

Half-Year Report 2010



Cosmo's pipeline

Product	Drug type	Phase I	Phase II	Phase III	MA	Launch	Partner
Lialda®/ Mezavant®/Mesavancol® Mild to moderate Ulcerative Colitis	5-ASA					3/07 USA 10/07 UK 1/10 ITA	Shire/Giuliani
Zacol NMX® Intestinal Disorders (nutraceutical)	Dietary supplement					12/05 ITA	
Budesonide MMX® Mild to moderate Ulcerative Colitis	Corticosteroid						Ferring – worldwide (excluding Japan & USA) Santarus – USA
Rifamycin SV MMX® Travellers' Diarrhoea	Antibiotic					H1/11 EU H2/11 USA	Dr. Falk Pharma – Europe & Australia (excluding Italy) Santarus – USA
LMW Heparin MMX® Mild to moderate Ulcerative Colitis	Biologic					Q4/11 EU	
CB-03-01 (NCE) Acne	Steroid ester, androgen antagonist						
		PK & Irrit.* Q4/10	POC Dose ranging Q1/12				
CB-03-01 (NCE) Alopecia	Steroid ester, androgen antagonist						
		Stability Q4/10	Dose ranging Q3/12				
CB-01-16 Opioid-induced Constipation	Opioid antagonist						
		Q2/11					
* Skin irritation study							

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Highlights

- Lialda® has achieved continuous gains in market share according to Shire. These have now reached more than 18.5% of the 5-ASA tablet market in the USA. Cosmo's royalties are correspondingly increasing.
- Budesonide MMX® completed two pivotal phase III clinical trials in the USA and in the EU. The results of these trials will be released in the near term.
- The phase III clinical trials for Rifamycin MMX® in the USA have begun patient recruitment.
- After the successful phase II proof of concept clinical trials of the novel anti-androgen-based cream CB-03-01 for the topical treatment of Acne, the outstanding preclinical tests are now being performed. Furthermore a proof of concept for CB-03-01 for Alopecia is currently underway.
- Cosmo completed its acquisition of BioXell S.p.A. on 4 March 2010. 98.96% of BioXell shares were acquired. The consideration for each BioXell share was CHF 2.8059 cash, 0.21044 Cosmo shares and 0.21044 options to sell Cosmo shares at CHF 21 to the Company between 1 July 2011 and 31 December 2011. To execute the transaction the Company correspondingly increased its share capital by issuing 1,120,743 new Cosmo shares thus bringing total shares outstanding to 14,995,743 shares. BioXell shares were subsequently delisted from the SIX Swiss Exchange. Following an internal analysis it was decided not to liquidate BioXell but to continue with selected businesses and to combine its activities with Cosmo's activities.
- Total revenues increased by 7.0% and reached EUR 14.3 million.
- Revenue from own products increased from EUR 7.4 million to EUR 7.7 million.
- Manufacturing on behalf of third parties increased by 12.3% to EUR 5.8 million.
- The operating result reached EUR 2.1 million, an increase of 5.7%. The net profit however declined to EUR 0.5 million because of the devaluation of the euro against the Swiss franc which increased the contingent financial expenses that Cosmo would incur if the put options that were issued in conjunction with the BioXell acquisition were to be exercised.

Cosmo at a glance

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

Cosmo's objective is to become a global leader in the field of optimized therapies for selected Gastrointestinal and selected topically treated Skin Disorders. The Company's clinical development pipeline specifically addresses innovative treatments for Inflammatory Bowel Diseases (IBD). In

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

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

Key figures

EUR 1,000	30.6.2010	30.6.2009
Income statement		
Revenues	14,326	13,384
Cost of sales	(6,760)	(6,352)
R&D costs	(2,447)	(2,731)
SG&A costs	(3,056)	(2,676)
Operating result	2,082	1,970
Profit before taxes	1,008	2,643
Profit for the period	459	2,005
Shares		
Weighted average number of shares	14,462,225	13,755,037
Earnings per share (in EUR)	0.032	0.15
Statement of financial position		
Non-current assets	42,051	41,638
Cash and cash equivalents	31,627	17,161
Other current assets	18,786	12,665
Liabilities	36,733	11,669
Equity attributable to owners of the Company	55,449	59,795
Equity ratio (in %)	60%	84%

Dear Shareholder

During the first six months of 2010 we primarily focused on supervising the Clinical Research Organization in the final stages of the clinical trials of Budesonide MMX[®]. We also commissioned the preclinical work on CB-03-01 that had been postponed until we got good proof of concept news, and we commissioned an iontophoresis based proof of concept for CB-03-01 in Alopecia.

In January, we began work on some promising diagnostics areas and spent considerable time on the formulation for CB-01-16, our product for opioid-induced Constipation.

Overall revenues increased by 7.0% or EUR 0.9 million to EUR 14.3 million in comparison to H1 2009. Increases were generated across the board in all segments except in one-time revenues. Manufacturing on behalf of third parties increased by 12.3% to EUR 5.8 million, royalties on MMX[®] products jumped from EUR 2.7 million (in H1 2009) to EUR 4.0 million, and manufacturing revenues for MMX[®] products increased from EUR 3.3 million to EUR 3.5 million or by 6.8%. The only segment that showed a decline was the segment of one-time fees (license fees, up-front fees and milestones) which fell to EUR 0.2 million from EUR 1.5 million. Costs increased concurrently by 7.3% from EUR 11.4 million to EUR 12.2 million. Cost of goods sold and personnel expenses increased under-proportionally, while other operating expense increased over-proportionally primarily because of higher one-time costs for consultants in conjunction with the BioXell transaction. R&D expenses decreased by 10.4% to EUR 2.4 million. EUR 4.7 million of R&D costs related to the Budesonide project were capitalized. As a consequence, the operating profit increased by 5.7% to EUR 2.1 million. However profit after tax declined to EUR 0.5 million from EUR 2.0 million in the first half of 2009. This was primarily due to accounting for the euro devaluation against the Swiss franc on the Swiss franc denominated put option we wrote in conjunction with the acquisition of the

BioXell shares. Market developments had an even greater impact on comprehensive income, which fell to a loss of EUR 6.7 million because of the decline in value of our investment in Santarus by EUR 7.1 million. We would like to stress that neither of these two negative events had any impact on cash.

In H1 2010, cash generated from operating activities amounted to EUR 4.4 million compared to operating cash of EUR 3.0 million in the first half of last year. EUR 4.2 million cash was generated from investing activities; the EUR 5.3 million cash used for investing into intangibles and the plant were more than compensated by inflows from maturing financial investments. No cash was used to repurchase shares; 9,161 shares were sold in the market, so cash and cash equivalents increased substantially by 84.3% or EUR 14.5 million to EUR 31.6 million primarily because of the acquisition of BioXell. All in all our total assets increased by 29.4% or EUR 21 million to EUR 92.5 million. We issued 1,120,743 new shares to the BioXell shareholders and entered into a put obligation which allows these shareholders to put the shares we gave them to the Company at CHF 21 per share between 1 July 2011 and 31 December 2011. This obligation is accounted for as a debt which is why total liabilities increased to EUR 36.7 million. The current assets are more than 3.6 times higher than the current liabilities and cash and cash equivalents more than cover all current liabilities plus the amount that would need to be paid in cash if the put options were to be exercised.

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.

Products in the market

Lialda[®] is fulfilling our sales expectations in the USA. In Europe, we assisted Shire in various market introductions during the first half of 2010.

Lialda[®] manufacturing revenue increased by 6.8%. On 28 May, Shire announced that they had received a Paragraph IV Notice Letter from Zydus Pharmaceuticals USA, Inc., advising of the filing of an abbreviated new drug application (ANDA) for a generic version of 1.2 g mesalamine delayed release tablets Lialda[®]. On 8 July, Shire announced that it had filed suit against Cadila Health Care Ltd which does business as Zydus Cadila and Zydus Pharmaceuticals (USA). Because of this, the US Food and Drug Administration (FDA) must now, under the Hatch-Waxman Act, refrain from approving Zydus' NDA for 30 months or until a district court decision finds that the patent is invalid or not infringed. This period will expire in November 2012. On 31 May 2010 we informed that this development is unlikely to have a material financial consequence for Cosmo since our royalties from Shire are capped and we expected that the cap will be reached between 2014 and 2015. Shire's actions are likely to delay any competitive entry into the market until after that time period.

Products in clinical development

Budesonide MMX[®] is directed at all 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 completed 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 European Medicine Evaluation Agency (EMA) and the FDA. Each trial is for 480 patients. Both trials are randomized, double-blind and double-dummy studies testing 9 mg and 6 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. Data unblinding is scheduled to occur shortly.

Both licensing partners of Rifamycin SV MMX[®], Santarus (US) and Dr. Falk Pharma (EU), have moved the product into phase III. Santarus has started recruiting patients while Dr. Falk Pharma is still waiting for final clearance from the Indian authorities.

As previously announced, we approached the development of CB-03-01, our novel anti-androgen-based cream for the topical treatment of Skin Disorders with great caution. Consequently at the time we decided to get a proof of concept in the Acne indication prior to conducting all of the exhaustive and expensive preclinical studies. After the successful proof of concept we thus had to go back and complete the outstanding phase I work. In January, we commissioned studies in rabbits and rats to analyze the effect of CB-03-01 on pregnancy outcome and on foetus development, repeated dose pharmacokinetic studies in 12 volunteers, and irritability and sensitivity studies in 24 males and 12 females. These studies will be completed in the second part of 2010 and will allow us to start with dose ranging. We have decided to take a cautious approach to the development of CB-03-10 for Alopecia as well. A proof of concept study using the iontophoresis method (the skin of the scalp is electrically charged so that it more easily absorbs the active ingredient) was started in the first quarter of 2010. This method allows us to detect the products efficacy faster than in classical studies. In order to have a comparative base, a total of 40 men and 30 post-menopausal women were given either CB-03-01 or ciproterone acetate or 17 α -estradiol. We should have the results in H2 2010. Acne affects about 45 million people in the USA alone i.e. around 16% of the population. The worldwide market for Acne is estimated at more than USD 2.8 billion. As for Androgenetic Alopecia, androgen-induced Male

Baldness affects about 12% of all men over 20 years of age. So both markets are very large and both have not seen any innovative products for quite some time. In line with our careful approach, we have developed a product development strategy which foresees that we license out the product to the best possible partners before the all-important phase III starts. Further work on Low Molecular Weight Heparin MMX[®] has been held pending the result of the phase III clinical trials of Budesonide. As soon as these data are in, we will position LMW Heparin MMX[®] and proceed to the next development paths.

Products in preclinical development

Our preclinical work has been focusing on two novel areas for diagnostics on which we will report as soon as the necessary patents and approvals are in. The development of an anti-TNF α tablet, and an interferon- α tablet is currently on hold pending further instructions from our potential partners.

Business development

We are currently pursuing several initiatives for the licensing of Rifamycin SV MMX[®] in Latin America and Asia. We have opened an electronic data room for parties interested in licensing CB-03-01. Following the Budesonide MMX[®] results, we will initiate partnership discussions on LMW Heparin MMX[®]. Furthermore, we are regularly shown opportunities for 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 own 6 million Santarus shares, around 10% of the Company. At year end 2009, these shares had a value of USD 4.62 per share. On 30 June 2010 the price fell to USD 2.48 following the announcement of a judicial ruling

against the patent validity of Zegerid[®], Santarus' most important product. Given this situation, our investment in Santarus has fallen in value by EUR 7.1 million.

Personnel

Per 30 June 2010 we employed 138 persons in the Group; 3.0% more than at year end 2009.

This is an extremely exciting time for Cosmo as we await the results from the first phase III clinical trials we conducted ourselves and as we move ahead in the expansion of our portfolio. We want to thank our employees and partners, for their dedication and our shareholders for their support. We are looking forward with confidence to the full-year results of Cosmo, which we expect to be in line with the financial guidance announced earlier this year.

Lainate, 29 July 2010

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 made it possible 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 many of the 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 already 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®** (in Europe) or **Mesavancol®** (in Italy) 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. In the USA this is a new chemical entity.

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. Two different formulations are being pursued: one for Acne and one for Alopecia.

A further important 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 moved ahead on 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 late 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 and selected topically treated Skin 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. So 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.

Recently Cosmo has been building up its skin competence in relation with the development of CB-03-01. This is a new chemical entity that is targeted at Acne, Alopecia and Hirsutism, all diseases that have seen very few new product developments in the last years.

Distribution strategy

Cosmo's products are generally prescribed by gastroenterologists and selected general practitioners.

This makes a 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 get a 10% stake in Santarus. This stake may increase at the Cosmo's option, when the next milestone payments become due.

In conjunction with the development of the skin franchise Cosmo is likely to select partners with deep clinical trial and excellent distribution competences.

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.

Cosmo also intends to manufacture the skin and diagnostic products it develops.

Financials

Half-year consolidated financial statements as at 30 June 2010

Consolidated income statement (unaudited)

EUR 1,000

	Notes	30.06.2010	30.06.2009
Revenue	4	14,326	13,384
Other income		19	345
Cost of sales		(6,760)	(6,352)
Research and development costs		(2,447)	(2,731)
Selling, general and administrative costs		(3,056)	(2,676)
Net operating expenses	5	(12,244)	(11,414)
Operating result		2,082	1,970
Financial income	6	467	832
Financial expenses	6	(1,541)	(159)
Profit/(Loss) before taxes		1,008	2,643
Income tax expenses	7	(549)	(638)
Profit/(Loss) for the period		459	2,005
Profit/(Loss) attributable to:			
Owners of the Company		459	2,005
Non-controlling interest		-	-
Earnings per share			
		EUR	EUR
Basic	8	0.032	0.146
Diluted	8	0.032	0.146

Consolidated statement of comprehensive income (unaudited)

EUR 1,000

	Notes	30.06.2010	30.06.2009
Profit/(Loss) for the period (A)		459	2,005
Gains/(Losses) on fair value of available-for-sale financial assets	11	(7,116)	5,202
Gains/(Losses) on cash flow hedges		-	111
Income tax relating to components of other comprehensive income		-	(1,255)
Total other comprehensive income, net of tax (B)		(7,116)	4,058
Total comprehensive income (A)+(B)	14	(6,657)	6,063
Total comprehensive income attributable to:			
Owners of the Company		(6,657)	6,063
Non-controlling interest		-	-

Consolidated statement of financial position
(30 June 2010, unaudited)

EUR 1,000

	Notes	30.06.2010	31.12.2009
Assets			
Non-current assets			
Property, plant and equipment		6,493	6,810
Goodwill	9	1,857	109
Other intangible assets	10	16,808	12,035
Financial assets	11	13,239	19,242
Deferred tax assets		1,447	1,246
Other non-current receivables		2,207	2,196
Total non-current assets		42,051	41,638
Current assets			
Inventories		2,250	1,515
Trade receivables		5,823	5,517
Current tax assets		1,658	994
Other receivables and other assets	12	9,055	4,500
Current financial assets		-	139
Cash and cash equivalents	13	31,627	17,161
Total current assets		50,413	29,826
Total assets		92,464	71,464

EUR 1,000

	Notes	30.06.2010	31.12.2009
Equity			
Share capital		3,749	3,469
Share premium		31,518	29,960
Treasury shares		(1,001)	(1,146)
Other reserves		2,162	2,162
Stock option plan reserve		1,634	1,306
Available-for-sale financial assets reserve		3,361	10,477
Retained earnings		13,567	9,517
Profit/(Loss) for the period		459	4,050
Equity attributable to owners of the Company		55,449	59,795
Non-controlling interests		282	-
Total equity	14	55,731	59,795
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	15	2,567	1,642
Other non-current financial liabilities	16	16,916	-
Employee benefits	17	481	492
Deferred tax liabilities		2,989	2,247
Total non-current liabilities		22,953	4,381
Current liabilities			
Interest-bearing loans and borrowings	15	1,893	1,334
Trade payables	18	10,050	4,113
Current tax liabilities		220	540
Other current liabilities		1,407	1,301
Provisions		210	-
Total current liabilities		13,780	7,288
Total liabilities		36,733	11,669
Total equity and liabilities		92,464	71,464

Consolidated cash flow statements (unaudited)

EUR 1,000

	Notes	30.06.2010	30.06.2009
Profit/(Loss) before taxes		1,008	2,643
Income taxes paid		(1,257)	(853)
Interest expenses on non-current fin. liabilities (put option)	6	124	-
Foreign exchange loss on non-current fin. liabilities (put option)	6	1,235	-
Financial expenses on subsidized loans at amortized costs	15	28	17
Financial income on cash flow hedge		-	(234)
Share-payment-based expenses	19	328	320
Depreciation and amortization		856	812
Accrual to employee benefits	17	154	120
		2,476	2,825
Change in inventories		(735)	(374)
Change in trade receivables		(174)	(541)
Change in trade payables		5,296	347
Change in other receivables and other assets		(1,580)	2,375
Change in current financial assets		139	-
Change in deferred income		-	(1,369)
Change in other current liabilities		(62)	(29)
Change in current tax liabilities		(726)	(80)
Change in provisions		(75)	-
Payment of employee benefits	17	(165)	(135)
Cash flows from operating activities		4,394	3,019
Investments in property, plant and equipment		(385)	(687)
Investments in other intangible assets	10	(4,927)	(2,389)
Disposals of property, plant and equipment		-	23
Disposal of financial assets	13	9,509	-
Cash flows from investing activities		4,197	(3,053)
Change in other non-current receivables		(11)	(20)
Share capital issue costs	14	(277)	-
Purchase of treasury shares		-	(1,161)
Sale of treasury shares	14	145	40
Net cash flow due to business combination	3	6,959	-
Cash flows from financing activities		5,875	(1,778)
Net increase/(decrease) in cash and cash equivalents		14,466	(1,812)
Cash and cash equivalents at the beginning of the period		17,161	22,166
Cash and cash equivalents at the end of the period	13	31,627	20,354
Cash at hand		15	11
Bank accounts		31,612	20,343
Total cash and cash equivalents at the end of the period	13	31,627	20,354

**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	Retained earnings	Non-controlling interest	Total
	(n)											
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
	(n)											
Net equity as at 1 January 2010	13,875,000	3,469	29,960	(1,146)	357	1,805	1,306	10,477	-	13,567	-	59,795
Issue of shares (March 2010)	1,120,743	280	17,631									17,911
Share capital issue costs				(277)								(277)
Put options granted in the issue of shares (March 2010)				(15,796)								(15,796)
Personnel cost for stock options							328					328
Transactions with treasury shares				145								145
BioXcell acquisition											282	282
Total comprehensive income for the period								(7,116)	-	459	-	(6,657)
Net equity as at 30 June 2010	14,995,743	3,749	31,518	(1,001)	357	1,805	1,634	3,361	-	14,026	282	55,731

Explanatory notes

1 General information

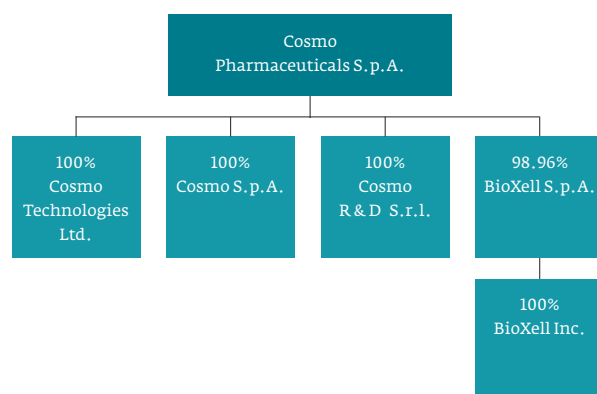
Cosmo Pharmaceuticals S.p.A. with its subsidiaries Cosmo S.p.A., Cosmo Technologies Ltd., Cosmo Research & Development S.r.l., BioXell S.p.A. and BioXell Inc., (“Cosmo Pharmaceuticals” or “Company” or “Group”) is a specialty pharmaceutical company: the Company’s objective is to become a global leader in the field of optimized therapies for selected Gastrointestinal and selected topically treated Skin Disorders. The Company’s clinical development pipeline specifically addresses innovative treatments for Inflammatory Bowel Diseases (IBD). In addition, the Company is developing a new chemical entity for the topical treatment of Acne, Alopecia and Hirsutism.

Cosmo’s proprietary multimatrix technology, MMX[®], provides a base for the development of new, patentable, yet low-risk products, manufactured at the Company’s own GMP-approved plant. Currently, Cosmo has two products on the market, six in clinical trials and two in preclinical development.

Since 12 March 2007, Cosmo Pharmaceuticals’ shares have been publicly listed on the Swiss Stock Exchange (SIX: COPN). The Company’s stock market capitalization as at 30 June 2010 was equal to CHF 274,422,096.90.

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

The structure of the Company as of 30 June 2010 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 2009.

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 2009 as they provide an update of previously reported information.

Operating results for the six months ended 30 June 2010 are not necessarily indicative of the results that may be expected for the year ending 31 December 2010.

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 2010

On 10 January 2008 the IASB issued a revised version of IFRS 3, "Business Combinations" and an amended version of IAS 27, "Consolidated and Separate Financial Statements". The main changes that revised IFRS 3 makes to existing requirements are the elimination of the need to measure every asset and liability at fair value at each stage in a step acquisition of subsidiaries. Goodwill is only to be measured on acquiring control, as the difference at acquisition date between the value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Moreover, for a business combination in which the acquirer achieves control without purchasing all of the acquiree, the remaining (non-controlling) equity interests are measured either at fair value or by using the method already provided previously in IFRS 3. The revised IFRS 3 also requires acquisition-related costs to be recognized as expenses and the acquirer to recognize the obligation to make an additional payment as part of the business combination (contingent consideration). In the amended version of IAS 27, the IASB has added a requirement specifying that changes in a parent's interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions and recognized within equity. Moreover, when a parent loses control of a subsidiary but retains an ownership interest it must initially measure any retained investment at fair value. At the date when control is lost, the difference between the fair value and the carrying amount of the retained interest must be recognized in income statement. Finally, the amendment to IAS 27 requires losses pertaining to non-controlling interests to be allocated to non-controlling interest equity, even if this results

in the non-controlling interest having a deficit balance. The Group has applied this revised standard since 1 January 2010.

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 2009. The major principles adopted are detailed below.

Principles of consolidation

Subsidiaries in which the Company has direct or indirect controlling interest are consolidated. Control is defined as the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Control is normally evidenced when the Company owns, either directly or indirectly, more than 50% of the voting rights or potential voting rights of a company's share capital that are currently exercisable. The consolidated financial statements of Cosmo Pharmaceuticals include the accounts of Cosmo Pharmaceuticals S.p.A., Cosmo S.p.A., Cosmo Technologies Ltd., Cosmo Research & Development S.r.l., BioXell S.p.A. and BioXell Inc.

The consolidation commences from the date on which the subsidiary has been incorporated or established. For BioXell S.p.A. and its subsidiary BioXell Inc., the control was acquired on 29 March 2010; their accounts has been consolidated starting 1 April 2010 since the effects of the operations of the last days of March 2010 are immaterial to Group accounts. Accordingly, the consolidated financial statements include the operations of BioXell S.p.A. and its subsidiary for the period 1 April 2010 – 30 June 2010.

The financial statements of subsidiaries are combined in the consolidated financial statements from the date that control commences until the date that control ceases. Non-controlling interest in the net assets of consolidated subsidiaries and

non-controlling interest in the profit or loss of consolidated subsidiaries are presented separately from the interest of the owners of the parent in the consolidated statement of financial position and income statement respectively.

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. All assets and liabilities of foreign consolidated companies with a functional currency other than the euro are translated using the exchange rates in effect at the balance sheet date. Income and expenses are translated at the average exchange rate for the period. Translation differences resulting from the application of this method are classified as equity until the disposal of the investment. Average rates of exchange are used to translate the cash flows of foreign subsidiaries in preparing the consolidated statement of cash flows.

The USD exchange rates used in 2010 to translate into euros the financial statements prepared in USD were as follows:

as at 30 June 2010	1.2271
average 1 April 2010 – 30 June 2010	1.2726

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.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method of accounting. The consideration transferred in a business combination is measured at fair value at the date of acquisition. This consideration includes the cash paid plus the fair value at the date of exchange of assets given, liabilities incurred or assumed and equity instruments issued by the Group. The fair value of the consideration transferred also includes contingent consideration arrangements at fair value. Directly attributable acquisition-related costs are expensed in the current period and reported within general and administration expenses. At the date of acquisition the Group recognizes the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired business. The identifiable assets acquired and the liabilities assumed are initially recognized at fair value. Where the Group does not acquire 100% ownership of the acquired business non-controlling interests are recorded as the proportion of the fair value of the acquired net assets attributable to the non-controlling interest. Goodwill is recorded as the surplus of the consideration transferred over the Group's interest in the fair value of the acquired net assets. Any goodwill and fair value adjustments are recorded as assets and liabilities of the acquired business in the functional currency of that business. Goodwill is not amortized, but is assessed for possible impairment at each reporting date and is additionally tested annually for impairment. Goodwill may also arise upon investments in associates, being the surplus of the cost of investment over the Group's share of the fair value of the net identifiable assets. Such goodwill is recorded within investments in associates. Changes in ownership interests in subsidiaries are

accounted for as equity transactions if they occur after control has already been obtained and if they do not result in a loss of control.

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 substantially 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.

Debt instruments

Debt instruments are initially recorded at cost, which is the proceeds received, net of transaction costs. Subsequently they are reported at amortized cost. Any discount between the net proceeds

received and the principal value due on redemption is amortized over the duration of the debt instrument and is recognized as part of financing costs using the effective interest rate method. The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

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 up-front fees, in situations where no further performance obligation exists, are recognized on the earlier of when payments are received or collection is assured. Up-front 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 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 (TUIR); 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 Business combination

In July 2009, Cosmo approached BioXell S.p.A., an Italian company listed on the SIX Swiss Exchange, offering to make a bid for its shares, after BioXell's announcement of discontinuing the development of its lead compound Elocalcitol and its decision of evaluating all strategic options. Extended negotiations followed and they led to an offer that was accepted by the board of directors of BioXell.

After the preannouncement in November 2009, on 8 December 2009, Cosmo Pharmaceuticals S.p.A. launched a public tender offer (offer) to acquire all outstanding shares of BioXell S.p.A. As of 4 December 2009, BioXell S.p.A. had a share capital of EUR 26,907,885, divided into 5,381,577 shares. The net offer consideration per BioXell share was:

- (i) CHF 2.8059 in cash; plus
- (ii) 0.21044 Cosmo shares; plus
- (iii) 0.21044 Cosmo put options (one Cosmo put option entitles to sell one Cosmo share to Cosmo at a price of CHF 21 per Cosmo share, exercisable during the exercise period starting on 1 July 2011 and ending on 31 December 2011); plus
- (iv) the supplement consideration based on the collection by BioXell of certain receivables or sales of BioXell's technology assets to third parties prior to closing of the offer.

By 26 February 2010, which was the acceptance period deadline, 5,325,713 BioXell shares had been tendered. This corresponds to 98.96% of all BioXell shares. Aside from the BioXell shares tendered within the offer, Cosmo has not acquired any BioXell shares or other BioXell equity securities.

On 5 March 2010, upon the successful conclusion of the offer, 1,120,743 new Cosmo Pharmaceuticals shares were issued (each share with a nominal value of EUR 0.25 and share premium of EUR 12.62).

On 9 March 2010, the supplement consideration was also defined in CHF 0.13591 per BioXell share tendered within the offer. After the public tender offer for BioXell S.p.A. shares, Cosmo Pharmaceuticals owns 98.96% of BioXell's share capital.

In the ordinary and extraordinary BioXell assembly held on 29 March 2010, the shareholders unanimously approved, among other things, the appointment of the new Board of Directors and of Statutory Auditors and the request of delisting of company's shares on the SIX Swiss Exchange.

Following an internal analysis it was decided not to liquidate BioXell but to continue with selected businesses and to combine its activities with Cosmo's activities.

Prior to 29 March, Cosmo had no control of the Company. As a consequence, 29 March 2010 is considered as the date of the acquisition of the Company's control. For this reason, in the preparation of Cosmo Pharmaceuticals' consolidated financial statements as at 30 June 2010:

- basing on the acquisition method in accordance with the IFRS 3, the total consideration transferred (Cosmo Pharmaceuticals S.p.A. shares, put options, and cash consideration) in the acquisition of BioXell (business combination) is measured at fair value as at 29 March 2010 (acquisition date – date on which the acquirer obtains the control of the acquiree)
- the assets and liabilities of the subsidiary are consolidated line by line in the “Consolidated statement of financial position”, while the “Consolidated income statement” include the new subsidiary's figures starting from 1 April 2010.

As of 29 March 2010, the net assets of BioXell S.p.A. before fair value adjustments amounts to EUR 27,117 thousand and the fair value recognized on acquisition of 98.96% of shares amount to EUR 26,873 thousand:

EUR 1,000	Fair value recognized on acquisition	Previous carrying value
Assets		
Non-current assets		
Financial assets	1,113	1,120
Deferred tax assets	2	–
Total non-current assets	1,115	1,120
Current assets		
Trade receivables	132	132
Current tax assets	2	2
Other receivables and other assets	2,975	2,975
Current financial assets	9,509	9,509
Cash and cash equivalents	17,669	17,669
Total current assets	30,287	30,287
Total assets	31,402	31,407
Liabilities		
Non-current liabilities		
Interest-bearing loans and borrowings	1,727	1,759
Deferred tax liabilities	16	–
Total non-current liabilities	1,743	1,759
Current liabilities		
Interest-bearing loans and borrowings	670	697
Trade payables	641	641
Current tax liabilities	740	740
Other current liabilities	168	168
Provisions	285	285
Total current liabilities	2,504	2,531
Total liabilities	4,247	4,290
Net assets	27,155	27,117
Non-controlling interest	(282)	
Company's net assets interest (98.96%)	26,873	
Consideration		
Fair value capital increase	15,995	
Fair value put option	1,916	
Cash paid	10,710	
Total consideration	28,621	
Provisional goodwill	1,748	
Net cash flow due to business combination		
Cash paid	(10,710)	
Cash and cash equivalents acquired	17,669	
Total net cash flow due to business combination	6,959	

Initial recognition of the BioXcell S.p.A. business combination is provisional: the excess of the consideration paid measured at acquisition-date fair value (EUR 28,621 thousand) in respect to the net of the acquisition-date amounts of identifiable assets acquired net of liabilities assumed (EUR 26,873), is recognized as “provisional goodwill” and amounts to EUR 1,748 thousand. The limited time that elapsed from the acquisition date to the date of preparation of these accounts did not make it possible to arrive at all fair value valuations under IFRS 3 in time for the accounts. The remaining items to be valued will be valued as prescribed by IFRS 3 within 12 months from the acquisition date.

4 Revenue

In H1 2010 revenue reached EUR 14,326 thousand up 7.0% over the same period of the previous year and is detailed here below:

EUR 1,000	30.06.2010	30.06.2009
Manufacturing on behalf of third parties		
Manufacturing of generic products and specialty drugs	5,763	5,132
Manufacturing of MMX® products	3,507	3,284
Related services	821	724
Other revenues from sales	77	79
Licence fees, up-front fees and milestones	163	1,459
Royalties	3,995	2,706
Total revenue	14,326	13,384

Manufacturing of generic products and specialty drugs increase by 12.3% to EUR 5,763 thousand. The item “manufacturing of MMX® products” relates to manufacturing of Shire’s Lialda®/Mezavant® and of Giuliani’s Mesavancol®, the first product in the market, based on the MMX® technology whose manufacturing and deliveries started in July 2006: during the H1 2010 we delivered 39.8 million tablets at a production revenue of EUR 3,507 thousand (in H1 2009, 40.6 million tablets, EUR 3,284 thousand); the revenue increased by 6.8% despite of the decrease in the number of tablets due to the different product mix (product in bulk or product packaged).

Revenue from “related services” increased by 13.4% to EUR 821 thousand.

During H1 2010 no new licensing agreements were concluded and the amount of EUR 163 thousand refers to the development of a generic product (revenue for “licence fees, up-front fees and milestones” in H1 2009 refers to the 2008 deferred income on the up-front payment for Rifamycin MMX®).

Revenue from “royalties” in H1 2010 includes EUR 3,995 thousand relating to the royalties on Lialda®/Mezavant®/Mesavancol®: pending Giuliani and Shire’s official data on Lialda®/Mezavant® sales for Q2 2010, royalties for H1 2010 are estimated by considering Shire’s sales of Lialda®/Mezavant® for Q2 2010 equal to those achieved in Q1 2010.

5 Net operating expenses

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

EUR 1,000	30.06.2010	30.06.2009
Other income	19	345
Changes in inventories of finished goods and work in progress	256	(41)
Raw materials and consumables used	(2,820)	(2,533)
Personnel expenses	(3,867)	(3,636)
Outsourced preclinical and clinical trial costs	(1,137)	(1,423)
Other operating expenses	(3,839)	(3,314)
Depreciation and amortization	(856)	(812)
Total net operating expenses	(12,244)	(11,414)

Other income

The item “other income” in H1 2009 comprises EUR 326 thousand for tax credit on research and development activities granted by the Italian government: for H1 2010, no tax credit on research and development activities was authorized by the Italian government.

Personnel expenses

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

EUR 1,000	30.06.2010	30.06.2009
Salaries and wages	2,758	2,605
Social security contributions	695	662
Employee benefits	154	120
Stock options	238	232
Other costs	22	17
Total personnel expenses	3,867	3,636

The entire staff as at 30 June 2010 and 2009 is shown by category here below:

No. of people	30.06.2010	30.06.2009
Managers	14	15
Junior Managers	9	7
Employees	57	55
Workers	58	58
Total number	138	135

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 for this reason the outsourced clinical trial costs relating to this project for the EU were capitalized (see note 10, “Other intangible assets”).

Following the strategic collaboration agreement signed in December 2008, Santarus is reimbursing the Company completely all costs for phase III clinical studies on Budesonide MMX[®] that it is incurring in the USA.

6 Financial income and expenses

The item comprises the following:

EUR 1,000	30.06.2010	30.06.2009
Financial income		
Dividends from other companies	-	-
Other	467	832
Total financial income	467	832
Financial expenses		
Interests on bank overdraft/advance on invoices	-	-
Interests on medium- and long-term bank loan	43	44
Interests on financial lease payables	6	20
Other	1,492	95
Total financial expenses	1,541	159
Financial income (expense), net	(1,074)	673

Other financial income as at 30 June 2010 mainly includes EUR 30 thousand for interest on cash and cash equivalents (EUR 154 thousand in H1 2009), foreign exchange differences for EUR 389 thousand (EUR 646 thousand in H1 2009).

Other financial expenses as at 30 June 2010 mainly include EUR 1,235 thousand for foreign exchange differences because of the devaluation of the EUR against CHF and EUR 124 thousand for interests, accounted to adjust the redemption amount of the obligation for the Company to purchase its own equity instruments for cash due to the put option issue in connection with the BioXell business combination (see note 16 "Other non-current financial liabilities" and note 3 "Business combination").

7 Income tax expenses

The item comprises the following:

EUR 1,000	30.06.2010	30.06.2009
Income tax IRES and other corporation taxes	(8)	171
Income tax IRAP	142	129
Current income tax	134	300
Deferred tax assets	(72)	105
Deferred tax liabilities	487	233
Deferred tax	415	338
Total income tax expenses	549	638

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 (TUIR).

8 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:

	30.06.2010	30.06.2009
Net profit attributable to shareholders (in EUR 1,000)	459	2,005
Weighted average number of outstanding ordinary shares	14,462,225	13,755,037
Basic earnings per share (in EUR)	0.032	0.146

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. With reference the stock option plan set up in December 2007, the exercise price as at 30 June 2010 was higher than the weighted average market price, therefore the options would not have been exercised and consequently they are not dilutive. The values of the basic and diluted earnings per share coincide in both periods.

	30.06.2010	30.06.2009
Net profit attributable to shareholders (in EUR 1,000)	459	2,005
Weighted average number of outstanding ordinary shares	14,462,225	13,755,037
Diluted earnings per share (in EUR)	0.032	0.146

9 Goodwill

The item "goodwill" is detailed as follows:

EUR 1,000	30.06.2010	31.12.2009
Opening carrying amount	109	109
Additions for the period	1,748	-
Write-downs/revaluations for the period	-	-
Closing carrying amount	1,857	109

The "addition for the periods" refers to the BioXcell S.p.A. business combination provisional goodwill arising from the excess of the consideration paid measured at acquisition-date fair value (EUR 28,621 thousand) in respect to the net of the acquisition-date amounts of identifiable assets acquired net of liabilities assumed (EUR 26,873). The limited time that elapsed from the acquisition date of BioXcell S.p.A. to the date of preparation of these accounts did not make it possible to arrive at all fair value valuations under IFRS 3 in time for the accounts. The remaining items to be valued will be valued as prescribed by IFRS 3 within 12 months from the acquisition date.

10 Other intangible assets

As at 30 June 2010, the item includes capitalized development costs of EUR 13,822 thousand for the development of Budesonide MMX®.

EUR 4,732 thousand of this refer to H1 2010. This is based on facts and circumstances of the project Budesonide MMX®, the Management has considered the capitalization criteria met with the start of the clinical phase III in 2008. At this stage, there is a statistical probability of success varying from 66% to 75% for new chemical entities. For this project, it can be assumed to be higher since budesonide is a well-known molecule, which has been used in the market for many years, although in different therapeutic areas. The Group will bear phase III costs of the European clinical trials until product registration. In 2009 and H1 2010 the Company continued the clinical phase III development. The development project is therefore progressing in line with the technical and economical plan; and after review, the Management confirms the recoverability of the relevant capitalized costs, based on the probable future economic benefits.

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.

11 Financial assets

EUR 1,000	30.06.2010	31.12.2009
Financial assets available for sale (Santarus shares)	12,126	19,242
Other financial assets available for sale	1,113	-
Financial assets	13,239	19,242

“Financial assets available for sale” refers for EUR 12,126 thousand 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 2010 the fair value of the share (market price NASDAQ) was equal to USD 2.48, for a total of USD 14.88 million (corresponding to EUR 12,126 thousand, at 30 June 2010 USD/EUR exchange rate). The loss of EUR 7,116 thousand was recognized in the “comprehensive income” without any deferred tax effects due to the participation exemption.

It also includes EUR 1,113 thousand of corporate bonds, arising from BioXell business combination currently pledged to a bank to secure a bank surety provided to Ministero dell’Istruzione, dell’Università e della Ricerca (MIUR) to obtain a subsidized interest bearing loan (see note 15 “Interest-bearing loans and borrowings”); the Group is negotiating with the bank to cancel the pledge.

12 Other receivables and other assets

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

EUR 1,000	30.06.2010	31.12.2009
Government grant	556	78
Receivables from other companies	3,054	1,516
VAT receivables	2,573	540
Prepaid expenses	2,721	2,323
Other prepaid	151	43
Total other receivables and other assets	9,055	4,500

“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.

“Government grant” and “VAT receivables” as at 30 June 2010 include EUR 478 thousand and EUR 2,191 thousand respectively arising from BioXell business combination.

13 Cash and cash equivalents

“Cash and cash equivalents” comprises the following:

EUR 1,000	30.06.2010	31.12.2009
Cash at hand	15	10
Bank accounts	31,612	17,151
Total cash and cash equivalents	31,627	17,161

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

The increase has to be related to BioXell business combination (see note 3 “Business combination”): for EUR 6,959 thousand to net cash flow and for EUR 9,509 thousand to the divestment of current financial assets.

14 Total shareholders' equity

The item “total shareholders' equity” comprises the following:

EUR 1,000	30.06.2010	31.12.2009
Share capital	3,749	3,469
Share premium	31,518	29,960
Treasury shares	(1,001)	(1,146)
Other reserves	2,162	2,162
Stock option plan reserve	1,634	1,306
Available-for-sale financial assets reserve	3,361	10,477
Retained earnings	13,567	9,517
Profit/(Loss) for the year	459	4,050
Equity attributable to owners of the company	55,449	59,795
Non-controlling interests	282	-
Total equity	55,731	59,795

Share capital

As at 31 December 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. In relation to BioXell acquisition, 1,120,743 ordinary shares were issued in March 2010, each share with a nominal value of EUR 0.25, for a total share capital increase of EUR 280 thousand. As at 30 June 2010 Cosmo Pharmaceuticals had 14,995,743 shares issued, fully subscribed and paid up, each share with a nominal value of EUR 0.25, for a total share capital of EUR 3,749 thousand (see note 3 “Business combination”).

Share premium

As at 31 December 2009, “share premium” of EUR 29,960 thousand refers to the proceeds from the 2007 offering of new shares at the IPO.

The net variance of the period 1 January 2010 – 30 June 2010 is to be put in relation with the above-described share capital increase for BioXcell acquisition and in particular: i) the increase of EUR 17,631 thousand arising from the fair value of shares and put options issued as a part of total consideration transferred; ii) the decrease of EUR 277 thousand for share capital issue costs, net of tax effect, directly deducted from equity; iii) the decrease of EUR 15,796 thousand due to the obligation of the Group to purchase its own equity instruments for cash (n. options issued 1,120,743) measured on the basis of the net present value at the acquisition date of the option exercise price (exercise price CHF 21.00), reclassified in “other non-current financial liabilities” (see note 16 “Other non-current financial liabilities” and note 3 “Business combination”).

Treasury shares

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

As at 30 June 2010, the number of treasury shares amounted to 143,000 (with an average purchase price of CHF 14.29 per share); during H1 2010 9,161 treasury shares were sold with a gain of EUR 56 thousand directly recognized in the equity.

The number of shares outstanding developed as follows:

	2010
As at 1 January	13,722,839
Issuance of new shares	
Issue of shares (March 2010)	1,120,743
Treasury shares	
Purchased	
Sold	9,161
As at 30 June	14,852,743

Other reserves

“Other reserves” as at 30 June 2010 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 2010, the expense for the stock options, all allocated in 2007, amounted to EUR 328 thousand, of which EUR 238 thousand for personnel staff and EUR 90 thousand for non-Executive Directors.

Available-for-sale financial asset reserve

As at 30 June 2010, “available-for-sale financial asset reserve” is due to measurement at fair value of Santarus shares which are included in the financial assets available for sale (see note 11, “Financial assets”) without any deferred tax effects due to the participation exemption.

15 Interest-bearing loans and borrowings (current and non-current)

Non-current and current “interest-bearing loans and borrowings” are detailed here below:

a) Non-current

EUR 1,000	30.06.2010	31.12.2009
Bank loans	2,532	1,453
Total bank loans	2,532	1,453
Financial lease liabilities	35	189
Total financial lease liabilities	35	189
Total interest-bearing loans and borrowings (non-current)	2,567	1,642

a) Current

EUR 1,000	30.06.2010	31.12.2009
Bank loans	1,431	813
Total bank loans	1,431	813
Financial lease liabilities	462	521
Total financial lease liabilities	462	521
Total interest-bearing loans and borrowings (current)	1,893	1,334

In H1 2010 the Group did not enter in new loan or financial leasing and has reimbursed the instalments in accordance with the contractually foreseen repayment schedules. The increase as at 30 June 2010 is due to BioXcell business combination: the Group acquired a subsidized interest-bearing loan granted to BioXcell in 2004 for an original amount of EUR 4,853 thousand, bearing annual interest at 0.5% and to be repaid in 14 semiannual instalments ending in 2013. At the acquisition date the fair value of the loan was equal to EUR 2,397 thousand (see note 3 “Business combination”), and during the H1 2010 an instalment was repaid.

16 Other non-current financial liabilities

The item comprises the following:

EUR 1,000	30.06.2010	31.12.2009
Financial liabilities for put options issued	16,916	-
Other non-current financial liabilities	16,916	-

The amount refers to the net present value as at 30 June 2010, of the redemption amount of the obligation for the Company to purchase its own equity instruments for cash consequently to the put option issue in connection with the BioXcell business combination (see note 14 “Total shareholders’ equity” and note 3 “Business combination”). The amount is determined on the basis of 1,120,743 put options with an exercise price of CHF 21.00, discounted using a market rate (Italian “Rendistato” March 2010 equal to 3.14%) until the expiring date 31 December 2011, and adjusted to FX CHF/EUR as at 30 June 2010.

17 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	Changes in the		As at	Changes in the		As at
	1 January	period		31 December	period		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

EUR 1,000	As at	Changes in the		As at	Changes in the		As at
	1 January	period		31 December	period		30 June
	2009	Accrued	Utilized	2009	Accrued	Utilized	2010
Employee benefits	511	250	(269)	492	154	(165)	481
Total employee benefits	511	250	(269)	492	154	(165)	481

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

%	30.06.2010	30.06.2009
	Discount rate	4.16
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	7.29	7.59

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

EUR 1,000	30.06.2010	30.06.2009
	Costs in the income statements	154
Current services cost*	117	116
Interest expenses on obligation	5	7
Actuarial gains/(losses)	32	(3)
	154	120

* of which 115 and 115 respectively for 2010 and 2009, amount transferred to external fund

18 Trade payables

The increase in “trade payables” as at 30 June 2010 is due to the accrual of Budesonide MMX® clinical trial costs of EUR 4.9 million that the CRO has not yet billed.

19 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 with a vesting period of three years and an exercise price of CHF 22 per share, and expiring at 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 general assembly of shareholders on 15 April 2010 revoked the first approval and replaced it by a new approval granting the Board a new authority to again issue 1,513,200 shares up to 15 April 2015. On 30 April 2010 the Board of Directors has decided to extend the exercise period of the existing plan to 15 April 2015 (originally 14 December 2011).

This modification to the original stock option plan (SOP), has determined the variation in the fair value of options: therefore the difference in the fair value estimated as at 30 April 2010 considering the original SOP expiring on 14 December 2011 and the same SOP with extended expiring date to 15 April 2015 (both with vesting date 18 December 2010), is charged to profit and loss over the residual vesting period (30 April 2010 – 18 December 2010). The total variation of fair value amounts to CHF 0.051 per option, for a total amount of CHF 51,692. These

values were calculated by an external consultant experienced in the calculation of share ownership programmes.

The options granted are recognized as costs over the vesting period. In H1 2010 the expense for the value of employees’ and Directors’ services exchanged for stock options amounted to EUR 328 thousand, of which EUR 238 thousand for the personnel staff and EUR 90 thousand for non-Executive Directors (in H1 2010, the total was EUR 320 thousand, of which EUR 232 thousand for employees and EUR 88 thousand for non-Executive Directors).

In 2008, 2009 and H1 2010, 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
Expiry date variation 30 April 2010				15.04.2015		0.051
					Number	Weighted average exercise price
						CHF
Outstanding as at 1 January 2009					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 2009					1,013,568	22.00
Exercisable as at 31 December 2009						
Granted during the period					-	-
Forfeited during the period					-	-
Exercised during the period					-	-
Expired during the period					-	-
Outstanding as at 30 June 2010					1,013,568	22.00
Exercisable as at 30 June 2010					-	-

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 3.0 years.

Option series 1

	Issued 18 Decem- ber 2007		Expiry date variation 30 April 2010
Previous monthly average at grant date share price (in CHF)	21.16	Previous monthly average at grant date share price (in CHF)	20.29
Exercise price (in CHF)	22.00	Exercise price (in CHF)	22.00
Expected volatility	19%	Expected volatility	30%
Option life	360 days	Option life	1200 days
Discount rate due to the vesting period	7.12%	Risk-free interest rate (2007–2011)	0.37%
Risk-free interest rate	2.75%	Risk-free interest rate (2007–2015)	0.93%

20 Contingencies

In 2009, the Italian company Bioactiva S.r.l. invoked the arbitration clause on the distribution agreement signed in 2006 for the commercialization of Zacol NMX® in Italy and terminated by Cosmo for sales target unmet for two consecutive years. The Company's counsels deem that Cosmo has very good arguments to resist the claim.

21 Related-party transactions

The Company is controlled by Cosmo Holding S.p.A. (incorporated in Italy), which as at 30 June 2010, owns 59.28% of the Company shares.

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 immunomodulatory and anti-inflammatory activities of a molecule. The Board of Directors of the Company unanimously approved in advance the above activities, which in H1 2010 amounted to USD 600 thousand (EUR 452 thousand).

22 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

Capital structure

EUR 1,000	30.06.2010
Equity	55,449
Share capital	3,749
Reserves	51,241
Profit for the period	0,459
Number of registered shares	14,995,743
Nominal value per share (in EUR)	0.25

Stock exchange information

Listing	SIX Swiss Exchange, Main Board
Security ID	COPN
ISIN	IT0004167463
Swiss security number (Valor)	2862650
Number of shares	14,995,743

Major shareholders	No. of shares	% of share capital
Cosmo Holding S.p.A.	8,740,000	58.28%
dievini Hopp BioTech GmbH & Co. KG	1,476,876	9.85%
Heinrich Herz AG	470,000	3.13%

Research coverage

Bank Am Bellevue	Bob Pooler	Phone: +41 44 267 7237
Jefferies International	Peter Welford	Phone: +44 20 7029 8668
Macquarie Capital	Carri Duncan	Phone: +41 44 5640224
Vontobel	Dr Silvia Schanz	Phone: +41 58 283 6344

Share price data

CHF	Price	Date
First trading day	22.30	12.03.2007
2010 lowest closing	18.20	01.06.2010
2010 highest closing	23.70	08.01.2010
H1 2010 last trading day	18.30	30.06.2010
Market capitalization (in CHF million)	274.42	30.06.2010

Share earnings

EUR	30.06.2010
Earnings	0.03

Calendar

Key reporting dates

Full-year results 2010 /
Annual report 2010 – 25 March 2011
Annual general meeting – 21 April 2011

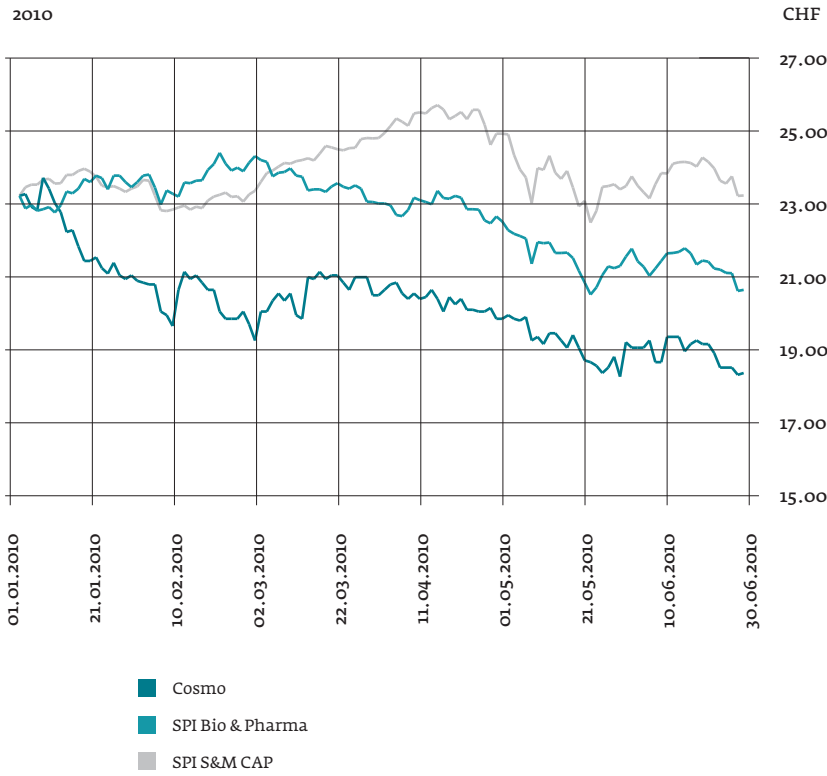
Upcoming conferences

UBS Global Life Science Conference, New York
20 – 23 September 2010

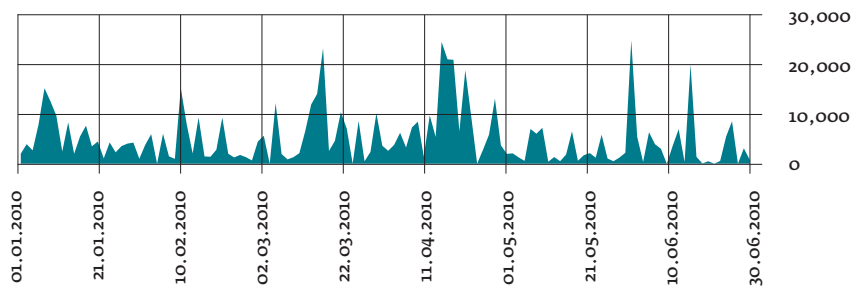
Jefferies' 1st Biopharma Conference, London
5 – 6 October 2010

Vontobel Healthcare Tour, Basel
8 November 2010

Share price



Trading volumes



Glossary

Acute

Acute often means urgent. An acute disease occurs suddenly.

5-aminosalicylic acid

It is a drug derived from salicylic acid used to treat inflammation of the intestine.

Acne

Skin Disorder characterized by inflammation as a result of over-activity of the sebaceous glands.

Alopecia (Male-Pattern Baldness)

Hair follicle disease which involves individuals genetically predisposed.

ANDA

Abbreviated new drug application.

Androgens

Male sex hormones.

Antibiotic

Drug that kills bacteria or prevents them from multiplying.

API

Active pharmaceutical ingredient.

ASI

Acne severity index.

AUC (area under the curve)

Term used in PK studies as measure of systemic absorption.

Autoimmune

A condition in which the body produces antibodies to its own tissue.

Bacteria

Single-celled microorganisms that can exist independently or dependently upon another organism for life. They can cause Infection and are usually treated with antibiotics.

BLA

Biological license application that the FDA must approve before a biologic can enter the US market.

Butyric acid

Is a short-chain fatty acid produced in the colon by the fermentation of alimentary fibres. It is the main physiological fuel for the mucosa cells in the colon.

C.P.O.

Contract Pharmaceutical Organization, a company that carries out services in the pharmaceutical sector on behalf of third parties.

C.R.O.

Contract Research Organization, a company that carries out research and/or development activities in the pharmaceutical sector on behalf of third parties.

Clostridium Difficile Associated Diarrhoea (CDAD)

Diarrhoea due to Clostridium Difficile Infection.

Colon

The colon is the part of the large intestine between the cecum to the rectum. Its primary purpose is to extract water from faeces.

Clinical need

Therapeutic need not covered by drugs that are currently marketed.

Clinical phase I

Phase I trials are the first stage of drug testing on human subjects.

Clinical phase II

Once the initial safety of therapy has been confirmed in phase I trials, phase II trials are performed on larger groups (20–200) and are designed to assess clinical efficacy of the therapy, as well as to continue phase I assessment on a larger group of volunteers and/or patients.

Clinical phase III

Phase III studies are randomized controlled trials on large patient groups (≥ 200 , depending on the condition) and are aimed at producing a definitive assessment of the efficacy of the new therapy, sometimes in comparison with current 'gold standard' treatment.

Clinical trial

A meticulously controlled test of a drug candidate on humans.

C_{max}

Maximum drug concentration reached in a body fluid, usually plasma or blood.

Compliance

Compliance with the therapeutic regime imposed by the prescribing doctor.

Crohn's Disease (CD)

It is a type of chronic Inflammatory Bowel Disease (IBD) which can affect any part of the gastrointestinal tract from mouth to anus.

Chronic

Lasting a long time.

Cytokines

Any class of substances that are secreted by cells of the immune system.

Diarrhoea

It is a generally unpleasant condition in which the sufferer has frequent watery, loose bowel movements.

Dose-finding study

A clinical study designed to determine the efficacy and safety of different doses to help in the identification of the most efficacious and well-tolerated dose.

Double-blind study

A clinical trial design in which neither the participating individuals nor the study staff know which participants are receiving the experimental drug and which are receiving placebo or another active ingredient (comparator).

Disease activity index (DAI)

An index of severity of IBD including subjective and endoscopic evaluations.

Diverticulitis

Diverticulitis is a disease of the bowel, in particular the large intestine, characterized by Inflammation and Infection of intestinal diverticula. Diverticula are finger-shaped dilatations of the intestinal wall.

Drug delivery system

A technology or method that is able to control the time and the extent of the release of a drug.

EBITDA

Earnings before interest, taxes, depreciation and amortization.

Efficacy

The ability of a drug to control or cure an illness.

Endoscopic activity index (EAI)

An index evaluating the severity of IBD by endoscopic examinations.

Endoscopy

Endoscopy means looking inside and refers to looking inside the human body for medical reasons.

Endogenous

Produced or synthesized within the organism.

Enzyme

A molecule that includes the conversion of one chemical substance to another.

Epidemiologic

Cause and development characteristics of a disease in populations.

EMA

European Medicine Evaluation Agency.

EPO

European Patent Office.

Ethical drugs

Prescription drugs used for treatment of serious diseases.

Excipient

An inert substance used as a diluent or vehicle for a drug.

FDA

Food and Drug Administration, the US government agency that governs the entry and monitoring of products on the market.

FDA Orange Book

The Orange Book is maintained by FDA and identifies drug products approved on the basis of safety and efficacy by the FDA under the FDA Act.

Galenic

Galenic formulation deals with the principles of preparing and compounding medicines in order to optimize their absorption.

Generic drugs

Drugs equivalent to brand drugs.

Hirsutism

Excessive growth in women of thick hair, with a male pattern.

ICH

The International Conference on Harmonisation of Technical Requirements for Registration of Pharmaceuticals for Human Use

IGA

Investigator's global assessment.

ILC

Inflammatory lesion count.

Ileum

The ileum is the final portion of the small intestine.

IND

Investigational new drug.

Infection

A condition resulting from the presence of bacteria or other microorganisms in the body.

Inflammation

Swelling, reddening, heat and/or pain produced in the area of the body as a result of irritation, injury or Infection.

Inflammatory Bowel Disease (IBD)

A group of inflammatory conditions of the bowel, including Ulcerative Colitis and Crohn's Disease.

Intestine

The portion of the alimentary tract extending from the stomach to the anus, consisting of two segments, the small intestine and the large intestine (or colon).

Inulin

Inulins are a group of naturally occurring oligosaccharides which are fermented by intestinal bacteria leading to the production of short chain fatty acid, including butyric acid.

In vitro

In an artificial environment, referring to a process or reaction occurring therein, as in a test tube or culture media.

IS

Irritancy score.

ITT population

Intent-to-treat population.

Lesions

A lesion is any abnormal tissue found on or in an organism, usually damaged by Disease or Trauma.

Lipophilic

The property of a chemical compound to dissolve in fats, oils, lipids, and non-polar solvents.

Lumen

The lumen is the interior of a vessel within the body, such as the small central space in an artery or vein, or any of their relating vessels through which blood flows. On a larger scale, the interior of the gastrointestinal tract may also be referred to as its lumen.

Mechanism of action

The manner by which a drug exerts its activity.

Monoclonal antibodies

Identical antibodies produced by selected and restricted B lymphocytes.

NCE

New chemical entity, chemical structure which is not part of existing technical know-how.

NDA

The new drug application, a procedure through which drug sponsors formally propose that the FDA approve a new pharmaceutical for sale and marketing in the USA.

Nutraceuticals

Refers to foods claimed to have an effect on human health. The term includes dietary supplements and special food.

OTC drugs

Over-the-counter drugs are medicines that may be sold without the prescription of a medical professional, in contrast to prescription drugs.

Off-label

The use of a drug for a medical condition other than for which it was officially approved and marketed.

Orphan Diseases

Diseases characterized by a limited incidence in the population, generally fewer than five cases per 10,000, and for which there are currently no valid therapies available.

Orphan drug

Drug intended to cure Orphan Diseases.

Onset of action

The length of time it takes for a medicine to start to work.

Open-label

A study in which all parties (patient, physician and study co-ordinator) are informed of the drug and dose being administered.

Pivotal study

Usually a phase III study which presents the data that the governmental agencies responsible for approving the marketing of pharmaceutical products (e.g. the FDA and the EMEA) use to decide whether or not to approve a drug.

Placebo

Drug with no active ingredients.

Pharmaceutical manufacturing plant

Facilities for the manufacturing of drugs, subject to authorization by specific health authorities.

Pharmacokinetic

The process by which a drug is absorbed, distributed, metabolized and eliminated by the body.

Pharmacokinetic parameters

Measures related to drug absorption and elimination rates that are useful to evaluate the behaviour of the drugs after administration to a living organism (such as C_{max}, t_{max}, AUC etc.).

Peptides

Peptides (from the Greek πεπτος, “digestible”) are the family of short molecules formed from the linking, in a defined order, of various α -amino acids.

Probiotic bacteria

Microorganisms normally present in the intestine, producing beneficial effects.

Proof of concept study

Phase IIa clinical trials, usually conducted within the target patient group, to determine whether the considerable resources necessary to complete drug development should be invested.

Prophylaxis

A method to prevent a disease.

Randomized / randomization

The procedures ensuring that the subjects are equally and randomly distributed to treatment or control groups.

REACH

Registration, Evaluation, Authorisation and Restriction of Chemicals.

Receptor

A protein complex located inside or on the wall of the cells characterized by selective binding of a specific substance.

Rectum

The last part of the large intestine.

Registration

Authorization required to market a drug.

Seborrhoea

A Skin Disease characterized by increase of sebum associated or not to Inflammation.

Technology platform

Technology applied to various molecules generating certain products.

TLC

Total lesion count.

TLUS

Time to last unformed stool.

Tmax (Time to maximum concentration)

Term used in PK studies to indicate the time after administration when the maximum concentration in a body fluid is obtained.

UCDAI

Ulcerative Colitis Disease Activity Index.

Ulcerative Colitis (UC)

Ulcerative Colitis is a form of Inflammatory Bowel Disease (IBD). The disease is located only in the colon, and is characterized by presence of mucosal ulcerations. The main symptoms of active disease are usually abdominal pain and Diarrhoea mixed with blood of gradual onset.

Concerning forward-looking statements

This report contains certain “forward-looking statements”, which can be identified by the use of terminology such as “could”, “might”, “propose”, “addressable”, “outlook”, “attractive” or similar wording. Such forward-looking statements reflect the current views of Management and are not guarantees of future performance and involve risks and uncertainties. Readers are cautioned that actual results may differ materially from those in the forward-looking statements as a result of various factors. Cosmo is providing the information in this report as of this date and does not undertake any obligation to update any forward-looking statements contained in it as a result of new information, future events or otherwise.

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