

Half-Year Report 2009

Pipeline development

| Product | Drug type | PC | Phase I | Phase II | Phase III | MA | Launch | Partner |
|--|--|----|--|----------|-----------|-------|----------------------|---|
| Lialda™/ Mezavant® Mild to moderate Ulcerative Colitis | 5-ASA | | | | | | 03/07 USA / 10/07 UK | Shire |
| Zacol NMX® Intestinal Disorders (nutraceutical) | Dietary supplement | | | | | | 12/05 ITA | |
| Budesonide MMX® Mild to moderate Ulcerative Colitis | Corticosteroid | | | | | 1Q 10 | | Santarus – USA Ferring – Worldwide (excluding Japan and USA) |
| Rifamycin SV MMX® Travellers' Diarrhoea | Antibiotic | | | | | 1Q 11 | | Santarus – USA Dr. Falk Pharma – Europe and Australia (excluding Italy) |
| LMW Heparin MMX® Mild to moderate Ulcerative Colitis | Biologic | | | | | 4Q 11 | | |
| CB-03-01 (NCE) Acne | Steroid ester, androgen antagonist | | PK Study / POE Toxicologic study Sensitivity study | | | 3Q 10 | | |
| Rifamycin SV MMX® CDAD | Antibiotic | | | | | 4Q 10 | | |
| CB-01-12 IBD | Anti-TNFα | | | | | | | |
| CB-01-16 Opioid-induced Constipation | Opioid antagonist | | | | | | | |
| CB-01-14 Crohn's Disease | Antibiotic | | | | | | | |

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Highlights

- Lialda™ has achieved continuous gains in market share in the USA, according to Shire. These have now reached more than 15% of the 5-ASA tablet market in the USA. Cosmo's royalties are increasing correspondingly.
- Budesonide MMX® is in phase III in the USA and in the EU and the studies are progressing. As per end of June 2009, more than 50% of the patients had been randomized.
- The preparations for the phase III clinical trials for Rifamycin MMX® in the USA and the EU have been practically completed, by providing the additional laboratory analyses required by the FDA. Patient enrolment for phase III trials for Travellers' Diarrhoea is expected to start in Q4 2009.
- In the phase II proof-of-concept clinical trials of the novel anti-androgen-based cream, CB-03-01, for the topical treatment of Acne, 95% of the patients were randomized per end of June 2009. The data report is expected in Q4 2009.
- Cosmo presented two posters on CB-01-12, LMW Heparin MMX®, at the Digestive Disease Week (DDW) and one of the posters was awarded a medal of distinction. Research on the mechanism of action of CB-01-12 continues. A meeting with the FDA to discuss the design of the phase III clinical trials is planned for H2 2009.
- Total revenues were 12.7% higher than in the comparable period of 2008 and reached EUR 13.4 million.
- Revenue from own products increased from EUR 5.1 million to EUR 7.4 million, respectively from 42.7% to 55.7% of total revenue.
- Cosmo achieved a net profit of EUR 2.0 million in the first six months of 2009, following a net loss of EUR 0.8 million in the comparable period of 2008. The total comprehensive income after tax, including gains on the value of investments and on hedging, reached EUR 6.1 million, up from a loss of EUR 0.8 million in the comparable period of 2008.

Cosmo at a glance

Cosmo Pharmaceuticals S.p.A. is a specialty pharmaceutical company headquartered in Lainate, Milan, Italy, and is listed on the SIX Swiss Exchange (SIX: COPN).

Cosmo's business goal is to become or be part, directly or indirectly, of a fully integrated specialty pharmaceutical company, recognized for its excellence in treating selected Gastrointestinal Disorders.

The Company's clinical development pipeline specifically addresses innovative treatments for Inflammatory Bowel Diseases (IBD), such as Ulcerative Colitis

and Crohn's Disease, as well as for Colon Infections.

In addition, the Company is developing a new chemical entity for the treatment of Acne, Alopecia and Hirsutism.

Cosmo's proprietary multimatrix technology, MMX®, is an excellent base for developing new, patentable, yet low-risk products, manufactured at the Company's own GMP-approved plant. Currently Cosmo has two products on the market, five in clinical trials and three in preclinical development.

Key figures

| EUR 1,000 | 30.06.2009 | 30.06.2008 |
|---|------------|------------|
| Income statements | | |
| Revenues | 13,384 | 11,872 |
| Cost of sales | (6,352) | (6,648) |
| Research and development costs | (2,731) | (3,232) |
| Selling, general and administrative costs | (2,676) | (2,678) |
| Operating result | 1,970 | (663) |
| Profit/(Loss) before taxes | 2,643 | (370) |
| Profit/(Loss) for the period | 2,005 | (814) |
| Shares | | |
| Weighted average number of shares | 13,755,037 | 13,875,000 |
| Earnings/(Loss) per share (in EUR) | 0.15 | (0.06) |
| Statement of financial position | | |
| Non-current assets | 31,579 | 24,072 |
| Cash and cash equivalents | 20,354 | 22,166 |
| Other current assets | 10,844 | 11,527 |
| Liabilities | 13,691 | 14,529 |
| Shareholders' equity | 49,086 | 43,236 |
| Equity ratio (in %) | 78.2% | 74.8% |

Dear Shareholder

Following the conclusion of the licensing agreements with Santarus and Dr. Falk Pharma in late 2008, in the first six months of 2009 we primarily concentrated on building up the joint teams that manage the respective clinical trials and fulfilling all requirements for the success of such trials. At the same time we continued working on the next generation products CB-03-01 and LMW Heparin MMX[®] and made significant progress. We have not had any clinical setbacks in any of our clinical trials. One preclinical project, CB-01-13, a MMX[®] development of a Cox-2 inhibitor, is no longer being pursued because regulators are taking increasingly restrictive views on Cox-2 inhibitors.

Overall revenues increased by 12.7%, or EUR 1.5 million to EUR 13.4 million in comparison to H1 2008. Royalties from MMX[®] products jumped from EUR 1.2 million (in H1 2008) to EUR 2.7 million, however, manufacturing revenues for MMX[®] products decreased from EUR 3.7 million to EUR 3.3 million or by 11.6% (despite a growth in the sales of Lialda[™]) because manufacturing levels have normalized after the initial marketing push in 2007/2008. Costs have been well controlled. Total net operating expenses decreased by 8.9% or EUR 1.1 million to EUR 11.4 million. This was primarily due to a decrease of 4.5% of cost of goods to EUR 6.4 million, flat selling, general and administrative expenses at EUR 2.7 million and a decrease of R&D costs by 15.5% to EUR 2.7 million. R&D costs were reduced primarily because our partners Santarus and Dr. Falk Pharma have assumed clinical trial costs and because we capitalized EUR 2.3 million costs of the Budesonide MMX[®] clinical trials. As a consequence, we moved from an operating loss of EUR 0.7 million in the first half of 2008 to an operating profit of EUR 2.0 million for the first half of 2009. Profit after tax increased to EUR 2.0 million against a loss of EUR 0.8 million incurred in the first half of 2008. In H1 2009, cash generated from operating activities amounted to EUR 3.0 million compared to an operating cash loss in the first half of last year. EUR 3.1 million cash were used for investing activities primarily by investing into intangi-

bles and the plant. Furthermore, EUR 1.8 million were used to repay debt and purchase own shares, so cash and cash equivalents declined by EUR 1.8 million to EUR 20.4 million. As per 30 June 2009, we held 179,858 own shares and our investment in Santarus' shares, classified as financial asset available for sale, amounted to EUR 12 million thus further strengthening our financial position. Our balance sheet ratios have further improved; the current assets are 3.9 times higher than the current liabilities, the equity ratio improved to 78.2%.

Going forward, the increasing revenues from Lialda[™], as well as from the contract manufacturing, provide us with enough cash to fund our clinical pipeline while maintaining healthy balance sheet ratios.

With reference to our pipeline of products, we distinguish between those products that are, in essence, improvements of existing products and those products that are totally new. Lialda[™] is an improvement of an existing product as are Budesonide MMX[®] and Rifamycin MMX[®]. However, LMW Heparin MMX[®] is a new potential therapy and CB-03-01 takes us into the development of new chemical entities and both saw major developments during the past six months.

Products in the market

Lialda[™] is fulfilling our sales expectations in the USA. In Europe, various market introductions are expected in 2009. On 16 January 2009, Shire, to whom Lialda[™] was licensed, announced that they had concluded a sublicensing agreement with Mochida for the sale of Lialda[™] in Japan. Mochida will, however, need to conduct clinical trials in Japan and a market introduction is not expected in the short term. Furthermore, we are proceeding with the development of a pediatric formulation of Lialda[™].

Products in clinical development

Budesonide MMX[®] is directed at those patients with mild to moderate Ulcerative Colitis who do not get satisfactory treatment with classical aminosalicylates such as Lialda[™]. It is presumed that these non-responders represent approximately 30% of all mild to moderate patients. We believe that we can combine budesonide, which is well known as a very effective corticosteroid, with our MMX[®] technology thus creating a safe and effective product. Budesonide MMX[®] has entered two phase III clinical trials, one in the USA and one in the EU. In order to make these trials more effective, we decided to synchronize them and to make both compatible with the requirements of the EMEA and the FDA. Each trial is for 480 patients. Both trials are randomized, double-blind and double-dummy trials testing 9 mg Budesonide MMX[®] against placebo, with the US trial having an additional reference arm for Asacol[®] and the EU trial having an additional reference arm for Entocort[®]EC.

At a pre-IND (Investigational New Drug) meeting with the FDA, we were informed that rifamycin SV, the chemical entity that is the basis for our Rifamycin SV MMX[®], is considered a new molecular entity for the US market and the FDA requested a series of additional preclinical studies. These have almost been completed. The protocols of the phase III trials are being designed and the patients' treatment will immediately follow.

In January, we commenced our phase II clinical trials for our topical anti-androgen CB-03-01 in 80 males with Acne. CB-03-01 is a novel anti-androgen-based cream for the topical treatment of skin disorders. Anti-androgens are known to be effective in controlling Acne, Alopecia and Hirsutism. Acne affects about 45 million people in the USA alone, i.e. around 16% of the population. The worldwide market for Acne is presumed at more than USD 2.8 billion. As for Androgenetic Alopecia, an androgen-induced male baldness affecting about 12% of all men over 20 years of age, the main drug in the market is Propecia[™] from Merck,

a systemically applied drug, which, according to Medtrack, had sales of USD 405 million in 2007. Anti-androgens are also known to be effective in controlling Hirsutism, an androgen-induced facial and body hair growth in females, affecting about 10% of the female population. When anti-androgens are systemically applied, they can detrimentally affect the sex life of patients. Preclinical studies have shown that CB-03-01 is devoid of common systemic effects since, once absorbed, it is rapidly metabolized to a physiological substance lacking anti-androgen activity. This clinical trial is a double-blind, double-dummy trial against Retin-A and placebo. This trial was closed in the first week of July. We expect to have the data report in Q4 2009.

Following the successful conclusion of the phase IIb clinical trial on 120 patients treated with Low-Molecular-Weight Heparin MMX[®] tablets (LMW Heparin MMX[®]) we have been focusing on identifying the mechanism of action of LMW heparin. Our work is progressing. In May, we presented two posters on the clinical trials and on the mechanism of action at the DDW in Atlanta (USA), the most important event for specialists in treating digestive diseases, and were awarded the Certificate of Distinction by the jury.

Products in preclinical development

Our preclinical work necessary for the development of an anti-TNF α tablet, and an interferon- α tablet, and the anti-opioid-induced constipation tablet is continuing.

Business development

We are currently pursuing several initiatives for the licensing of Rifamycin SV MMX[®] in Latin America and Asia. Furthermore, we are regularly shown opportunities of investing into smaller biotech and pharma companies that need funds. Given that, it is our objective to have sufficient cash on hand to finance our clinical trials independently, we have not pursued any of these opportunities.

Strategic relationships

Since December 2008, we have a 10% ownership of Santarus. At year end 2008, these shares had a value of USD 1.57 per share, per 30 June 2009 the price had risen to USD 2.82. Given this development of the Santarus share price, our investment in Santarus has appreciated by EUR 5.2 million. This gain is, however, not run through the profit and loss statement but directly accounted in equity.

Personnel

Per 30 June 2009 we employed 135 persons in the Group; 1.5% more than at year end 2008.

This is an exciting time for Cosmo as a whole range of clinical activities we have been working on are in key phases. We want to thank our employees and partners for their dedication and our shareholders for their patience. We are looking forward with confidence to the full-year results of Cosmo.

Lainate, 29 July 2009



Rolf Stahel
Chairman of the Board



Mauro S. Ajani
Chief Executive Officer

Key value drivers

Cosmo's most important value driver is the decidedly entrepreneurial approach to opportunities and risks. Careful cash management has been a long-standing principle of the Company and this has enabled us to build up Cosmo's cash generation capacity and implement strategies that can be executed within the Company's own financial resources. Cosmo carefully considers the economic rationale of each new opportunity and initiative presented to it to ensure the Company is not overcommitted with financial burden.

Cosmo developed its MMX[®] technology based on a clear market need. To this end high-level technical competence was required and Cosmo continues building on this to ensure a sustainable development pipeline and product portfolio into the future. After developing the MMX[®] technology, the Company discovered that the majority of drugs that were being prescribed and developed for colon diseases had compliance or safety issues and so Cosmo set out to identify such drugs. This ability to look laterally sets the Company apart from a pure research-driven organization. In developing these applications, the Company has established a broad knowledge of the colon's physiology and the absorption of pharmaceutical products in the gastrointestinal tract. This gives rise to new opportunities. The Company believes that the blend of its knowledge of the colon and the unique characteristics of the MMX[®] technology give it a strong competitive edge in developing new medications for the colon without becoming overexposed to the expensive and high-risk pure research process for new chemical entities. Cosmo primarily works with

molecules that are on the market. The Company seeks to improve their safety profile, their efficacy or to make them more patient friendly. Whilst many of the Company's products primarily represent improvements over their predecessors, these products are much more likely to gain regulatory approval than entirely new chemical entities.

Lialda™

(as the product is called in the USA) or **Mezavant[®]** (as it is called in Europe) is the first proprietary product Cosmo developed, a mesalamine MMX[®].

Budesonide MMX[®],

developed in house, aims to become the first oral corticosteroid indicated for Ulcerative Colitis.

Rifamycin SV MMX[®],

developed in house, is targeted at Travellers' Diarrhoea and subsequently Colon Infections which are frequently concomitant with Colon Inflammations.

LMW Heparin MMX[®],

developed in house as a new formulation and administration of a well-known chemical substance, is planned to be the first biological treatment topically effective in Inflammatory Bowel Diseases.

CB-03-01

is the first new chemical entity that the Company is developing. It is a steroid ester, androgen antagonist derived from 11-deoxycortisone, which tightly mimics the profile of an ideal anti-androgen for topical use.

The third key value driver lies in the Company's attention to its partnerships. As a small company it is crucial to determine what risks can be taken in building up a distribution organization and what partners should be sought if partnerships make more sense. Cosmo's first three products, Lialda™, Budesonide MMX® and Rifamycin SV MMX®, all have the potential of attaining peak sales of several hundred million USD each, but they are primarily gradual improvements and not likely to be blockbusters. Peak sales can only be achieved with dedicated efforts so it is important to find partners that have the will and skills to do this. The Company believes that it has the ideal partner in Shire for Lialda™, in Ferring and Dr. Falk Pharma for the European efforts in Budesonide MMX® and in Rifamycin SV MMX®, and in Santarus for the US efforts for Budesonide MMX® and Rifamycin SV MMX®.

Cosmo considers LMW Heparin MMX® and CB-03-01 as the two products with the greatest market potential but also with a higher development risk than Budesonide MMX® or Rifamycin SV MMX®. Cosmo so far has not entered into any discussions on the future of the two products. It is the Company's intention to defer entering into such discussions until the best risk-reward ratio can be achieved for shareholders. The Company expects this to be sometime in 2010 or 2011.

Business strategy

Cosmo's business goal is to become or be part, directly or indirectly, of a fully integrated specialty pharmaceutical company, recognized for its excellence in treating selected Gastrointestinal Disorders.

The blend of our knowledge of the colon and the unique characteristics of the MMX® technology gives us a strong competitive edge in developing new applications for the colon without having to resort to the expensive and risky pure research process for new chemical entities. The Company's strategy has evolved accordingly. Cosmo now has a separate product portfolio strategy, a distribution strategy and a manufacturing strategy.

Product portfolio strategy

Cosmo's product portfolio strategy is focused on diseases of the colon, primarily on Inflammatory Bowel Diseases (IBD). To date, the majority of gastroenterologists treating IBD have followed a step-up strategy, first prescribing 5-ASA-based drugs to their patients, then moving on to corticosteroids, then on to immunosuppressants and finally to biologic products. After developing the 5-ASA product, the Company set about to identify corticosteroids, immunosuppressants and biologics whose efficacy or safety profile could be improved by the MMX® technology. This led to the Company's pipeline: Cosmo now has products on the market or in development for patients of all levels of severity.

Distribution strategy

Cosmo's products are generally prescribed by gastroenterologists and selected general practitioners. This makes targeted marketing by a relatively small sales force possible. After carefully considering the option of establishing its own sales force in the USA, the Company, however, decided to license its two next products scheduled to come to the market in the USA to Santarus and to take a 10% stake in Santarus. This stake may increase, at the Company's option, when

next milestone payments become due. The distribution strategy in the rest of the world is through licensees.

Manufacturing strategy

The experience gained by years of manufacturing was the basis for the establishment of the MMX® technology. It allows the delivery of active pharmaceutical ingredients into the lumen of the colon through tablets in a delayed and controlled extent with the effect that the drugs can be applied to the full length of the colon. Cosmo wants to retain and continuously expand this expertise and strives to manufacture as much of its own products as possible. The Company is increasingly moving its production capacity to products of higher complexity for which it can retain a greater part of the value added. Classical low-volatility contract drug manufacturing is the least profitable segment, the manufacturing of generics, where the Company provides services that go beyond the sole manufacturing, are considerably more lucrative and the highest profits can be achieved in the manufacturing of its own products. It is the Company's strategy to identify opportunities within each segment, thus not only increasing manufacturing profitability but also continuously expanding its excellence in manufacturing.

Financials

Half-year consolidated financial statements as at 30 June 2009

Consolidated income statement (unaudited)

| EUR1,000 | | | |
|---|-------|------------|------------|
| | Notes | 30.06.2009 | 30.06.2008 |
| Revenue | 3 | 13,384 | 11,872 |
| Other income | | 345 | 23 |
| Cost of sales | | (6,352) | (6,648) |
| Research and development costs | | (2,731) | (3,232) |
| Selling, general and administrative costs | | (2,676) | (2,678) |
| Net operating expenses | 4 | (11,414) | (12,535) |
| Operating result | | 1,970 | (663) |
| Financial income | 5 | 832 | 529 |
| Financial expenses | 5 | (159) | (236) |
| Profit/(Loss) before taxes | | 2,643 | (370) |
| Income tax expenses | 6 | (638) | (444) |
| Profit/(Loss) for the period | | 2,005 | (814) |
| Earnings per share | | EUR | |
| Basic | 7 | 0.14576 | (0.05867) |
| Diluted | 7 | 0.14576 | (0.05867) |

Consolidated statement of comprehensive income (unaudited)

EUR 1,000

| | Notes | 30.06.2009 | 30.06.2008 |
|---|--------------|-------------------|-------------------|
| Profit/(Loss) for the period (A) | | 2,005 | (814) |
| Gains/(Losses) on fair value of available-for-sale financial assets | 13 | 5,202 | |
| Gains/(Losses) on cash flow hedges | 13 | 111 | |
| Income tax relating to components of other comprehensive income | 13 | (1,255) | |
| Total other comprehensive income, net of tax (B) | | 4,058 | – |
| Total comprehensive income (A)+(B) | | 6,063 | (814) |

Consolidated statement of financial position
(30 June 2009 unaudited)

EUR 1,000

| | Notes | 30.06.2009 | 31.12.2008 |
|------------------------------------|-------|---------------|---------------|
| Assets | | | |
| Non-current assets | | | |
| Property, plant and equipment | | 6,987 | 6,986 |
| Goodwill | | 109 | 109 |
| Other intangible assets | 8 | 9,096 | 6,856 |
| Financial assets | 9 | 11,971 | 6,769 |
| Deferred tax assets | | 1,252 | 1,208 |
| Other non-current receivables | | 2,164 | 2,144 |
| Total non-current assets | | 31,579 | 24,072 |
| Current assets | | | |
| Inventories | | 1,881 | 1,507 |
| Trade receivables | | 4,090 | 3,549 |
| Current tax assets | | 1,010 | 578 |
| Other receivables and other assets | 10 | 3,518 | 5,893 |
| Current financial assets | 11 | 345 | – |
| Cash and cash equivalents | 12 | 20,354 | 22,166 |
| Total current assets | | 31,198 | 33,693 |
| Total assets | | 62,777 | 57,765 |

EUR 1,000

| | Notes | 30.06.2009 | 31.12.2008 |
|---|-------|------------|------------|
| Equity | | | |
| Share capital | | 3,469 | 3,469 |
| Share premium | | 29,960 | 29,372 |
| Treasury shares | | (1,515) | (394) |
| Other reserves | | 2,162 | 2,162 |
| Stock option plan reserve | | 987 | 667 |
| Available-for-sale financial assets reserve | | 2,404 | (1,557) |
| Cash flow hedge reserve | | 97 | – |
| Retained earnings | | 9,517 | 116 |
| Profit/(Loss) for the period | | 2,005 | 9,401 |
| Total shareholders' equity | 13 | 49,086 | 43,236 |
| Total equity | | 49,086 | 43,236 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Interest-bearing loans and borrowings | | 2,331 | 2,903 |
| Employee benefits | 14 | 496 | 511 |
| Deferred tax liabilities | | 2,780 | 1,731 |
| Other non-current liabilities | | – | – |
| Total non-current liabilities | | 5,607 | 5,145 |
| Current liabilities | | | |
| Interest-bearing loans, borrowings and bank overdraft | | 1,343 | 1,391 |
| Trade payables | | 4,575 | 4,228 |
| Deferred income | 15 | 627 | 1,996 |
| Current tax liabilities | | 361 | 562 |
| Other current liabilities | | 1,178 | 1,207 |
| Total current liabilities | | 8,084 | 9,384 |
| Total liabilities | | 13,691 | 14,529 |
| Total equity and liabilities | | 62,777 | 57,765 |

Consolidated cash flow statements (unaudited)

EUR 1,000

| | Notes | 30.06.2009 | 30.06.2008 |
|---|-----------|----------------|----------------|
| Profit/(Loss) before taxes | | 2,643 | (370) |
| Income taxes paid | | (853) | 38 |
| Financial expenses on subsidized loans at amortized cost | | 17 | – |
| Financial income on cash flow hedge | | (234) | – |
| Share payment based expenses | 16 | 320 | 319* |
| Depreciation and amortization | | 812 | 771 |
| Accrual to employee benefits | 14 | 120 | 124 |
| | | 2,825 | 882 |
| Change in inventories | | (374) | (516) |
| Change in trade receivables | | (541) | (645) |
| Change in trade payables | | 347 | 948 |
| Change in other receivables and other assets | | 2,375 | (1,208) |
| Change in deferred income | | (1,369) | – |
| Change in other current liabilities | | (29) | 48 |
| Change in current tax liabilities | | (80) | (15) |
| Payment of employee benefits | 14 | (135) | (209) |
| Cash flows from operating activities | | 3,019 | (715) |
| Investments/disposals in | | | |
| Investments in property, plant and equipment | | (687) | (903) |
| Investments in other intangibles | 8 | (2,389) | (94) |
| Disposals of property, plant and equipment | | 23 | 5 |
| Cash flows from investing activities | | (3,053) | (992) |
| Change in interest-bearing loans and borrowings | | (637) | 223 |
| Change in other non-current receivables | | (20) | (159) |
| Purchase of own shares | 13 | (1,121) | – |
| Cash flows from financing activities | | (1,778) | 64 |
| Net increase/(decrease) in cash and cash equivalents | | (1,812) | (1,643) |
| Cash and cash equivalents at the beginning of the period | | 22,166 | 25,505 |
| Cash and cash equivalents at the end of the period | 12 | 20,354 | 23,862 |
| Cash at hand | | 11 | 7 |
| Bank accounts | | 20,343 | 23,855 |
| Total cash and cash equivalents at the end of the period | 12 | 20,354 | 23,862 |

* Reclassified from “cash flow from investing activities”

**Consolidated statements of changes in equity
(unaudited)**

| EUR 1,000 | Number of shares | Share capital | Share premium | Treasury shares | Contribution reserve | Capital contribution for loss coverage | Stock option plan reserve | Available-for-sale financial assets reserve | Cash flow hedge reserve | Earning reserves | Total |
|--|------------------|---------------|---------------|-----------------|----------------------|--|---------------------------|---|-------------------------|------------------|---------|
| Net equity as at 1 January 2008 | 13,875,000 | 3,469 | 29,372 | – | 357 | 1,805 | 28 | – | – | 116 | 35,147 |
| Personnel cost for stock options | | | | | | | 319 | | | | 319 |
| Transactions with treasury shares | | | | | | | | | | | – |
| Total comprehensive income for the period | | | | | | | | | | (814) | (814) |
| Net equity as at 30 June 2008 | 13,875,000 | 3,469 | 29,372 | – | 357 | 1,805 | 347 | – | – | (698) | 34,652 |
| Net equity as at 1 January 2009 | 13,875,000 | 3,469 | 29,372 | (394) | 357 | 1,805 | 667 | (1,557) | – | 9,517 | 43,236 |
| Personnel cost for stock options | | | | | | | 320 | | | | 320 |
| Transactions with treasury shares | | | | (1,121) | | | | | | | (1,121) |
| Reassessment of deferred tax assets on share capital issue costs | | | 588 | | | | | | | | 588 |
| Total comprehensive income for the period | | | | | | | | 3,961 | 97 | 2,005 | 6,063 |
| Net equity as at 30 June 2009 | 13,875,000 | 3,469 | 29,960 | (1,515) | 357 | 1,805 | 987 | 2,404 | 97 | 11,522 | 49,086 |

Explanatory notes

1 General information

Cosmo Pharmaceuticals S.p.A. with its subsidiaries Cosmo S.p.A., Cosmo Technologies Ltd. and Cosmo Research & Development S.r.l. (“Cosmo Pharmaceuticals” or “Company” or “Group”) is a specialty pharmaceutical company: the Company’s business goal is to become or be part, directly or indirectly, of a fully integrated specialty pharmaceutical company, recognized for its excellence in treating selected Gastrointestinal Disorders.

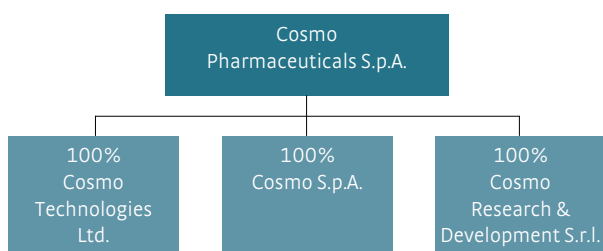
The Company’s clinical development pipeline specifically addresses innovative treatments for Inflammatory Bowel Diseases (IBD), such as Ulcerative Colitis and Crohn’s Disease, as well as for Colon Infections. In addition, the Company is developing a new chemical entity for the treatment of Acne, Alopecia and Hirsutism.

Cosmo’s proprietary multimatrix technology, MMX[®], is an excellent base for developing new, patentable, yet low-risk products, manufactured at the Company’s own GMP-approved plant. Currently Cosmo has two products in the market, five in clinical trials and three in preclinical development.

Since 12 March 2007, Cosmo Pharmaceuticals’ shares are publicly listed at the SIX Swiss Exchange (SIX: COPN). The Company’s stock market capitalization as at 30 June 2009 was equal to CHF 222,000,000.

Headquarters and registered address are at via Cristoforo Colombo, 1 – 20020 Lainate (Milan), Italy.

The structure of the Company as of 30 June 2009 is the following:



2 Basis of preparation and accounting policies

These half-year condensed financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”). The designation “IFRS” also includes all valid International Accounting Standards (“IAS”), as well as all interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”), formerly the Standing Interpretations Committee (“SIC”).

In particular, these half-year condensed financial statements have been prepared in accordance with IAS 34 – Interim Financial Reporting and accordingly do not include all information and disclosures as required by IFRS for complete financial statements. The accounting principles and policies used in preparation of the interim consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2008.

The preparation of the interim financial statements requires the Management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and disclosure of contingent assets and liabilities at the date of the interim financial statements. If in the future such estimates and assumptions, which are based on the Management’s best judgment at the date of the interim financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

These condensed interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2008 as they provide an update of previously reported information.

Operating results for the six months ended 30 June 2009 are not necessarily indicative of the results that may be expected for the year ending 31 December 2009.

The interim consolidated financial statements are expressed in thousands of euros unless stated otherwise, rounding the amounts to the nearest thousand.

Accounting principles, amendments and interpretations adopted from 1 January 2009

The Group has applied the following standards, amendments and interpretations, which include those revised in conjunction with the IASB's 2008 annual improvements project, since 1 January 2009.

IAS 1 (Revised), "Presentation of financial statements"

The revised version of IAS 1 "Presentation of financial statements" does not permit the presentation of components of comprehensive income in the statement of changes in equity, requiring these to be presented separately from owner changes in equity. Under the revised standard, all non-owner changes in equity are required to be shown in one statement showing performance for the period (a statement of comprehensive income) or in two statements (an income statement and a statement of comprehensive income). These changes are also required to be shown separately in the statement of changes in equity.

The Group has adopted the revised standard retrospectively from 1 January 2009, electing to present both the income statement and the statement of comprehensive income and has consequently amended the presentation of the statement of changes in equity.

The following principal amendments, improvements and interpretations have also been issued and are effective from 1 January 2009 or later, relating to matters that were not relevant to the Group's operation at the date of this interim consolidated financial statements:

- IFRS 8, "Operating segments" (effective from 1 January 2009)
- IFRS 3 (Revised), "Business combination" (effective from 1 July 2009)

- IAS 27 (Revised), "Consolidated and separate financial statements" (effective from 1 July 2009)

Summary of significant accounting policies and practices

The accounting principles used in preparation of the interim consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2008. The major principles adopted are detailed below.

Principles of consolidation

With respect to 31 December 2008, no changes in the scope of consolidation took place during the first half of 2009 and the interim consolidated financial statements include the interim financial statements of Cosmo Pharmaceuticals S.p.A. and its subsidiaries Cosmo S.p.A., Cosmo Technologies Ltd. and Cosmo Research & Development S.r.l.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than half of the voting rights.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Intercompany transactions, balances and unrealized gains on transactions between Group companies have been eliminated in consolidation.

Property, plant and equipment

Property, plant and equipment are stated at cost including related expenses, less accumulated depreciation and impairment losses.

Depreciation is recognized starting from the month in which the asset is available for use or potentially able to provide the economic benefits associated therewith on a systematic basis, whereby the assets are depreciated over their useful lives or, in the event of disposal, until their final month of use.

Residual amounts, useful lives and the depreciation methods are reviewed at the end of every accounting period.

Improvements to third-party assets are classified under property, plant and equipment depending on the nature of the asset to which it refers. The depreciation period is based on the lower of the asset's remaining useful life and the residual duration of the lease of the principal asset.

Assets held under finance leases, which provide the Group with substantially all the risks and rewards of ownership, are recognized as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the financial statements as financial liabilities. Leases where the lessor retains substantially all the risks and rewards of ownership of the assets are classified as operating leases. Operating lease expenditures are expensed on a straight-line basis over the lease terms.

Other intangible assets

Other intangible assets are recognized as assets where it is probable that the use of the asset will generate future economic benefits and where the costs of the asset can be determined reliably. Other intangible assets that are acquired by the Group are stated at cost less accumulated amortization and impairment losses, if any.

Other intangible assets with definite useful lives are amortized on a straight-line basis over their useful lives, being the estimated period over which the Group will use the assets. Other intangible assets are amortized from the date they are available for use.

Residual amounts, useful lives and the amortization methods are reviewed at the end of every accounting period. Patents and rights are amortized over their useful lives.

Expenditures on research activities, undertaken with the prospect of gaining new technical knowledge

and understanding, are recognized in the income statements as an expense as incurred.

Development costs are capitalized as an intangible asset if all of the following criteria are met:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- the asset will generate probable future economic benefits and demonstrate the existence of a market or the usefulness of the intangible asset if it is to be used internally;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell it; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Following initial recognition of the development expenditure as an intangible asset, the cost model is applied requiring the intangible asset to be carried at cost, less any accumulated amortization and accumulated impairment losses. The intangible asset is amortized on a straight-line basis over the period of its expected benefit, starting from the date of full commercial use of the product. During the period of development, the asset is tested for impairment annually.

If specific events indicate that impairment of an item of intangible asset may have taken place, the item's recoverability is assessed by comparing its carrying amount with its recoverable amount. The recoverable amount is the higher between the fair value net of disposal costs and the value in use, as defined in the paragraph "Impairment of property, plant and equipment and intangible assets".

Impairment of property, plant and equipment and intangible assets

The carrying amounts of the Group's tangible and intangible assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statements.

The recoverable amount is the higher of an asset's fair value less costs to sell, if there is an active market, and its value in use. If there is no binding sales agreement, the fair value is estimated at the amount expressed by an active market, by recent transactions or on the basis of the best available information indicating the amount that the Company would obtain from the asset's sale.

Value in use is the present value of the estimated future cash flows expected to arise from the continuing use of an asset or cash-generating unit and from its disposal at the end of its useful life. The cash flows are determined on the basis of reasonable and documented assumptions representing the best estimate of the future economic conditions that will take place over the residual useful life of the asset, giving greatest weight to external indicators. The discounting rate (pre-tax) takes into account the risk implicit in the business sector and the financial component based on the timing. With the exception of losses on goodwill, impairments in value are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying

amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at the end of each financial year. All "regular way" purchases and sales of financial assets are recognized on the trade date, which is the date that the Group commits to purchase the asset.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value, at the close of business on the balance sheet date, with unrealized gains or losses recognized directly in equity until the investment is derecognized or determined to be impaired, at which time the cumulative gain or loss previously recorded in equity is recognized in profit or loss.

The fair values of listed investments are based on current market prices. If the market for a financial asset is not active and for unlisted securities, the Group establishes fair values by using valuation techniques. These include the use of recent arm's-length transactions, reference to other instruments that are sub-

stantially the same, discounted cash flow analysis, and option pricing models refined to reflect the Company's specific circumstances.

At each balance sheet date, the Group assesses whether a financial asset or a group of financial assets is impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss.

Inventories

Inventories are stated at the lower of acquisition or production cost – in accordance with the first-in first-out (FIFO) principle – and net realizable value.

Trade and other receivables and payables

Trade and other receivables are stated at amortized cost net of impairment losses. The impairment loss is calculated on the basis of recovery assessments by analyzing each receivable considered unlikely to be collected and the overall risk of non-recovery of the receivables. When the payment of the sum due is postponed beyond normal credit terms offered to customers, it is necessary to discount the receivable.

Trade and other payables are measured at amortized cost which reflects the effective interest rate in the income statement and represents the rate used to discount the expected future cash flows to the carrying value of the assets to which they relate.

Derivative financial instruments

Derivative financial instruments are used for hedging purposes, in order to reduce currency, interest rate and market price risks. In accordance with IAS 39, derivative financial instruments qualify for hedge accounting only when at the inception of the hedge there is formal designation and documentation of the hedging relationship, the hedge is expected to be

highly effective, its effectiveness can be reliably measured and it is highly effective throughout the financial reporting periods for which the hedge is designated.

All derivative financial instruments are measured in accordance with IAS 39 at fair value. When derivative financial instruments qualify for hedge accounting, the following accounting treatment applies:

- Fair value hedge – Where a derivative financial instrument is designated as a hedge of the exposure to changes in fair value of a recognized asset or liability that is attributable to a particular risk and could affect the income statement, the gain or loss from re-measuring the hedging instrument at fair value is recognized in the income statement. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in the income statement.
- Cash flow hedge – Where a derivative financial instrument is designated as a hedge of the exposure to variability in future cash flows of a recognized asset or liability or a highly probable forecasted transaction and could affect the income statement, the effective portion of any gain or loss on the derivative financial instrument is recognized directly in equity. The cumulative gain or loss is removed from equity and recognized in the income statement at the same time as the economic effect arising from the hedged item affects income. The gain or loss associated with a hedge or part of a hedge that has become ineffective is recognized in the income statement immediately. When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss realized to the point of termination remains in shareholders' equity and is recognized in the income statement at the same time as the underlying transaction occurs. If the hedged transaction is no longer probable, the

cumulative unrealized gain or loss held in shareholders' equity is recognized in the income statement immediately.

Forms of remuneration involving participation in stock capital (stock option plans)

The Group grants additional benefits to the Board and Senior Management and key employees through stock option plans. Pursuant to IFRS 2, "Share-based payment", these plans represent a form of remuneration for the beneficiaries. The cost is equal to the fair value as calculated on the date the option rights are granted and is recorded in the income statement on a straight-line basis over the vesting period, i.e. the date between the date the stock option plan was granted and the date the rights matured. The corresponding entry is made directly to shareholders' equity. Changes in fair value after the grant date do not have an effect on the initial valuation. At each balance sheet date, the Group revises its estimate of the number of options that are expected to become exercisable. It recognizes the impact of the revision to original estimates, if any, in the income statements, with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Revenue and cost recognition

Revenue, income, costs and charges are recorded net of discounts and allowances.

Revenue from the sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognized in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognized if there are significant uncertainties regarding

recovery of the consideration due, associated costs or the possible return of goods cannot be estimated reliably and there is no continuing management involvement with the goods.

Revenues from licensing contracts for non-refundable upfront fees, in situations where no further performance obligation exists, are recognized on the earlier of when payments are received or collection is assured. Upfront fees related to future performance obligations are either spread over the duration of such obligations or part of the revenue is provisioned therefore. Where continuing significant involvement is required in the form of support, revenues are recognized over the relevant period.

Revenues from licensing contracts for milestones are recognized in the period the outcome can be estimated reliably which is in general when the milestone is successfully achieved, which is determined when the funding party agrees that the required results stipulated in the agreement have been met.

Income from royalties is recognized on an accrual basis and represents income earned as a percentage of product sales, in accordance with the terms of the relevant agreement.

Research government grants are recognized at their fair value at the moment in which the Group issuing the grant has confirmed its approval and the proceeds are definite; they are recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Interest income is accounted for based on the effective rate of return on an accrual basis. Payments made under operating leases are recognized in income statements on a straight-line basis over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability.

Income tax

The tax charge for the period is determined on the basis of prevailing laws and regulations. Taxes on income are recognized in the income statement except to the extent that they relate to items directly charged or credited to equity, in which case the related income tax effect is recognized in equity.

Deferred tax assets and liabilities are determined on the basis of all the temporary differences between the carrying amount of an asset or liability in the statement of financial position and its corresponding tax basis. Deferred tax assets resulting from unused tax losses and temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which they can be utilized. Current and deferred income taxes and liabilities are offset when there is a legally enforceable right to offset. Deferred tax assets and liabilities are measured at the substantively enacted tax rates that are expected to apply to taxable income in the periods in which temporary differences will be reversed.

Cosmo Pharmaceuticals S.p.A. and its Italian subsidiaries Cosmo S.p.A. and Cosmo Research & Development S.r.l. have elected to take part in the domestic tax consolidation programme pursuant to Articles 117/129 of the Consolidated Income Tax Act (T.U.I.R.); the election was made for a three-year period beginning in 2009.

Cosmo Pharmaceuticals S.p.A. acts as the consolidating company in this programme and calculates a single taxable base for the group of companies taking part, thereby enabling benefits to be realized from the offsetting of taxable income and tax losses in a single tax return. Each company participating in the consolidation transfers its taxable income or tax loss to the consolidating company. Cosmo Pharmaceuticals S.p.A. recognizes receivables from companies contributing taxable incomes, corresponding to the amount of IRES (corporate income tax) paid on its behalf. In the case of a company bringing a tax loss

into the consolidation, Cosmo Pharmaceuticals S.p.A. recognizes a payable to that company for the amount of the loss actually set off at a group level.

Treasury shares

Treasury shares are presented as a deduction from equity. The purchase cost of treasury shares and the sales proceeds of any subsequent sale are presented as movements in equity.

Segment reporting

The Management has identified only one business segment, which is the pharmaceutical segment. Indeed, the Management did not identify other operating segments to which specific and different risks and benefits can be related to and the Management's reports to support the decision process are regularly and consistently prepared.

Moreover, the Management did not believe that costs of investments could be reasonably allocated unless through an arbitrary allocation which would not provide a better disclosure than that provided by the pharmaceutical sector considered as a whole. In particular, under the Group's current organizational structure most of investments made and costs incurred by the Group while performing its production activities cannot be allocated to a specific geographical area or to a specific customer segment, or to the production of specific products. Therefore, the Management believes that, to date, segment reporting by either geographical area or products or customers would not improve the understanding of the Group results or the presentation of risks and profitability.

3 Revenue

In H1 2009 revenue reached EUR 13,384 thousand up 12.7% over the same period of the previous year and is detailed here below:

| EUR 1,000 | 30.06.2009 | 30.06.2008 |
|---|---------------|---------------|
| Manufacturing on behalf of third parties: | | |
| Manufacturing of generic products and specialty drugs | 5,132 | 6,501 |
| Manufacturing of MMX® products | 3,284 | 3,713 |
| Related services | 724 | 233 |
| Other revenues from sale | 79 | 70 |
| Licence fees, up-front fees and milestones | 1,459 | 127 |
| Royalties | 2,706 | 1,228 |
| Total revenue | 13,384 | 11,872 |

The decrease in revenue from “manufacturing of generic products and specialty drugs” in H1 2009 compared to H1 2008 is mainly due to a decrease in the production of generic products as a consequence of lower orders from customers in the first months of 2009.

The item “manufacturing of MMX® products” relates to manufacturing of Shire’s Lialda™/Mezavant®, the first product in the market based on the MMX® technology, whose manufacturing and deliveries started in July 2006: during the H1 2009 we delivered 40.6 million tablets at a production revenue of EUR 3,284 thousand (in H1 2008, 47.2 million tablets, EUR 3,713 thousand).

As at 30 June 2009 “licence fees, up front fees and milestones” of EUR 1,459 thousand refer i) for EUR 1,369 thousand to H1 amount of the deferred income on the upfront payment for Rifamycin SV MMX® received from Santarus and Dr. Falk Pharma in December 2008, which, based on the proportion of costs incurred in relation to the estimated total costs,

will be credited to profit and loss through 2009; ii) for EUR 90 thousand to the development of a generic product.

Pending Giuliani and Shire’s official data on Lialda™/Mezavant® sales for Q2 2009, royalties for H1 2009 are prudently estimated by considering Shire’s sales of Lialda™/Mezavant® for Q2 2009 equal to actual sales for Q1 2009.

4 Net operating expenses

Net operating expenses presented in the income statement by function are detailed and commented by nature below:

| EUR 1,000 | 30.06.2009 | 30.06.2008 |
|---|-----------------|-----------------|
| Other income | 345 | 23 |
| Changes in inventories of finished goods and work in progress | (41) | (158) |
| Raw materials and consumables used | (2,533) | (2,983) |
| Personnel expenses | (3,636) | (3,462) |
| Outsourced preclinical and clinical trial costs | (1,423) | (1,961) |
| Other operating expenses | (3,314) | (3,223) |
| Depreciation and amortization | (812) | (771) |
| Total net operating expenses | (11,414) | (12,535) |

Other income

The item “other income” in H1 2009 comprises EUR 326 thousand for tax credit on research and development activities performed by Cosmo S.p.A. in 2007, 2008 and H1 2009. In June 2008, the Italian government granted companies a 10% tax credit on costs incurred for research and development activities in the years 2007, 2008 and 2009. The said 10% credit may be further increased to 40% in case those costs refer to activities performed by universities and other governmental research institutions, based on a specific research

agreement. The Company started recognizing this income in these interim financial statements, since only in March 2009, after a clarification from the Italian government, it was able to get the official authorization for utilizing the said 10% tax credit, which can be used to offset any other tax disbursement.

Personnel expenses

The item, which includes the cost of the entire staff, comprises the following:

| EUR 1,000 | 30.06.2009 | 30.06.2008 |
|---------------------------------|--------------|--------------|
| Salaries and wages | 2,605 | 2,486 |
| Social security contributions | 662 | 603 |
| Employee benefits | 120 | 124 |
| Stock options | 232 | 232 |
| Other costs | 17 | 17 |
| Total personnel expenses | 3,636 | 3,462 |

The entire staff as at 30 June 2009 and 2008 is shown by category here below:

| No. of people | 30.06.2009 | 30.06.2008 |
|---------------------|------------|------------|
| Managers | 15 | 12 |
| Junior managers | 7 | 8 |
| Employees | 55 | 57 |
| Workers | 58 | 56 |
| Total number | 135 | 133 |

Outsourced preclinical and clinical trial costs

Preclinical and clinical trials costs outsourced to subcontractors and expensed in the profit and loss mainly refer to Rifamycin SV MMX®, LMW Heparin MMX® and CB-03-01.

In 2008, Budesonide MMX® entered phase III development and from that period the relevant outsourced clinical trial costs for the EU study are capitalized (see note 8, "Other intangible assets").

Following the strategic collaboration agreement signed in December 2008, Santarus is reimbursing the Company the costs for US phase III clinical studies on Budesonide MMX®.

5 Financial income and expenses

The item comprises the following:

| EUR 1,000 | 30.06.2009 | 30.06.2008 |
|---|------------|------------|
| Financial income | | |
| Other | 832 | 529 |
| Total financial income | 832 | 529 |
| Financial expenses | | |
| Interests on medium long-term bank loan | 44 | 65 |
| Interests on financial lease payables | 20 | 51 |
| Other | 95 | 120 |
| Total financial expenses | 159 | 236 |
| Financial income, net | 673 | 293 |

Other financial income as at 30 June 2009 mainly includes EUR 154 thousand for interest on cash and cash equivalents (EUR 498 thousand in H1 2008), foreign exchange differences for EUR 412 thousand (EUR 2 thousand in H1 2008) and foreign exchange differences on forward currency contracts for EUR 234 thousand.

6 Income tax expenses

The item comprises the following:

| EUR 1,000 | 30.06.2009 | 30.06.2008 |
|---|------------|------------|
| Income tax IRES and other corporation taxes | 171 | 29 |
| Income tax IRAP | 129 | 154 |
| Current income tax | 300 | 183 |
| Deferred tax benefit | 105 | 309 |
| Deferred tax expense | 233 | (48) |
| Total income expenses | 638 | 444 |

Starting from 1 January 2009, Cosmo Pharmaceuticals S.p.A. and its Italian subsidiaries Cosmo S.p.A. and Cosmo Research & Development S.r.l. have elected to take part in the domestic tax consolidation programme, pursuant to Articles 117/129 of the Consolidated Income Tax Act (T.U.I.R.). For H1 2009, current income tax expenses were accounted and deferred taxation was reassessed accordingly.

7 Basic and diluted earnings per share

Basic earnings per share are calculated by dividing the net profit (loss) for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Basic earnings per share are as follows:

| | 30.06.2009 | 30.06.2008 |
|---|----------------|------------------|
| Net profit/(loss) attributable to shareholders (in EUR 1,000) | 2,005 | (814) |
| Weighted average number of ordinary shares | 13,755,037 | 13,875,000 |
| Basic earnings per share (in EUR) | 0.14576 | (0.05867) |

Diluted earnings per share are calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential option into ordinary shares. Regarding the stock option plan set up in December 2007, the exercise price as at 30 June 2009 was higher than the weighted average market price, therefore the options would not have been exercised; as at 30 June 2008 the stock options were antidilutive, as their conversion would have decreased the loss per share, thus the values of the basic and diluted profit (loss) per share coincide in both periods.

| | 30.06.2009 | 30.06.2008 |
|---|----------------|------------------|
| Net profit (loss) attributable to shareholders (in EUR 1,000) | 2,005 | (814) |
| Weighted average number of ordinary shares | 13,755,037 | 13,875,000 |
| Diluted earnings per share (in EUR) | 0.14576 | (0.05867) |

8 Other intangible assets

As at 30 June 2009, the item includes capitalized development costs of EUR 6,071 thousand (of which EUR 2,292 thousand refer to H1 2009): they refer to the Budesonide MMX[®] project, which has entered phase III at the beginning of 2008, after having successfully completed its phase II. At this stage, statistically there is a 66% to 75% probability of success and furthermore Budesonide MMX[®] is not a new chemical entity. The Group will bear phase III costs of the European clinical study until product registration.

The capitalized costs include outsourced clinical trial costs, material (API, excipient) for the preparation of clinical batches and personnel expenses directly related to the Budesonide MMX[®] project.

The asset is not amortized as the amortization will start from the date of full commercial use of the product on a straight-line basis over the period of its expected benefit.

9 Financial assets

“Financial assets available for sale” refers entirely to the investment in shares of Santarus (NASDAQ: SNTS); according to the strategic collaboration agreement with Santarus, which granted Santarus the exclusive rights to develop and commercialize Budesonide MMX[®] and Rifamycin SV MMX[®] in the US market in December 2008. Cosmo received, in addition to cash of USD 2.5 million, six million newly issued shares of Santarus common stock, subject to an initial 15-month restriction on their sale or transfer.

As at 30 June 2009 the fair value of the share (market price NASDAQ) was equal to USD 2.82, for a total of USD 16.92 million (corresponding to EUR 11,971 thousand, at 30 June 2009 USD/EUR exchange rate).

10 Other receivables and other assets

The item “other receivables and other assets” comprises the following:

| EUR 1,000 | 30.06.2009 | 31.12.2008 |
|---|--------------|--------------|
| Government grant | 245 | 245 |
| Receivables from other companies | 800 | 2,951 |
| VAT receivables | 179 | 717 |
| Prepaid expenses | 2,214 | 1,923 |
| Other prepaid | 80 | 57 |
| Total other receivables and other assets | 3,518 | 5,893 |

“Receivables from other companies” refers to the amount due by Santarus in respect of the strategic collaboration agreement, which foresees that starting from phase III, the costs for the US clinical trial on Budesonide MMX[®] are reimbursed by Santarus to Cosmo.

11 Current financial assets

As at 30 June 2009 the item refers to the measurement at fair value of derivative financial instruments to hedge currency risk at the balance sheet date.

The fair value of derivative financial instruments is determined by taking into consideration market parameters at the balance sheet date and using valuation techniques widely accepted in the financial business environment. In particular the fair value of derivative financial instruments acquired to hedge currency risk is determined using the exchange rates prevailing at the balance sheet date.

As this item consists of hedging instruments, the change in their value is compensated by the change in the value of the hedged item.

The Santarus deal in December 2008 has called for a change in the Company’s natural hedge strategy. So in 2009, in order to manage currency risk, the Management decided to hedge foreign exchange risk by selling forward the 2009 excess cash flows in US dollar, which essentially derive from the royalty payments on Lialda[™] sales, for an amount of USD 5.7 million and for the period from April 2009 to January 2010.

12 Cash and cash equivalents

The liquidity of the Group includes availability on current bank account and short-term “time deposit” bank contracts.

13 Total shareholders' equity

The item "total shareholders' equity" comprises the following:

Share capital

As at 30 June 2009 Cosmo Pharmaceuticals had 13,875,000 shares issued, fully subscribed and paid up, each share with a nominal value of EUR 0.25, for a total share capital of EUR 3,469 thousand.

Share premium

As at 30 June 2009, "share premium" of EUR 29,960 thousand refers to the proceeds from the 2007 offering of new shares at the IPO. The increase of the period, amounting to EUR 588 thousand, refers to the reassessment, directly in equity, of the deferred tax assets which in 2007 were not recognized on the share capital issue costs directly deducted from equity. This follows the Company's decision to take part, with its Italian subsidiaries Cosmo S.p.A. and Cosmo Research & Development S.r.l., in the domestic tax consolidation programme, pursuant to Articles 117/129 of the Consolidated Income Tax Act (T.U.I.R.).

Treasury shares

"Treasury shares" are valued at weighted average cost and have been deducted from equity.

As at 30 June 2009, the number of treasury shares amounted to 179,858 (with an average purchase price of EUR 8.44 or CHF 12.62 per share); during H1 2009, 138,340 treasury shares were purchased and 4,474 treasury shares were sold.

The number of shares outstanding developed as follows:

| | 2009 |
|----------------------------------|-------------------|
| As at 1 January | 13,829,008 |
| Issuance of new shares | |
| Issue of shares (January 2007) | – |
| Issue of shares IPO (March 2007) | – |
| Treasury shares | |
| Purchased | (138,340) |
| Sold | 4,474 |
| As at 30 June | 13,695,142 |

In June 2009, the Company signed a forward sale agreement on 50,000 own shares, that will be settled in cash on 31 August 2009 at CHF 14 per share.

Other reserves

"Other reserves" as at 30 June 2009 comprises the "contributions reserve" of EUR 357 thousand and the "capital contribution for loss coverage" of EUR 1,805 thousand.

Stock option plan reserve

In H1 2009, the expense for the stock options, all allocated in 2007, amounted to EUR 320 thousand, of which EUR 232 thousand for personnel staff and EUR 88 thousand for non-Executive Directors.

Available for sale financial asset reserve

As at 30 June 2009, "available-for-sale financial asset reserve" is due to measurement at fair value, net of the corresponding deferred tax effect, of Santarus shares which are included in the financial assets available for sale (see note 9, "Financial assets").

Cash flow hedges reserve

As at 30 June 2009, “cash flow hedges reserve” refers to the fair value valuation, net of the corresponding deferred tax effect, of the qualified hedging derivative instruments with respect to the exchange rate risk.

14 Employee benefits

The item “employee benefits” (“trattamento di fine rapporto”/TFR) only refers to the Italian companies of the Group and has been determined on an actuarial calculation method, in compliance with IAS 19.

Movements in the period are as follows:

| EUR 1,000 | As at 1 January | Changes in the period | | | As at 31 December | Changes in the period | | As at 30 June |
|--|--------------------|--------------------------|--------------|---|----------------------|--------------------------|--------------|---------------|
| | 2007 | Accrued | Utilized | Curtailment (effect of the reforms) | 2007 | Accrued | Utilized | 2008 |
| Employee benefits | 755 | 216 | (270) | (71) | 630 | 124 | (209) | 545 |
| Total employee benefits | 755 | 216 | (270) | (71) | 630 | 124 | (209) | 545 |

| EUR 1,000 | As at 1 January | Changes in the period | | As at 31 December | Changes in the period | | As at 30 June |
|--|--------------------|--------------------------|--------------|----------------------|--------------------------|--------------|---------------|
| | 2008 | Accrued | Utilized | 2008 | Accrued | Utilized | 2009 |
| Employee benefits | 630 | 257 | (376) | 511 | 120 | (135) | 496 |
| Total employee benefits | 630 | 257 | (376) | 511 | 120 | (135) | 496 |

The principal assumptions for the purpose of the actuarial valuation were as follows:

| % | 30.06.2009 | 30.06.2008 |
|-------------------------------|-------------------|-------------------|
| Discount rate | 4.17 | 5.14 |
| Inflation rate | 2.00 | 2.00 |
| Future salary increase | 4.00 | 4.00 |
| Future pension increase | n/a | n/a |
| Mortality rate | RGS 48 | RGS 48 |
| Average annual departure rate | 7.59 | 7.48 |

Amounts recognized under staff costs in the income statements are as follows:

| EUR 1,000 | 30.06.2009 | 30.06.2008 |
|---------------------------------------|-------------------|-------------------|
| Costs in the income statements | 120 | 124 |
| Current services cost* | 116 | 111 |
| Interest expenses on obligation | 7 | 13 |
| Actuarial gains/(losses) | (3) | – |
| | 120 | 124 |

* of which 115 and 109 respectively for 2009 and 2008, amount transferred to external fund

15 Deferred income

“Deferred income” relates to the upfront payment for Rifamycin SV MMX®, received in 2008 from Santarus and Dr. Falk Pharma, which, based on the proportion of costs incurred in relation to the estimated total costs, will be credited to profit and loss through 2009.

16 Share-based payment

The extraordinary shareholders’ meeting of 14 December 2006 authorized the increase of the share capital of a maximum of nominal EUR 378,000 with the issue of 1,513,200 new shares at the service of an employee stock ownership plan (ESOP), to be implemented within the following five years. At the shareholders’ meeting the Board of Directors was formally authorized to execute such plan.

On 18 December 2007, the Board of Directors granted a total of 1,013,568 options; they vest after three years and they can be exercised at a price of CHF 22 per share until 14 December 2011.

The fair value of options granted, determined using the Black-Scholes valuation model, resulted in a value of CHF 3.14 per option.

The options granted are recognized as costs over the vesting period. In H1 2009 the expense for the value of employees’ and Directors’ services exchanged for stock options amounted to EUR 320 thousand, of which EUR 232 thousand for the personnel staff and EUR 88 thousand for non-Executive Directors (in H1 2008, the total was EUR 319 thousand, of which EUR 231 thousand for employees and EUR 88 thousand for non-Executive Directors).

In 2008 and in H1 2009, no additional options were granted.

| Option series | Number | Grant date | Vesting date | Expiry date | Exercise price | Fair value of the option at the grant date |
|------------------------------------|-----------|------------|--------------|-------------|----------------|--|
| | | | | | CHF | CHF |
| 1) Issued 18 December 2007 | 1,013,568 | 18.12.2007 | 18.12.2010 | 14.12.2011 | 22.00 | 3.14 |
| | | | | | Number | Weighted average exercise price |
| | | | | | | CHF |
| Outstanding as at 1 January 2008 | | | | | 1,013,568 | 22.00 |
| Granted during the period | | | | | – | – |
| Forfeited during the period | | | | | – | – |
| Exercised during the period | | | | | – | – |
| Expired during the period | | | | | – | – |
| Outstanding as at 31 December 2008 | | | | | 1,013,568 | 22.00 |
| Exercisable as at 31 December 2008 | | | | | – | – |
| Granted during the period | | | | | – | – |
| Forfeited during the period | | | | | – | – |
| Exercised during the period | | | | | – | – |
| Expired during the period | | | | | – | – |
| Outstanding as at 30 June 2009 | | | | | 1,013,568 | 22.00 |
| Exercisable as at 30 June 2009 | | | | | – | – |

The share options outstanding at the end of the financial period had an exercise price of CHF 22.00 and a weighted average remaining contractual life of 2.0 years.

| | 1) Issued 18 December 2007 |
|--|----------------------------------|
| Previous monthly average at grant date share price | 21.16 |
| Exercise price | 22 |
| Expected volatility | 19% |
| Option life | 360 days |
| Discount rate due to the vesting period | 7.12% |
| Risk-free interest rate | 2.75% |

17 Contingencies

In the arbitration between Maurizio Zanetti and Cosmo S.p.A. on 25 June 2009 the Arbitration Board, making its final award, rejected in toto Mr Zanetti's petition to order Cosmo S.p.A. to pay a contractual milestone on a license agreement signed in 2001 for the exclusive use of a patent in the biotech sector.

18 Related party transactions

Related parties transactions are carried out on an arm's-length basis.

The Board of Directors is notified of any proposed related party transaction and the Directors involved must abstain from the related discussion and vote on decisions relating to related parties transactions.

Should the nature, value or specific characteristics of a transaction so require, the Board of Directors will draw on the assistance of independent experts.

Lease agreement for Lainate

The Company's plant and offices in Lainate are owned by Cristoforo Colombo Real Estate S.r.l., a related party because it refers to the same controlling shareholder, which leases them to the Company as per the following agreements:

- a lease agreement for plant and offices, duration six years starting from 1 December 2006 and renewable for an equal period of time. The yearly overall initial rent was equal to EUR 1,150 thousand, annually increased by applying the index measuring the increase in cost of life in Italy (ISTAT);
- a rent agreement for the equipment of the new plant, such as HVAC, electrical and mechanical, purified water equipment, etc., duration five years starting from 1 December 2006 at an annual fixed rent of EUR 740 thousand. At the expiration of such rent agreement, Cristoforo Colombo shall provide Cosmo with the gratuitous use of the same industrial machinery and equipment for the following seven years;
- a lease agreement for the ground floor of an office building in the Lainate complex starting from 1 August 2008 at an annual rent of EUR 90 thousand (six-year duration, renewable at the same terms for an equal period of time), annually increased by applying the index measuring the increase in cost of life in Italy (ISTAT);
- a lease agreement for the second and third floor, plus meeting and conference rooms at the basement, starting from 1 August 2008 at a rent of EUR 160 thousand (one-year duration, renewable at the same terms for an equal period of time), annually increased by applying the index measuring the increase in cost of life in Italy (ISTAT).

Cosmo Bioscience Inc. development activities

Cosmo Bioscience Inc., a company also controlled by the same ultimate shareholders as Cosmo Pharmaceuticals S.p.A., having three Directors in both boards, and expert in biological analysis, carried out some scientific tests on the mechanism of action of LMW Heparin MMX[®] for the Company in 2008. The Board of Directors of the Company unanimously approved in advance the above activities, which in H1 2009 amounted to USD 600,000 (EUR 458 thousand).

19 Subsequent events

As at the date of presentation of these interim financial statements there were no material events after the balance sheet date. Cosmo is continuing to develop its products pipeline, in line with plans and programmed activities.

Information for investors

Major shareholders

| Major shareholders | No. of shares | % of share capital |
|--|---------------|--------------------|
| Cosmo Holding S.p.A. | 8,740,000 | 63.00% |
| dievini Hopp BioTech Holding GmbH & Co. KG | 1,476,876 | 10.60% |
| Heinrich Herz AG | 417,000 | 3.00% |

Research coverage

| | | |
|-------------------------|-----------------|-----------------------|
| Jefferies International | Peter Welford | Tel. +44 20 7029 8668 |
| Sal. Oppenheim | Carri Duncan | Tel. +41 44 214 2326 |
| Vontobel | Andrew C. Weiss | Tel. +41 58 283 7152 |

Share price data

| CHF | Price | Date |
|--|--------|------------|
| Issue price | 20.00 | 12.03.2007 |
| First trading day | 22.30 | 12.03.2007 |
| H1 09 last trading day | 16.00 | 30.06.2009 |
| Market capitalization 30.6.2009 (in CHF million) | 222.00 | 30.06.2009 |

Calendar

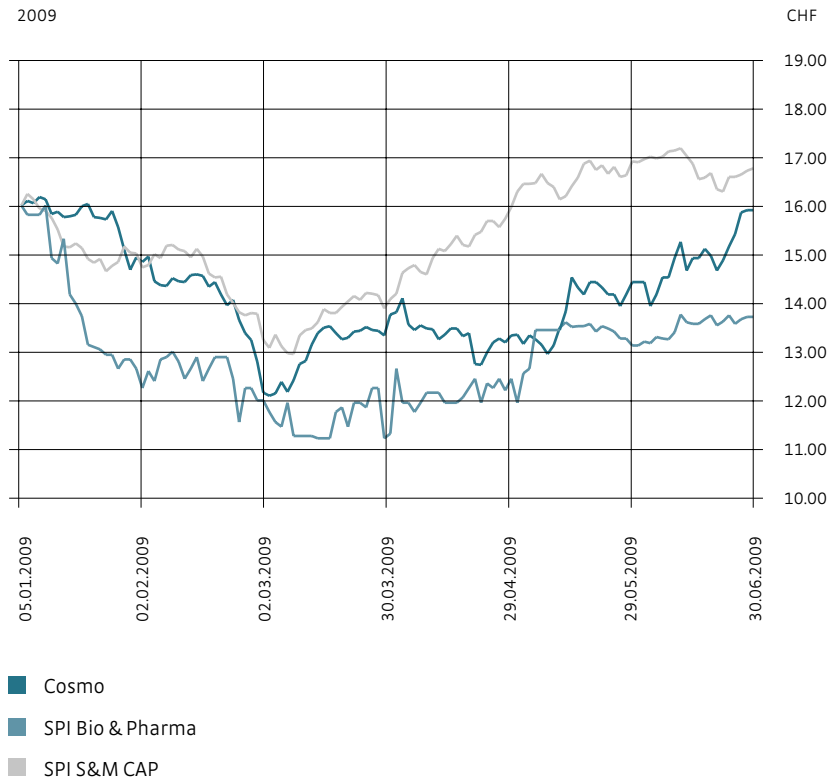
Key reporting dates

Fiscal year 2009 will close on 31 December 2009
2009 Financial Statements / Annual Report –
19 March 2010
Annual General Meeting – 15 April 2010

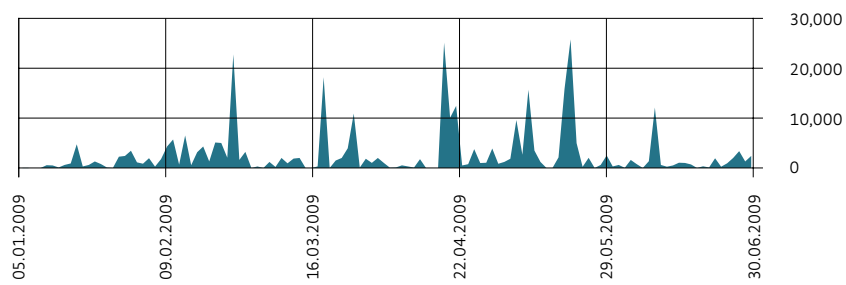
Stock exchange information

| | |
|-------------------------------|-----------------------------------|
| Listing | SIX Swiss Exchange, Main Board |
| Security ID | COPN |
| ISIN | IT0004167463 |
| Swiss security number (Valor) | 2862650 |
| Number of shares | 13,875,000 |

Share price



Trading volumes



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