

INTERIM REPORT ON BIOTIE THERAPIES CORP. JANUARY 1 - JUNE 30, 2008

**January - June 2008 in brief**

- In January Lundbeck acquired the United Kingdom and Ireland rights for nalmefene from Britannia Pharmaceuticals (now part of STADA Group, headquartered in Germany). Following the new agreement Lundbeck has worldwide rights for nalmefene, excluding North America, Mexico, Turkey, and South-Korea.
- In June Biotie announced top-line data from the first-in-man clinical study with its fully human VAP-1 monoclonal antibody. The data from the study support proceeding to clinical studies with repeated doses of the antibody.
- The net loss in January - June stood at EUR 3.3 million (net income in 2007 EUR 1.6 million). Cash flow in January - June from operating activities was EUR -5.8 million (EUR -2.9 million in 2007).
- Revenue for January - June stood at EUR 3.2 million (EUR 5.2 million in 2007) and earnings per share was EUR -0.04 (EUR 0.02 in 2007).
- The company's liquid assets amounted to EUR 23.0 million as at June 30, 2008 (EUR 30.2 million as at June 30, 2007).

**Q2/2008 in brief:**

- The net loss in April - June stood at EUR 1.3 million (net income in 2007 EUR 2.7 million). Cash flow in April - June from operating activities was EUR -2.5 million (EUR -0.3 million in 2007).
- Revenue for April - June stood at EUR 1.8 million (EUR 4.6 million in 2007) and earnings per share was EUR -0.01 (EUR 0.03 in 2007).

**General:**

Biotie is a drug development company focusing on dependence disorders, inflammatory diseases and thrombosis.

**Drug development projects:**

Nalmefene program

In January, Lundbeck acquired the United Kingdom and Ireland rights for nalmefene from Britannia Pharmaceuticals (now part of STADA Group, headquartered in Germany). Following the new agreement Lundbeck has worldwide rights for nalmefene, excluding North America, Mexico, Turkey, and South-Korea.

Biotie-Lundbeck license agreement terms were amended due to Lundbeck acquiring the United Kingdom and Ireland rights. Under the terms of the amended agreement, Biotie is now eligible for up to EUR 82 million in upfront and milestone payments (previously up to EUR 80 million) plus royalty on sales. Of the EUR 82 million, Biotie has already received an execution fee of EUR 12 million from Lundbeck.

To maximise nalmefene's potential in the treatment of alcoholism Biotie and Lundbeck have jointly decided to seek marketing authorisation simultaneously in all 27 EU member states via the centralized procedure. To this end, Lundbeck plans to further strengthen the existing nalmefene registration dossier in its

alcoholism indication with additional phase III clinical studies before submitting the marketing authorisation application. The studies are expected to start in 2008. Biotie will participate in financing some of the clinical development costs.

#### VAP-1 antibody program

Top-line data from the first-in-man study with Biotie's fully human VAP-1 monoclonal antibody BTT-1023 were reported in June 2008. The study was conducted in a clinical pharmacology unit in the United Kingdom and investigated the safety, tolerability and pharmacokinetic characteristics of single intravenous doses of BTT-1023 in healthy volunteer subjects.

A total of 35 subjects, of whom 29 received BTT-1023, were enrolled into the placebo-controlled study. BTT-1023 was generally well tolerated and no serious adverse events were reported in the study. Among the five subjects who received the highest dose, facial flushing was reported by two subjects with accompanying facial oedema in one of the two. These were reported during or shortly after the infusion and are not uncommon events in association with intravenous administration of therapeutic protein drugs. No cytokine release or fever was observed in any subject. All adverse events were fully reversible and required no particular intervention.

The data from the study support proceeding to clinical studies with repeated doses of the antibody. These studies are expected to be carried out in rheumatoid arthritis and psoriasis patients and will aim to establish appropriate dosing regimens for subsequent therapeutic studies and provide initial information on the therapeutic potential of BTT-1023. The studies are expected to start in the end of 2008.

In November 2006, Biotie and Roche signed an option agreement for Biotie's fully human antibody program targeting Vascular Adhesion Protein-1 (VAP-1) in inflammatory diseases.

Under the terms of the agreement, Roche has paid an option initiation fee of EUR 5 million, which grants Roche an exclusive option right to an exclusive, worldwide license agreement for Biotie's fully human antibody targeting VAP-1, excluding Japan, Taiwan, Singapore, New Zealand, and Australia. The initial option right will end upon completion of Phase I. Roche may extend the option right to later development points by paying additional fees. Biotie will retain all rights to the program until a license is granted to Roche.

Inhibiting VAP-1 reduces inflammation by regulating the migration of leukocytes, or white blood cells, to inflamed tissues. Pathological accumulation of white blood cells in tissue is a common feature in many autoimmune diseases, such as rheumatoid arthritis, ulcerative colitis, and psoriasis.

Co-operation with Seikagaku Corporation proceeded as planned.

#### Pre-clinical programs

Pre-clinical programs (VAP-1 SSAO small molecule inhibitor program and alpha2beta1 integrin inhibitor program) progressed as planned. In the bioheparin program the company continued to look for a partner to finance the future development of the program. To date, partnering efforts have not been successful.

#### Revenues

Revenue for the reporting period 1.1.-30.6.2008 was EUR 3.2 million. Revenue consisted of periodization of the signing fees of the licensing agreements

signed with Seikagaku Corporation in 2003 and with Somaxon Pharmaceuticals in 2004, periodization of the option fee of the option agreement signed with Roche in 2006 as well as periodization of the execution fee of the licensing agreement signed with Lundbeck that entered into force in May 2007. No new milestones or signing fees were received during the reporting period.

Revenue for the period 1.1.-30.6.2007 consisted of periodization of the signing of the licensing agreement signed with Seikagaku Corporation in 2003 and periodization of the signing fee of the licensing agreement in nalmefene project signed with Somaxon Pharmaceuticals in 2004 and periodization of the option fee of the option agreement signed with Roche in 2006 as well as periodization of the execution fee of the licensing agreement signed with Lundbeck that entered into force in May 2007. The revenue was in total EUR 5.2 million. Payment of EUR 2.0 million was received from Lundbeck during the period.

Revenue for April - June 2008 amounted to EUR 1.8 million (EUR 4.6 million in 2007) consisting of periodizations described above.

### **Financial results**

The net loss for the reporting period was EUR 3.3 million (net income in 2007 EUR 1.6 million). Research and development costs for the period amounted to EUR 5.2 million. The corresponding figure for the previous year was EUR 3.5 million.

The net loss in April - June was EUR 1.3 million (net income in April - June 2007 EUR 2.7 million). Research and development costs in the second quarter amounted to EUR 2.8 million (EUR 2.1 million in 2007)

Patent costs have been booked as expenses.

### **Financing**

Biotie's equity ratio was -57.6 % on June 30, 2008 (-25.5 % in 2007). Cash and cash equivalents totaled EUR 23.0 million on June 30, 2008 (EUR 30.2 million in 2007).

The company has invested its liquid assets into bank deposits during the second quarter 2008. Funds are reported in "investments held to maturity". Deposits with maturity less than 3 months are reported in the "cash and cash equivalents". Previously the funds were invested in money market funds.

In January 2008, The Finnish Funding Agency for Technology and Innovation (Tekes) granted EUR 1.7 million additional funding for Biotie Therapies' integrin alpha2beta1 inhibitor program for thrombosis. The R&D funding granted covers drug development costs of the project from July 2007 to December 2009.

The funding granted is in the form of loan and it covers 50 per cent of the costs of the project. The loan will be paid to Biotie against reported realised costs. In order to receive the full amount of granted financing, Biotie must show a total expenditure of EUR 3.4 million in the project.

### **Shareholder's equity**

The shareholders' equity (FAS) of the company is less than half of the company's share capital when capital loans are not included in shareholders' equity. Shareholders' equity and capital loans add up to EUR 14.3 million.

Annual General Meeting was held on March 28, 2008 and considered measures relating to the level of shareholder's equity. It was resolved that no special measures are necessary at this point in time.

## Investments and cash flow

The cash flow from operations was EUR -5.8 million (in 2007 EUR -2.9 million). The company's investments during the reporting period amounted to EUR 109 thousand (EUR 10 thousand in 2007).

The cash flow from operating activities in April - June was EUR -2.5 million (EUR -0.3 million in 2007). Investments during the second quarter amounted to EUR 92 thousand (EUR 3 thousand in 2007).

## Personnel

During the reporting period, the company's personnel was on average 35 (35 in 2007, 39 in 2006) and at the end of the reporting period 36 (33 on June 30, 2007 and 36 on June 30, 2006).

## The ten biggest shareholders of Biotie on June 30, 2008

	Number of shares	%
Pequot group:	21,069,624	23.55
- Pequot Healthcare Fund, L.P. (7,765,345)		
- Pequot Healthcare Offshore Fund, Inc. (5,937,983)		
- Premium Series PCC Limited (998 490)		
- Pequot Diversified Master Fund Ltd. (1,201,800)		
- Pequot Healthcare Institutional Fund, L.P. (1 521 406)		
- Pequot Healthcare Emerging Markets Fund, Ltd. (3,644,600)		
Finnish Innovation Fund (Sitra)	14,585,350	16.30
Finnish Industry Investment Ltd	6,778,592	7.58
Juha Jouhki and his controlled companies	6,537,672	7.31
- Dreadnought Finance Oy (2,098,416)		
- Jouhki Juha (1,501,356)		
- Thominvest Oy (2,937,900)		
Funds administered by BioFund Management Oy:	2,519,775	2.82
- BioFund Ventures III Ky (2,485,715)		
- BioFund Ventures I Ky (34,060)		
Harri Markkula and his controlled company:	1,316,695	1.47
- Tilator Oy (420,700)		
- Markkula Harri (895,995)		
Oy H. Kuningas & Co AB	1,058,371	1.18
Oksanen Markku	690,00	0.77
Sij.rahasto ABN Amro small cup	550,000	0.61
Siven Pertti	350,000	0.39
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	55,456,079	61.99
Nominee registered shares total	6,075,001	6.79
Other shareholders	27,931,780	31.22
Outstanding shares	89,462,860	100.00
The number of the company's own shares held by Biotie Therapies	749,000*)	
Total	90,211,860	

\*) The company has in its possession 819.000 of its own shares. Relating to the company's option programs, the company has signed a stock lending agreement with EVLI Bank in January, 2007. Pursuant to this program, the number of the company's own shares in its possession may be temporarily less than 819,000.

## **Short-term risks and uncertainties**

Biotie's strategic risks are related to the technical success of the drug development programs, regulatory issues, the strategic decisions of its commercial partners, ability to obtain and maintain intellectual property rights for its products, validity of its patents, launch of competitive products and the development of the sales of its products and availability of capital. For example, even though the commercialisation and collaboration agreements on the company's product development projects have been concluded, there can be no assurance that the contracting partner will act in accordance with the agreement, the authorities will approve the product under development or the approved product will be commercialised. The development and success of the company's products depends on third parties.

The operational risks include dependency of key personnel, assets and dependency on partners' decisions.

## **Future outlook**

- Lundbeck is expected to start additional phase III studies with nalmefene in its alcohol indication in 2008.
- Due to Biotie having two programs in the clinical development phase the operating costs are expected to increase to a somewhat higher level for 2008 than in 2007.
- Revenue in 2008 is estimated to be approximately EUR 5 to 6 million and consists of periodization of already received payments based on established revenue recognition principles. The company is not expecting new milestone payments based on existing agreements in 2008.

## **IFRS and Accounting principles**

The interim report has been prepared in accordance with IAS 34, Interim Financial Reporting. Biotie has applied the same accounting principles as in the closing of year 2007.

This interim report is unaudited.

Biotie's interim report for January - September will be published on October 24, 2008.

In Turku, August 8, 2008

Biotie Therapies Corp.

Board of Directors

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APPENDICES TO THE FINANCIAL STATEMENTS

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Cash flow statement

Key figures

## FINANCIAL STATEMENT

EUR 1,000	1.4.- 30.6.2008 3 months	1.4.- 30.6.2007 3 months	1.1.- 30.6.2008 6 months	1.1.- 30.6.2007 6 months	1.1.- 31.12.2007 12 months
Revenue	1,838	4,605	3,159	5,210	7,895
Research and development expenses	-2,797	-2,074	-5,200	-3,549	-9,053
General and administrative expenses	-424	-366	-899	-963	-1,655
Other operating income	61	426	120	684	1,044
Operating profit/loss	-1,322	2,592	-2,820	1,383	-1,769
Financial income	231	299	235	601	860
Financial expenses	-191	-190	-717	-401	-817
Profit/loss before taxes	-1,282	2,702	-3,302	1,583	-1,726
Taxes	0	0	0	0	0
Net income/loss	-1,282	2,702	-3,302	1,583	-1,726
Distribution					
To parent company Shareholders	-1,282	2,702	-3,302	1,583	-1,726
Earnings per share (EPS) basic & diluted, EUR	-0.01	0.03	-0.04	0.02	-0.02

## BALANCE SHEET

EUR 1,000	30.6.2008	30.6.2007	31.12.2007
<b>Assets</b>			
Non-current assets			
Intangible assets	720	774	747
Property, plant and equipment	370	84	332
Financial assets at fair value through profit or loss	0	20,000	14,938
	<u>1,090</u>	<u>20,858</u>	<u>16,017</u>
Current assets			
Accounts receivables and other receivables	726	1,031	753
Investments held to maturity	17,500	0	0
Financial assets at fair value through profit or loss	0	9,302	13,000
Cash and cash equivalents	5,504	936	305
	<u>23,730</u>	<u>11,270</u>	<u>14,058</u>
<b>Total</b>	<b>24,820</b>	<b>32,128</b>	<b>30,075</b>
<b>Equity and liabilities</b>			
Shareholders' equity			
Share capital	19,850	19,850	19,850
Reserve for invested unrestricted equity	980	980	980
Retained earnings	-31,832	-30,619	-30,220
Net income/loss	-3,302	1,583	-1,726
Shareholders' equity total	<u>-14,304</u>	<u>-8,207</u>	<u>-11,117</u>
Non-current liabilities			
Provisions	3	19	14
Non-current financial liabilities	24,538	23,350	23,603
Other non-current liabilities	8,628	14,071	10,098
	<u>33,169</u>	<u>37,440</u>	<u>33,715</u>
Current liabilities			
Provisions	20	16	20
Current financial liabilities	143	15	104
Accounts payable and other current debts	5,791	2,864	7,353
	<u>5,955</u>	<u>2,895</u>	<u>7,477</u>
<b>Liabilities total</b>	<b>39,124</b>	<b>40,335</b>	<b>41,192</b>
<b>Total</b>	<b>24,820</b>	<b>32,128</b>	<b>30,075</b>

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Attributable to equity holders of the parent company

EUR 1,000	Shares (1000 pcs)	Share Capital	Reserve For invested Un- restricted equity	Own Shares	Retained Earnings	Share- holders' equity total
Balance at 1.1.2007	89,531	19,850	0	-15	-30,641	-10,807
Net income/loss for the period					1,583	1,583
Options granted					38	38
Share subscription with Convertible capital loans	450		841			841
Share subscription with Option rights	231		139			139
	681	0	980	0	1,621	2,600
BALANCE AT 30.6.2007	90,212	19,850	980	-15	-29,020	-8,207
Net income/loss for the period					-3,309	-3,309
Options granted					399	399
	0	0	0	0	-2,910	-2,910
BALANCE AT 31.12.2007	90,212	19,850	980	-15	-31,930	-11,117
Net income/loss for the period					-3,302	-3,302
Options granted					115	115
	0	0	0	0	-3,187	-3,187
BALANCE AT 30.6.2008	90,212	19,850	980	-15	-35,117	-14,304

## CASH FLOW STATEMENT

EUR 1,000	1.1.- 30.6.2008 6 months	1.1.- 30.6.2007 6 months	1.1.- 31.12.2007 12 months
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Cash flow from operating Activities			
Net income/loss	-3,302	1,583	-1,726
Adjustments:			
Non-cash transactions	240	99	443
Addition/disposal due to revaluation of financial assets at fair value through profit or loss	0	-517	-644
Interest expenses and other financial expenses	717	401	817
Interest income	-235	-601	-216
Taxes	0	0	0
Change in working capital:			
Change in accounts receivables and other receivables	245	-448	-190
Change in accounts payable and other liabilities	-3,499	-3,507	-3,799
Change in mandatory provisions	-10	8	10
Interests paid	-2	-10	-40
Interests received	31	85	57
Taxes paid	0	0	0
Net cash from operating activities	-5,815	-2,908	-5,288
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Cash flow from investing activities			
Change in financial assets at fair value through profit or loss			
Additions	0	-3,000	-4,500
Disposals	27,685	2,154	5,280
Change in investments held to maturity			
Additions	-22,500	0	0
Disposals	5,000	0	0
Investments to tangible assets	-27	-10	-23
Net cash used in investing activities	10,158	-856	757
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Cash flow from financing activities			
Payments from share issue	0	139	139
Proceeds from borrowings	888	689	874
Repayment of loans	0	0	-40
Repayment of lease commitments	-32	-12	-23
Net cash from financing activities	856	815	950
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Net increase (+) or decrease (-) in cash and cash equivalents	5,199	-2,949	-3,581
Cash and cash equivalents in the beginning of the period	305	3,886	3,886
Cash and cash equivalents in the end of the period	5,504	936	305

## KEY FIGURES

EUR 1,000	1.1.- 30.6.2008 6 months	1.1.- 30.6.2007 6 months	1.1.- 31.12.2007 12 months
<b>Business development</b>			
Revenues	3,159	5,210	7,895
Personnel on average	35	35	36
Personnel at the end of period	36	33	37
Research and development costs	5,200	3,549	9,053
Capital expenditure	109	10	287
<b>Profitability</b>			
Operating profit/loss	-2,820	1,383	-1,769
as percentage of revenues, %	-89.3	26.5	-22.4
Profit/loss before taxes	-3,302	1,583	-1,726
as percentage of revenues, %	-104.5	30.4	-21.9
<b>Balance sheet</b>			
Cash and cash equivalents	23,004	30,239	28,243
Shareholders equity	-14,304	-8,207	-11,117
Balance sheet total	24,820	32,128	30,075
<b>Financial ratios</b>			
Return on equity, %	-	-	-
Return on capital employed, %	-45.0	28.4	-7.2
Equity ratio, %	-57.6	-25.5	-37.0
Gearing, %	-11.7	83.8	40.8
<b>Per share data</b>			
Earnings per share (EPS) basic & diluted, EUR	-0.04	0.02	-0.02
Shareholders' equity per share, EUR	-0.16	-0.09	-0.12
Dividend per share, EUR			
Pay-out ratio, %			
Effective dividend yield, %			
P/E-ratio			
<b>Share price</b>			
Lowest share price, EUR	0.50	0.85	0.75
Highest share price, EUR	0.94	1.18	1.22
Average share price, EUR	0.70	0.99	0.98
End of period share price, EUR	0.53	0.91	0.76
Market capitalization at the end of period MEUR	47.8	82.1	68.6
<b>Trading of shares</b>			
Number of shares traded	7,103,973	25,749,500	35,093,743
As percentage of all	7.9	28.5	38.9
Adjusted weighted average Number of shares during the period	90,211,860	89,661,658	90,003,192
Adjusted number of shares at the end of the period	90,211,860	90,211,860	90,211,860

RELATED PARTY TRANSACTIONS

There have not been material changes within the related party transactions in 2008.

CONTINGENT LIABILITIES

EUR 1,000	30.6.2008	30.6.2007	31.12.2007
Lease commitments	152	29	159

Formulas for the Calculation of the Financial Ratios

Return on equity, %  
 Profit (loss) before extraordinary items - taxes  
 ----- x 100  
 Shareholders' equity

Return on capital employed, %  
 Profit (loss) before taxes + interest expenses and other financial expenses  
 ----- x 100  
 Balance sheet total - non-interest bearing liabilities

Equity ratio, %  
 Shareholders' equity  
 ----- x 100  
 Balance sheet total - advanced received

Gearing, %  
 Interest bearing liabilities - cash and cash equivalents  
 ----- x 100  
 Shareholders' equity

Earnings per share (EPS)  
 Profit before extraordinary items, appropriations and taxes - minority interest  
 - taxes  
 -----  
 Adjusted average number of outstanding shares during the period

Shareholders' equity per share  
 Shareholders' equity  
 -----  
 Adjusted average number of outstanding shares at the end of the period