Notes”) due 2002 with interest payable semi-annually. The Dura Notes contained a change in control provision that became effective upon Elan’s acquisition of Dura. Under this provision, holders of the Dura Notes had the right, for a period of 40 days after the consummation of the acquisition, to require Elan to repurchase their notes for their face value plus accrued interest. In December 2000, Dura redeemed $224.9 million principal amount of the Dura Notes under this provision. The remaining Dura Notes are convertible, at the option of the holder, into Elan ADSs at any time prior to maturity or redemption at a conversion price of $75.41 per Ordinary Share.

Interest charged from the date of acquisition amounted to $1.2 million (1999: $Nil). The liability outstanding as at 31 December 2000, net of financing costs, was $62.0 million.

17 CREDITORS

	At 31 December 2000 $m	At 31 December 1999 $m
Amounts falling due within one year:		
Trade creditors	**75.0**	38.9
Accrued liabilities	**250.3**	102.8
Bank loans and short term debt	**199.3**	260.8
Other creditors	**55.3**	17.7
Taxation and social security (Note 8)	**39.9**	15.5
	619.8	435.7
Amounts falling due after one year:		
Long term debt	**0.7**	13.0
Other creditors	**82.3**	1.9
	83.0	14.9

Included in creditors is an amount relating to future contingent cash payments which Elan may be liable to make relating to the acquisition of the Naprelan and Verelan products. At 31 December 2000, the balance outstanding was $18.0 million, all of which has been included in amounts falling due within one year.

At 31 December 2000, an amount of $54.0 million has been included in accruals relating to the CVRs issued on acquisition of Liposome.

On 8 February 1999, Elan signed a definitive finance document with a syndicate of banks, mainly European lending institutions, for a senior unsecured revolving credit facility. The facility has a term of five years and will allow for up to $325.0 million in borrowings. During 2000, $200.0 million of this facility was drawn down (1999: $125.0 million).

18 SHARE CAPITAL

Authorised Share Capital	No. of Ordinary Shares
As at 31 December 2000 and 1999:	
Ordinary Shares (par value 5 Euro cents)	600,000,000
Executive Shares (par value 1.25 Euro cents)	1,000
"B" Executive Shares (par value 5 Euro cents)	25,000

	At 31 December 2000		At 31 December 1999	
Issued and Fully Paid Share Capital	**Number**	**$000s**	Number	$000s
Ordinary Shares	**322,496,448**	**18,695**	269,128,803	16,323
Executive Shares	**1,000**	**2**	1,000	2
"B" Executive Shares	**21,375**	**2**	21,375	2

The Executive Shares do not confer on the holders thereof the right to receive notice of, attend or vote at any meetings of the Company, or the right to be paid a dividend out of the profits of the Company save such dividend as the directors may from time to time determine.

The "B" Executive Shares confer on the holders thereof the same voting rights as are enjoyed by the holders of Ordinary Shares. The "B" Executive Shares do not confer on the holders thereof the right to be paid a dividend out of the profits of the Company save such dividend as the directors may from time to time determine.

Shares issuable at 31 December 2000 of $9.5 million relate to shares of Athena, Sano, Neurex, Liposome and Dura common stock remaining to be converted into Elan Ordinary Shares pursuant to the acquisition of these companies and warrants over 1,500,000 Ordinary Shares valued at $16.4 million issued to Eastman Kodak Company on the acquisition of NanoSystems by Elan.

At the annual general meeting held on 14 May 1999, the Company was generally authorised to make market purchases of up to 15% of the issued share capital on that date. During the remainder of the year ended 31 December 1999, 621,500 Ordinary Shares of the Company were purchased by the Company and these are currently held as treasury shares. In 2000, Elan terminated its share purchase programme.

19 PROFIT AND LOSS ACCOUNT

	At 31 December 2000 $m	At 31 December 1999 $m
Holding company	**2,623.4**	2,517.9
Subsidiary and associated undertakings	**(1,492.4)**	(1,729.0)
Goodwill written-off	**(574.3)**	(580.8)
	556.7	208.1

Elan Corporation, plc has availed of the Companies (Amendment) Act 1986 exemption from the requirement to present its separate non-consolidated profit and loss account. Of the consolidated net profit after tax, profit of $105.5 million (1999: $2,081.7 million) is dealt with in the profit and loss account of the Company.

20 SHARE OPTIONS AND WARRANTS

Share options have been granted to employees, consultants and certain other parties. Options are granted at the price equal to the market value at the date of grant and will expire on a date not later than ten years after their grant. Options generally vest between one and five years from the date of grant. There were 38,078,689 options outstanding under these arrangements at 31 December 2000.

Under the terms of the 1986 and 1989 Elan employee stock option plans, options to purchase 1,244,798 Ordinary Shares were outstanding at 31 December 2000. No options were available for grant under these plans at 31 December 2000. In 1995, options to purchase 3,650,000 Ordinary Shares were issued to certain executive officers and employees which become exercisable as to one third each year from the third anniversary from the date of grant, of which options over 2,397,300 Ordinary Shares were outstanding at 31 December 2000. Under the terms of the 1996 Elan stock option plans, options to purchase 14,822,933 Ordinary Shares were outstanding at 31 December 2000. Options to purchase a further 1,463,986 shares were available for grant at 31 December 2000. Under the terms of the 1998 Elan employee stock option plan, options over 3,989,810 Ordinary Shares were outstanding at 31 December 2000. Options to purchase a further 2,010,190 shares were available for grant at 31 December 2000. Under the terms of the 1999 Elan employee stock option plan, options over 14,798,848 Ordinary Shares were outstanding at 31 December 2000. Options to purchase a further 195,985 shares were available for grant at 31 December 2000.

As a result of the acquisition of Athena on 1 July 1996, options and warrants granted by Athena prior to the acquisition date, vested and were converted into options and warrants to acquire 6,346,424 Elan Ordinary Shares. As a result of the acquisition of Sano on 27 February 1998, options granted by Sano were converted into a total of 2,216,850 options to acquire Elan Ordinary Shares. Arising from the acquisition of Neurex on 14 August 1998, options and warrants granted by Neurex were converted into a total of 3,011,702 options to acquire Elan Ordinary Shares. Arising from the acquisition of Liposome on 12 May 2000, options and warrants granted by Liposome were converted into a total of 1,875,260 options to acquire Elan Ordinary Shares. As a result of the acquisition of Dura on 9 November 2000, options and warrants granted by Dura vested and were converted into options and warrants to acquire 5,514,800 Elan Ordinary Shares. At 31 December 2000, 5,573,211 of the options arising from the acquisitions of Athena, Sano, Neurex, Liposome and Dura were outstanding.

In connection with the Axogen offering, Elan issued 5,290,000 warrants. The warrants are exercisable at $37.54 for two Elan Ordinary Shares until 31 December 2001. In connection with the Neuralab offering, Elan issued 1,250,000 warrants. The warrants are exercisable at $65.01 for two Elan Ordinary Shares until 14 January 2003. Arising from the acquisition by Elan of all the assets and liabilities of NanoSystems, Elan granted 750,000 warrants to purchase 1,500,000 Elan Ordinary Shares. The warrants are exercisable at $45.00 per share from 1 February 1999 to 1 October 2006.

The share options and warrants outstanding and exercisable were as follows:

	Options		Warrants	
	Shares	WAEP* ($)	Shares	WAEP* ($)
Outstanding at 31 December 1997	24,567,250	13.65	26,431,752	13.44
Arising on acquisition	5,228,552	30.43	1,500,000	45.00
Exercised	(3,703,498)	17.22	(15,610,092)	9.82
Granted	10,698,114	30.55	2,500,000	32.51
Expired	(943,716)	19.85	(16,984)	9.82
Outstanding at 31 December 1998	35,846,702	20.61	14,804,676	23.68
Exercised	(4,983,335)	19.87	(51,156)	14.65
Granted	9,919,450	29.24	—	—
Expired	(3,170,486)	27.85	—	—
Outstanding at 31 December 1999	37,612,331	22.47	14,753,520	23.71
Arising on acquisition	4,933,022	44.38	2,453,516	45.22
Exercised	(6,536,793)	19.21	(838,520)	23.11
Granted	11,156,611	41.86	—	—
Expired	(3,513,271)	30.09	(19,250)	39.98
Outstanding at 31 December 2000	**43,651,900**	**29.77**	**16,349,266**	**26.95**
Exercisable at 31 December 2000	13,149,997	23.86	16,349,266	26.95

** Weighted average exercise price*

At 31 December 2000, the range of exercise prices and weighted average remaining contractual lives of outstanding options were as follows:

Number	WAEP ($)	Range ($)	Weighted Average Remaining Contractual Life (years)
10,823,958	12.84	$ 7.53–$19.99	3.1
8,679,327	25.92	$20.00–$29.99	6.1
16,323,417	34.35	$30.00–$39.99	6.9
7,825,198	47.92	$40.00–$55.19	9.0
43,651,900	29.77	$ 7.53–$55.19	6.2

21 FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments to reduce exposure to market risk resulting from fluctuations in foreign exchange rates and interest rates. The Company does not enter into derivative financial instruments for trading or speculative purposes. Derivative instruments are contractual agreements whose value reflects price movements in an underlying asset.

The main risks arising from the use of financial instruments are market rate risk and liquidity risk. Market rate risk is defined as the exposure of Elan's financial condition to adverse movements in interest and foreign exchange risks. The Company only enters into contracts with parties that have at least an "A" or equivalent credit rating. The counterparties to these contracts are major financial institutions. Management believe that the risk of any net loss is remote and would not be material to the Company.

Short term debtors and creditors have been excluded from all numerical disclosures below excluding the currency rate risk analysis. The US dollar is the primary currency in which Elan conducts its business and therefore the Company is exposed to foreign exchange risks related to costs incurred and revenues earned in currencies other than US dollars.

(a) Interest rate risk

The interest rate risk profile of Elan's financial liabilities was as follows:

	At 31 December 2000				At 31 December 1999			
	Fixed $m	**Floating $m**	**No Interest $m**	**Total $m**	Fixed $m	Floating $m	No Interest $m	Total $m
Financial liabilities	**275.9**	**1.2**	**—**	**277.1**	60.8	205.2	10.3	276.3

The following fixed rate liabilities are not included in the above table:

3.25% Zero Coupon Subordinated Exchangeable Notes due 2018—the liability outstanding on these notes at 31 December 2000 was $900.5 million (1999: $870.1 million).

8.43% Guaranteed Notes due 2002—the liability outstanding on these notes at 31 December 2000 was $348.6 million (1999: $345.0 million).

4.75% Exchangeable Notes due 2004—the liability outstanding on these notes at 31 December 2000 was $321.9 million (1999: $320.9 million).

9.56% Guaranteed Notes due 2004—the liability outstanding on these notes at 31 December 2000 was $445.5 million (1999: $Nil).

3.5% Convertible Subordinated Notes due 2002—the liability outstanding on these notes as at 31 December 2000 was $62.0 million (1999: $Nil).

Further details on the above debt are contained in Note 16 to the Consolidated Financial Statements.

Fixed interest rates on liabilities have a weighted average interest rate of 5.9% (1999: 4.8%), maturing between 2001 and 2018. The weighted average life of the fixed rate debt is 2.3 years (1999: 3.0 years).

Variable interest rates on liabilities are generally based on the appropriate LIBOR.

The interest rate risk profile of Elan's financial assets was as follows:

	At 31 December 2000				At 31 December 1999			
	Fixed $m	**Floating $m**	**No Interest $m**	**Total $m**	Fixed $m	Floating $m	No Interest $m	Total $m
Financial assets	**620.2**	**—**	**905.9**	**1,526.1**	538.3	85.7	402.3	1,026.3
Cash and liquid resources	**279.1**	**691.7**	**13.1**	**983.9**	379.9	339.4	24.3	743.6

Fixed interest rates on financial assets have a weighted average interest rate of 7.4% (1999: 5.1%), maturing between 2001 and 2008. The weighted average life of the fixed interest rate investments is 1.5 years (1999: 3.9 years).

Fixed interest rates on cash and liquid resources have a weighted average interest rate of 6.53% (1999: 5.74%), maturing between 2001 and 2003. The weighted average life of the fixed interest rate cash and liquid resources balances is 0.4 years (1999: 0.1 years).

Variable interest rates on financial assets and cash and liquid resources are generally based on the appropriate Euribor, Libid and bank rates dependent on principal amounts on deposit.

(b) Currency rate risk

The Group has exposure to various currencies due to the international nature of its operations.

The table below shows Elan's operational currency exposure. Such exposure comprises the monetary assets and monetary liabilities of Elan that are not denominated in the operating currency of the operating unit involved. As at 31 December 2000 and 1999, respectively, these exposures were as follows:

Net Foreign Currency Monetary Assets/(Liabilities) In US $m	Functional Currency of Group Operation						
	At 31 December 2000				At 31 December 1999		
	Swiss Franc	**US Dollar**	**Peso**	**Total**	Swiss Franc	US Dollar	Total
Sterling	**(0.3)**	**3.2**	**—**	**2.9**	(0.1)	3.6	3.5
Euro	**(0.7)**	**—**	**(0.2)**	**(0.9)**	(0.7)	10.9	10.2
US Dollar	**(1.8)**	**—**	**0.4**	**(1.4)**	—	—	—
Swiss Franc	**—**	**(0.5)**	**—**	**(0.5)**	—	(1.8)	(1.8)
Taiwan Dollar	**—**	**(0.4)**	**—**	**(0.4)**	—	—	—
Total	**(2.8)**	**2.3**	**0.2**	**(0.3)**	(0.8)	12.7	11.9

The amounts shown in the table above take into account the effect of forward contracts and other derivatives entered into to manage these currency exposures.

(c) Fair values

Fair value is the amount at which a financial instrument could be exchanged in an arms-length transaction between informed and willing parties, other than a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair value of each material class of financial instrument:

Financial assets—the fair values of financial assets have been estimated for quoted equity securities utilising quoted market prices and taking account of current market conditions, for debt securities by utilising current market interest rates for loans with similar risk and duration profile and for material unquoted equity investments by the most recent private financing prices, discounted projected future cash flows and option valuation models.

Marketable investment securities—the fair values of marketable investment securities, including interest rate futures, have been estimated based on quotes obtained from brokers for these and similar instruments.

Cash and liquid resources, current bank loans and overdrafts—the carrying amount approximates fair value due to the short term nature of these instruments.

3.25% Zero Coupon Subordinated Exchangeable Notes, 4.75% Exchangeable Notes and 3.5% Convertible Notes—the fair values have been assessed based on the quoted market price.

8.43% Guaranteed Notes and 9.56% Guaranteed Notes—the fair values have been assessed based on carrying value.

The carrying value of financial instruments below have been stated before financing costs.

The fair value of financial instruments was as follows:

	At 31 December 2000		At 31 December 1999	
Financial Instruments	**Carrying Value $m**	**Fair Value $m**	Carrying Value $m	Fair Value $m
Financial assets	**1,526.1**	**1,948.9**	1,026.3	1,406.3
Cash and liquid resources	**983.9**	**983.9**	743.6	743.6
Bank loans and overdrafts	**(272.5)**	**(272.5)**	(265.2)	(265.2)
3.25% Zero Coupon Subordinated Exchangeable Notes	**(921.3)**	**(1,201.9)**	(862.5)	(851.5)
4.75% Exchangeable Notes	**(326.7)**	**(431.9)**	(325.0)	(333.3)
3.5% Convertible Notes	**(62.6)**	**(62.1)**	—	—
8.43% Guaranteed Notes	**(351.6)**	**(351.6)**	(350.0)	(350.0)
9.56% Guaranteed Notes	**(450.4)**	**(450.4)**	—	—

(d) Liquidity risk

The objective of liquidity risk management is to ensure the availability of sufficient funds to meet Elan's requirements and to repay maturing debt.

The maturity profile of Elan's financial liabilities was as follows:

	At 31 December 2000 $m	At 31 December 1999 $m
In one year or less, or on demand	**208.5**	256.2
In more than one year but not more than two years	**4.5**	20.1
In more than two years but not more than five years	**64.1**	—
	277.1	276.3

The above table excludes the maturity of the 3.25% Zero Coupon Exchangeable Notes, the 8.43% Guaranteed Notes, the 9.56% Guaranteed Notes, the 4.75% Exchangeable Notes and the 3.5% Convertible Notes which mature in 2018, 2002, 2004, 2004 and 2002, respectively.

Elan had undrawn borrowing facilities of $125.0 million at 31 December 2000 under a revolving credit facility (1999: $200.0 million).

Cash and liquid resources include restricted cash in an amount of $110.1 million.

(e) Hedges

Under Elan's accounting policy, foreign currency options and forward exchange contracts are valued at year-end exchange rates. Consequently, changes in fair value attributable to movements in exchange rates are recognised in the profit and loss account.

At 31 December 2000, Elan had entered into a number of forward foreign exchange contracts and foreign currency options at various rates of exchange in the normal course of business. The nominal value of forward foreign exchange contracts to sell Japanese Yen for US dollars at that date was $15.8 million (1999: $8.0 million) and these contracts had a fair value gain of $2.3 million (1999: $0.8 million loss). These contracts expire on various dates up to and including December 2002.

The nominal value of forward foreign exchange contracts to sell US dollars for Irish pounds (Euros) at 31 December 2000 was $55.0 million (1999: $29.0 million) and these contracts had a fair value gain of $2.5 million (1999: $1.9 million loss). These contracts expire on various dates up to and including December 2002.

The nominal value of forward foreign exchange contracts to sell US dollars for Swiss francs at 31 December 2000 was $0.7 million (1999: $1.0 million) and these contracts had a fair value gain of $0.01 million (1999: $0.04 million). These contracts expired in January 2001.

The nominal value of currency options to sell US dollars for Irish pounds (Euros) at 31 December 2000 amounted to $37.0 million (1999: $22.0 million) and these options had a fair value loss of $0.4 million (1999: $0.8 million gain). These options expire on various dates up to and including December 2002.

(f) Sensitivity analysis

A sensitivity analysis of the market value of Elan's financial instruments to hypothetical changes in applicable market rates at 31 December 2000 indicated that their effect was immaterial. The range scenario included was based on Elan's expectation of what would be reasonable over a twelve-month time frame and involved a 10% movement in foreign exchange rates and a 1% movement in interest rates.

22 ACQUISITIONS

Details of the acquisition of subsidiary undertakings are given below:

2000	Net Book Values $m	Fair Value Adjustments $m	Net Assets Acquired $m	Cost of Acquisition $m	Goodwill Capitalised $m
Dura	417.3	8.8	426.1	1,590.7	1,164.6
Liposome	97.4	263.1	360.5	731.8	371.3
Neuralab	(9.7)	—	(9.7)	76.4	86.1
Other	(6.0)	—	(6.0)	107.8	113.8
	499.0	271.9	770.9	2,506.7	1,735.8

Details of the book value of net assets acquired are as follows:

	Dura $m	Liposome $m	Neuralab $m	Other $m	Total $m
Intangible assets other than goodwill	421.7	—	1.6	1.9	425.2
Tangible assets	83.0	18.7	—	7.9	109.6
Investments	—	—	—	2.0	2.0
Stocks	24.2	5.9	—	4.7	34.8
Debtors	104.9	8.9	—	10.9	124.7
Liquid resources	170.5	43.7	—	—	214.2
Creditors	(190.5)	(24.9)	(11.9)	(49.1)	(276.4)
Long term debt	(288.0)	—	—	(9.3)	(297.3)
Cash	91.5	45.1	0.6	25.0	162.2
Net assets/(liabilities) acquired	417.3	97.4	(9.7)	(6.0)	499.0

Dura

On 9 November 2000, Elan acquired Dura for a consideration, which was paid by the issuance of 0.6715 of an Elan Ordinary Share for each outstanding share of Dura common stock, resulting in the issuance of approximately 30.6 million Elan Ordinary Shares. Options and warrants granted by Dura prior to the acquisition date were converted into options and warrants to acquire approximately 5.5 million Elan Ordinary Shares. The total consideration, including expenses, amounted to $1,590.7 million. The purchase of Dura has been accounted for as an acquisition under Irish GAAP. The fair value adjustment relates to patents and current products of Dura valued at the date of acquisition, which are separable from the business, of $29.9 million, offset by a deferred tax adjustment of $18.4 million and the write-off of financing costs of $2.7 million. Patents and licences arising on acquisition will be amortised over twenty years. Goodwill arising on acquisition of $1,164.6 million will be amortised over a period of twenty years.

The following table summarises the pre-acquisition results of Dura for the 10.3 month period up to 9 November 2000. Profit after tax for the year ended 31 December 1999 was $30.0 million.

Dura	10.3 Months to 9 November 2000 $m
Revenue	277.1
Operating profit	28.9
Exceptional items	(16.3)
Profit for the period before tax	33.2
Tax	(0.4)
Profit for the period after tax	32.8

Liposome

On 12 May 2000, Elan acquired Liposome. In connection with the acquisition, each outstanding share of Liposome common stock was exchanged for 0.385 of an Elan Ordinary Share, resulting in the issuance of approximately 15.6 million Elan Ordinary Shares, and one CVR for each Liposome share, option and warrant representing contingent consideration. Options and warrants granted by Liposome prior to the acquisition date were converted into options and warrants to acquire approximately 1.9 million Elan Ordinary Shares. The agreement governing the CVRs provides for a cash payment by Elan to the holders of the CVRs of up to $98.0 million less certain costs incurred by Elan, with $54.0 million contingent on Myocet receiving marketing and pricing approval in certain countries of the EU, and $44.0 million contingent on Myocet reaching certain sales milestones outside the US. Myocet is a proprietary liposomal formulation of doxorubicin which has been developed for the treatment of metastatic breast cancer.

The purchase of Liposome has been accounted for as an acquisition. The total consideration of $731.8 million includes the accrual for the milestone payment of $54.0 million. The fair value adjustment relates to patents, current products and development projects of Liposome, valued at the date of acquisition which are separable from the business, of $263.1 million. Patents and licences arising on acquisition will be amortised over twenty years. Goodwill arising on acquisition of $371.3 million will be amortised over a period of twenty years.

The following table summarises the pre-acquisition results of Liposome for the 4.5 month period up to 12 May 2000. Profit after tax for the year ended 31 December 1999 was $13.1 million.

Liposome	4.5 months to 12 May 2000 $m
Revenue	31.4
Operating profit	3.1
Profit for the period before tax	6.9
Tax	—
Profit for the period after tax	6.9

Neuralab

On 31 January 2000, Elan completed the acquisition of Neuralab pursuant to a purchase option to purchase all, but not less than all, of the outstanding common shares of Neuralab. The purchase price, paid in cash, amounted to approximately $76.4 million. Net liabilities assumed amounted to $9.7 million. Neuralab was formed in August 1997 and is engaged in research and development programs in the field of Alzheimer's disease. The purchase of Neuralab has been accounted for as an acquisition. Goodwill arising on acquisition of $86.1 million will be amortised over twenty years.

Other

Elan acquired the shares not previously owned in Segix Italia, S.p.A. on 20 April 2000 and in Vita Elan Pharma, S.A. on 29 June 2000 and the entire share capital of Quadrant Healthcare, plc on 5 December 2000. These acquisitions resulted in a total consideration paid of approximately $107.8 million. The purchases have been accounted for as acquisitions and resulted in goodwill of $113.8 million, which will be amortised over periods of up to twenty years.

Axogen

On 31 December 1999, Elan completed the acquisition of Axogen for an aggregate cost of $268.4 million, representing the value of acquired intangible assets including goodwill. The purchase has been accounted for as an acquisition and the goodwill and separable intangible assets arising on acquisition will be amortised over a period of up to twenty years.

Pro Forma

The pro forma effect in 1999 and 2000 of significant acquisitions made in 2000, if acquired on 1 January 1999, would have resulted in revenues, net profit after tax, basic earnings per share and diluted earnings per share of $1,610.5 million, $320.3 million, $1.01 and $0.93 respectively, for the year ended 31 December 2000, and in revenues, net profit after tax, basic earnings per share and diluted earnings per share of $1,395.4 million, $286.8 million, $0.92 and $0.87, respectively, for the year ended 31 December 1999.

23 COMMITMENTS AND CONTINGENCIES

The Company occupies certain facilities under lease arrangements and leases certain equipment. Future minimum rental commitments for operating leases with non-cancellable terms in excess of one year are as follows:

	Minimum Rental Payments		
	Premises $m	Other $m	Total $m
2001	14.9	6.6	21.5
2002	15.0	5.2	20.2
2003	14.9	1.8	16.7
2004	13.9	0.3	14.2
2005	13.5	—	13.5
Later years	110.9	—	110.9
	183.1	13.9	197.0

As of 31 December 2000, the following capital commitments for the purchase of property, plant and equipment had been authorised by the directors:

	At 31 December 2000 $m	At 31 December 1999 $m
Contracted for	**4.1**	6.2
Not-contracted for	**145.2**	2.7
	149.3	8.9

The not-contracted for amount mainly relates to construction activity in Athlone, Ireland.

During 2000, Elan disposed of plant and equipment with a net book value of $10.0 million (1999: $18.5 million) and subsequently leased the plant and equipment back under 15 year leases. Elan also entered into an arrangement with a third party bank, the substance of which allows the Company to require a net settlement of its obligations under the leases. The related assets and liabilities of this and previous sale and leaseback transactions have been offset in the financial statements in the amount of $55.2 million at 31 December 2000 (1999: $51.0 million).

In 2000, Elan disposed of royalty rights on certain products and development projects. Elan can reacquire the royalty rights from the purchaser by paying a maximum potential price in cash. The maximum potential price would be approximately $385.0 million on 31 December 2001. In the absence of Elan bidding the maximum potential price, the purchaser can dispose of these royalty rights to the highest bidder by an auction process, from June 2003 or after the occurrence of specified events, if earlier.

At 31 December 2000, Elan had commitments to invest $15.3 million in three healthcare managed funds and $28.5 million in certain emerging pharmaceutical and biotechnology companies.

The Company has deferred purchase arrangements for certain products which have the following potential payment obligations:

	At 31 December 2000 $m
2001	**86.5**
2002	**72.7**
2003	**77.0**
Later years	**12.0**
	248.2

24 LITIGATION

There are a number of legal proceedings pending and ongoing against Elan.

In September 1999, Elan Pharmaceuticals, Inc. and Neuralab filed suit against Lilly for declaratory and other relief regarding certain inventions relating to an immunological approach to treating and/or preventing Alzheimer's disease. On 1 November 1999, Lilly counterclaimed in that action. The parties have entered into a settlement agreement whereby the action has been dismissed, with prejudice, and the claims by each party against the other are released.

In August 1997, Bayer A.G. and its US subsidiary, Bayer Corporation (collectively, "Bayer") filed suit in the US, claiming that Elan infringed a patent, allegedly covering Bayer's hypertension drug Adalat CC, by Elan's filing of an ANDA for its 30mg Nifedipine Extended-Release tablets. The court has granted Elan's motion for summary judgement of non-infringement.

In September 1999, Bayer filed a second lawsuit alleging that the ANDA filing for the 60mg strength of Elan's Nifedipine Extended-Release tablets also infringed the same Bayer patent. On 30 January 2001, the court ordered Elan's motion to dismiss converted into a motion for summary judgement and gave the parties twenty days to make any further submissions.

In May 2000, Bayer filed a third lawsuit against Elan, along with Biovail Corporation and Teva Pharmaceuticals USA, Inc., alleging that the commercial sale of Elan's 30mg Nifedipine Extended-Release tablets infringes the same Bayer patent. Elan also moved to dismiss this latest case. On 16 February 2001, the court ordered Elan's motion to dismiss converted into a motion for summary judgement and gave the parties twenty days to make any further submissions.

Commencing on 17 January 1999, several class action suits were filed against Dura, which became a wholly owned subsidiary of Elan on 9 November 2000, and a number of current and former officers and directors of Dura in the US District Court for the Southern District of California. The lawsuits, which have been consolidated into one action, allege violations of US Federal securities laws and purport to seek damages on behalf of a class of shareholders who purchased Dura common stock during a defined period. Elan believes that the claims in the lawsuit are without merit and intends to defend against them vigorously.

Management's current assessment of the proceedings is that they will not have a material impact on Elan's financial position.

25 RELATED PARTIES

At 31 December 2000, the Company had invested a total of $12.9 million in Antigenics, Inc., a biotechnology company whose chairman and chief executive officer, Dr Garo Armen, is a director of Elan. Elan's shareholding in Antigenics, Inc. is approximately 3.9% of its outstanding share capital.

26 PENSION PLANS

The Company funds the pension entitlements of certain employees through defined benefit plans. Two plans are operated for Irish employees. In general, on retirement, a member is entitled to a pension calculated at 1/60th of final pensionable salary for each year of pensionable service, subject to a maximum of 40 years. These plans are funded externally and the related pension costs and liabilities are assessed in accordance with the advice of professionally qualified actuaries. The investments of the plans as at 31 December 2000 consisted of units held in independently administered funds. The most recent actuarial valuations of the plans were carried out in April 1999 using the attained age method and the valuation reports are not available for public inspection. The principal assumption in the review was that the rate of real investment returns was 2% above the rate of salary inflation. The market value of the assets of the schemes at 1 April 1999 was $8.9 million and the actuarial value of the assets represented 86% of the benefits accrued to members for the two plans. These schemes are fully funded on a discontinuance basis. The pension cost for these plans in the year ended 31 December 2000 was $2.3 million (1999: $2.1 million).

In addition, Elan operates a number of defined contribution pension plans, primarily for employees outside of Ireland. The costs of these plans are charged to the profit and loss account in the period in which incurred. The pension cost for these plans, including plans acquired as part of company acquisitions, in the year ended 31 December 2000 was $7.3 million (1999: $2.6 million). The rise in 2000 reflects additional pension costs in both Liposome and Dura.

The pension cost for all plans was $9.6 million for the year ended 31 December 2000 and $4.7 million for the year ended 31 December 1999. As at the year ended 31 December 2000, there was a pension accrual of $5.1 million and a pension prepayment of $0.3 million.

27 POST BALANCE SHEET EVENTS

On 8 March 2001, Athena redeemed all of its outstanding 4.75% Exchangeable Notes due November 2004 at a redemption price equal to 102.7% of their principal amount, together with accrued interest to the redemption date.

In February 2001, Athena Finance, an indirect wholly owned subsidiary of Elan, raised $650.0 million of 7.25% Senior Notes due 2008. The Senior Notes are senior unsecured obligations of Athena Finance and are fully and unconditionally guaranteed on a senior unsecured basis by Elan.

A generic version of Ceclor CD was approved by the FDA in January 2001. The company is currently assessing the impact of such approval on the carrying value of this asset. This review will result in a charge to the profit and loss account to reflect an impairment in carrying value. Elan has not completed its assessment of the charge required.

28 CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to operating cash flows

	2000 $m	1999 $m	1998 $m
Operating profit	**296.3**	309.5	148.1
Depreciation and amortisation	**140.6**	84.0	49.8
Other non-cash costs primarily composed of exceptional items (net)	**48.1**	17.0	9.2
(Increase) in debtors	**(95.5)**	(53.1)	(97.2)
(Increase) in stocks	**(30.2)**	(32.3)	(32.1)
(Decrease)/increase in creditors	**(87.1)**	39.4	(27.4)
Net cash inflow from operating activities	**272.2**	364.5	50.4

(b) Management of liquid resources

The management of liquid resources comprises the movement in short term deposits, commercial paper and re-purchase agreements, excluding those repayable on demand.

(c) Analysis of net debt

	At 1 January 2000 $m	Cash Flow $m	Other Movements $m	Acquisitions (Excluding Cash) $m	Exchange Rate Movements $m	At 31 December 2000 $m
Cash	211.8	426.3	—	—	(1.1)	637.0
Liquid resources	531.8	(399.1)	—	214.2	—	346.9
Cash and liquid resources	743.6	27.2	—	214.2	(1.1)	983.9
3.25% Zero Coupon Subordinated Exchangeable Notes	(870.1)	—	(30.4)	—	—	(900.5)
Guaranteed and exchangeable notes	(665.9)	(203.8)	(24.0)	(284.3)	—	(1,178.0)
Other debt	(263.8)	72.1	(1.3)	(79.4)	—	(272.4)
Debt	(1,799.8)	(131.7)	(55.7)	(363.7)	—	(2,350.9)
Net debt	(1,056.2)	(104.5)	(55.7)	(149.5)	(1.1)	(1,367.0)

(d) Analysis of net outflow of cash and cash equivalents in respect of the purchases of subsidiary undertakings

	2000 Total $m	1999 Total $m	1998 Total $m
Cash consideration paid	170.2	182.8	303.3
Cash of acquired subsidiaries	(162.2)	(4.5)	(38.6)
Net cash outflow	8.0	178.3	264.7

(e) Effect of acquired companies on cash flow

Cash flows in 2000 included cash inflows from operating activities of $74.6 million and payments to acquire fixed assets of $3.7 million which relate to companies acquired during the year.

29 COMPANY BALANCE SHEET

Fixed Assets—Intangible Assets

	Patents & Licences $m
Cost:	
At 1 January 2000	330.7
Additions	23.7
Disposals	(11.8)
At 31 December 2000	342.6
Accumulated amortisation:	
At 1 January 2000	43.2
Charged in year	25.7
At 31 December 2000	68.9
Net book value: 31 December 2000	273.7
Net book value: 31 December 1999	287.5

Fixed Assets—Tangible Assets

	Land & Buildings $m	Equipment $m	Total $m
Net book value			
At 1 January 2000	11.6	9.4	21.0
Movements	(0.2)	0.8	0.6
At 31 December 2000	11.4	10.2	21.6

The net book value of tangible assets held under finance lease arrangements at 31 December 2000 amounted to $9.2 million (1999: $7.8 million) and related depreciation for the year amounted to $2.0 million (1999: $1.5 million).

Fixed Assets—Financial Assets

	At 31 December 2000 $m	At 31 December 1999 $m
Investments in subsidiary undertakings	1,918.8	1,827.5
Loans to subsidiary undertakings	5,847.7	3,165.4
Investments at cost—unquoted	—	1.3
	7,766.5	4,994.2

In the opinion of the directors, the carrying value of unquoted investments and loans is at least equal to the cost.

	Investments in Subsidiaries $m	Loans to Subsidiaries $m	Unquoted Investments $m	Total $m
Cost				
At 1 January 2000	**1,827.5**	**3,165.4**	**1.3**	**4,994.2**
Movements	91.3	2,682.3	(1.3)	2,772.3
At 31 December 2000	**1,918.8**	**5,847.7**	**—**	**7,766.5**

Stocks

	At 31 December 2000 $m	At 31 December 1999 $m
Stocks	**—**	6.6

Debtors

	At 31 December 2000 $m	At 31 December 1999 $m
Trade debtors	**80.6**	80.1
Amounts owed by group undertakings	**41.8**	14.5
Amounts owed by associated undertakings	**0.7**	2.1
Other debtors	**4.4**	—
Prepayments	**—**	0.4
Other assets	**—**	0.2
	127.5	97.3

Creditors (amounts falling due within one year)

	At 31 December 2000 $m	At 31 December 1999 $m
Trade creditors	**25.7**	16.6
Other creditors	**21.3**	55.2
Due to group undertakings	**707.5**	270.9
Accrued expenses	**4.1**	9.5
Lease obligation	**0.4**	0.3
Bank overdraft	**0.4**	0.3
	759.4	352.8

(a) Guarantees

Note 16 to the Consolidated Financial Statements provides further details on guarantees given by Elan.

Creditors (amounts falling due after one year)

	At 31 December 2000 $m	At 31 December 1999 $m
Long term debt	**—**	3.0
Deferred consideration on product acquisition	**—**	10.0
Finance lease obligations (net of finance charges):		
payable within two to five years	**2.2**	1.7
payable after five years	**8.7**	6.5
	10.9	21.2

30 SUBSIDIARY AND ASSOCIATED UNDERTAKINGS

At 31 December 2000, Elan had the following principal subsidiary and associated undertakings:

Company	Nature of Business	Group Share %	Registered Office & Country of Incorporation and Operation
Elan Holdings, Inc.	Manufacture, marketing and distribution of pharmaceutical and medical device products	100	1300 Gould Drive Gainesville, GA, US
Elan International Services Ltd	Financial services company	100	Clarendon House, 2 Church St Hamilton, Bermuda
Elan Management Ltd	Provision of management services	100	Lincoln House, Lincoln Place Dublin 2, Ireland
Elan Pharmaceuticals, Inc.	Development and sale of neurological products	100	800 Gateway Blvd. South San Francisco, CA, US
Athena Neurosciences, Inc.	Holding company	100	800 Gateway Blvd. South San Francisco, CA, US
Elan Pharma International Ltd	Sale and distribution of pharmaceutical products and financial services	100	WIL House, Shannon Business Park Co. Clare, Ireland
Elan Pharma Ltd	Manufacture of pharmaceutical products	100	Monksland, Athlone Co. Westmeath, Ireland
Elan Transdermal Technologies, Inc.	Development of transdermal pharmaceutical products	100	3250 Commerce Parkway Miramar, FL, US
The Liposome Company, Inc.	Oncology development and marketing	100	One Research Way Princeton Forrestal Center Princeton, NJ, US
Dura Pharmaceuticals, Inc.	Development and sale of pharmaceutical products	100	7475 Lusk Boulevard San Diego, CA, US

Information regarding all other subsidiaries will be filed with the Company's next annual return as provided for by Section 16[3](a) of the Companies (Amendment) Act, 1986.

31 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the directors on 9 March 2001.

Additional US Information

DIFFERENCES BETWEEN IRISH AND US ACCOUNTING PRINCIPLES

US GAAP Condensed Statements of Income, Condensed Statements of Comprehensive Income, Condensed Balance Sheets and Condensed Statements of Cash Flows have been provided on pages 115 to 117 for the benefit of US investors.

The financial statements of the Group as set out on pages 62 to 119, have been prepared in accordance with Irish GAAP, which differ in certain significant respects from US GAAP. The material differences as they apply to the Group's financial statements are as follows:

(a) Business combinations

1. Dura

On 9 November 2000, Elan completed the merger with Dura. Irish and US GAAP have different criteria for establishing the method of accounting required for business combinations.

- Under US GAAP, the merger with Dura required the application of the pooling of interests method of accounting. The assets and liabilities of Dura and Elan have been combined and carried forward to the merged enterprise at their pre-combination recorded amounts. Therefore, under US GAAP, no goodwill arose from the merger of Dura and Elan. The income statements of Dura and Elan for 2000 and prior years have been combined and reported as income of the merged enterprise. The costs of the transaction have been expensed.

- Under Irish GAAP, the acquisition of Dura by Elan has been accounted for using acquisition accounting. The cost of the investment in Dura has been calculated at the fair value of the shares issued, together with the related transaction costs. The assets and liabilities of Dura have been recorded based on their fair values at the date of acquisition. The difference between the cost of the investment and the fair value of the assets and liabilities of Dura has been recorded as goodwill. The goodwill arising on the acquisition of Dura is being amortised over its estimated useful life of 20 years. Pre-acquisition results for both companies have not been combined. Income statements are only combined for the post-acquisition period.

The principal differences in accounting for the Dura transaction between Irish and US GAAP, resulted in the following reconciling items:

- The exclusion of pre-acquisition income under Irish GAAP compared to the combination of historic income statements under US GAAP resulted in a reconciling item of $32.8 million between Irish and US GAAP net income for 2000;

- The expensing of transaction costs in 2000 under US GAAP, resulted in a reconciling item of $35.1 million between Irish and US GAAP net income for 2000;

- Dura deferred tax assets with a pre-acquisition basic value of $18.4 million have been eliminated as a fair value adjustment under Irish GAAP. Under US GAAP, this amount had been expensed in the combined income statement prior to 2000;

- A portion of outstanding Dura debt was repaid in December 2000 under a change of control clause. On the date of acquisition, Dura had $2.7 million in unamortised financing costs relating to this debt. This represents a fair value adjustment under Irish GAAP and it increased goodwill by $2.7 million. Under US GAAP, the $2.7 million has been expensed in the income statement for 2000; and

- Under US GAAP, the fair value adjustments and the goodwill arising under Irish GAAP on the acquisition of Dura have been eliminated. This resulted in a difference in shareholders' equity of $1,164.6 million between Irish and US GAAP. In addition, the related goodwill amortisation expense has been eliminated under US GAAP.

2. Other business combinations

Under Irish and US GAAP, all of Elan's acquisitions, except for Dura, have been accounted for using acquisition (purchase) accounting.

Under acquisition accounting, Irish and US GAAP require the fair value of the purchase consideration to be allocated to the net assets acquired based on their fair values on the date of acquisition. The difference between the fair value of the purchase consideration and the fair value of the net assets acquired is goodwill.

Under US GAAP, the fair value of equity securities issued to effect a purchase business combination is determined based on the market price of the equity securities over a reasonable period of time before and after the proposed transaction is announced. Under Irish GAAP, the fair value of shares issued is determined based on the market price of these shares at the acquisition date. There were no material differences between the fair value of shares issued by Elan to effect purchase business combinations under Irish and US GAAP for the periods presented.

Irish GAAP requires an allocation of purchase consideration to identifiable intangible assets which are separable from the business. US GAAP requires an allocation of purchase consideration to identifiable intangible assets whether separable or not. Intangible assets arising under US GAAP purchase accounting requirements are amortised over their estimated remaining useful lives. These lives vary from 3 to 20 years with the average amortisation period being 17 years. Under US GAAP, the fair value of IPR&D assets has been expensed immediately in the income statement. The amounts treated as IPR&D under US GAAP have been treated as goodwill under Irish GAAP. Under US GAAP, the expense arising from IPR&D was $246.0 million for 2000. IPR&D expenses for 1999 and 1998 were $84.8 million and $1,311.2 million, respectively. The difference in shareholders' equity between Irish and US GAAP, arising from IPR&D, was $2,121.1 million as at 31 December 2000.

Under Irish GAAP, prior to 31 December 1998, goodwill arising on acquisition was immediately written-off to shareholders' equity. This resulted in a reconciling item from US GAAP to Irish GAAP in shareholders' equity of $580.8 million. Since 1998, in accordance with Financial Reporting Standard No. 10 "Goodwill and Intangible Assets", goodwill is no longer written-off immediately to shareholders' equity but is capitalised and amortised over its useful life. Irish GAAP requires that, on subsequent disposal or termination of a previously acquired business, any relevant goodwill previously taken directly to shareholders' equity be expensed in the income statement. In 2000, this resulted in a transfer of $6.5 million from the goodwill write-off reserve to the income statement. The difference in shareholders' equity between Irish and US GAAP, arising from goodwill previously written-off immediately against reserves, was $574.3 million as at 31 December 2000.

In connection with the acquisition of Liposome, the Company agreed to pay additional cash consideration of up to $98.0 million to CVR holders, contingent on Myocet receiving marketing approval in the EU and sales of Myocet reaching certain defined milestones outside of the US. At 31 December 2000, the Company accrued $54.0 million under Irish GAAP as the Company anticipated that the marketing approval would be granted in 2001. No such liability was recognised under US GAAP.

(b) Financial fixed assets

Under Irish GAAP, non-current financial fixed assets have been stated at cost less provision for permanent diminution in value. Under US GAAP, in accordance with Statement of Financial Accounting Standard ("SFAS") No. 115 "Accounting for Certain Investments in Debt and Equity Securities", certain financial fixed assets have been classified as available for sale and reported at fair value with unrealised gains and losses being excluded from earnings and reported as a separate component of comprehensive income (net of tax). The difference in shareholders' equity between Irish and US GAAP, arising from differences in the accounting treatment for financial fixed assets, was $15.4 million as at 31 December 2000.

(c) Warrant subscription receivable

Under US GAAP, Elan recorded a warrant subscription receivable and a corresponding increase in additional paid-in capital reflecting the fair value of the warrants issued pursuant to the Axogen unit offering in November 1996 and the Neuralab unit offering in January 1998. Cash received from Axogen and Neuralab, pursuant to development contracts, has been

pro rated between revenue and the warrant subscription receivable. There is no similar accounting requirement under Irish GAAP. There was no net income impact from this difference in Irish and US GAAP during 2000. It resulted in a reconciling difference of $4.8 million between Irish and US GAAP net income for 1999.

(d) Revenue recognition

Contract revenue, including research revenues and licence fees, arises from contracts related to research and development activities on behalf of clients and/or technology licencing. Under Irish GAAP, non-refundable licence fee revenue is recognised when earned and when the licensor has no future legal obligation pursuant to the licence fee, in accordance with the terms prescribed in the applicable contract. Refundable licence fees are treated as deferred revenue until such time as they are no longer refundable.

Under US GAAP, the accounting treatment adopted by Elan for non-refundable up-front licence fees was similar to Irish GAAP prior to 2000. In December 1999, the SEC issued SAB 101. SAB 101 provides guidance on revenue recognition and related disclosures in financial statements. SAB 101 requires deferral and amortisation of up-front licence fees where there is a continuing involvement with the licenced asset through the provision of research and development services, manufacturing services or other similar activities.

Following the adoption of SAB 101, Elan defers and amortises up-front licence fees to the income statement over the 'performance period'. The performance period is the period over which Elan expects to provide services to the licencee. It is determined by the provisions of, and by the facts and circumstances of the relevant contract. Generally, milestone payments have been treated similarly under both Irish and US GAAP. They have been recognised when earned and non-refundable, and when Elan has no future legal obligation pursuant to the milestone payment. However, the actual accounting for milestones depends on the facts and circumstances of each contract. In certain cases milestones may be deferred and amortised under US GAAP, whilst under Irish GAAP immediate recognition may be appropriate.

Elan implemented SAB 101 in the fourth quarter of 2000. For the year ended 31 December 2000, Elan recorded a non-cash charge of $344.0 million under US GAAP for the cumulative effect of this accounting change relating to licence fee revenue recognised in periods up to 31 December 1999. Under US GAAP, contract revenue was $70.7 million lower than under Irish GAAP for 2000 due to the impact of SAB 101. Elan had a cumulative deferred revenue balance of $414.7 million as at 31 December 2000 arising from SAB 101. Therefore, shareholders' equity was $414.7 million higher under Irish GAAP than under US GAAP.

In accordance with SAB 101, Elan recognised $168.6 million in licence fee revenue from its strategic licencing programme in 2000. Elan recognised $193.6 million and $114.5 million in licence fee revenue from its strategic licencing programme in 1999 and 1998, respectively. Elan invested $378.0 million, $285.0 million and $198.5 million under its strategic licencing programme in 2000, 1999 and 1998, respectively.

(e) Non-consolidated subsidiaries

Under Irish GAAP, EPIL and EPIL II have been consolidated as subsidiaries of the group. Elan owns 100% of the equity in both companies. The individual investments held by EPIL and EPIL II have remained on Elan's balance sheet and the related loan notes have been included as a liability. Elan has expensed the related interest charge in the income statement. Under US GAAP, the companies are qualifying special purpose entities within the meaning of SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities", as Elan has effected a true legal sale of the investments and has not retained any control over such assets. Accordingly, the transfer of investments to EPIL and EPIL II has been treated as a transfer of the assets at fair value under US GAAP and the related loan notes have not been included as a liability. The reconciling difference to profit arose due to interest costs and profits on disposals.

(f) Associate accounting

Under US GAAP, certain investments of Elan have been accounted for under the equity method of accounting and treated as associates. Under Irish GAAP, these investments have been accounted for under the cost method.

(g) Stock option compensation

Elan grants options to employees under its stock option plans. These options are granted at fixed exercise prices equal to the market value on the date of grant. Under Irish GAAP, no compensation cost has been accrued for options awarded to employees as the exercise price has been set equal to the market value on the date of grant.

Under US GAAP, the Group applies Accounting Principles Board Opinion No. 25 "Accounting for Stock Issues to Employees" ("APB 25"). In accordance with APB 25, no compensation cost was initially recognised for stock options granted, as they have been granted to employees at market value and at a fixed exercise price. In accordance with FIN No. 44 "Accounting for Certain Transactions involving Stock Compensation", a compensation expense has been recognised under US GAAP where the original terms of a stock option award were modified. Such modifications result in the fair value of the options being recognised as a compensation expense over any remaining service period. Elan recognised a compensation expense of $31.8 million in 2000 arising from modifications. The modifications included option acceleration upon severance of employees and a change of status from employees to non-employees. Under Irish GAAP, no compensation expense arises as a result of such modifications.

Under US GAAP, options granted to non-employees have been valued at fair value and the related compensation expense is being amortised over the life of the option. Elan recognised a compensation expense of $0.7 million in 1999, arising from options granted to non-employees. Under Irish GAAP, no compensation expense arises as a result of grants to non-employees.

The disclosures required by SFAS No. 123 "Accounting for Stock Based Compensation" ("SFAS 123") are included on page 119.

(h) Pensions

The main differences between Irish and US GAAP in accounting for pension costs are:

- Under Irish GAAP, plan assets are valued on the basis of a discounted present value of expected future income. US GAAP requires that plan assets are valued by reference to their market value.
- Under Irish GAAP, pension costs in connection with defined benefit plans are assessed in accordance with the advice of independent actuaries using assumptions and methods which produce the actuaries' best estimates of the cost of providing the relevant pension benefits. US GAAP requires the use of the projected unit credit method and the matching of the projected benefit obligation against the fair value of the plan's assets, as adjusted to reflect any unrecognised obligations or assets.
- Under Irish GAAP, the measurement of plan assets and obligations may be based on the most recent actuarial valuation. Under US GAAP, calculations must be made as of the date of the financial statements or a date not more than three months prior to that date.
- Under Irish GAAP, pension credits are not recognised in the financial statements unless a refund of, or reduction in, contributions is likely. Under US GAAP, a negative pension cost may arise where a significant unrecognised net asset or gain exists at the time of implementation. This is required to be amortised on a straight line basis over the average remaining service period of employees.

The reconciling difference between Irish and US GAAP was a credit to the US GAAP income statement of $0.9 million in 2000. The disclosures required by SFAS No. 132 "Employer's Disclosures about Pensions and Other Post-Retirement Benefits" ("SFAS 132") are included on pages 118 and 119.

(i) Deferred taxation

Under Irish GAAP, deferred taxation is only accounted for to the extent that it is probable that taxation liabilities or benefits will crystallise. Under US GAAP, deferred taxation is accounted for on all temporary differences and a valuation adjustment is established in respect of those deferred taxation assets where it is more likely than not that some portion will not be realised.

(j) Consolidated statement of cash flows

In accordance with Irish GAAP, the Group complies with Financial Reporting Standard No. 1, "Cash Flow Statements" ("FRS 1"). Its objective and principles are similar to those set out in SFAS No. 95 "Statement of Cash Flows" ("SFAS 95"). The principal difference between the standards is in respect of classification. Under FRS 1, the Group has presented its cash flows for (a) operating activities; (b) returns on investments and servicing of finance; (c) taxation; (d) capital expenditure; (e) acquisitions and disposals; and (f) financing activities. SFAS 95 requires only three categories of cash flow activity, (a) operating; (b) investing; and (c) financing.

Cash flows arising from taxation and returns on investments and servicing of finance under FRS 1 are included as operating activities under SFAS 95. In addition, under FRS 1, cash and liquid resources include short term borrowings repayable on demand. SFAS 95 requires movements in such borrowings to be included in financing activities.

For the purposes of cash flows under US GAAP, the Group considers all highly liquid deposits with an original maturity of three months or less to be cash equivalents. Under Irish GAAP, cash represents cash held at bank available on demand offset by bank overdrafts. Liquid resources comprise bank fixed deposits with maturities of greater than one day.

(k) New accounting standards

SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), as amended by SFAS No. 138 "Accounting for Certain Derivative Instruments and Certain Hedging Activities—an amendment of FASB Statement No. 133", is required to be implemented in 2001. SFAS 133 requires that derivatives be recognised as assets and liabilities and measured at fair value, with changes in fair value being accounted for within net income, unless qualifying for hedge accounting. The Group has assessed the impact of SFAS 133 and is applying this statement from 2001 onwards. Elan does not expect that SFAS 133 will have any impact on its financial statements as the fair value of derivative instruments is reflected in net income.

SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125" ("SFAS 140") is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after 31 March 2001. Elan does not expect that SFAS 140 will have a material effect on its financial statements.

(l) Financial statement format

The following is a summary of the material adjustments to net income and shareholders' equity which would be required had the financial statements been prepared in accordance with US GAAP:

(i) Net income

	2000 $m	1999 $m	1998 $m
Net income as stated under Irish GAAP	**342.1**	335.9	146.4
Adjustments to conform to US GAAP:			
Pooling of interests accounting			
Pre-acquisition results of Dura	**32.8**	41.7	(20.1)
Merger costs	**(35.1)**	—	—
Fair value financing costs	**(2.7)**	—	—
Purchase accounting			
Acquired in-process research and development	**(246.0)**	(84.8)	(1,311.2)
Amortisation of intangible assets	**16.9**	1.6	0.1
Other	**1.0**	—	—
Warrant subscription receivable	**—**	(4.8)	(8.5)
Revenue recognition	**(70.7)**	—	—
Non-consolidated subsidiaries	**38.9**	11.1	—
Associate accounting	**—**	3.0	—
Loss on disposal of investment in associate undertaking	**3.2**	—	1.6
Stock option compensation expenses	**(31.8)**	(0.7)	—
Pensions and other	**0.9**	0.4	1.0
Net income/(loss) as stated under US GAAP	**49.5**	303.4	(1,190.7)
Cumulative effect of accounting change (net of tax)	**(344.0)**	—	—
Net (loss)/income after cumulative effect of accounting change	**(294.5)**	303.4	(1,190.7)
Basic earnings/(loss) per Ordinary Share under US GAAP before cumulative effect of accounting change	**$ 0.16**	$ 1.02	$ (4.42)
Cumulative effect of accounting change	**$ (1.10)**	—	—
Basic (loss)/earnings per Ordinary Share under US GAAP after cumulative effect of accounting change	**$ (0.94)**	$ 1.02	$ (4.42)
Diluted earnings/(loss) per Ordinary Share under US GAAP before cumulative effect of accounting change	**$ 0.15**	$ 0.97	$ (4.42)
Cumulative effect of accounting change	**$ (1.09)**	—	—
Diluted (loss)/earnings per Ordinary Share under US GAAP after cumulative effect of accounting change	**$ (0.94)**	$ 0.97	$ (4.42)

(ii) Shareholders' equity

	At 31 December 2000 $m	At 31 December 1999 $m
Shareholders' equity as stated under Irish GAAP	**5,315.5**	2,687.6
Adjustments to conform to US GAAP:		
Pooling of interests accounting		
Historical net assets of Dura	**—**	424.8
Elimination of goodwill arising on consolidation of Dura	**(1,164.6)**	—
Purchase accounting		
Amortisation of intangible assets	**17.6**	0.6
Acquired in-process research and development	**(2,121.1)**	(1,966.2)
Goodwill written-off	**574.3**	580.8
Other	**1.8**	—
Financial fixed assets	**15.4**	10.5
Cumulative effect of accounting change/revenue recognition	**(414.7)**	—
Non-consolidated subsidiaries	**50.0**	11.1
Associate accounting	**(2.0)**	(2.0)
Pensions and other	**4.7**	3.9
Shareholders' equity as stated under US GAAP	**2,276.9**	1,751.1

US GAAP Condensed Financial Statements

Due to the significant differences between Irish and US GAAP, and in particular the treatment of the merger of Dura and Elan as a pooling of interests under US GAAP, a set of Condensed Financial Statements has been prepared for the benefit of US investors on pages 115 to 117. This further expands on the net income and shareholders' equity reconciliations provided.

US GAAP Condensed Statement of Income

	2000 $m	1999 $m	1998 $m
Revenue	**1,521.4**	1,312.5	878.8
Costs and expenses:			
Cost of sales	**321.3**	257.0	167.2
Selling, general and administrative expenses	**512.1**	406.0	289.3
Research and development expenses	**322.2**	289.4	190.3
Other charges, primarily relating to the acquisition of in-process research and development, merger costs and rationalisation costs	**445.7**	88.6	1,423.7
Total operating expenses	**1,601.3**	1,041.0	2,070.5
Operating (loss)/income	**(79.9)**	271.5	(1,191.7)
Net interest and other income	**138.8**	55.9	19.9
Income/(loss) before provision for income taxes	**58.9**	327.4	(1,171.8)
Provision for income taxes	**(9.4)**	(24.0)	(18.9)
Net income/(loss) before cumulative effect of accounting change	**49.5**	303.4	(1,190.7)
Cumulative effect of accounting change (net of tax)	**(344.0)**	—	—
Net (loss)/income after cumulative effect of accounting change	**(294.5)**	303.4	(1,190.7)

US GAAP Condensed Statement of Comprehensive Income

	2000 $m	1999 $m	1998 $m
Net (loss)/income	**(294.5)**	303.4	(1,190.7)
Other comprehensive income:			
Foreign currency translation adjustment	**(0.9)**	(1.3)	(4.7)
Unrealised gains/(losses) on securities	**19.9**	36.6	(2.9)
Reclassification adjustment for (gains)/losses included in net income	**(15.5)**	10.6	(21.7)
Other comprehensive income/(loss)	**3.5**	45.9	(29.3)
Comprehensive (loss)/income	**(291.0)**	349.3	(1,220.0)

US GAAP Condensed Balance Sheet

	At 31 December 2000 $m	At 31 December 1999 $m
Current Assets		
Cash, cash equivalents and marketable investment securities	**1,161.2**	1,249.1
Accounts receivable and prepayments	**340.5**	257.4
Inventories	**155.2**	143.9
Total current assets	**1,656.9**	1,650.4
Property, plant and equipment	**353.5**	326.4
Intangible assets	**1,999.9**	1,392.9
Other non-current assets	**642.7**	502.0
Total assets	**4,653.0**	3,871.7
Liabilities and Shareholders' Equity		
Accounts payable and other liabilities	**585.8**	534.6
Deferred revenue	**414.7**	—
Long term and convertible debt	**1,375.6**	1,586.0
	2,376.1	2,120.6
Shareholders' Equity		
Share capital	**18.7**	17.8
Additional paid-in capital	**3,906.0**	3,076.1
Retained earnings and other reserves	**(1,647.8)**	(1,342.8)
Shareholders' equity	**2,276.9**	1,751.1
Total liabilities and shareholders' equity	**4,653.0**	3,871.7

US GAAP Condensed Statement of Cash Flows

	2000 $m	1999 $m	1998 $m
Net cash provided by operating activities	**406.3**	476.4	125.8
Cash flows from investing activities			
Proceeds from disposal of property, plant and equipment	**19.8**	11.7	0.5
Purchase of property, plant and equipment	**(73.8)**	(94.2)	(107.7)
Net purchase of investments and marketable investment securities	**(97.3)**	(184.8)	(78.3)
Purchase of intangible assets	**(131.8)**	(161.0)	(296.9)
Acquisition of subsidiaries	**(112.1)**	(180.1)	(264.7)
Other	**—**	(5.5)	(6.2)
Net cash (used) by investing activities	**(395.2)**	(613.9)	(753.3)
Cash flows from financing activities			
Proceeds from sale of share capital	**91.4**	29.1	158.4
Bank loans	**(295.4)**	6.9	16.0
Issue of exchangeable notes	**—**	—	840.2
Other	**8.4**	(0.4)	—
Net cash (used)/provided by financing activities	**(195.6)**	35.6	1,014.6
(Decrease)/increase in cash and cash equivalents	**(184.5)**	(101.9)	387.1
Cash and cash equivalents at beginning of year	**987.0**	1,088.9	701.8
Cash and cash equivalents at end of year	**802.5**	987.0	1,088.9

Pension and Post-Retirement Benefits (US GAAP)

For the purposes of US GAAP, the pension costs of the major Irish retirement plans have been restated in the following tables in accordance with the requirements of SFAS 132. The Company funds the pension entitlements of certain employees through defined benefit plans. Two plans are operated for Irish employees. In general, on retirement, a member is entitled to a pension calculated at 1/60th of final pensionable salary for each year of pensionable service, subject to a maximum of 40 years. These plans are funded externally and the related pension costs and liabilities are assessed in accordance with the advice of professionally qualified actuaries. The investments of the plans as at 31 December 2000 consisted of units held in independently administered funds.

Change in benefit obligation:	**2000 $m**	1999 $m	1998 $m
Benefit obligation at beginning of year	**13.0**	10.5	7.4
Service cost	**1.1**	1.2	0.9
Interest cost	**0.7**	0.6	0.5
Plan participants' contributions	**1.1**	0.9	0.8
Actuarial gain	**0.4**	0.6	0.5
Benefits paid	**(0.2)**	—	(0.1)
Foreign currency exchange rate changes	**(0.7)**	(0.8)	0.5
Benefit obligation at end of year	**15.4**	13.0	10.5

Change in plan assets:	**At December 31 2000 $m**	At December 31 1999 $m
Fair value of plan assets at beginning of year	**16.2**	13.2
Actual return on plan assets	**(0.4)**	2.7
Employer contribution	**1.7**	1.8
Plan participants' contributions	**1.1**	0.8
Benefits paid	**(0.2)**	—
Foreign currency exchange rate changes	**(1.0)**	(2.3)
Fair value of plan assets at end of year	**17.4**	16.2
Funded status	**2.0**	3.3
Unrecognised net actuarial gain	**1.6**	0.2
Unamortised prior service cost	**1.0**	0.1
Unrecognised transition obligation	**0.1**	0.1
Prepaid benefit cost	**4.7**	3.7

The net periodic pension cost was comprised of the following:	**2000 $m**	1999 $m	1998 $m
Service cost	**1.1**	1.2	0.9
Interest cost	**0.7**	0.7	0.5
Expected return on plan assets	**(3.1)**	(2.7)	(1.0)
Asset gain	**1.7**	1.6	0.1
Amortisation of prior service cost	**0.1**	—	—
Net periodic pension cost	**0.5**	0.8	0.5

The weighted average assumptions used in the calculation of the pension cost for 1999 and 2000 were a discount rate of 6.25%, an expected return on plan assets of 9% and a 4.25% rate of compensation increase.

In addition, Elan operates a number of defined contribution pension plans, primarily for employees outside of Ireland. The costs of these plans are charged to the income statement in the period they are incurred. The pension cost for these plans was $2.3 million, $2.6 million and $7.3 million for 1998, 1999 and 2000, respectively.

Compensation Cost (US GAAP)

Elan grants options to employees under the Group's stock option plans. These options are granted at fixed exercise prices equal to the market value on the date of grant.

The Company applies APB 25 in accounting for its stock option plans and, accordingly under US GAAP, no compensation expense is recognised when stock options are initially granted to employees as the exercise price is equal to the market price on the date of grant. If the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS 123, the effect on net income under US GAAP is as shown below.

	2000 $m	1999 $m	1998 $m
Net (loss)/income under US GAAP as reported	**(294.5)**	303.4	(1,190.7)
Compensation cost	**(113.2)**	(72.2)	(46.3)
Pro forma net (loss)/income	**(407.7)**	231.2	(1,237.0)
Basic (loss)/earnings per Ordinary Share			
As reported	**$ (0.94)**	$ 1.02	$ (4.42)
Pro forma	**$ (1.30)**	$ 0.78	$ (4.59)
Diluted (loss)/earnings per Ordinary Share			
As reported	**$ (0.94)**	$ 0.97	$ (4.42)
Pro forma	**$ (1.30)**	$ 0.74	$ (4.59)

The weighted average fair value of the individual options granted during the years ended 31 December 2000, 1999 and 1998 is estimated as $17.79, $12.33 and $10.47, respectively, on the date of grant. The fair value of options granted was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2000	1999	1998
Risk-free interest rate	**5.98%**	4.76%	4.57%
Volatility	**46.66%**	42.71%	32.62%
Dividend yield	**Nil**	Nil	Nil
Expected life (years)	**3.8**	5.0	4.9

Pro forma net income and earnings per share reflects only options granted on or after 1 April 1995. Therefore, the full impact of calculating compensation cost for stock options under SFAS 123 is not reflected in the pro forma net income amounts presented above because compensation cost is reflected over the options' vesting period of 1-5 years and compensation cost for options granted prior to 1 April 1995 is not considered.

Selected Financial Data

The selected financial data set forth below as of and for the years ended 31 December 2000, 1999, 1998 and 1997, and for the nine months ended 31 December 1996 have been derived from Elan's audited Consolidated Financial Statements, which have been restated under US GAAP to incorporate the results of Dura for each of those periods. Such audited Consolidated Financial Statements of Elan have been audited by KPMG, Chartered Accountants, who have placed reliance on the opinion of Deloitte and Touche, LLP, with respect to their audits of the US Financial Statements of Dura for each of those periods. The selected financial data should be read in conjunction with, and are qualified in their entirety by reference to, the Consolidated Financial Statements of the Company and the Notes thereto, which are included elsewhere in this document.

Group Financial Record—US GAAP

The selected financial data under US GAAP has been restated to take into account the merger with Dura which was accounted for using pooling of interests accounting.

	Year Ended 31 December 2000	Year Ended 31 December 1999	Year Ended 31 December 1998	Year Ended 31 December 1997	Nine months Ended 31 December 1996
			($m, except per share data)		
Income Statement Data:					
Total revenue	**1,521.4**	1,312.5	878.8	568.6	322.5
Operating (loss)/income	**(79.9)[1]**	271.5[3]	(1,191.7)[4]	55.9[5]	(564.8)[6]
Net (loss)/income	**(294.5)[2]**	303.4[3]	(1,190.7)[4]	77.9[5]	(554.6)[6]
Basic (loss)/earnings per Ordinary Share[7]	**$ (0.94)[2]**	$ 1.02[3]	$ (4.42)[4]	$ 0.34[5]	$ (2.74)[6]
Diluted (loss)/earnings per Ordinary Share[7]	**$ (0.94)[2]**	$ 0.97[3]	$ (4.42)[4]	$ 0.31[5]	$ (2.74)[6]

	At 31 December 2000	At 31 December 1999	At 31 December 1998	At 31 December 1997	At 31 December 1996
			($m, except share data)		
Balance Sheet Data:					
Cash, cash equivalents and marketable investment securities	**1,194.6**	1,285.6	1,276.0	928.3	501.2
Total assets	**4,653.0**	3,871.7	3,279.2	1,916.0	1,233.9
Long term liabilities	**1,375.6**	1,586.0	1,615.1	622.1	144.9
Total shareholders' equity	**2,276.9**	1,751.1	1,367.3	1,180.0	918.1
Number of shares outstanding	**322.5**	298.8	293.7	238.9	220.5

1. *After other charges of $445.7 million primarily relating to the acquisition of IPR&D, merger costs and rationalisation costs.*
2. *After other charges of $445.7 million primarily relating to the acquisition of IPR&D, merger costs, rationalisation costs and after $344.0 million relating to the cumulative catch up adjustment for the implementation of SAB 101.*
3. *After other charges of $88.6 million primarily relating to the acquisition of IPR&D.*
4. *After other charges of $1,423.7 million relating to the acquisition of IPR&D, rationalisation and integration costs, a loss on a sale of a business and a contribution to Axogen.*
5. *After other charges of $121.0 million relating to the acquisition of IPR&D and the acquisition of purchase options.*
6. *After other charges of $659.9 million relating to the acquisition of IPR&D, costs of a fundamental restructuring and a provision for loss on sale of a business.*
7. *Earnings per share is based on the weighted average number of outstanding Ordinary Shares and the effect of potential dilutive securities including options, warrants and convertible securities.*

Group Financial Record—Irish GAAP

	Year Ended 31 December 2000	Year Ended 31 December 1999	Year Ended 31 December 1998	Year Ended 31 December 1997	Nine months Ended 31 December 1996
			($m, except per share data)		
Profit and Loss Account Data:					
Total revenue	**1,302.0**	1,007.8	676.7	389.2	235.6
Operating profit	**296.3[1]**	309.5	148.1[3]	140.6	7.0[5]
Retained profit/(loss)	**342.1[2]**	335.9	146.4[4]	179.6	(0.8)[6]
Basic earnings/(loss) per Ordinary Share[7]	**$ 1.19[2]**	$ 1.26	$ 0.62[4]	$ 0.90	$ (0.01)[6]
Diluted earnings/(loss) per Ordinary Share[7]	**$ 1.10[2]**	$ 1.19	$ 0.56[4]	$ 0.81	$ (0.01)[6]

	At 31 December 2000	At 31 December 1999	At 31 December 1998	At 31 December 1997	At 31 December 1996
			($m, except share data)		
Balance Sheet Data:					
Working capital	**945.0**	753.7	952.0	553.6	244.6
Total assets	**8,096.8**	4,674.2	3,799.4	1,152.8	714.9
Long term liabilities	**2,161.5**	1,550.9	1,234.7	319.1	134.4
Total shareholders' equity	**5,315.5**	2,687.6	2,332.1	770.4	464.1
Number of shares outstanding	**322.5**	269.1	264.0	208.3	191.5

1. *After exceptional items of $79.3 million relating to a rationalisation in the pharmaceutical division, a product withdrawal and asset write-offs in the year ended 31 December 2000.*
2. *After exceptional items of $113.6 million relating to a rationalisation in the pharmaceutical division, a product withdrawal and asset write-offs in the year ended 31 December 2000.*
3. *After exceptional items of $98.8 million relating to a contribution of $67.5 million to Axogen and a charge of $31.3 million relating to the rationalisation and integration of acquisitions in the year ended 31 December 1998.*
4. *After exceptional items of $112.6 million relating to a contribution of $67.5 million to Axogen, a charge of $41.8 million relating to the rationalisation and integration of acquisitions and a charge of $3.3 million related to a loss on disposal of investments in the year ended 31 December 1998.*
5. *After exceptional items of $70 million relating to a fundamental restructuring of the Company's business in the nine months ended 31 December 1996.*
6. *After exceptional items of $88 million relating to a fundamental restructuring of the Company's business and a provision for the loss on disposal of a business in the nine months ended 31 December 1996.*
7. *Earnings per share is based on the weighted average number of outstanding Ordinary Shares and the effect of potential dilutive securities including options, warrants and convertible securities.*

Shareholders' Information

Elan has not paid cash dividends on its Ordinary Shares in the past. The declaration of any cash dividends will be at the recommendation of Elan's board of directors. The recommendations of Elan's board of directors will depend upon the earnings, capital requirements and financial condition of Elan and other relevant factors. Although Elan does not anticipate that it will pay any cash dividends on its Ordinary Shares in the foreseeable future, Elan expects that its board of directors will review Elan's dividend policy on a regular basis. Dividends may be paid on Elan's Executive Shares and 'B' Executive Shares at a time when no dividends are being paid on the Ordinary Shares. For additional information relating to the Executive Shares and 'B' Executive Shares, see Note 18 to the Consolidated Financial Statements of Elan included on page 87 of this Annual Report and Form 20-F.

Nature of Trading Market

Elan ADSs are traded on the NYSE, the principal trading market for Elan's securities, under the symbol "ELN". The following table sets forth the high and low per share sales prices of the Elan ADSs on the NYSE Composite Tape for the periods indicated as reported in published financial sources.

	High $	Low $
1996	16.75	12.06
1997	28.44	15.00
1998	37.97	24.06
1999 – Quarter 1	43.63	33.28
– Quarter 2	38.41	24.81
– Quarter 3	35.38	26.63
– Quarter 4	33.81	21.25
2000 – Quarter 1	48.25	26.00
– Quarter 2	49.00	36.50
– Quarter 3	59.88	46.25
– October	60.13	49.75
– November	56.38	46.25
– December	55.63	43.25
2001 – January	54.50	42.75
– February	57.80	49.90
– March (through 16 March 2001)	56.65	46.00

Elan's Ordinary Shares are also traded in Dublin on the Official List of the Irish Stock Exchange and in London on the Official List of the London Stock Exchange. The volume of trading in Elan's Ordinary Shares on such markets is limited.

A total of 335,070,217 Ordinary Shares of Elan were issued and outstanding at 9 March 2001, of which 732 Ordinary Shares were held by holders of record in the US, excluding shares held in the form of American Depositary Receipts ("ADRs"). 313,371,868 Ordinary Shares were represented by Elan ADSs, evidenced by ADRs issued by The Bank of New York, as depositary, pursuant to a deposit agreement. At 9 March 2001, the number of holders of record of Ordinary Shares was 638, which includes 3 holders of record in the US, and the number of registered holders of ADRs in the US was 4,778. Because certain of these Ordinary Shares and ADRs were held by brokers or other nominees, the number of holders of record or registered holders in the US and Ireland is not representative of the number of beneficial holders or of the residence of beneficial holders.

American Depositary Warrant Shares ("ADWSs"), representing warrants to purchase Elan ADSs, trade on the NYSE under the symbol "ELNWSA" ("A-Series Warrants"). The ADWSs representing A-Series Warrants are evidenced by American Depositary Warrant Receipts issued by The Bank of New York, as depositary, under a deposit agreement. Each A-Series Warrant is exercisable for two Elan ADSs at an exercise price of $37.54. A second series of ADWSs, representing warrants to purchase Elan ADSs, trade on the NYSE under the symbol "ELNWSB" ("B-Series Warrants"). The ADWSs representing B-Series Warrants are evidenced by American Depositary Warrant Receipts issued by The Bank of New York, as depositary, under a deposit agreement. Each B-Series Warrant is exercisable for two Elan ADSs at an exercise price of $65.01.
The following table sets forth the high and low sales prices per ADWS representing both A-Series Warrants and B-Series Warrants on the NYSE Composite Tape for the periods indicated as reported in published financial sources.

	A-Series Warrants		B-Series Warrants	
	High $	Low $	High $	Low $
1999 – Quarter 1	56.00	38.75	—	—
– Quarter 2	46.00	27.00	—	—
– Quarter 3	40.88	29.50	—	—
– Quarter 4	37.63	22.56	—	—
2000 – Quarter 1	59.75	25.50	43.25	24.00
– Quarter 2	61.56	42.19	43.25	40.75
– Quarter 3	84.00	59.25	65.38	42.75
– October	83.50	66.63	65.75	51.25
– November	70.00	59.38	57.00	46.00
– December	74.00	54.00	56.00	40.50
2001 – January	70.75	51.38	51.00	37.56
– February	78.50	65.76	60.00	49.25
– March (through 16 March 2001)	74.15	59.50	57.45	44.00

A total of 4,850,180 ADWSs representing A-Series Warrants were issued and outstanding as of 9 March 2001 and were held by 22 holders of record as of that date. Because some ADWSs representing A-Series Warrants were held by brokers and other nominees, the number of holders of record or registered holders is not representative of the number of beneficial holders.

A total of 1,250,000 ADWSs representing B-Series Warrants were issued and outstanding as of 9 March 2001 and were held by 109 holders of record as of that date. Because some ADWSs representing B-Series Warrants were held by brokers and other nominees, the number of holders of record or registered holders is not representative of the number of beneficial holders.

In connection with the acquisition of Dura, Elan acquired two additional series of warrants to purchase Elan ADSs, trading on the Nasdaq® under the symbols "ELANZ" ("Z-Series Warrants"), formerly traded under the symbol "DURAZ", and "ELANW" ("W-Series Warrants"), formerly traded under the symbol "DURAW". Each Z-Series Warrant is exercisable for 0.1276 of an Elan ADS at an exercise price of $26.72 per Elan ADS. Each W-Series Warrant is exercisable for 0.1679 of an Elan ADS at an exercise price of $81.67 per Elan ADS. CVRs trade on the Nasdaq® under the symbol "LCVRZ". The CVRs began trading on 15 May 2000. The following table sets forth the high and low sales prices for Z-Series Warrants, W-Series Warrants and for CVRs for the periods indicated as reported in published financial sources.

	Z-Series		W-Series		CVRs	
	High $	Low $	High $	Low $	High $	Low $
2000 – Quarter 1	—	—	0.78	0.19	—	—
– Quarter 2	—	—	0.50	0.25	0.63	0.44
– Quarter 3	4.88	2.75	1.50	0.38	1.00	0.50
– October	5.25	4.00	2.88	0.63	0.97	0.75
– November	5.13	3.88	1.94	0.75	0.88	0.69
– December	5.13	3.50	1.63	0.69	0.81	0.47
2001 – January	4.53	3.19	1.06	0.50	1.56	0.75
– February	4.97	4.19	1.00	0.63	1.31	1.13
– March (through 16 March 2001)	5.19	3.63	1.00	0.50	1.28	1.16

A total of 45,113,576 CVRs were either issued and outstanding or issuable as of 9 March 2001 and were held by 569 holders of record as of that date. Because some of these CVRs were held by brokers or other nominees, the number of holders of record is not representative of the number of beneficial holders.

Exchange Controls and Other Limitations Affecting Security Holders

Irish exchange control regulations ceased to apply from and after 31 December 1992. Except as indicated below, there are no restrictions on non-residents of Ireland dealing in domestic securities, which includes shares or depositary receipts of Irish companies such as Elan. Except as indicated below, dividends and redemption proceeds also continue to be freely transferable to non-resident holders of such securities. The Financial Transfers Act, 1992, gives power to the Minister for Finance of Ireland to make provision for the restriction of financial transfers between Ireland and other countries. Financial transfers are broadly defined and include all transfers which would be movements of capital or payments within the meaning of the treaties governing the member states of the EU. The acquisition or disposal of ADRs representing shares issued by an Irish incorporated company and associated payments falls within this definition. In addition, dividends or payments on redemption or purchase of shares and payments on a liquidation of an Irish incorporated company would fall within this definition.

Any transfer of, or payment in respect of, an ADS involving the government of any country which is currently the subject of United Nations sanctions, any person or body controlled by any of the foregoing, or by any person acting on behalf of the foregoing, may be subject to restrictions pursuant to such sanctions as implemented into Irish law. Currently, there are orders in force by the Minister for Finance of Ireland under the Financial Transfers Act, 1992, including restrictions applicable to Angola, Federal Republic of Yugoslavia, Republic of Serbia and Iraq. In addition to the prohibitions on financial transfers referred to above, there are also a number of Ministerial Orders prohibiting the supply of certain products and services to a number of states. At present, these restrictions apply to Angola and the Federal Republic of Yugoslavia. Elan does not anticipate that orders under the Financial Transfers Act, 1992, or United Nations sanctions implemented into Irish law will have a material effect on its business.

Taxation for US Residents

The following is a general description of certain Irish tax consequences to US Holders (as defined below) of the purchase, ownership and disposition of Elan ADSs or Ordinary Shares. As used herein, references to the Elan Ordinary Shares include Elan ADSs representing such Elan Ordinary Shares, unless the tax treatment of the Elan ADSs and Ordinary Shares has been specifically differentiated. This description is for general information purposes only and does not purport to be a comprehensive description of all the Irish tax considerations that may be relevant in a US Holder's decision to purchase, hold or dispose of Elan Ordinary Shares. It is based on the various Irish Taxation Acts, all as in effect on 31 March 2001 and all of which are subject to change (possibly on a retroactive basis). The Irish tax treatment of a US Holder of Elan Ordinary Shares may vary depending upon such holder's particular situation, and holders or prospective purchasers of Elan Ordinary Shares are advised to consult their own tax advisors as to the Irish or other tax consequences of the purchase, ownership and disposition of Elan Ordinary Shares.

For the purposes of this tax description, a "US Holder" is a holder of Elan Ordinary Shares that is: (i) a citizen or resident of the US; (ii) a corporation or partnership created or organised in or under the laws of the US or of any political subdivision thereof; (iii) an estate, the income of which is subject to US federal income taxation regardless of its source; or (iv) a trust, if a US court is able to exercise primary supervision over the administration of such trust and one or more US persons have the authority to control all substantial decisions of such trust.

Taxation of Corporate Income

Elan is a public limited company incorporated, and resident for tax purposes, in Ireland. Under current Irish legislation, a company is regarded as resident for tax purposes in Ireland if it is centrally managed and controlled in Ireland, or, in certain circumstances, if it is incorporated in Ireland. The Taxes Consolidation Act, 1997, provides that a company which is resident in Ireland and which is not resident elsewhere shall be entitled to have any income from a qualifying patent disregarded for taxation purposes. The legislation does not provide a termination date for this relief. A qualifying patent means a patent in relation to which the research, planning, processing, experimenting, testing, devising, designing, developing or similar activities leading to the invention which is the subject of the patent, were carried out in Ireland. Income from a qualifying patent means any arms-length royalty or other sum paid in respect of the use of the invention to which the qualifying patent relates, including any sum paid for the grant of a licence to exercise rights under such patent, where that royalty or other sum is paid, for the purpose of activities which would be regarded under Irish law as the manufacture of goods (to the extent that the payment does not exceed an arms-length rate), or by a person who is not connected with Elan. Accordingly, Elan's income from such qualifying patents is disregarded for taxation purposes in Ireland. Any Irish manufacturing income of Elan and its subsidiaries is taxable at the rate of 10% in Ireland until 31 December 2010. Income arising from qualifying activities in Elan's Shannon-certified subsidiary is taxable at the rate of 10% in Ireland until

31 December 2005. From 1 January 2006, it is anticipated, based on Irish legislation currently enacted and government pronouncements, that such income will be taxable at a rate of 12.5%. Any income of Elan which does not qualify for the patent exemption or the 10% rate of tax is taxable at the Irish corporation tax rate of 20% (which rate is reducing annually to a rate of 12.5% from 1 January 2003) in respect of trading income for the year 2001. Non-trading income is taxable at 25% from 1 January 2000.

Taxation of Capital Gains and Dividends

A person who is neither resident nor ordinarily resident in Ireland and who does not carry on a trade in Ireland through a branch or agency will not be subject to Irish capital gains tax on the disposal of Elan Ordinary Shares. Unless exempted, all dividends paid by Elan other than dividends paid on or after 6 April 2000 out of exempt patent income, will be subject to Irish withholding tax at the standard rate of income tax in force at the time the dividend is paid, currently 22% (but reducing to 20% with effect from 6 April 2001). An individual shareholder resident in a country with which Ireland has a double tax treaty, which includes the US, or in a member state of the EU, other than Ireland (together a "Relevant Territory"), will be exempt from withholding tax provided he or she makes the requisite declaration.

Corporate shareholders who: (i) are ultimately controlled by residents of a Relevant Territory; (ii) are resident in a Relevant Territory and are not controlled by Irish residents; (iii) have the principal class of their shares, or of a 75% parent, traded on a stock exchange in a Relevant Territory; or (iv) are wholly owned by two or more companies, each of whose principal class of shares is substantially and regularly traded on one or more recognised stock exchanges in a Relevant Territory or Territories, will be exempt from withholding tax on the production of the appropriate certificates and declarations.

Holders of Elan ADSs will be exempt from withholding tax if they are beneficially entitled to the dividend and their address on the register of depositary shares maintained by the depositary is in the US, provided that the depositary has been authorised by the Irish Revenue Commissioners as a qualifying intermediary and provided the appropriate declaration is made by the holders of the ADSs. Where such withholding is made, it will satisfy the liability to Irish tax of the shareholder except in certain circumstances where an individual shareholder may have an additional liability. A charge to Irish social security taxes and other levies can arise for individuals. However, under the Social Welfare Agreement between Ireland and the US, an individual who is liable for US social security contributions can normally claim exemption from these taxes and levies.

Irish Capital Acquisitions Tax

A gift or inheritance of Elan Ordinary Shares will be and, in the case of Elan warrants or ADWSs representing such Elan warrants, may be, within the charge to Irish capital acquisitions tax, notwithstanding that the person from whom the gift or inheritance is received is domiciled or resident outside Ireland. Capital acquisitions tax is charged at the rate of 20% above a tax free threshold. This tax free threshold is determined by the relationship between the donor and the successor or donee. It is also affected by the amount of the current benefit and previous benefits taken since 2 December 1988 from persons within the same capital acquisitions tax relationship category. Gifts and inheritances between spouses are not subject to capital acquisitions tax. There was a probate tax which was charged at 2% on the value of the estate of deceased persons over a specified threshold. To the extent that they passed under a will or on intestacy, Elan Ordinary Shares would be, and, in the case of Elan warrants or Elan ADWSs representing such Elan warrants, may be, within the charge to this tax. Probate Tax has been abolished with respect to deaths occurring on or after 6 December 2000.

The Estate Tax Convention between Ireland and the US generally provides for Irish capital acquisitions tax paid on inheritances in Ireland to be credited against tax payable in the US and for tax paid in the US to be credited against tax payable in Ireland, based on priority rules set forth in the Estate Tax Convention, in a case where Elan warrants, Elan ADWSs, Elan ADSs or Elan Ordinary Shares are subject to both Irish capital acquisitions tax with respect to inheritance and US Federal estate tax. The Estate Tax Convention does not apply to Irish capital acquisitions tax paid on gifts.

Irish Stamp Duty

Under current Irish law, no stamp duty, currently at the rate and on the amount referred to below, will be payable by US Holders on the issue of Elan ADSs, Elan Ordinary Shares or Elan ADWSs. Under current Irish law, no stamp duty will be payable on the acquisition of Elan ADWSs or Elan ADSs by persons purchasing such Elan ADWSs or Elan ADSs or any subsequent transfer of an Elan ADWS or Elan ADS. A transfer of Elan Ordinary Shares, whether on sale, in contemplation of a sale or by way of gift will attract duty at the rate of 1% on the consideration given or, where the purchase price is inadequate or unascertainable, on the market value of the shares. Similarly, any such transfer of a warrant may attract duty at the rate of 1%. Transfers of Ordinary Shares which are not liable to duty at the rate of 1% may attract fixed duty of IR£10 unless the transfer is by way of security in which event there is a potential maximum charge of IR£500. The person accountable for payment of stamp duty is the transferee or, in the case of a transfer by way of gift or for a consideration less than the market value, all parties to the transfer. Stamp duty is normally payable within 30 days after the date of execution of the transfer. Late or inadequate payment of stamp duty will result in a liability to pay interest penalties and fines.

Risk Factors

Integration of Acquired Businesses and Achieving Synergies

Elan acquired Neuralab in January 2000, Liposome in May 2000, Dura in November 2000 and Quadrant in December 2000. Prior to their acquisition by Elan, each of these companies operated independently as a separate and distinct business.

There can be no assurances that Elan will be able to effectively manage or integrate these businesses. Furthermore, Elan may not be successful in implementing appropriate operational, financial and management systems and controls to achieve the revenue and cost benefits expected to result from these acquisitions, or to achieve these benefits in the expected timeframe. Elan's efforts to integrate these businesses could be affected by a number of factors beyond Elan's control, such as regulatory developments, general economic conditions, increased competition, approval of generic products and the loss of certain customers resulting from the acquisitions. In addition, the process of integrating these businesses could cause an interruption of, or loss of momentum in, the activities of Elan's existing business. The diversion of management's attention and any delays or difficulties encountered in connection with the transition and integration of these businesses could have a material adverse effect on the business, financial condition and results of operations of Elan.

Competition and Technological Change

Elan competes in the pharmaceutical industry, which is characterised by intense competition and technological change. In recent years, Elan has also significantly expanded its research and development activities and its sales organisation, and is increasingly marketing its products directly to customers. Elan is directly competing with other pharmaceutical companies, many of which are larger and have greater financial resources, technical staff, manufacturing, research and marketing capabilities than it does. There can be no assurances that Elan's expanded development and commercialisation activities will be successful or that its drug delivery technologies and products will continue to be accepted in the market, either of which could have a material adverse effect on its business, financial condition and results of operations. Even if Elan is successful in developing and commercialising new products, these products could be rendered obsolete or made uneconomical as a result of the introduction of improved products by its competitors, or through its competitors' marketing or pricing actions. For example, the launch of a new product class, COX II inhibitors, caused a decline of Naprelan product revenue in 1999 and 2000.

Generic Competition/Patent Expirations

Patents and other types of intellectual property protections are important in the pharmaceutical industry. Generic competition can arise after the expiration of patent protection or marketing exclusivity periods. In addition, manufacturers of generic pharmaceuticals may successfully challenge or otherwise circumvent a branded product's patent protection.

Competition intensifies significantly for a product upon launch of competitive generic products. Generic competition causes significant declines in a product's price, revenue, market share and profitability as occurred with Verelan and Cardizem CD. There can be no assurances that Elan will be able to compete successfully against competitors who offer lower-cost generic versions of Elan's products.

Certain pharmaceutical products developed or marketed by Elan may face generic competition during the next several years. A generic form of Ceclor CD was approved in January 2001. In addition, Naprelan, Permax or other Elan products may encounter generic competition in the next several years. There can be no assurance that competitive generic products will not be developed and launched. Generic products could have a material adverse effect on Elan's business, financial condition and results of operations.

Research and Development Risk and Product Launch Risk

Continued growth in Elan's revenue is dependent on successful research and development activities and product introductions. Such activities involve a high degree of risk and uncertainty. The success of Elan's recently-launched products such as Zonegran and Myobloc, and products in development such as ziconotide and Frovelan, among others, is particularly important to Elan's growth in the near to medium term. There can be no assurances that any of the products in Elan's research and development pipeline, including ziconotide, Frovelan, AN-1792 and Antegren, will be successfully developed or be granted regulatory approval. The commercial launch of products that receive regulatory approval will require significant financial resources and marketing capabilities. Elan recently launched Myobloc and expects to receive approval for, and to launch several additional products in the near term. The expected launch of several new products at or about the same time may increase the risk that these launches will not be successful. There can be no assurances that these products will be successfully developed, will receive regulatory approval, will be successfully launched or that the products will achieve the revenue levels that Elan expects. Failure to successfully develop products, achieve successful product launches or expected levels of revenue could have a material adverse effect on Elan's business, financial condition and results of operations.

Regulation

The FDA and comparable regulatory authorities in other countries regulate the design, development, testing, manufacturing and marketing of pharmaceutical products and devices. The approval process is generally lengthy, expensive and subject to unanticipated delays. Currently, Elan is actively pursuing marketing approval for a number of its products from regulatory authorities, including the FDA. Continued growth in Elan's revenues and profits will depend on the timely and successful introduction and marketing of these products. There can be no assurances as to when or whether approvals from regulatory authorities will be received or that the terms of any approval will not impose significant limitations that could negatively impact upon potential profitability. Even after a product is approved, it may be subject to regulatory action based on newly discovered facts about the safety or efficacy of the product, on any activities which regulatory authorities consider to be improper, or on changes in regulatory policy. Regulatory action may have a material adverse effect on the marketing of a product, require changes in the product's labelling or even lead to withdrawal from the market or withdrawal of regulatory approval.

All facilities and manufacturing techniques used for the manufacturing of products and devices for clinical use or for sale in the US must be operated in conformity with cGMP regulations. cGMP regulations are the FDA regulations governing the production of pharmaceutical products. There are comparable regulations in other countries. Any finding by the FDA or other regulatory agency that Elan is not in substantial compliance with cGMP regulations or that the Group or its employees have engaged in activities in violation of these regulations could interfere with the continued manufacture and distribution of the affected products, up to the entire output of Elan, and in some cases, might also require the recall of previously distributed products. Any such finding by the FDA or other regulatory agency could also affect the ability of Elan to obtain new approvals until such issues are resolved. The FDA and other regulatory agencies conduct scheduled periodic regulatory inspections of Elan's facilities to ensure compliance with cGMP regulations. Any determination by the FDA or other regulatory agency that Elan is not in substantial compliance with these regulations or is otherwise engaged in improper or illegal activities could have a material adverse effect on Elan's business, financial condition and results of operations.

Memorandum and Articles of Association

Objects

The Company's objects, which are detailed in its memorandum and articles of association, are broad and include manufacturing, buying, selling and distributing pharmaceutical products. The Company's registered number is 30356.

Directors

Subject to certain exceptions, directors may not vote on matters in which they have a material interest. In the absence of an independent quorum, the directors may not vote compensation to themselves or any member of the board of directors. Directors are entitled to remuneration as shall from time to time be voted to them by ordinary resolution of the shareholders. The directors may exercise all the powers of the Company to borrow money. These powers may be amended by special resolution of the shareholders. Directors are not required to retire at a particular age. There is no requirement for the directors to hold shares.

Rights, Preferences and Dividends Attaching to Shares

All unclaimed dividends may be invested or otherwise made use of by the directors for the benefit of the Company until claimed. One-third of the directors (excluding the chairman) retire and offer themselves for re-election at each annual general meeting. All of the shareholders entitled to attend and vote at the annual general meeting vote on the re-election of directors. The Company is permitted under its memorandum and articles of association to issue redeemable shares on such terms and in such manner as the shareholders may determine by special resolution. The liability of shareholders to further capital calls is limited to the amounts remaining unpaid on shares.

Action Necessary to Change the Rights of Shareholders

The rights attaching to the different classes of shares may be varied by special resolution passed at a class meeting of that class's shareholders.

Limitations on the Rights to Own Shares

There are no limitations on the rights to own shares in the memorandum and articles of association. However, there are some restrictions on financial transfers between Ireland and other specified countries, more particularly described in Exchange Controls on page 125.

Other Provisions of the Memorandum and Articles of Association

There are no provisions in the memorandum and articles of association:

- delaying or prohibiting a change in control of the Company that operate only with respect to a merger, acquisition or corporate restructuring;
- discriminating against any existing or prospective holder of shares as a result of such shareholder owning a substantial number of shares;
- requiring disclosure of share ownership; and
- governing changes in capital, where such provisions are more stringent than those required by law.

The Company incorporates by reference all other information concerning its memorandum and articles of association from the section entitled "Description of Elan's Ordinary Shares" in the Registration Statement on Form F-3 (No. 333-13130) of the Company and Athena Finance filed with the SEC on 6 February 2001.

Documents on Display

Copies of the Company's memorandum and articles of association may be obtained at no cost by writing or telephoning the Company at its principal executive offices. The Company's memorandum and articles of association are also filed with the SEC as Exhibit 1(a) to the Company's Annual Report on Form 20-F for the fiscal year ended 31 December 1999 (the "1999 Form 20-F"). You may read and copy the 1999 Form 20-F, and any other of the Company's reports, statements or other information filed by the Company with the SEC, at the SEC's following public reference rooms:

Public Reference Room 450 Fifth Street, N.W. Room 1024 Washington, D.C. 20549	New York Regional Office 7 World Trade Center Suite 1300 New York, New York 10048	Chicago Regional Office Citicorp Center 500 West Madison Street Suite 1400 Chicago, Illinois 60661

Copies of such documents can also be obtained at prescribed rates by writing to the Public Reference Section of the SEC at 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the public reference rooms. Elan's filings with the SEC are also available to the public from commercial document retrieval services.

Glossary of Terms

Irish Equivalent	US Equivalent
Accounts	Financial statements
Creditors	Payables
Debtors	Receivables
Finance lease	Capital lease
Fixed asset investments	Non-current investments
Interest receivable	Interest income
Interest payable	Interest expense
Loans	Long term debt
Prepayments	Prepaid expenses
Profit	Income
Profit and loss account	Income statement
Retained profit	Net income (loss)
Shareholders' funds	Shareholders' equity
Short term investments	Redeemable securities and short term deposits
Share option	Stock option
Share premium account	Additional paid-in capital
Statement of total recognised gains and loss	Comprehensive income
Stocks	Inventories
Tangible fixed assets	Property, plant and equipment

Directors, Senior Management and Other Information

Board of Directors

Donal Geaney

Garo Armen PhD

Brendan Boushel

Laurence Crowley

Alan Gillespie PhD

Ann Maynard Gray

John Groom

Thomas Lynch

Kieran McGowan

Kevin McIntyre MD

Kyran McLaughlin

Dennis Selkoe MD

The Honorable Richard Thornburgh

Daniel Tully

Senior Management

Donal Geaney
Chairman and chief executive officer

Thomas Lynch
Executive vice president and chief financial officer

William Clark
President, Elan Pharmaceutical Operations

William Daniel
Group vice president, finance and controller

John Devane PhD
Executive vice president, corporate compliance

Lars Ekman MD, PhD
President, research and development, Elan Pharmaceuticals

Campbell Fitch
Vice president, human resources

Ivan Lieberburg MD, PhD
Executive vice president and chief scientific and medical officer

Seamus Mulligan
Executive vice president, business and corporate development

Lisabeth Murphy
Executive vice president, intellectual property and legal affairs

Mary Pendergast
Executive vice president, government affairs

Larry Sternson PhD
President, Elan Pharmaceutical Technologies

Daniel Welch
President, Elan Pharmaceuticals

Robert Whitehead
President, Americas, Elan Pharmaceuticals

Trademarks and Service Marks

The following trademarks and service marks appearing in this publication are owned by or licenced to Elan:

ABELCET (amphotericin B lipid complex injection)
ACLOVATE (alclometasone dipropionate)
ANTEGREN (natalizumab)
AZACTAM (aztreonam for injection)
CECLOR CD (cefaclor extended release tablet)
CUTIVATE (fluticasone propionate)
DIASTAT (diazepam rectal gel)
EMGEL (erythromycin)
FROVELAN (frovatriptan)
MAXIPIME (cefepime hydrochloride)
MEDIPAD drug delivery system
MORPHELAN (morphine sulfate sustained release)
MYOBLOC (Botulinum toxin type B injectable solution)
MYOCET (liposome encapsulated doxorubicin)
MYSOLINE (primidone)
NANOCRYSTAL
NAPRELAN (naproxen sodium)
NASALIDE (flurisolide)
NASAREL (flurisolide)
NEUROBLOC (Botulinum toxin type B injectable)
OXISTAT (oxiconate nitrate)
PERMAX (pergolide mesylate)
SKELAXIN (metaxalone)
TEMOVATE (clobetasol propionate)
VERELAN (verapamil hydrochloride)
ZANAFLEX (tizanidine hydrochloride)
ZELAPAR (selegiline hydrochloride)
ZONEGRAN (zonisamide)

Any other trademarks used in this publication are the property of the respective owner.

Shareholder Services

Elan's ADSs are listed on the NYSE (Symbol ELN). The Ordinary Shares of the Company are listed on the official lists of the London and Irish Stock Exchanges.

Depositary for ADSs
Bank of New York,
101 Barclay St., 22 West
New York, NY 10286
Tel: 212-815-2042
Fax: 212-815-3050

Registrar for Ordinary Shares
Computershare Services (Ireland) Ltd
Heron House
Sandyford Industrial Estate
Dublin 18
Tel: 353-1-216-3100
Fax: 353-1-216-3151

Duplicate Mailings

When several shareholders live at the same address, they may receive more copies of quarterly and annual reports than they need. The excess can be eliminated by writing to:

Shareholder Services
Elan Corporation, plc,
Lincoln House,
Lincoln Place,
Dublin 2, Ireland

Investor Relations

Security analysts and investment professionals should direct their enquiries to:

United States
John Howarth
Vice President, Investor Relations
Tel: 212-407-5740
800-252-3526
Fax: 212-755-1043
Email: jhowarth@elancorp.com

Europe
Emer Reynolds
Director, Investor Relations
Tel: 353-1-709-4080
00800 28352600
Fax: 353-1-709-4018
Email: ereynolds@elancorp.com

Internet Website

Information on Elan is available online via the Internet at Elan's website, http://www.elancorp.com. Information on Elan's website does not constitute part of this Annual Report and Form 20-F 2000.

Annual Meeting

The Elan Annual General Meeting will be held on Thursday, 31 May 2001 at 10.30am in Barberstown Castle, Co. Kildare, Ireland. Detailed information about the meeting is contained in the Notice of Annual General Meeting sent with the Annual Report and Form 20-F to each shareholder of record as of 24 April 2001.

Cross Reference to Form 20-F

This Annual Report is prepared under Irish GAAP. A reconciliation from Irish GAAP to US GAAP financial results is provided on pages 106-119 in accordance with SEC requirements. Information required by Form 20-F is cross-referenced to this document below. Only information in this document actually cross-referenced to Form 20-F shall be deemed to comprise part of the Form 20-F and filed with the SEC for all purposes. In addition, information in this document provided in the form of a graph shall not be deemed a part of the Form 20-F for any purpose.

élan

elan corporation, plc
Lincoln House, Lincoln Place,
Dublin 2, Ireland
Web: www.elancorp.com

ELN
Listed
NYSE