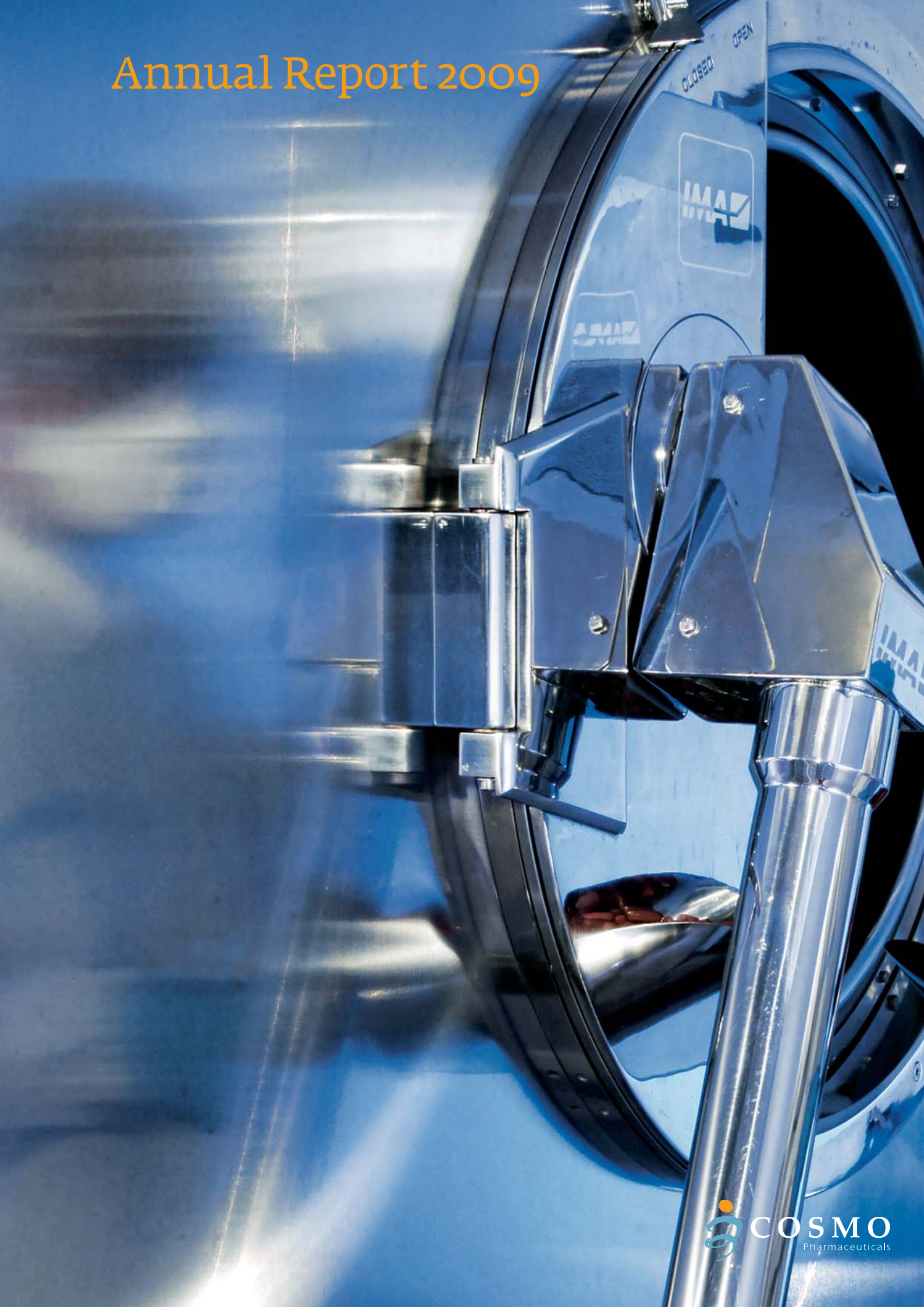


Annual Report 2009



Cosmo at a glance

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

Cosmo's 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 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 on the market, five in clinical trials and a further three in preclinical development.

Pipeline development 2008–2009

Product	Drug type	Phase I	Phase II	Phase III	MA Launch	
Lialda®/ Mezavant®/ Mesavacol® Mild to moderate Ulcerative Colitis	5-ASA	█				
Budesonide MMX® Mild to moderate Ulcerative Colitis	Corticosteroid	█				
Rifamycin SV MMX® Infectious Diarrhoea	Antibiotic	█				
LMW Heparin MMX® Mild to moderate Ulcerative Colitis	Biologic	█				
Zacol NMX® Intestinal Disorders (nutraceutical)	Dietary supplement	█				
CB-03-01 (NCE) Acne, Male-Pattern Baldness and Hirsutism	Steroid ester, androgen antagonist	█	█	█		
CB-01-16 Opioid-induced Constipation	Opioid antagonist	█				

█ 2008 █ 2009

Key events

- _ Lialda® exceeded 2009 projected sales expectations in the USA
- _ Initiation of a phase III Budesonide clinical trial in the EU and in the USA
- _ Successful completion of the proof of concept trial of CB-03-01 for the treatment of Acne in September and publication of top-line results in December 2009

Key facts

- _ Lialda[®], Cosmo's first MMX[®] product on the market (licenced to Giuliani/Shire), was the fastest growing Ulcerative Colitis drug in the USA in 2009 and achieved a market share of 18%
- _ Income from royalties increased by 70% to EUR 6.0 million
- _ Cosmo continued manufacturing 100% of Lialda[®]; manufacturing volumes (-11%) and revenues (-7%) were down slightly because of tighter post-market-introduction inventory management by Shire
- _ Contract drug manufacturing revenues decreased by 15% to EUR 10.5 million primarily because one marginally profitable activity for which additional capital investment would have been necessary was discounted and one generics client deferred orders
- _ One-time licence and up-front fees and milestone income decreased by 80% to EUR 2.1 million because no new licencing agreements were concluded
- _ Net profit reached EUR 4.0 million in 2009, down 57% over last year's extraordinary result
- _ Cash and cash equivalents decreased from EUR 22.2 million to EUR 17.2 million
- _ Financial assets available for sale increased by 184% to EUR 19.2 million

Key figures

EUR 1,000	2009	2008	2007
Income statements			
Revenues	26,685	34,173	21,900
Cost of sales	(12,774)	(13,203)	(13,162)
R&D costs	(4,454)	(4,287)	(4,772)
SG&A costs	(5,329)	(5,546)	(4,730)
Operating result	4,443	11,184	(248)
Profit before taxes	5,317	11,613	153
Profit after taxes for the period	4,050	9,401	116
Balance sheet			
Non-current assets	41,638	24,072	13,562
Cash and cash equivalents	17,161	22,166	25,505
Other current assets	12,665	11,527	8,161
Liabilities	11,669	14,529	12,081
Shareholders' equity	59,795	43,236	35,147
Equity ratio (in%)	84%	75%	74%
Shares			
Weighted average number of shares	13,717,407	13,871,249	13,348,507
Earnings per share (in EUR)	0.295	0.678	0.009

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Dear Shareholder



Rolf Stahel



Mauro S. Ajani

Overall 2009 was a very good year for Cosmo. In an environment where a number of biotech companies have struggled, we were able to deliver on our objectives.

Overall 2009 was a very good year for Cosmo. In an environment where a number of biotech companies have struggled, we were able to deliver on our objectives. Some of our contract manufacturing clients did experience more difficult markets, but our contract manufacturing activity continued to produce solid revenues and a steady income. Our main product Lialda[®] became the fastest growing Inflammatory Bowel Disease (IBD) product in the USA and is now the fifth largest IBD product. Though it provided steady, increasing income stream, our overall revenue decreased by 22% or EUR 7.5 million to EUR 26.7 million, because we did not conclude any new licencing agreements. Correspondingly, our licence fees, up-front fees and milestones decreased from EUR 10.4 million to EUR 2.1 million. These one-time effects of course also reduced net profits, but we feel that the net profit of EUR 4.0 million that was achieved is highly satisfactory. In addition, the decision taken at the end of 2008 to seek payment of the milestones due from Santarus in the form of Santarus shares proved to be a timely one, since the value of these shares increased by EUR 12.5 million to EUR 19.2 million at year-end. This gain is directly accounted in equity. Finally and most importantly, in December we were able to announce the successful top-line results of our proof of concept trial of CB-03-01, our first new chemical entity, targeted at Acne. Thus, we are on a steady path towards transforming Cosmo from a Company that focuses on Inflammatory Bowel Disease towards a Company that is focused on drugs that act topically, be it in the colon or be it on the skin.

The year also posed some challenges for Cosmo's Management. Our current focus is on low-risk chemical entities, which we improve either through efficacy or safety by the application of our patented MMX[®] technology. In the cases of Rifamycin SV MMX[®] and LMW Heparin MMX[®], however, we are dealing with chemical entities that are approved in the EU, and not in the USA. Because of this, the US Food and Drug Administration (FDA) required that we provide data from new preclinical assessments as a prerequisite for potential approval. For Rifamycin SV MMX[®], this meant that we had to conduct additional analytical work, which took six months and consequently delayed the start of both the US phase III trial as well as the EU phase III trial since these are linked. In the case of LMW Heparin MMX[®], we want to potentially position the drug for chronic use, which means that the FDA requires analyses on the drug's potential carcinogenicity. Our potential launch in the USA could follow the EU by two years. While this is not the shortest development path, it does give us additional time to explore the full range of applications for both drugs, potentially leading to new indications for Rifamycin SV MMX[®] and to the best possible positioning of LMW Heparin MMX[®] in a competitive environment.

Patient recruitment for our CB-03-01 trial for Acne went as planned. Recruitment for the two phase III Budesonide MMX[®] trials was, however, slower

Our financial position continues to be strong. At year-end we had EUR 17.2 million cash; and this cash reserve is additionally bolstered by the value of the investment in Santarus shares which amounted to EUR 19.2 million.

and more difficult than we envisaged. In the USA and the EU, recruitment of chronically ill patients for trials that have a placebo arm is becoming more and more challenging. Both trials have now completed patient recruitment; the results are anticipated later in the year.

We continue to have a very disciplined approach to cost management with operating costs under strict control. The cash outflow for the clinical trials was EUR 6.9 million, higher than expected but still low in comparison to our total revenues and our existing cash position. Our financial position continues to be strong. At year-end we had EUR 17.2 million cash; and this cash reserve is additionally bolstered by the value of the investment in Santarus shares which amounted to EUR 19.2 million.

In December we launched an offer for BioXell S.p.A., an Italian company also listed on the SIX Swiss Exchange. The offer is for the cash value of the company, so we will not bear any technology risks. The objective of the offer, which ran through 26 February 2010, was to partially pay by issuing shares and thus expand the shareholder base of Cosmo. 98.96% of all shares were tendered, so we issued 1,120,743 new shares to them, thus increasing total shares outstanding by 8.08%, but more importantly, the free float of our shares rose considerably. Net of all costs, this will increase our cash position by around EUR 15.7 million. However, we have offered the BioXell shareholders an option to put all the newly issued shares into Cosmo at CHF 21 per share between 1 July 2011 and 31 December 2011.

Key priorities and strategy for 2010

First and foremost we will concentrate on preparing the data for the filing of the New Drug Applications (NDAs) of Budesonide MMX® in the EU and the USA. With reference to Rifamycin SV MMX® we will, together with our partners Dr. Falk Pharma and Santarus and selected outside experts, determine what further indications should be pursued once we get the Travellers' Diarrhoea indication approved and determine what assessments can and need to be done before such approval is obtained.

The tests required by the FDA for the filing of an NDA for LMW Heparin MMX® in the USA have been initiated. In Europe we have begun the dialogue with the EU regulatory agencies and will be presenting our development plan for the phase III studies during Q2 2010. To support our regulatory efforts and to prepare a fast and successful product launch, especially in the USA and the EU, we will be initiating a process to seek strong partners in these markets during 2010.

It is a key priority to further develop CB-03-01, our anti-androgen project. Throughout the year we will complete kinetic, reproductive toxicity, irritability and sensitivity studies so that we can adequately design the phase III Acne trial.

We are on a steady path towards transforming Cosmo from a Company that focuses on Inflammatory Bowel Disease towards a Company that is focused on drugs that act topically, be it in the colon or be it on the skin.

We plan on seeking advice from potential larger partners since we will eventually licence the product out. In order to further enhance the product's potential, we will also conduct a proof of concept Alopecia trial during the course of 2010.

In spring we will enter phase I with CB-01-16, our drug against opioid-induced Constipation. Finally, we count on identifying at least one new MMX® application and developing it in such a way that we can have a new product enter phase I in 2011.

As during the last years, no major investments are planned in manufacturing equipment. From a personnel perspective, however, we will continue with a limited hiring process by selectively adding experienced personnel.

Outlook

We anticipate that contract manufacturing revenue should recover to the levels of 2008, and we expect revenues from Lialda®/Mezavant®/Mesavacol® to continue to grow. Further, we expect news flow from both the trials of Budesonide MMX® and Rifamycin SV MMX® during the course of 2010 and hope that these provide the foundation for stable, long-term revenue and profit growth. Finally, we expect the studies conducted on CB-03-01 to support our expectations for that product and with it, the long-term success of Cosmo.

We are grateful to our shareholders and partners, who have maintained their confidence in our Company, and to our employees, whose hard work and commitment make our achievements possible.

Lainate, 18 March 2010



Rolf Stahel
Chairman of the Board



Mauro S. Ajani
Chief Executive Officer

Pilot Plant

Here scientists develop new formulations based on the indications identified by the R&D Department, which are stringently tested to verify their performance. They also conduct studies on new technologies and on the use of new excipients. The plant produces pilot drug batches to assess different syntheses and packaging to maintain the chemical and physical stability of the drugs.

Enrico Frimonti

Responsible for Pilot
Plant Department
(experimental drug
production)

With Cosmo since 2001



Strategy

Cosmo's principal objective is to achieve a superior return on investment for its shareholders. To attain this, the Company has established the overriding strategic principle – to apply an entrepreneurial approach in assessing opportunities and risks. This translates to a solid understanding of strengths and weaknesses, a careful assessment of what can be changed and what not, and a risk averse financial approach where existing financial resources need to be available for all projects.

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Further cornerstones of Cosmo's business strategy are:

Manufacturing excellence

Given its long historical background as a manufacturing entity of Parke Davis and Warner Lambert, Cosmo has key technical skills in manufacturing and in solving complex drug delivery issues specifically for drug delivery to the colon and for topical applications. It is a key strategy to further develop these skills and to find additional patented and off-patent chemical entities whose effectiveness or safety profile can be improved by applying these skills.

Strong product portfolio

As an entrepreneurial company, Cosmo wants to break out of the low income services and position itself in such a way that the Company can steadily earn between 20% and 30% of the revenue of the drugs that it helps create. This means that, as a first step, Cosmo has to find products that it can own and to develop rights that it can patent and protect. These products do not necessarily have to fit into the existing treatment areas but they should preferably not compete against each other.

Such products are highly likely to be products that can act topically in the digestive tract or that need to be delivered to specific areas in the digestive tract. The Company's primary "search for chemical entities" focus is for existing chemical entities that have well-documented mechanisms of action and safety profiles. Thus, what needs to be proven is that the known chemical action is retained or still sufficient if topically applied and/or that the safety profile is improved by topical application. In order to do this, Cosmo takes development risks. The Company has a high expertise in developing galenic applications; this is thus usually a fast and inexpensive process. Yet in order to prove efficacy, the product must be taken through the full range of clinical trials. This is a costly, risky and lengthy process.

The decision to move into a new area, skin diseases that are treated topically, and to do this by way of a new chemical entity, was based on solid criteria. Basic research that had been undertaken by Cosmo Bioscience, a sister company of Cosmo, had led to the discovery of a series of new molecules, which the

Cosmo is highly likely to seek distribution partners for LMW Heparin MMX® and for CB-03-01. For 2010 the strategy thus is to determine the market's appetite for such partnerships and to subsequently decide what the option with the best risk-reward potential is.

Company's clinical staff felt could be applied for skin diseases. These molecules were of no particular interest to Cosmo Bioscience, which is dedicating itself to cancer vaccines, so they were available. Cosmo then assessed the topical Acne, Alopecia and Hirsutism markets, and discovered that these markets are potentially huge, that there were very few new products in the market and that the existing products all had either efficacy or safety issues. Given that the Company has extensive expertise in developing and manufacturing galenic applications for topical skin formulations, it was decided to opportunistically transfer the molecules to the Company prior to its IPO in 2007.

Partnerships

At the end of 2008 Cosmo took the strategic decision to licence out its two most advanced products in the pipeline to Santarus in the USA. This decision was based on two principal assessments: the Company became convinced that the financial and implementation risk of setting up an own distribution organization was too high in comparison to the potential benefits and that, in Santarus, it had found a partner who had a competent sales and marketing organization and, just as important, one that was going to fully dedicate itself to making these products market successes.

This now means that Cosmo is highly likely to also seek distribution partners for LMW Heparin MMX® and for CB-03-01. For 2010 the strategy thus is to determine the market's appetite for such partnerships and to subsequently decide what the option with the best risk-reward potential is.

Business performance against strategic objectives

Strategic priority	Metrics	Performance	Comments
Progress clinical pipeline	Start of trial	Start of LMW Heparin MMX [®] phase III in the EU delayed to Q4/2010	Necessary bioanalyses FDA discussions took longer than anticipated
	End of trial	Budesonide MMX [®] phase III in Q2-Q3/2010	Slow sign-up of patients
	Success of trial	Rifamycin SV MMX [®] phase III in 2010/2011 CB-03-01 trial successfully concluded in H2/2009	Additional preclinical work required by FDA Goal attained
	Cost of trial	Total EUR 6.9 million in 2009	Costs higher because more patients were signed up
Replenishment of pipeline	Projects in phase I	CB-01-16 phase I to be started	Goal attained
	Projects in preclinical	CB-01-12 for protein delivery	Goal attained
Adequate cash and liquid investment reserve	Adequate level of cash plus liquid investment reserve	EUR 17.2 million of cash + EUR 19.2 million of liquid investment reserve	Further cash reserve via BioXell transaction
	Net cash generated in operations	EUR 3.0 million	Positive result
Improve utilization of manufacturing capacity	Manufacturing revenue by capital investments	Total revenue amount to EUR 26.7 million while capital investments were made for EUR 1.2 million	Goal attained
Quality partners	Equity value and increase in equity value of partner	In the USA Santarus increased market capitalization from USD 90.7 to USD 269.5 million	Goal attained
		In Europe, no numbers are available for Ferring and Dr. Falk Pharma	

Execution of Budesonide MMX® and Rifamycin SV MMX® phase III trials

The Budesonide MMX® trials started as planned in the EU and the USA. Patient recruitment was slower than anticipated by the CRO, especially in the USA. Thus authorization from the FDA was sought to recruit patients in India. The Management has been tracking the progress of clinical trials by way of Datatrak, an electronic data base. Beyond giving a general overview of the overall remission attained, it also gives a crucial perspective of data quality.

During 2009, there were two strategic decisions that will cause delays in the originally planned timelines. Following discussions with the Company's partner Santarus, it was decided to seek for an NDA, according to a 505b(1), the process for new chemical entities, for Rifamycin SV MMX® and to position LMW Heparin MMX® for possible approval in chronic uses. Consequently, the FDA asked the Company to provide additional preclinical data. The start of patient recruitment for the phase III of Rifamycin SV MMX® trial was delayed until the data required by the FDA was generated. At year end 2009 the NDAs were approved both in the EU and the USA and clinical trials of Rifamycin SV MMX® are scheduled to start in H1 2010. For LMW Heparin MMX®, the Company will have to conduct carcinogenicity tests and other analyses. The Company has started these in 2010 and is confident in generating the required data here as well. This means that there will be additional costs and, more importantly, that the products' possible market entry in the USA will be delayed resulting in shorter patent lives. The negatives are, in the view of the Company, more than compensated by the additional market potential that is accessed by these steps.

Strategy for LMW Heparin MMX® development

After having received and analysed the FDA's requirements it has become clear that the approval of LMW Heparin MMX® in the USA will take considerably longer than anticipated. This means that a dual track strategy will be developed. In the USA, the Company will start working on the analyses required by the FDA; and in the EU negotiations for the design of a phase III trial will be initiated with the regulatory agency.

CB-03-01

The goals for 2009 had been to obtain proof of concept and to determine market potentials and criteria required for the next phase. The proof of concept was achieved; and the market was found to be so vast that an accelerated development path is warranted.

Information on investors' and R&D days

An investors' day will be hosted in Zurich and London to share the data generated from the EU Budesonide MMX® trial and from the proof of concept CB-03-01 trial as soon as the data report is available.

Market overview

Approximately 0.24% of the US population suffer from Ulcerative Colitis and 0.2% have Crohn's Disease, with the spread of IBD plateauing in the USA. In Europe prevalence is about half as high as in the USA, but growth is still increasing.

Inflammatory Bowel Disease (IBD)

Inflammatory Bowel Disease (IBD) is a chronic inflammatory condition that affects the gastrointestinal tract causing a number of distressing symptoms such as bleeding, diarrhoea and abdominal pain. The disease has two forms, Ulcerative Colitis and Crohn's Disease, and both can significantly impact the quality of life of an individual. The goal of treatment of IBD is to induce and maintain remission of symptoms and mucosal inflammation in order to provide an improved quality of life. There are a number of treatment options available that range from non-pharmacological treatments, such as dietary, to pharmacological treatments and surgery. No precise cause of the disease has been found but scientists and gastroenterologists commonly believe that IBD results from a combination of genetic and environmental factors.

Persons affected

Approximately 0.24% of the US population suffer from Ulcerative Colitis and 0.2% have Crohn's Disease, with the spread of IBD plateauing in the USA. In Europe prevalence is about half as high as in the USA, but growth is still increasing. Aside from Japan, the rest of the world is currently considered to be statistically insignificant in what pertains to disease prevalence, disease incidence and market size. Cosmo believes that this view of the emerging markets is seriously flawed. Universally, gastroenterologists have been raising the awareness of IBD since they strongly believe that environmental factors play an increasingly important role in IBD. Thus, as the "Western way of life" spreads around the world it is expected that the global population of people with Ulcerative Colitis and Crohn's Disease will steadily increase. Research has shown (Datamonitor: Stakeholder Insight. Inflammatory Bowel Disease. Page 73-75. 12/2007; BMJ Journals: Incidence and Prevalence of UC in Punjab, North India. Authors: Dr A. Stood, V. Midha, N. Sood, A. S. Bhatia and G. Avasthi - Gut 2003;52:1587-15990.) that over time it is entirely possible that the developing economies will have heavily increasing patient populations who will need to be adequately treated.

Characterization of disease

Ulcerative Colitis is characterized by a diffuse mucosal inflammation, which is limited to the colon. The disease can affect various parts of the colon and most patients are affected in several regions of the colon. 92% of the patients have the disease in the rectum, predominately treated with uncomfortable enemas or suppositories.

Crohn's Disease is a patchy, transmural inflammation that can affect any part of the gastrointestinal tract from the mouth to the anus. It is thus much more disparately distributed than Ulcerative Colitis.

The symptoms of Crohn's Disease and Ulcerative Colitis vary from patient to patient depending on the level of disease severity and may change over time because of the chronic, relapsing nature of the diseases; most patients experience periods of disease activity and remission. As IBD is a chronic disease, most patients are required to take medication over the course of a lifetime making consistent compliance with drug regimens an important factor.

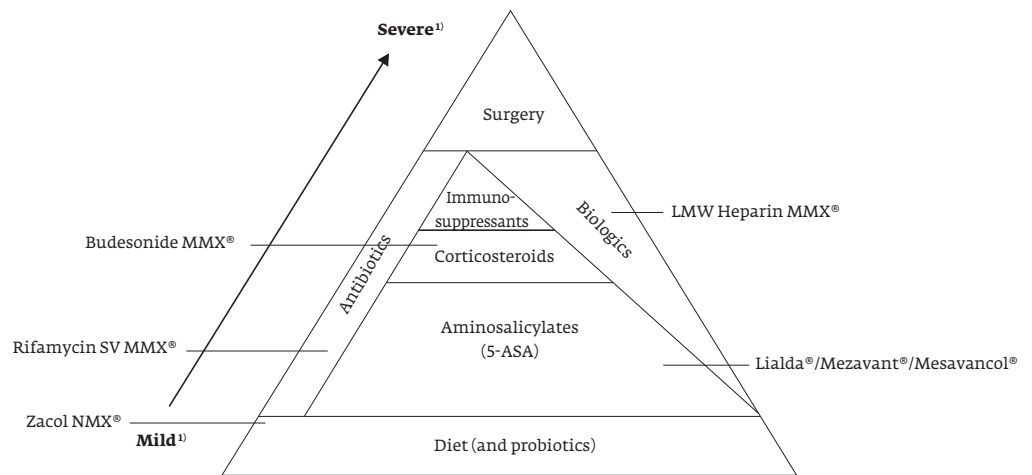
In terms of severity, gastroenterologists tend to split the patient population into three different categories (mild, moderate and severe) and prescribe medication accordingly. It is commonly believed that 45-55% of the patients have a mild form of the disease, 30-35% a moderate form and the remaining 10-15% suffer a severe form of the disease.

Disease treatment

Given the chronic nature of the disease and the desire to minimize side effects, the classic treatment strategy has been for the gastroenterologist to start treatment using the mildest form of medication. If a pharmaceutical product then proves to be ineffective, a step up to a more effective but usually more toxic product is made. More recently, there has been a move by some gastroenterologists towards adopting a top-down approach meaning that the use of aggressive therapies such as anti-TNF α therapies is started early on. This, however, makes the therapy considerably more expensive per patient and could expose the patient to higher, unnecessary adverse side effects.

Cosmo believes that there is growing consensus in the medical community that infections play an important role in IBD. While there are currently no epidemiological studies on this, the Company believes that more than 30% of all IBD patients could be better treated if they received anti-infectives concurrently with their IBD medication. Given that IBD is a chronic disease, it is a considerable challenge for the pharmaceutical industry to develop anti-infectives that can be applied frequently without incurring problems associated with resistance.

Cosmo believes that more than 30% of all IBD patients could be better treated if they received anti-infectives concurrently with their IBD medication.



1) Status of disease severity

From a pure market value perspective, the value of the IBD market in the seven major markets (USA, Japan, UK, Germany, France, Italy, Spain) reached USD 2.9 billion in 2008.

Treatment with 5-ASAs for the mild to moderate form of the disease include oral dosage forms (primarily tablets), enemas and suppositories. Corticosteroids are delivered in tablets and enemas; and treatment with immunosuppressants is primarily with tablets with selective injected applications. Biologics have, to date, all required intravenous or subcutaneous injections. This means that the active pharmaceutical ingredient acts in different forms. Tablets, enemas and suppositories develop their effect primarily topically (only a small part of the active pharmaceutical is absorbed and gets into the blood) but they have the disadvantage that they do not consistently reach the site of inflammation, while injections only act systemically and thus also reach many parts of the body that do not require treatment.

From a pure market value perspective, the value of the IBD market in the seven major markets (USA, Japan, UK, Germany, France, Italy, Spain) reached USD 2.9 billion in 2008. There was a growth of 24% from 2007 to 2008 and it was primarily due to the uptake of Humira (adalimumab) in the USA and the five major EU market regions. Datamonitor also believes that the uptake of Lialda® (MMX® mesalazine) in the USA contributed to the sizeable growth observed overall in the seven major IBD markets. Datamonitor forecasts that the overall IBD sales will grow to reach USD 4.6 billion in the seven major markets in 2018; the USA, Japan and the five major EU markets will all experience growth in IBD sales to 2018; and the USA will remain the largest accounting 62% of the 2018 sales (Source: Datamonitor: Forecast Insight: Inflammatory Bowel Disease. Page 25. 6/2009). Interestingly, anti-TNFαs will remain the largest drug class in terms of sales, but the 5-ASAs will outsize all classes in terms of volume. Datamonitor forecasts that Lialda® will become

the leading 5-ASA brand in the seven major markets and the third leading brand overall in 2018. According to Datamonitor, the rest of the world markets accounted 15% of global IBD market sales and reached USD 463.2 million in 2008 (Datamonitor. Page 29. 6/2009). Datamonitor has not made any market projections for the period up to 2018 for these markets but an analysis made by IMS (IMS 2009 Global Pharmaceutical Market and Therapy Forecast) has identified seven emerging markets (China, Brazil, India, South Korea, Mexico, Turkey and Russia) and determined that these will grow by 14-15% in 2009 and reach USD 105-115 billion and that these seven emerging markets will soon be larger than the markets of the top five European countries.

Competitive landscape

From a value perspective the anti-TNF α s continue dominating the revenue league tables with Remicade taking the lion's share. Noteworthy is the development of Entocort which is marketed by Prometheus Labs in the USA and indicated for Crohn's Disease only. Asacol[®] continues being the most sold 5-ASA, but it has been losing market share to Lialda[®], which increased revenues strongly, albeit primarily through its sales in the USA. Noteworthy is how Pentasa, a drug also marketed by Shire in the USA, continues with stable revenues even though the drug has been off-patent for a number of years. This underscores the difficulty that generics manufacturers have in entering this market. Pentasa is difficult to manufacture and the FDA has been considering bioequivalence analyses as insufficient because of the primarily topical activity of the drug so they continue requiring clinical trials for IBD generics.

The following new IBD products were approved for marketing in the USA:

- _ Cimzia (certolizumab; UCB, Otsuka Pharmaceuticals). UCB launched a pre-filled syringe formulation in May 2009;
- _ Asacol[®] 800 mg (P&G) was launched in July 2009;
- _ Apriso (granulated mesalazine; Dr. Falk Pharma, Salix, Ajinomoto) was launched in February 2009.

The principal change in the corporate competitive landscape was marked by the sale of P&G's pharmaceuticals business, including its Asacol[®] franchise, to Warner Chilcot. Furthermore, AZ has announced that it will not extend the term of Entocort agreement with Prometheus Labs.

Acne affects about 45 million people in the USA, i.e. around 16% of the population. The worldwide market for Acne is valued at over USD 2.8 billion.

Acne

Acne is a dermatological disorder that is characterized by the formation of lesions such as pustules, comedones and cysts on the face and less commonly on the back and chest of the sufferer. Acne is caused by the obstruction and inflammation of hair follicles and their accompanying sebaceous gland, typically by sebaceous oils and keratinocytes. The obstructed hair follicle and gland may then be infected by bacteria that inhabit the surface of the skin. Lactase enzymes possessed by bacteria metabolize lipids, generating by-products that may irritate the wall of the follicle causing further inflammation.

Diagnosis and treatment

Acne is typically diagnosed by visual examination, and categorized according to the severity of the condition by a number of scales that categorize the number of lesions that appear on the skin. Although there are many tools through which to establish the severity of a sufferer's condition, typically, mild Acne suffers can be categorized as having less than 30 lesions present on their skin, moderate suffers as featuring between 30 and 125 lesions on their body, and severe as having more than 125 lesions on their skin.

There are four commonly used classes of therapeutics that can provide relief from Acne, with each featuring a differentiated mechanism of action:

- _ Topical antibiotics and antiseptics;
- _ Treatments that interfere with the pattern of keratinization;
- _ Anti-inflammatories;
- _ Therapies that act to inhibit the androgen response.

Market

Acne affects about 45 million people in the USA, i.e. around 16% of the population. The worldwide market for Acne is valued at over USD 2.8 billion.

Other relevant skin diseases

Alopecia (androgen-induced hair loss in males) affects about 12% of all men over 20 years of age. Propecia™, a systemically applied drug, generated sales of USD 429 million in 2008.

Hirsutism (androgen-induced growth of facial and/or body hair in women) affects about 10% of the female population. The worldwide market remains largely undeveloped.

Research and development

Cosmo's pipeline

Product	Drug type	Phase I	Phase II	Phase III	MA Launch	Partner
Lialda®/Mezavant®/Mesavanco® Mild to moderate Ulcerative Colitis	5-ASA				03/07 USA	Shire /Giuliani
					10/07 UK	
					01/10 ITA	
Zacol NMX® Intestinal Disorders (nutraceutical)	Dietary supplement				12/05 ITA	
Budesonide MMX® Mild to moderate Ulcerative Colitis	Corticosteroid			Q2 - Q3/10		Ferring - Worldwide (excluding Japan & USA) Santarus - USA
Rifamycin SV MMX® Infectious Diarrhoea	Antibiotic					Dr. Falk Pharma - Europe & Australia (excluding Italy) Santarus - USA
				H2/10 EU		
				H2/11 USA		
LMW Heparin MMX® Mild to moderate Ulcerative Colitis	Biologic			Q4/11 EU		
CB-03-01 (NCE) Acne, Male-Pattern Baldness and Hirsutism	Steroid ester, androgen antagonist		PK study/POC	Q3/10		
			Sensitivity study			
CB-01-16 Opioid-induced Constipation	Opioid antagonist		Q4/10			

Marketed products

Zacol NMX®

Zacol NMX® is a nutraceutical product that uses an amended form of the MMX® technology in order to deliver butyric acid and inulin directly to the colon. Butyric acid accounts for powerful metabolic activities, which are the basic support for the integrity and reconstitution of the gut mucosa; and inulin promotes the growth of the saprophytic flora, which in turn produces additional short-chain fatty acids (SCFAs), thus reinforcing colonic defences against infections. To date, there has not been any product that was able to successfully deliver butyric acid to the colon. Zacol NMX®, together with an appropriate diet, could represent the first step for the treatment of colon disorders.

The Company has been working on establishing the best distribution strategy for this non-prescription product and is also looking into the possibility of having Zacol NMX® distributed over the counter. In late 2008, the Company changed its distributor in the Italian test market. Furthermore, the Company is working on developing additional NMX® applications to butyric acid together with outside partners.

Lialda®/Mezavant®/Mesavanco®

Lialda® (as the product is called in the USA) / Mezavant® (Europe) / Mesavanco® (Italy) is the first proprietary product Cosmo developed, a mesalamine MMX®.

At year-end 2009, Lialda® had achieved an overall market share of 18% of all 5-ASAs in the USA. In the EU marketing effort build-up has been disappointing but strong growth is expected as of 2010.

It is the entry level product for all persons suffering from mild to moderate Ulcerative Colitis. It was introduced in the US market by Shire, which has the worldwide licence (excluding Italy and other selected rest of the world markets that are licenced to Giuliani), in March 2007 for the treatment of acute mild to moderate Ulcerative Colitis. Its principle advantage is that a patient requiring 4.8 g of mesalamine to treat the inflammation can take the required amount of tablets at once instead of having to take tablets three to four times a day. This is due to the fact that the MMX® technology assures a high concentration inside the colon and little absorption into the main blood system. At year-end 2009, Lialda® had achieved an overall market share of 18% of all 5-ASAs in the USA. In the EU, the marketing effort build-up has been disappointing but strong growth is expected as of 2010. In December 2009, the Company started delivering Mesavanco® to Giuliani S.p.A. The sales in the Italian territory started in January 2010. Shire is also seeking approval for the use of Lialda® in the treatment of maintenance of remission, i.e. as a treatment between the acute attacks. It is expected that this approval will be obtained in 2011. Furthermore, Shire is in clinical trials for Diverticulitis.

The table below shows the development of the Lialda® tablets, Mezavant® packs and Mesavanco® packs sold to Shire and Giuliani S.p.A.

MMX® products	2009		2008	
	No.	EUR 1,000	No.	EUR 1,000
Lialda® (tablets)	72,388,873	5,751	84,161,484	6,472
Mezavant® (packs)	111,114	895	96,310	675
Mesavanco® (packs)	52,099	147	n/a	n/a
Total revenue		6,793		7,147

In 2009, Shire increased its revenues from Lialda® by 68% but Cosmo delivered 11.1% less tablets than in 2008. This is due to the fact that in 2008 Shire ordered substantial amounts of tablets for the initial marketing push with heavy distribution of samples and build-up of inventories which did not lead to immediate sales in 2008. Cosmo continues being the sole manufacturer of Lialda®.

Products in clinical development

Budesonide MMX®

Corticosteroids are known to be more effective than 5-ASAs in the treatment of IBD but they are also known to have severe side effects. As a result, no corticosteroid is currently approved for use by mild to moderate Ulcerative Colitis patients in the USA. Cosmo believes that by applying the MMX® technology to budesonide,

Budesonide MMX[®] is being evaluated for the treatment of Ulcerative Colitis in two phase III clinical trials, both of which are intended to support the EU and the US regulatory submission.

an off-patent corticosteroid that has been predominately used for pulmonary applications, a treatment can be created that is more effective than existing 5-ASA applications and less toxic than classical corticosteroid applications and that this product might gain FDA approval for induction of remission in patients with mild to moderate Ulcerative Colitis. Budesonide MMX[®] is being evaluated for the treatment of Ulcerative Colitis in two phase III clinical trials, both of which are intended to support the EU and the US regulatory submission. The primary end point is superiority versus placebo in the number of patients achieving remission (“UCDAI” <1) after eight weeks treatment. UCDAI is composed of four elements: stool frequency score, rectal bleeding score, mucosal appearance score and physician rating score of disease activity. Patients in remission must score 0 in stool frequency, bleeding and mucosal appearance. The phase III clinical programme enrolled approximately 1,000 patients in the two studies. Each clinical trial is a double-blind, placebo-controlled, four-armed trial. The European phase III clinical trial compared a single tablet of Budesonide MMX[®] 6 mg or Budesonide MMX[®] 9 mg dosed once daily to placebo; and there is a reference arm using three Entocort EC[®] (budesonide) capsules 3 mg dosed once daily (9 mg). The US phase III clinical trial is comparing a single tablet of Budesonide MMX[®] 6 mg or Budesonide MMX[®] 9 mg dosed once daily to placebo; and in the reference arm two Asacol[®] (mesalamine) delayed-release tablets 400 mg dosed three times daily (2.4 g) were used. The European and the US clinical trials are powered to show a statistical difference between Budesonide MMX[®] and placebo. The reference arms using Entocort EC[®] in the European trial and Asacol[®] in the US trial are not powered to show statistical differences versus Budesonide MMX[®]. Additionally, up to approximately 150 patients are expected to continue in a 12-month double-blind extended-use trial to evaluate the long-term safety and tolerability of Budesonide MMX[®] 6 mg and to collect data on the efficacy of Budesonide MMX[®] 6 mg in the maintenance of remission of Ulcerative Colitis compared to placebo. The FDA requested that the results of the 12-month extended use trial are included in the phase III clinical programme to support a US regulatory submission. The protocols for the Budesonide MMX[®] phase III clinical programme were reviewed and approved by the EMEA and by the FDA under Special Protocol Assessments.

As of 12 March 2010, all patients have been randomized in the USA and all patients have been randomized into the trial in Europe. Data of the EU trial should be available to be presented in Q3 2010, data of the US trial should be available to be presented in Q2 2010.

Rifamycin SV MMX[®]

During 2009, the Company conducted the analyses required by the FDA for the filing of the NDA via a 505b(1) and to the start patient recruitment for the phase III

Travellers' Diarrhoea trial. Furthermore, the Company had a series of analyses performed by specialized labs to further understand the mechanism of action of the drug and its suitability for a range of indications that could be targeted as subsequent indications once the first approval is in. In late December, Santarus, the Company's US partner, announced that they had filed the NDA and were ready to start the phase III clinical trials for Travellers' Diarrhoea in Q2 2010.

LMW Heparin MMX®

Heparin is a polysaccharidic drug that has been long and successfully applied as an injectable anticoagulant and anti-blood-clotting agent, especially after major surgery. In the 1990s it was observed that major surgery patients treated with heparin also witnessed a strong reduction of IBD. This observation led Cosmo to formulate the hypothesis that a tabletized form of the right heparin, brought to the colon and topically applied, could retain the anti-inflammatory properties whilst avoiding any negative anticoagulation effects. The Company's LMW Heparin applied in the MMX® tablets is based on a low-molecular-weight heparin that has been approved as anti-thrombotic agent in the EU under the brand name Fluxum.

In September the Company met the FDA to discuss its requirements for the launch of a phase III trial in the USA. The FDA indicated that Fluxum is not approved for use in the USA and that it thus required that the full range of analytical assessments including carcinogenicity trials are made before it would allow an NDA.

At the same time, the Company's research team continued to investigate the mechanism of action of LMW Heparin MMX®. They found that it inhibits pro-inflammatory cytokines (TNF α , IFN γ , IL-2) and has a wider activity profile than monoclonal antibodies. The low-molecular-weight heparin is also an endogenous substance, meaning that the body neither produces resistance nor neutralizing antibodies to it. This strongly differentiates LMW Heparin MMX® from other biologic drugs currently on the market.

In 2010, the Company will have to pursue two separate paths for LMW Heparin MMX®. In the EU it will discuss the appropriate paths with a selected regulatory agency to get an approval for LMW Heparin MMX® and to start phase III clinical trials as soon as possible. In the USA, the analytical assessments required by the FDA will be carried out during the course of 2010.

CB-03-01

CB-03-01 is the first new chemical entity that Cosmo is developing. It is a novel steroidal anti-androgen drug, cortexolone 17 α -propionate (CB-03-01) 1% cream, targeted at Acne, Alopecia and Hirsutism. CB-03-01's mechanism of

In the EU Cosmo will discuss the appropriate paths with a selected regulatory agency to get an approval for LMW Heparin MMX® and to start phase III clinical trials as soon as possible. In the USA, the analytical assessments required by the FDA will be carried out during the course of 2010.

In 2010, the Company will complete analytical tests required for the start of phase III of CB-03-01. Furthermore, a proof of concept for the application of CB-03-01 in androgen-induced Alopecia will be undertaken.

action is based on the competitive activity between testosterone and DHT for androgen receptors in the skin. CB-03-01 is devoid of systemic anti-androgenic activity, in so far as it does not inhibit gonadotropins hypersecretion, and has a moderate anti-inflammatory effect. In preclinical studies, CB-03-01 was shown to be rapidly metabolized by the skin to the parent compound cortexolone, which is a physiological steroid lacking anti-androgen activity and is safe. CB-03-01 has also been shown to have good penetration through the skin, making it the first steroidal anti-androgen suitable for topical application.

In 2009, a phase II pilot study was carried out. It was designed as a three-arm, randomized, double-blind, parallel-groups, controlled study versus placebo and versus Retin-A® 0.05% cream, in facial Acne Vulgaris. Treatment was a single daily topical application. The treatment duration was eight weeks plus two weeks of follow-up. 77 males, 18 – 45 years of age were randomized, 72 patients were evaluated: 72 (ITT population); 67 (PP population) with the evaluation parameters being the Total Lesion Count (TLC), Inflammatory Lesion Count (ILC), Acne Severity Index (ASI) and Investigator's Global Assessment (IGA) as efficacy variables; all these parameters were assessed at baseline and after 2, 4, 6 and 8 weeks of treatment. Local Irritancy Score (IS) was evaluated at weeks 2, 4, 6 and 8. The data of the trial showed that CB-03-01 had rapid onset of activity and was clinically superior to placebo and to Retin-A® in the treatment of facial Acne Vulgaris after eight weeks of drug application.

In 2010, the Company will complete analytical tests that were delayed until a positive result had been achieved in the proof of concept. Furthermore, a proof of concept for the application of CB-03-01 in androgen-induced Alopecia will be undertaken so that a phase III could be considered for both Acne and Alopecia in 2011.

CB-01-16

CB-01-16 was moved from the preclinic to the clinic in late 2009 after completing the galenic development. The target is to prevent opioid-induced Constipation (OIC). Practically all patients that need heavy dosages of opioids as a pain treatment suffer from serious constipation because the opioids inhibit the peristaltic movements in the colon. Cosmo has been experimenting with off-patent anti-opioids with the objective of using the MMX® technology to transport these to the colon where they would selectively inhibit opioid attachment to the MU receptors thus making possible the peristaltic movements again. The galenic development of these tablets was completed in 2009 and a phase I trial is planned to start in Q1 2010.

The OIC market is largely undeveloped. According to IMS Health, about 230 million prescriptions were written for opioids in 2007 in the USA alone. This is estimated to represent about 65 – 75% of the worldwide opioid market.

Scientific Advisory Board

In order to support the development of Cosmo Pharmaceuticals by providing advice on scientific and clinical development and product application, the Company established a Scientific Advisory Board. The Scientific Advisory Board comprises the following members:

Prof. Jean-Frédéric Colombel, MD

Professor of gastroenterology and director of the department of hepatogastroenterology in the Hôpital Huriez, Lille, France. He is president of the European Crohn's and Colitis Organization and scientific secretary of the International Organization of IBD (IOIBD).

Dr Silvio Danese, MD

Director of the research and therapy center of the intestinal diseases at the Istituto Clinico Humanitas, Rozzano, Milan, Italy, and member of the scientific committee of the European Crohn's and Colitis Organization (ECCO).

Prof. Geert D'Haens, MD

Director of gastroenterology, Imelda GI Research Centre, Bonheiden, Belgium, and consultant gastroenterologist for IBD, section of gastroenterology and endoscopy, University Hospital Gasthuisberg, Leuven, Belgium. He is the secretary of the European Crohn's and Colitis Organization.

Prof. Brian Gordon Feagan, MD

Professor in the department of epidemiology & biostatistics at the University of Western Ontario, London, Ontario, Canada, and professor at Robarts Research Institute, London, Ontario, Canada. He is a member of the Canadian Association of Gastroenterologists and of the Crohn's and Colitis Foundation of Canada.

Prof. Claudio Fiocchi, MD

Director of IBD and vice-chairman of the research department of gastroenterology and hepatology at the Cleveland Clinic Foundation, Cleveland, Ohio, USA, and professor of pathology at the Institute of Pathology, Case Western Reserve University, School of Medicine, Cleveland, Ohio, USA.

Prof. Michael Kamm, MD

Professor of gastroenterology at St Vincent's Hospital and the University of Melbourne, Melbourne, Australia, and at Imperial College, London, UK. He sits on the editorial board of several international gastroenterological journals.

Prof. Robert Löfberg, MD

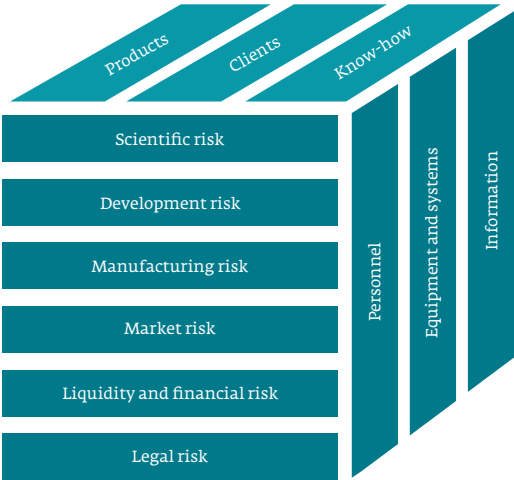
Professor of gastroenterology, Karolinska Institutet, Stockholm, Sweden, and head of the IBD unit, Sophiahemmet, Stockholm, and chairman of the Swedish organization for the study of IBD.

Prof. William Sandborn, MD

Professor of medicine at the division of gastroenterology and hepatology of Mayo Clinic, Rochester, Minnesota, USA. He is a member of the American College of Gastroenterology, the Crohn's and Colitis Foundation of America and chairman of the IOIBD.

Risk management

The Board has approved a comprehensive internal control system (ICS) in order to assure that the internal processes are adequate, the financial reporting is reliable, the assets of the Company are protected and all laws and internal regulations are complied with. The following risk matrix was established:



The Board has approved a comprehensive internal control system (ICS) in order to assure that the internal processes are adequate, the financial reporting is reliable, the assets of the Company are protected and all laws and internal regulations are complied with.

Risks are classified as cash risks, where events have immediate cash costs by either loss of revenue or unplanned expenditures, or as value risks, where events cause the value of the Company to fall because future revenue will not be coming or future costs will be higher.

Risk parameters were defined as existential risks that, should they occur, could put the being of the Company in jeopardy or as business plan risks that could impede the fulfilment of planned strategic objectives.

All risks were then bundled under either scientific risks, development risks, manufacturing risks, market risks, liquidity and financial risks or legal risks. The monitoring of each of these risk groups is assigned to a separate person. For each of these risks the threats are defined, probabilities assigned and negative cash and value impacts calculated. These risks and the parameters respectively assigned to them are regularly reassessed.

These risks are then classified into risks that can be managed by appropriate in-house action or risks that cannot be managed by internal action. All the risks that cannot be met by internal action are then split into risks that can be insured and those that cannot be reasonably insured and must be borne as business risks.

Financial risk management

The Company's principal financial liabilities, which comprise bank loans, financial leases and trade payables, are mainly created to raise financing for its operations.

The Company's financial assets, such as cash and cash equivalents, trade receivables and other receivables, are generated by its operations and managed by the Company's Treasury.

The major risks arising from the Company's financial instruments are the investment portfolio risk, credit risk, liquidity risk and the market risk (primarily interest rate risk and foreign currency risk). The Company's Audit Committee periodically reviews the policies for managing each of the above-mentioned risks.

More information on risks is provided in note 34 of the Consolidated financial statements.

Operating principles and activities

Procurement

For the Company's contract manufacturing activities active ingredients are either supplied by the client or purchased in the market from external Italian or international suppliers. All of the materials purchased are standard materials provided by a large number of sellers.

With reference to the Company's proprietary products, all active ingredients are from external suppliers. All active ingredients required are manufactured by more than one supplier. Generally the Company negotiates with these suppliers in order to determine one preferred supplier at attractive prices and then holds certain inventory to prevent supply bottlenecks.

Production

The Company has the ability to manufacture tablets, ointments, and liquids. All of Cosmo's own products are manufactured in house, amongst other, at the new FDA-approved plant, which is adjacent to the plant originally set up by Parke Davis. In order to monitor the production processes, the Company has its own analytics departments. The Company does not manufacture unfinished products. All products are either packaged in bulk or final form at the Company's packaging line. It is the Company's intention to manufacture all of its own products in house.

Cosmo is committed to a programme of continual improvement in environmental, health and safety performance by making it an integral part of all its operations.

Environmental protection

Cosmo is familiar and aware of the importance of protecting the environment and conducts its operations in a manner designed to protect the local environment. Cosmo continuously monitors compliance with applicable environmental health and safety laws and regulations and the requirements of its permits and licences and maintain programmes that ensure that it:

- _ monitors the quality of the ambient air and the protection of the water resources;
- _ evaluates the site programmes for the protection of the environment and the health and safety of employees and neighbours;
- _ manages the waste disposal in conformity with the local regulations;
- _ designs, constructs, maintains and manages its plant and systems in accordance with the best practices;
- _ communicates with the local community on safety and environmental matters in a timely and effective manner.

Cosmo is committed to a programme of continual improvement in environmental, health and safety performance by making it an integral part of all its operations.

The quality system at Cosmo's plant is also certified according to ISO 9000 standard. This certification shows the attention of the Company to the quality and in general to the service offered to its customers.

As a pharmaceutical company, Cosmo is not directly obliged under REACH (Registration, Evaluation, Authorization and Restriction of Chemical substances), a new European Community regulation on chemicals and their safe use (EC 1907/2006), but constantly monitors its suppliers (i.e. labels and packaging materials) to assess their compliance to that regulation.

Quality management

Cosmo's aim is to guarantee the development and the manufacturing of drug products of high quality and to satisfy the expectations of all our international customers. The quality system implemented at Cosmo meets the requirements and the expectations of the European and American health authorities (EMEA and FDA) for the manufacturing of drug products. Pharmacopoeias, pharmaceutical directives and guidelines (i.e. those issued by ICH) help to maintain the quality system at a high standard level. The quality system is fully in compliance with the current good manufacturing practice (GMP) and allows the production of drug products of defined quality.

The quality system at Cosmo's plant is also certified according to ISO 9000 standard. This certification, even if not required for the drug product manufacturing, shows the attention of the Company to the quality and in general to the service offered to its customers.

Job safety

Cosmo constantly monitors its procedures and processes to ensure that the health and safety of all personnel working on site is protected and risk from accidents or incidents arising from site activities is minimized both on and off site.

From a job category perspective, employment at Cosmo can either be grouped into office activities, research and analysis activities or manufacturing activities. An initial medical test on hiring and an annual blood and urine test are performed for all managers, employees and workers; and all males above 40 years are tested for PSA (Prostate Specific Antigen), too. For managers and employees working with a PC, eye and eyesight tests are made every two years; and workstations are protected with blinds and properly positioned when exposed to natural light. With respect to research and analysis activities, strict policies were established together with the Italian Ministry of Health specifically with reference to the handling of dangerous substances. With reference to manufacturing activities primarily in the manufacturing, packaging and handling of pharmaceuticals, there are strict internal work flow processes intended to insure that accidents are minimized. There is an insurance coverage paid by the Company for accidents occurring off site.

In 2009 there were 25 work days lost in the group of manufacturing activities (fall: 6 work days lost; contusion: 2 work days lost; traumatic hand wound:

The goal of Cosmo's incentive plan is to achieve overall corporate objectives and to enhance shareholder value, to reward staff for the achievement of corporate goals, to encourage increased teamwork among all disciplines within the Group and to help attract and retain key people.

17 work days lost) which was an improvement over the 28 work days lost in 2008. No accidents and no work days lost occurred in the group of office activities and in the group of research and analysis activities which again was an improvement over 2008 when 14 work days were lost.

Performance management

Starting from 2008, a staff incentive plan is in place for Cosmo's employees, based on predetermined goals achieved in the period 1 January - 31 December of each year (the performance period). The plan has been conceived to provide an incentive programme to achieve overall corporate objectives and to enhance shareholder value, to reward staff for the achievement of corporate goals, to encourage increased teamwork among all disciplines within the Group and to help attract and retain key people.

For the purpose of the plan, the Company's staff has been divided in three macro-areas of activity:

- _ Production & Logistics (Area 1);
- _ Research & Development (Area 2);
- _ General, Administration & Finance, IT, Others (Area 3).

Corporate goals are mostly economic, they are mostly based on the figures of the consolidated budget approved by the Board and can vary by macro-area of activity or be present in more than one macro-area, but with different incidence. The award is budgeted at 6% of the employees' annual fixed compensation and is adjusted upon days of presence at work or if goals are only partially achieved. The achievement of corporate goals is verified and approved by Cosmo's Compensation Committee and communicated to the Company's unions.

Information technology

Cosmo has the hardware and software that the Management considers as adequate for running its business. Cosmo has a firewall-protected network infrastructure linking four servers of which three are HP Xeon servers. The accounting software is King by Nuova Migra, the ERP is GMA by Nuova Migra and the quality control software used are Quality and Formula, both by Data Check. The hardware, except for copiers, is generally owned. The Company has concluded maintenance and service agreements which the Management believes are sufficient to keep the Company's hardware and software functional.

Patents and licences

Cosmo has been pursuing a double-cover selective country patent strategy. A global MMX® patent protecting the platform technology has been filed and granted in practically all major countries and deriving product patents have been filed and received in most of the countries. In selective cases the Company subsequently files process and use patents. In 2009 the Cosmo patent portfolio was further strengthened worldwide by the issuance of the following patents:

Date	Event	Country	Reference product
Rifamycin SV MMX®			
03/03/2009	Patent granted	Italy	CB-01-11
07/04/2009	Patent granted	Mexico	CB-01-11
Mesalazine			
07/01/2009	Patent granted	China (PRC), divisional	Mesalazine MMX®
30/03/2009	Patent granted	India, divisional	Mesalazine MMX®
12/05/2009	Patent granted	Canada	Mesalazine MMX®
31/07/2009	Patent granted	Hong Kong, divisional	Mesalazine MMX®
Anti-androgen			
12/03/2009	Patent granted	Korea	CB-03-01
26/05/2009	Patent granted	Canada	CB-03-01
07/08/2009	Patent granted	Japan	CB-03-01
LMW Heparin MMX®			
05/03/2009	Patent granted	Slovakia	CB-01-05
27/05/2009	Patent granted	China (PRC)	CB-01-05
29/05/2009	Patent granted	Hong Kong	CB-01-05
MMX® technology			
05/02/2009	Patent granted	India	MMX® technology
16/03/2009	Patent granted	India, divisional	MMX® technology
12/05/2009	Patent granted	Canada	MMX® technology

The Company has been pursuing the policy of having sufficient funds to finance the clinical trials for all its products through filing. Selectively, where deemed advantageous, the Company has entered into licencing agreements after proof of concept and if it felt that it needed support in the regulatory process and for all countries where it felt that setting up an own distribution organization is unlikely.

Quality control laboratory

All raw materials undergo rigorous quality control by Cosmo's team of Specialist Analysts before they are used in production. Batches of samples from the production plant and the warehouse are subjected to chemical, physical and microbiological analyses, as stated in the regulatory operating guidelines.

Sergio Magni

Specialist Analyst

With Cosmo since 2002

Andrea Cividini

Specialist Lab Analyst

With Cosmo since 2006

(from left to right)



Corporate governance

Group structure and shareholders

The Company is a stock corporation “Società per Azioni”/S.p.A. organized under the laws of Italy and listed on the SIX Swiss Exchange. Cosmo was originally incorporated with a share capital of EUR 10,000. Its share capital has been subsequently raised to EUR 2,185,000 on 2 August 2006, through the contribution in kind of Cosmo Holding’s 100% shareholding in Cosmo S.p.A. and Cosmo Technologies Ltd.

The Group is organized according to a matrix organization principle. The line organization consists of four legal entities: Cosmo Pharmaceuticals S.p.A. and its 100% subsidiaries, Cosmo S.p.A., Cosmo Technologies Ltd., Ireland, and Cosmo Research & Development S.r.l. As at 26 February 2010, 98.96% of BioXell S.p.A.’s shareholders tendered their shares to the Company under the take-over offer announced on 18 November 2009. The Group’s entities have their own Boards of Directors and internal management structure. The functional tasks of the Group have been allocated to the different entities.

Cosmo Pharmaceuticals S.p.A. is responsible for overall management of the Group, administration and personnel, and finance and investors relations. Cosmo S.p.A. is responsible for production. Cosmo Technologies Ltd. is responsible for international business development and international research and development; and Cosmo Research & Development S.r.l. executes the research and development activities in Italy.

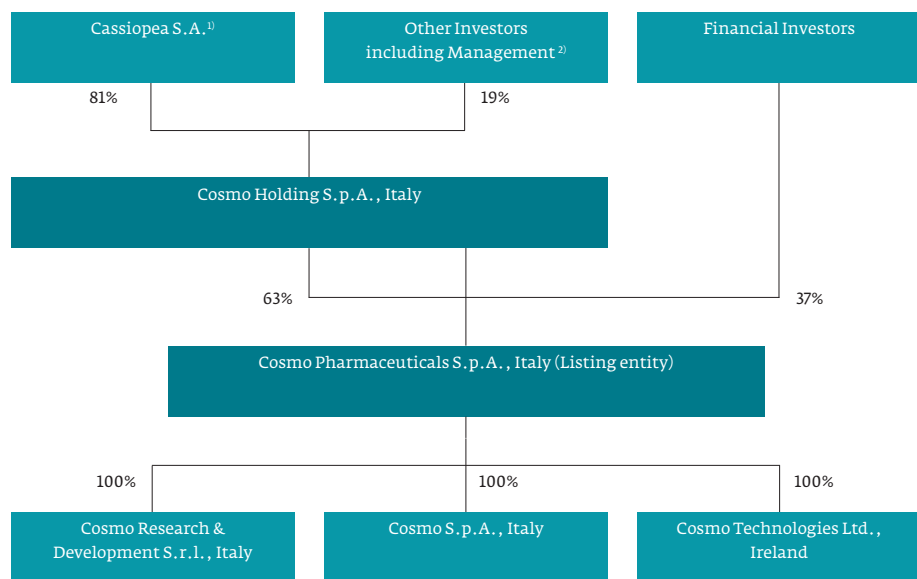
Business development is responsible for the negotiation of contracts with licencing, production and marketing partners, for the identification of third-party products whose efficiency could be improved by the MMX[®] technology, for the identification of products that could fit the Group’s portfolio well and for the identification of products that are about to lose their patent protection and that could be produced in house.

Research & Development is responsible for the identification of new chemical and biological substances that could be purchased by the Group or that could be refined by the application of the Group’s MMX[®] technology, for the correct design and timely execution of all clinical trials, for the definition of clinical end points of clinical trials, for the selection and the management of clinical research organizations, and for the patent strategy definition and its execution.

Production is responsible for the quality of production, for production planning, for the identification of unused capacity and its optimal use, for the marketing of contract drug manufacturing clients and for the marketing of temporarily unused contract drug manufacturing capacity.

Administration is responsible for all personnel, infrastructure and systems, and insurance and security.

Finance and investor relations are centralized in the Company, which provides financial services for subsidiaries. As of 31 December 2009, the Group's structure was the following:



Source: Company information

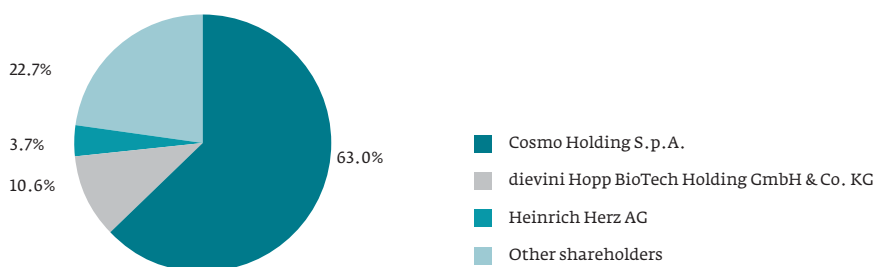
1) Controlled by the Ajani family

2) Management holds 10%

Major shareholders

Cosmo Holding S.p.A. is an Italian company with its registered office at Lainate, and has a share capital of EUR 2,800,000 consisting of 2,800,000 shares with a par value of EUR 1 each. Cosmo Holding S.p.A. is controlled by its majority shareholder, Cassiopea S.A., a Luxemburg company, holding 81% of the share capital in Cosmo Holding S.p.A., which in turn is controlled by Mauro S. Ajani, the CEO and Executive Director of the Company, who holds a 60% of Cassiopea S.A. Furthermore, Mauro S. Ajani's daughter, Benedetta Ajani, and his wife, Gisella De Sena, each hold 20% of the shares of Cassiopea S.A. Roberto Villa, Luigi Moro, Giuseppe Cipriano and Massimo Pedrani, members of the Management of the Company, hold, in aggregate, 10.3% of the shares of Cosmo Holding

S.p.A. The company dievini Hopp BioTech Holding GmbH & Co. KG, the investment company of Dietmar Hopp and his family, owns 10.6% of the shares. Heinrich Herz AG owns 3.7% of the shares.



Capital structure

Share capital

As per 31 December 2009, the share capital is composed of 13,875,000 shares, each with a nominal value of EUR 0.25. The share capital is fully paid up. The shares are issued in book entry form according to Italian law. No share certificates have been issued and share certificates will not be available for physical delivery. Shares are centralized in the central security depository system managed by Monte Titoli. For the purpose of the exercise of the relevant rights (such as the voting right pursuant to section 2370 of the Italian civil code and the right to receive payment of dividends), shareholders must rely on the procedures of Monte Titoli, Banca Intesa S.p.A., or SIS and on the intermediaries or participants that have accounts with Monte Titoli, Banca Intesa S.p.A., or SIS. The financial intermediary, Banca Intesa S.p.A., is in charge of liaising between Monte Titoli and SIS. Shareholders are entitled to receive written confirmation regarding the number of shares held through the intermediary or the depository bank at which they have the account.

At the shareholders' meeting held on 16 December 2009, the Board of Directors was given the power of issuing up to 1,132,500 new shares for the public tender offer for BioXcell S.p.A. shares (see "Significant events post year-end and outlook"); on 5 March 2010, upon the successful conclusion of the public tender 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 12.26). The approval for trading these new shares on the SIX Swiss Exchange was granted as per 12 March 2010.

Stock option plan

The extraordinary shareholders' meeting of 14 December 2006 authorized the

increase of the share capital by a maximum of nominal EUR 378,000 with the issue of 1,513,200 new shares at the service of an employee stock ownership plan (ESOP), to be implemented within the following five years. At the shareholders' meeting the Board of Directors was formally authorized to execute such plan. On 18 December 2007 the Board of Directors granted a total of 1,013,568 options; they vest after three years and they can be exercised at a price of CHF 22 per share until 14 December 2011. In 2009, no additional options were granted. Italian law does not foresee the creation of the conditional capital for stock option plans. The share capital will thus not be increased until such time when the option holders execute their options.

Authorization to purchase own shares

At the shareholders' meeting on 20 April 2009 the shareholders approved the Board of Directors' proposal to have a position of up to 1.3 million shares. At year-end, the Company held 152,161 shares that were purchased at an average price of CHF 14.26 per share.

Transfer of shares and disclosure of principal shareholders






The transfer of shares is affected by corresponding entry in securities accounts, which record the transfer of financial instruments opened with authorized financial intermediaries and in accordance with the applicable law. Upon registration of the transfer and upon request of the shareholder, the financial intermediaries shall inform the Company of the transfer of shares, and the Company shall update the shareholders' register ("Libro Soci") in accordance with Italian law. A shareholder may ask for his registration at any time.



The Company has been advised that, since it is an Italian company listed in Switzerland, it and its shareholders may not have the protection of either Italian or Swiss laws and regulations governing disclosure of significant shareholdings.

However, each shareholder (as defined in the Articles of Association) who directly, indirectly or beneficially has voting or investment power in the Company is required by the Articles of Association to comply with the laws, rules and regulations.

Board of Directors

In 2009, the Board of Directors of Cosmo Pharmaceuticals S.p.A. consisted of five non-Executive members and two Executive Directors. The management of the Group is in the responsibility of the Board of Directors. All Members were elected by the shareholders at the annual shareholders' meeting on 20 April 2009 for a term of three fiscal years and are eligible to successive terms following Italian civil code rules.

	Name/current position	Member since	Relevant external positions
	Rolf Stahel (65) Non-Executive Director; Chairman	2006	Executive chairman of Chesyl Pharma Ltd. Non-executive chairman for: Newron Pharmaceuticals S.p.A. (SIX: NEWN) and EUSA Pharma Inc.
	Mauro S. Ajani (55) Executive Director; CEO	2006	Chairman and member of the board of Cosmo Bioscience S.p.A.
	Chris Tanner (58) Executive Director; CFO	2006	Board member (Beirat) of Joimax GmbH Board member of Cosmo Bioscience S.p.A. Board member of Private Equity Holding AG (SIX: PEHN)
	Gianluigi Bertolli (58) Non-Executive Director	2006	General secretary of Italian National Association of Chartered Accountants President of statutory auditors of a number of major Italian and international companies Founder and senior partner of Studio Bertolli e Associati
	Friedrich von Bohlen und Halbach (47) Non-Executive Director	2006	Chairman of the board (Beirat) of Apogenix GmbH and of CureVac GmbH Chairman of the board of Life Biosystems AG and of Sygnis Pharma AG (Deutsche Börse: LIO) Member of the board of Cosmo Bioscience S.p.A., Curacyte AG, Heidelberg Pharma AG, Integrated Diagnostics Inc. and Wilex AG Member of the board (Beirat) of Cytonet GmbH & Co. KG and immatics GmbH

Name/current position	Member since	Relevant external positions
 <p data-bbox="496 499 786 568">Dieter A. Enkelmann (50) Non-Executive Director</p>	2006	<p data-bbox="967 499 1410 595">Chief financial officer and member of the executive management board of Julius Baer Group Ltd. (SIX: BAER.S)</p> <p data-bbox="967 607 1302 629">Board member of iNNutriGEL AG</p> <p data-bbox="967 645 1410 768">Member of the board, the audit committee, the nomination committee and head of the compensation committee of GAM Holding Ltd. (SIX: GAM)</p>
 <p data-bbox="496 792 786 862">Alessandro Della Chà (46) Non-Executive Director</p>	2006	<p data-bbox="967 792 1410 862">Senior partner at Studio Legale Edoardo Ricci e Associati</p>

Rolf Stahel

Swiss (born 1944), has been Chairman of the Board of Directors of Cosmo Pharmaceuticals S.p.A. since 2006. From 2005 to 2007 he was the Deputy Chairman of the Board of Cosmo Holding S.p.A.

Rolf Stahel has a degree in business studies from KSL Lucerne, Switzerland, and he attended the advanced management programme at Harvard Business School.

From March 1994 to March 2003, he was chief executive officer of Shire Pharmaceuticals Group plc (now Shire plc). He was also a main board director and chairman of the executive committee of Shire Pharmaceuticals. From 1967 to 1994, he worked for Wellcome plc in Switzerland, Italy, Thailand, Singapore and the United Kingdom. From 1990 to 1994, he was Wellcome's director of group marketing, based in London and Beckenham, with responsibility for group strategy, R&D portfolio evaluation, marketing of existing and new products and business development. In this position, he reported directly to the chief executive officer of Wellcome plc. From 1979 to 1990, he was a regional director of Wellcome plc, based in Singapore, with responsibility for 18 Pacific Rim countries.

Chesyl Pharma Ltd., the advisory company controlled by Rolf Stahel, had business development contracts with the Company respectively Cosmo Holding S.p.A. The agreement with Chesyl Pharma Ltd. was terminated prior to the IPO.

Rolf Stahel is a member of the advisory board of the Business School of Imperial College London. In 2009 he received the lifetime achievement award from the UK Bioindustry Association.

Mauro S. Ajani

Italian (born 1955), resident in Milan, Italy, founder and, through his holdings in Cassiopea S.A., main shareholder of Cosmo Holding S.p.A. and Cosmo Bioscience S.p.A. as well as indirectly of Cosmo Pharmaceuticals S.p.A. Sole Director of Cosmo S.p.A. from 1998 to February 2001.

From 1994 to 1996, he was the general manager of the Russian company Italcenter and took part in a joint venture of Italian and Russian entrepreneurs for the creation of a pharmaceutical product distribution company. He was a consultant of Pharmhispania from 1991 to 1993, an Italian-Spanish joint venture for the import/export and distribution of pharmaceutical products between Spain and Italy. In the period from 1983 to 1993, he was the marketing manager of Pharmajani S.r.l., a company engaged in the commercial distribution and logistics of pharmaceutical products. From 1980 to 1983, he was Nielsen's area manager for over-the-counter products of the Serono OTC company, while in the period from 1978 to 1980 he worked as a salesman for the Lepetit company and for the Gazzoni company in the OTC sector.

Mauro S. Ajani is chairman and member of the board of Cosmo Bioscience S.p.A., Lainate, Milan, a company that, through its subsidiary Cosmo Bioscience Inc., La Jolla, USA, is dedicated to the development of cancer vaccines for melanoma.

In 2009, Cosmo Bioscience Inc., which is controlled by Cosmo Bioscience S.p.A., whose major shareholder is Mauro S. Ajani and his family, provided analytical services in the determination of mechanism of action of low-molecular-weight heparin.

Chris Tanner

Swiss (born 1951), has been a Board Member of Cosmo Pharmaceuticals S.p.A. since 2006 and from 2005 to 2007 of Cosmo Holding S.p.A. Since 2006 he has been Chief Financial Officer of Cosmo Pharmaceuticals S.p.A.

Dr Tanner has a diploma as an economist and a PhD in economics from the University of St. Gallen. He joined UBS in 1977 and following a management trainee programme worked in various foreign assignments. In 1985, he became a member of the global credit committee and from 1987 to 1992 was the head of corporate banking in Asia, Australia and Africa as well as Southern Europe. In 1992 he became head of corporate finance and capital markets at UBS in Zurich. In 1998, one year after UBS's merger with SBC, he left to become a partner of Dr Ernst Müller-Möhl, co-founded the "20 Minuten" group of newspapers and founded A&A Active Investor, a listed investment company. Since 2002 he has been a corporate finance adviser and participated in numerous fund raisings amongst other for the private placement of Cosmo Holding S.p.A. He is on the advisory board of Millenium Associates, a financial adviser to the

financial services industry as senior adviser.

He is a Beirat respectively board member of Joimax GmbH, Cosmo Bioscience Inc., and Private Equity Holding AG, which is listed on the SIX Swiss Exchange.

None of the companies that Dr Tanner is a major shareholder of has any business activities with the Company.

Friedrich von Bohlen und Halbach

German (born 1962), has been a Board Member of Cosmo Pharmaceuticals S.p.A. since 2006 and was a Member of the Board of Cosmo Holding S.p.A. from 2005 to 2007. Dr von Bohlen und Halbach has a diploma in biochemistry from the University of Zurich and a PhD in neurobiology from the Swiss Federal Institute of Technology (ETH) in Zurich. In 2008, he was appointed professor for information sciences at the University of Applied Sciences (FH) in Heidelberg, Germany.

He is founding member and shareholder of dievini Hopp BioTech Holding GmbH & Co. KG, which manages the life sciences investments of the Hopp family. He has 15 years of entrepreneurial experience and was awarded numerous prizes, amongst others the McKinsey Start Up-Prize in Germany in 1998 and the German Entrepreneur of the Year Prize in 1999 by “Manager Magazin”, Ernst & Young and SAP.

Dr von Bohlen und Halbach is managing partner of dievini Hopp BioTech Holding GmbH & Co. KG. He is a member of the following boards: chairman of the board (Beirat) of Apogenix GmbH, Heidelberg, member of the board of Cosmo Bioscience S.p.A., Lainate, Milan, member of the board of Curacyte AG, Munich, chairman of the board (Beirat) of CureVac GmbH, Tübingen, member of the board (Beirat) of Cytonet GmbH & Co. KG, Weinheim, member of the board of Heidelberg Pharma AG, Heidelberg, member of the board (Beirat) of immatics GmbH, Tübingen, member of the board of Integrated Diagnostics Inc., Seattle, USA, chairman of the board of Life Biosystems AG, Basel, chairman of the board of Sygnis Pharma AG, Heidelberg, and member of the board of Willex AG, Munich.

None of the unrelated companies that Dr von Bohlen und Halbach is a major shareholder of or is on the board of had any business activities with the Company.

Gianluigi Bertolli

Italian (born 1951), Dr Bertolli has been a Board Member of Cosmo Pharmaceuticals S.p.A. since 2006 and was a Board Member of Cosmo Holding S.p.A. from 2005 to 2007.

Dr Bertolli has a diploma as business and tax consultant, a diploma as chartered accountant and a PhD from the Bocconi University in Milan. He is the general secretary of the Italian National Association of Chartered Accountants

and president of statutory auditors of a number of major Italian and international companies.

He is the owner and head of Studio Bertolli, a firm that specializes in M&A, accounting and tax advice.

Dr Bertolli, and respectively the companies he owns, carry out a series of tax and accounting services for the Company.

Alessandro Della Chà

Italian (born 1963), has been a Board Member of Cosmo Pharmaceuticals S.p.A. since 2006.

Alessandro Della Chà has a degree in law from the University of Milan, Italy, and an LL.M. from the University of Leicester, United Kingdom, in European Union commercial law. He is a lecturer in conferences and seminars held by universities and institutions on commercial and company law issues.

He is also senior partner at Studio Legale Edoardo Ricci e Associati, Milan, where he specializes in company law, mergers and acquisitions. He joined the firm in 1988. From 1987 to 1988 he was assistant of the central director for corporate matters at Fininvest Group. From 1994 to 1998 he was director of II.PP.A.B. Milan (formerly ECA), a charitable institution owning hospitals and specialized in elderly care.

Studio Legale Edoardo Ricci e Associati provides a series of legal advisory services to the Company.

Dieter A. Enkelmann

Swiss (born 1959), has been a Board Member of the Company since 2006.

He graduated from the University of Zurich, where he obtained a degree in law. Dieter A. Enkelmann is chief financial officer and member of the executive management board of Julius Baer Group Ltd., Switzerland's leading dedicated wealth manager, listed on the SIX Swiss Exchange. From 2003 to 2006 he was chief financial officer of Barry Callebaut AG, the world's leading manufacturer of high-quality cocoa, chocolate and confectionary products, which is listed on the SIX Swiss Exchange. From 1997 to 2003 he was at Swiss Re as head of finance of the business unit financial services and as head of corporate finance and investor relations, treasury. From 1985 to 1997 he held several positions at Credit Suisse, both in Zurich and London. Dieter A. Enkelmann is a board member of iNNutriGEL AG, in Schlieren, Switzerland and a member of the board, the audit committee, the nomination committee and head of the compensation committee of SIX-listed GAM Holding Ltd., in Zurich, Switzerland. Julius Baer bank provides no services for the Company.

Operating principles of the Board of Directors

The general policies and the management of the Company are the responsibility of the Board of Directors, which establishes the strategic, accounting, organizational and financing policies and appoints, recalls and supervises the members of the Management. Furthermore, the Board of Directors is responsible for the organization and preparation of shareholders' meetings and for carrying out shareholders' resolutions. The Board of Directors may delegate its authority to the Executive Committee and/or to the Chief Executive Officer (CEO) and determines the duration of the term and the power of the CEO.

Board of Directors' meetings are called by the Chairman or by the CEO by written notice, highlighting the matters to be discussed and sent at least three days (in case of urgency at least one day) before the date of the meeting.

Five meetings of the Board of Directors took place in 2009.

Board Committees

Compensation Committee

The Compensation Committee assists the Board of Directors in compensation-related matters, including matters related to the Company's stock option plan. The Compensation Committee provides recommendations on and polices for the compensation of the Members of the Board of Directors, the Management and other employees. It is composed solely of non-Executive Members of the Board and headed by Rolf Stahel. Additional Members are Friedrich von Bohlen und Halbach and Dieter A. Enkelmann.

One meeting of the Compensation Committee took place in 2009.

Nomination Committee

The Board of Directors has established a Nomination Committee, which enacts guidelines for selecting candidates for the election to the Board of Directors in the event when one or more Directors are replaced pursuant to section 2386 of the Italian civil code. It also enacts guidelines for the appointment of Senior Management and makes arrangements to select such candidates. The Nomination Committee is composed solely of non-Executive Members of the Board and is headed by Rolf Stahel. Friedrich von Bohlen und Halbach and Dieter A. Enkelmann are additional Members.

Audit Committee

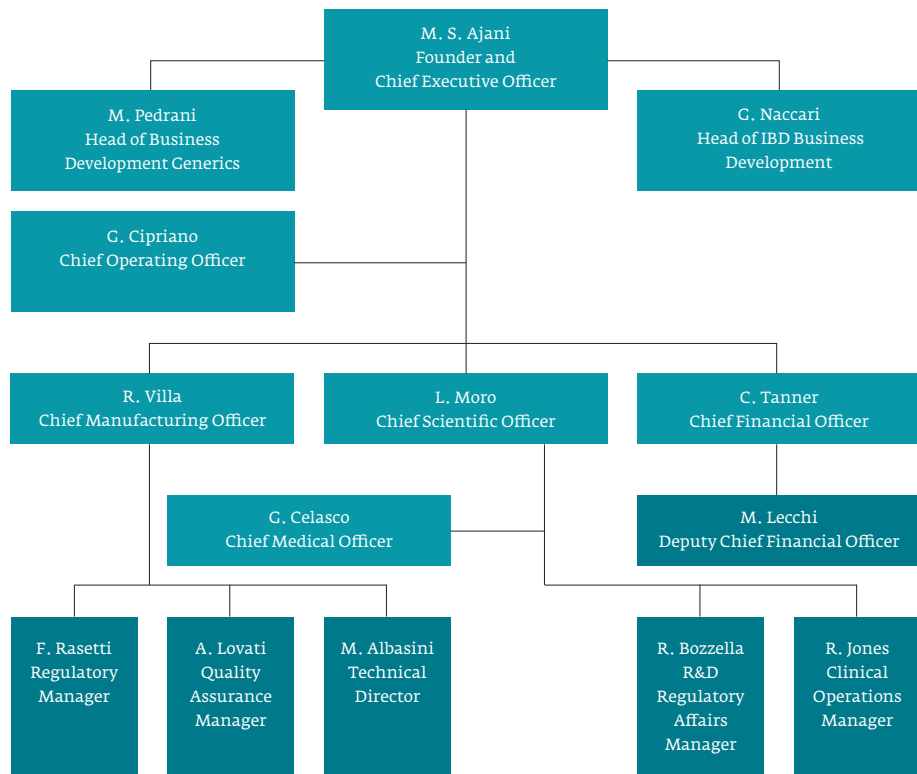
The Board of Directors has established an Audit Committee. The Audit Committee surveys the effectiveness of the external audit and the internal control and risk management processes. It also evaluates the state of compliance with norms within the Company.

Additionally, the Audit Committee reviews – together with the Chief Financial Officer, and, separately, as the case may be, with the head of the external audit – the individual and consolidated financial statements as well as the interim statements intended for publication. It decides whether the individual and consolidated financial statements can be recommended to the Board of Directors for presentation to the general shareholders' meeting. The Audit Committee assesses the performance and the fees charged by the external auditors and ascertains their independence. It examines compatibility of the auditing responsibilities with any consulting mandates. The Audit Committee is composed solely by non-Executive Board Members and is headed by Dieter A. Enkelmann. Gianluigi Bertolli and Rolf Stahel are additional Members.

Four meetings of the Audit Committee took place in 2009.

Executive Management

The Management is responsible for the operational management of Cosmo Pharmaceuticals S.p.A. in line with the instructions issued by the Board of Directors. Cosmo has grown based on a strong, focused Management Team encompassing skills across the spectrum of disciplines required for an emerging specialty pharmaceutical company. The Company has an internationally experienced and entrepreneurial Management Team of pharmaceutical industry executives and recognized experts in their field with diverse backgrounds and complementary skills in research, development, regulation, manufacturing, sales, marketing and finance.



Total employees as at 31 December 2009: 134

- Production & Logistics: 91
- General, Administration & Finance, IT and Others: 18
- Research & Development: 25

Members of the Management

Mauro S. Ajani

Italian (born 1955), Chief Executive Officer of Cosmo Pharmaceuticals S.p.A. and Member of the Board of Directors.

Marco Albasini

Italian (born 1969), Technical Director of Cosmo S.p.A. since 2006. From 2004 to 2005 he was quality manager of Gentium S.p.A, Como, Italy. From 2001 to 2003 he was the quality control manager of the fine chemical business unit of Zambon Group Spa, Vicenza, Italy, companies in the field of APIs and related services. From 1995 to 2001 he was quality control manager of Tecres S.p.A., a company in the field of sterile medical devices. He holds two degrees: chemistry & pharmaceutical technologies and pharmacy.

Roberta Bozzella

Italian (born 1974), R&D Regulatory Affairs Manager of Cosmo Research & Development S.r.l. She graduated in pharmaceutical chemistry from the University of Milan and holds a master in regulatory affairs from the University of Pavia. She joined the Group in 2002 and is responsible for the regulatory activities of the pipeline development projects. From 1999 to 2002 she worked as a quality assurance manager at a small Italian pharmaceutical company (Società Prodotti Antibiotici S.p.A.).

Giuseppe Celasco

Italian (born 1941), Chief Medical Officer of Cosmo Research & Development S.r.l. He graduated in medicine and surgery at the University of Genova, Italy (1967). He began his career as a researcher in the field of toxicology and endocrinology in the Warner-Vister Institute for Research on Steroids in 1969, and was subsequently appointed responsible for the department of pharmacology and toxicology within the same research institute (1972-1985). He taught experimental endocrinology at the University of Pavia (1972), and general pathology and ocular pathology at the Advanced Institute of Optometric Sciences of Milan (1973-1975). From 1985 to 1995 he was senior medical advisor of Parke Davis S.p.A., and, from 1995 to 2000, director of scientific affairs and regulatory affairs manager within the same company. He is author of 61 scientific contributions. He joined the Group in 2001.

Giuseppe Cipriano

Italian (born 1957), Chief Operating Officer of Cosmo S.p.A. since 2001. From 1996 to 2001 he was managing director of Gianfranco Ferrè S.p.A. and Gianfranco Ferrè USA Holding, the well-known fashion group. From 1990 to 1996 he was the managing director of Cordara S.p.A. and Ecor Impianti S.r.l., companies in the field of commercialization of oil products and related services. From 1982 to 1990 he was a vice-president (vicedirettore) in the Public Administration Inland Revenue Department in Milan.

Richard Jones

British (born 1969), Clinical Operations Manager of Cosmo Technologies Ltd., which is the interface of the Group with CROs in charge of conducting the clinical trials.

He joined the Group in February 2006. From 1996 to 1999, Richard Jones worked as a clinical scientist for the National Health Service, University Hospital Birmingham, UK. From 1999 to 2005, he worked with ICON Clinical Research, first as a drug safety associate, thereafter as a project manager and finally as a senior project manager. Before he joined the Group, he held a

position with Nabi Biopharmaceuticals Europe as a clinical project manager. He holds a PhD in clinical biochemistry from Trinity College, Dublin.

Marco Lecchi

Italian (born 1964), Deputy Chief Financial Officer of Cosmo Pharmaceuticals S.p.A. He joined the Group in 2001; from 1999 to 2001 he worked as director of administration of Gianfranco Ferrè S.p.A. and its subsidiary GF Manufacturing S.r.l., and from 1992 to 1999 he worked at an international audit firm. In 1999 he gained admittance to the Official Register of Public Auditor. Marco Lecchi obtained his degree in economics and business administration, specializing in financial administration, from the Bocconi University in Milan.

Andrea Lovati

Italian (born 1967), Quality Assurance Manager of Cosmo S.p.A. since 1999. From 1997 to 1999 he was responsible for the quality control of labs in Cosmo S.p.A. From 1996 to 1997 he was responsible for the quality control chemical lab in Parke Davis S.p.A. He began his career as an analyst in Formenti S.p.A. (1995). He holds a degree in pharmaceutical chemistry and technology from the University of Milan, Italy.

Luigi Moro

Italian (born 1951), Chief Scientific Officer of Cosmo Research & Development S.r.l. He graduated in chemistry and pharmacology at the University of Milan. He began his career in 1976 with Farmitalia - Carlo Erba, working on discovery/preclinical phase technological projects and the development of new drug administration systems, with particular concentration on anti-cancer drugs.

From 1985 to 1988, with Recordati Industria Chimica e Farmaceutica S.p.A., he collaborated on the direction of technological projects of the parent company and in the definition of drug delivery systems developed by the subsidiary company Pharmetrix, a Californian company specializing in the application of polymer membranes and control systems for problems relating to the controlled administration of drugs. He was appointed manager of the pharmaceutical technology laboratories of Poli Industria Chimica S.p.A. in 1988 and from 1990 to 1995, he coordinated the company's research activities and industrial applications in the pharmaceutical, synthesis and fermentation sector. In 1996, he became manager of industrial development, responsible for the identification of the technical resources and facilities for the industrial implementation of development projects. He is the author of numerous scientific publications and papers and inventor of numerous international technology patents. He joined the Group in 1999.

Gian Carlo Naccari

Italian (born 1941), Head of IBD Business Development of Cosmo Technologies Ltd., has been in the pharmaceutical business for 40 years and is considered one of the leading IBD experts in the field. From 1998 to 2006 he was the head of prescription drugs and of business development at Giuliani S.p.A. and was as such the interface with Cosmo for many years. From 1994 to 1997 he was managing director for Europe of Osteotech Inc, a leading bone replacement and medical device company, and from 1989 to 1992 he was managing director of Centocor Italy. Prior to that he was at Giuliani S.p.A., Gist Brocades, Italfarmaco and Pfizer.

Massimo Pedrani

Italian (born in 1954), Head of Business Development Generics of Cosmo S.p.A., began his career as a researcher in the galenical laboratory of Midy S.p.A. (Sanofi Group) in 1981 and then worked as responsible for the pharmaceutical development department in Pierrel S.p.A. from 1983 to 1987. He then joined Farmitalia - Carlo Erba (Erbamont Group) as supervisor of external research institutes and head of the industrial galenics laboratories until 1992. During 1992 to 1996, he was the managing director of the Italian subsidiary of Applied Analytical Industries Inc., a US company operating in the pharmaceutical research and services sector. Since 1997, he has worked as a pharmaceutical business development and regulatory affairs consultant through his own company, Emmepi Pharma SAS. He joined Cosmo as an External Consultant in July 2001. He graduated in chemistry and pharmaceutical technology from the University of Pavia.

He has been member of the board of the Italian Pharmaceutical Association, since February 1992, and of the Controlled Release Society Italian Chapter, since June 1998.

Francesca Rasetti

Italian (born 1966), Regulatory Manager of Cosmo S.p.A. since 1999. She graduated in pharmacy from the University of Milan in 1990. She holds a specialization in pharmacology and a PhD in pharmacognosy from the University of Milan. From 1996 to 1997 she worked for Parke Davis S.p.A. as senior analyst in laboratory and was responsible for the analytical validation studies. She began her career at Cosmo in 1997 as a Laboratory Senior Analyst. She is responsible for the supervision of the manufacturing process validation and for the cleaning validation.

Matteo Surace

Italian (born 1972), Medical Manager of Cosmo Research & Development S.r.l. He resigned in February 2010.

Chris Tanner

Swiss (born 1951), Chief Financial Officer of Cosmo Pharmaceuticals S.p.A. and Member of the Board of Directors.

Roberto Villa

Italian (born 1943), Chief Manufacturing Officer, joined Cosmo S.p.A. when it was established. He has significant experience in multinational pharmaceutical companies. He began his career as a laboratory analyst, and was promoted over the years to production manager, head of development laboratories, and finally, to the head of quality control and quality assurance laboratories. Given the experience acquired in various pharmaceutical sectors, he was appointed as Chief Manufacturing Officer of Cosmo S.p.A. and is responsible for the supervision of all industrial, logistic and quality aspects of its production facilities.

Board of Statutory Auditors

The Board of Statutory Auditors is composed of three Permanent Auditors, plus two Deputy Auditors, with priority given to the eldest, who would automatically replace a Statutory Auditor who resigns or is otherwise unable to serve as a Statutory Auditor. At least one Permanent Member and one Deputy Member of the Board of Statutory Auditors must be registered with the national register of auditors (Registro dei Revisori Contabili). The Statutory Auditors are elected at the shareholders' meeting, they remain in office for three years and their mandate expires as of the date of the meeting called to approve the financial statements relating to the third accounting period of their office.

The Board of Statutory Auditors oversees the Company's compliance with the law and with the Articles of Association, verifies the Company's adherence to good principles of administration, and assesses the adequacy of the Company's internal controls and accounting reporting systems, as well as the effectiveness of the provisions concerning the supply of information to and from the Company's subsidiaries. The review performed by the Board of Statutory Auditors does not constitute an audit in accordance with Italian auditing standards.

Members of the Board of Statutory Auditors

- _ Fabrizio Gardi (61), Chairman of the Board of Statutory Auditors
- _ Andrea Righetti (55), Permanent Auditor
- _ Maria Cristina Chioda (43), Permanent Auditor

Their mandate will expire at the date of the meeting for the approval of 2011 financial statements.

Compensation, shareholdings and loans

Compensation of Board of Directors and Board of Statutory Auditors

According to Italian law the total compensation of the Board of Directors is set by the ordinary shareholders' meeting, and the allocation is made by the Board of Directors. Compensation for the three-year period starting 2009 has been set by Cosmo Pharmaceuticals S.p.A.'s ordinary shareholders' meeting on 20 April 2009, at EUR 400 thousand per year for the whole Board. Additional compensation of certain Members of the Board of Directors who are appointed to certain specific functions is determined by the Board of Directors. Chris Tanner's remuneration is included in the Management compensation figures and excluded in the corresponding figures for the Board of Directors.

The compensation of the Members of the Board of Statutory Auditors is in accordance with the professional fees set by the National Association of Public Auditors. Compensation for the three-year period starting 2009 has been set by Cosmo Pharmaceutical S.p.A.'s ordinary shareholders' meeting on 20 April 2009 at EUR 19.6 thousand per year.

Compensation of Board of Directors and Board of Statutory Auditors

EUR

Board of Directors	Function	Base compensation	Additional compensation	Cash bonus	Fringe benefits	Value of options at grant date	Compensation
Rolf Stahel	non-Executive Chairman	80,000	-	-	-	74,352	154,352
Mauro S. Ajani	Deputy Chairman, CEO	200,000	-	-	-	-	200,000
Gianluigi Bertolli	Member, non-Executive	30,000	-	-	-	25,367	55,367
Alessandro Della Chà	Member, non-Executive	30,000	-	-	-	25,367	55,367
Dieter A. Enkelmann	Member, non-Executive	30,000	-	-	-	25,367	55,367
Chris Tanner*	Member, Executive CFO	177,750	-	-	-	156,580	334,330
Friedrich von Bohlen und Halbach	Member, non-Executive	30,000	-	-	-	25,367	55,367
Total		577,750	-	-	-	332,400	910,150

* Compensation as CFO

Compensation for Management

EUR

Executive Management	Function	Base compensation	Cash bonus	Fringe benefits	Stock options	Total compensation
Executive Management	13 members	1,188,388	25,693	25,002	306,600	1,545,683
Highest paid of 13 members		155,000	-	-	83,100	238,100

Additional fees and remuneration

In 2009, Cosmo Bioscience Inc., which is controlled by Cosmo Bioscience S.p.A., whose major shareholder is Mauro S. Ajani and his family, provided analytical services in the determination of mechanism of action of low-molecular-weight heparin for approximately EUR 563 thousand.

Studio Bertolli, through its managing partner Dr Gianluigi Bertolli, who is the Company's Tax Advisor on the majority of Italian tax issues: EUR 59.6 thousand.

Studio Legale Edoardo Ricci e Associati, Milan, through the intermediation of Avv. Alessandro Della Chà, who is the Company's Legal Advisor on all Italian and many international corporate matters: EUR 200 thousand.

Stock option plan

The Compensation Committee did not allocate any options in 2009. In 2007 the options were allocated as follows:

Allocation to non-Executive Members of the Board

Rolf Stahel	Chairman	117,936
Gianluigi Bertolli	Member	40,236
Friedrich von Bohlen und Halbach	Member	40,236
Alessandro Della Chà	Member	40,236
Dieter A. Enkelmann	Member	40,236

Allocation to Executive Members of the Board and Members of Management if allocation exceeds 100,000 shares

Chris Tanner	Member of the Board and CFO	248,364
Giuseppe Cipriano	COO	131,812
Luigi Moro	CSO	131,812
Other members of Management		222,700
Unallocated shares		373,932

On 18 December 2007 the Board of Directors granted a total of 1,013,568 options; they vest after three years and they can be exercised at a price of CHF 22 per share until 14 December 2011. In 2009 no additional options were granted. Italian law

does not foresee the creation of the conditional capital for stock option plans. The share capital will thus not be increased until such time when the option holders execute their options.

The fair value of options granted, determined using the Black-Scholes valuation model, resulted in a value of CHF 3.14 per option. The options granted are recognized as costs over the vesting period from 18 December 2007 to 18 December 2010.

Management transactions

Pursuant to the SIX Swiss Exchange Directive on the Disclosure of Management Transactions, effective as of 1 July 2005, members of the board of directors and of the management of a company listed on the SIX Swiss Exchange are required to report transactions they carried out directly or indirectly in shares, call and put options and conversion and similar rights with respect to shares of the issuer within two stock exchange trading days. Transactions must also be reported if they are carried out by or on the account of a third party, but the decision was made by or significantly influenced by a member of the board of directors or management. Depending on the volume of such transactions, the issuer is required to inform the SIX Swiss Exchange of such transactions within two stock exchange trading days or at the end of each calendar month. The SIX Swiss Exchange will publish such transactions, indicating the position of the reporting persons (but not their names). This directive is also binding for the Company.

In the year 2009 the following shares were bought by Members of the Board of Directors, the Board of Statutory Auditors and Executive Management:

Shares purchased in 2009	Purchased
Mauro S. Ajani	9,000
Rolf Stahel	34,389

No shares were sold by Members of the Board of Directors, the Board of Statutory Auditors and Executive Management.

Share purchases by the Company

The Company has a market-making agreement with a well-known bank. The Company selectively buys and sells shares to support these activities. At year-end the Company had 152,161 shares on its books purchased at an average price of CHF 14.26.

Loans granted by the Group to Members of Board of Directors or Management

No company of the Group has granted any loans or guarantees to any Member of the Boards of Directors, the Board of Statutory Auditors or Members of the Management.

Shareholders' rights

Each share carries one vote. Holders of the shares are entitled to attend and vote at shareholders' meetings on the basis of one vote for each share held, although shares held in breach of certain provisions of applicable law and/or the Company's Articles of Association may not be voted.

An investor who acquires 33.33% or more of the Company's voting share capital has to launch a public offer for all shares as required Swiss tender offer rules apply. The Board of Directors has the authority under the Articles of Association to take any and all action it deems necessary, in its sole discretion, in order to cause a shareholder to comply with this obligation, and to disallow any shareholder who does not comply with its obligation to launch a public offer to vote at the shareholders' meeting.

The Articles of Association also require investors in the shares to notify the Company of certain acquisitions and dispositions of shares.

To attend a meeting, the owners of shares are required to instruct any relevant authorized intermediary with which their accounts are held to provide to the Company admission certificates or notice pursuant to section 2,370 of the Italian civil code at least two working days prior to the first date set for the meeting.

The Company's shareholders may appoint proxies in writing. Proxies are valid only for single meetings (including, however, the first, second and subsequent calls). General proxies can be released only by companies, associations, foundations or other legal entities or institutions, and only to their own employees.

Directors, Statutory Auditors, Independent Auditors and employees of the Company or of its subsidiaries, or a subsidiary itself, may not act as proxies for shareholders. A shareholder may also appoint another shareholder to represent it at shareholders' meetings.

Dividends, allocation of annual net profits and other financial rights

As a matter of practice, annual dividends are proposed by the Board of Directors and are subject to approval by the shareholders, usually at the annual shareholders' meeting, which must be convened within six months after the end of the fiscal year to which the dividend relates. Dividends are payable on the date specified by the shareholders' resolution at the annual meeting on the account of each shareholder through the relevant intermediaries.

Pre-emptive rights

New issues of shares, whether shares or other classes of share capital, are authorized by a resolution of the shareholders passed at an extraordinary meeting. Pursuant to Italian law, holders of ordinary shares are entitled to subscribe for new issue of shares, debt instruments convertible into shares and any other warrants, rights or options entitling the holder to acquire shares, in each case in proportion to their respective shareholdings.

Minority shareholders' rights

Minority shareholders have the right to appoint one Director and one Statutory Auditor of the Company, each shareholder may bring to the attention of the Board of Statutory Auditors facts or acts that such shareholder believes to be wrongful. If shareholders, representing at least 2.0% of the share capital of the Company, submit a complaint to the Board of Statutory Auditors, the Board must investigate without delay and must report its findings and recommendations to the shareholders' meeting.

Shareholders representing at least 5.0% of the share capital of the Company have the right to report major irregularities in the Management of the Company to the court where the Company has its domicile.

For companies whose shares are listed on recognized stock exchanges, a qualified minority of shareholders representing 2.5% of the outstanding share capital can bring an action against the Board of Directors for the benefit of the Company as a whole. This action can be settled by the Company only if there is no opposition of shareholders representing 5% of the outstanding share capital. The same action can be brought against the Statutory Auditors, as they are jointly and severally liable with the Directors, for whatever negligence or misconduct of the latter.

Independent Auditors

Duration of the mandate and term of office of the Independent Auditors

Cosmo Pharmaceuticals S.p.A.'s ordinary shareholders' meeting on 20 April 2009 has appointed the auditing company Mazars S.p.A., Milan, as its Independent Auditors for the three-year period 2009/2010/2011.

Such appointment shall expire with the approval of the 2011 financial statements. Carlo Consonni is the partner in charge for the report of the Independent Auditors.

Auditing honorarium

Mazars S.p.A.'s honorariums for 2009, including the honorariums for the controlled companies, amounted to EUR 84 thousand.

Additional honorariums

No other honorariums have been paid to the Independent Auditors.

Change of control and defences measures

Information and control instruments vis-à-vis the Board of Directors

Italian law prescribes the nomination of an external Board of Statutory Auditors, which has extensive rights to report its findings to the Board of Directors. The Board of Directors is currently scheduled to meet at least four times a year plus a budget meeting plus a meeting to discuss and approve the financial statements. Further meetings will be called as needed. The Board of Directors has set a series of benchmarks and parameters to track the financial, scientific, product, and production development of the Company. These benchmarks and parameters are regularly reviewed.

Information policy

Cosmo Pharmaceuticals S.p.A. is committed to a clear, transparent, consistent and non-selective disclosure of material information. In accordance with the Italian and the SIX Swiss Exchange rules, Cosmo Pharmaceuticals S.p.A. provides complete and detailed information on annual and half-year reports. The Company publishes additional information on important events.

The Company has formulated a corporate commitment to keep its investors fully apprised of the Company's developments. The CEO, CFO and Head of Investor Relations are responsible for communication with the financial community. The Company adheres strictly to the ad hoc publicity rules of the SIX Swiss Exchange and has issued all press releases to a wide range of international agencies in the immediate period before the stock market opening after having notified the SIX Swiss Exchange. In selective cases such as the presentation of the half-year report, the Company has also invited shareholders and the financial press to conference calls and selective news events.

Pursuant to the Articles of Association, notices are made by publication in a newspaper chosen among "Il Corriere della Sera", "La Repubblica", "Il Sole 24 Ore", "The Financial Times" and the "Neue Zürcher Zeitung".

Notices are also to be published as required by the listing rules of the SIX Swiss Exchange.

Significant events post year-end and outlook

Significant events subsequent

In July 2009, Cosmo approached BioXell S.p.A., an Italian company listed at 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.

Following negotiations and approval of the board of directors of BioXell, a preannouncement was made in November 2009, and 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 shares 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.

On 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.

Currently, Cosmo does not intend to continue developing any of BioXell's clinical programmes, as they do not fit into Cosmo's existing expertise and development strategy. From Cosmo's perspective, this transaction is considered as an alternative to a capital increase of Cosmo; and all its costs and benefits were weighed against such a capital increase transaction. The primary intention of the transaction was to increase Cosmo's free float, thus improving the liquidity of the Cosmo shares. The transaction further creates additional value for shareholders of Cosmo as it results in approximately additional EUR 15.7 million in cash available to Cosmo, which will give Cosmo the ability to develop certain clinical programmes faster and to negotiate certain agreements more conveniently.

Cosmo plans to have the BioXell shares delisted from SIX Swiss Exchange in the short term. Furthermore, Cosmo currently intends to liquidate the assets of BioXell and may subsequently put BioXell in liquidation according to sections 2484 of the Italian Civil Code. However, it may potentially also be an option for Cosmo, after delisting of BioXell, to keep BioXell as a privately held affiliated company.

MMX[®] laboratories

Within our MMX[®] laboratories our Chemists calculate the speed of release of the active pharmaceutical ingredients and the quantity of these ingredients in each pill. They also analyse the pills to see if they have been degraded during the production process and calculate the expected shelf life.

Laura Ragonesi

Specialist Lab Analyst

With Cosmo since 2007



Financial review



Chris Tanner,
Chief Financial
Officer

In 2009, Cosmo's revenue decreased by EUR 7,488 thousand to EUR 26,685 thousand; net profit after taxes decreased by EUR 5,351 thousand to EUR 4,050 thousand.

During 2009 no new licencing agreements were concluded, and revenue for licence fees, up-front fees and milestones decreased by EUR 8,287 thousand to EUR 2,101 thousand, which include EUR 1,996 thousand referring to the 2008 deferred income on the up-front payment for Rifamycin SV MMX[®] received from Santarus and Dr. Falk Pharma, totally credited to 2009 profit and loss.

Revenue from royalties increased by 69.8% to EUR 6,006 thousand, and includes EUR 5,983 thousand relating to the royalties on Lialda[®]/Mezavant[®]/Mesavancol[®] sales (the item amounted to EUR 3,516 thousand in 2008): in 2009, Shire increased its revenue from Lialda[®]/Mezavant[®]

by 68.0% to USD 235.9 million. In spite of this, revenue from manufacturing of MMX[®] products decreased by EUR 354 thousand to EUR 6,793 thousand due to the fact that in 2008 Shire ordered substantial amounts of tablets for the initial marketing push with heavy distribution of samples and build-up of inventories: during 2009 Cosmo delivered to Shire 80.1 million tablets at a production revenue of EUR 6,646 thousand (in 2008: 90.2 million tablets, EUR 7,147 thousand). In December 2009 Cosmo started delivering Mesavancol[®] to Giuliani S.p.A. (2.6 million tablets at a production revenue of EUR 147 thousand).

The decrease in revenue from manufacturing of generic products and speciality drugs in 2009 compared to 2008 is mainly due to discontinuing a marginally profitable business that would have required a substantial new capital investment and to a shift of capacity to higher potential generics businesses which should start yielding results in the coming years.

Revenue

EUR 1,000	Year ended 31 December 2009		Year ended 31 December 2008	
		% of revenue		% of revenue
Manufacturing on behalf of third parties:				
Manufacturing of generic products and speciality drugs	10,500	39.3	12,375	36.2
Manufacturing of MMX [®] products	6,793	25.5	7,147	20.9
Related services	1,081	4.1	564	1.7
Other revenues from sales	204	0.8	161	0.5
Licence fees, up-front fees and milestones	2,101	7.9	10,388	30.4
Royalties	6,006	22.5	3,538	10.4
Total revenue	26,685	100.0	34,173	100.0

Overall, the revenue related to own products (which includes manufacturing of MMX® products, licence fees, up-front fees, milestones and royalties) decreased from EUR 21,073 thousand to EUR 14,900 thousand.

EUR 1,000	Year ended 31 December 2009		Year ended 31 December 2008	
		% of revenue		% of revenue
Own products	14,900	55.8	21,073	61.7
Third-party products	11,785	44.2	13,100	38.3
Total revenue	26,685	100.0	34,173	100.0

Net operating expenses

EUR 1,000	Year ended 31 December 2009		Year ended 31 December 2008	
		% of revenue		% of revenue
Other income	315	1.2	47	0.1
Cost of sales	(12,774)	(47.9)	(13,203)	(38.6)
Research and development costs	(4,454)	(16.7)	(4,287)	(12.5)
Selling, general and administrative costs	(5,329)	(20.0)	(5,546)	(16.2)
Total net operating expenses	(22,242)	(83.4)	(22,989)	(67.3)

Other income in 2009 includes a tax credit on research and development activities; cost of sales decreased because of the reduced manufacturing activity for third parties; research and development cost expensed in the profit and loss accounts slightly increased due to the increase in the out-sourced preclinical and clinical trial costs (in 2009 the Group capitalized development costs for an amount of EUR 5,311 thousand including out-sourced clinical trial costs, API and excipient for the preparation of clinical batches and personnel expenses directly related to Budesonide MMX® project; in 2008 the amount capitalized was EUR 3,779 thousand); selling, general and administrative costs are well controlled with a reduction of 3.9% in respect of 2008.

Operating expenses as per nature

EUR 1,000

	Year ended 31 December 2009		Year ended 31 December 2008	
		% of revenue		% of revenue
Other income	315	1.2	47	0.1
Changes in inventories of finished goods and work in progress	(64)	(0.2)	148	0.4
Raw materials and consumables used	(5,091)	(19.1)	(5,791)	(16.9)
Personnel expenses	(7,044)	(26.4)	(7,028)	(20.6)
Outsourced preclinical and clinical trial costs	(2,089)	(7.8)	(1,928)	(5.6)
Other operating expenses	(6,576)	(24.6)	(6,836)	(20.0)
Depreciation and amortization	(1,693)	(6.3)	(1,601)	(4.7)
Total net operating expenses	(22,242)	(83.4)	(22,989)	(67.3)

Other income

The item in 2009 includes EUR 279 thousand for tax credits on research and development activities performed by Cosmo S.p.A. in 2007, 2008 and 2009. In June 2008, the Italian government granted companies a 10% tax credit on costs incurred for research and development activities in the years 2007, 2008 and 2009. The said 10% credit may be further increased to 40% in case those costs refer to activities performed by universities and other governmental research institutions, based on a specific research agreement. The Company started recognizing this income in March 2009 after a clarification from the Italian government when it was able to get the official authorization for utilizing the said 10% tax credit, which can be used to offset any other tax payment.

Changes in inventories of finished goods and work in progress

The amount in 2009 principally refers to the increase in work in progress relating to the “bulk” prepared to be packaged at the beginning of 2010.

Raw materials and consumables used

The decrease of cost for raw materials and consumables used in 2009 compared to 2008 is due to the lower business volume in specific generics contract manufacturing businesses where the Company purchases ingredients instead of getting them in consignment.

Personnel expenses

Personnel expenses slightly increased in 2009 compared to 2008, less than the increase in total staff (see tables below) as in 2008 personnel expenses included a one-off payment. The table below shows the number of employees by function as at 31 December 2009.

Employees as at 31 December 2009 by function

Research & Development	25	19%
Production & Logistics	91	68%
General, Administration & Finance, IT and Others	18	13%
Total	134	100%

Staff in Production & Logistics include 16 persons working in analytical, chemical and biological laboratories supporting the activity of contract manufacturing and related services.

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: they increased from EUR 1,928 thousand to EUR 2,089 thousand; starting from 2008, as Budesonide MMX[®] entered phase III, outsourced clinical trial costs relating to the European trials were capitalized and expenses for the US portion of the Budesonide MMX[®] phase III clinical trials were reimbursed by Santarus, following the strategic collaboration agreement signed in December 2008.

Other operating expenses

Other operating expenses decreased by EUR 260 thousand or 3.8% to EUR 6,576 thousand. This decrease was primarily due to limited consultancy services and advertising and marketing costs, reduction of the utilities and energy costs, partially compensated by the higher costs for the rent of additional space in Lainate complex.

Depreciation and amortization

Depreciation of property, plant and equipment and amortization of other intangible assets have remained largely unchanged at EUR 1,693 thousand.

Financial income and expenses

EUR 1,000	Year ended 31 December 2009		Year ended 31 December 2008	
		% of revenue		% of revenue
Financial income	1,290	4.8	1,369	4.0
Financial expenses	(416)	(1.6)	(940)	(2.8)
Total financial income (net)	874	3.3	429	1.3

In 2009, net financial income increased by EUR 445 thousand to EUR 874 thousand, although interest received on cash and cash equivalents, due to lower market interest rates, decreased from EUR 942 thousand in 2008 to EUR 198 thousand in 2009. The increase was due to foreign exchange gains on forward currency contracts of EUR 454 thousand entered into to hedge our surplus USD revenue streams and in the foreign exchange gain due to the decrease in the USD/EUR rate.

Income tax expenses

Given the Company's decrease in profit, income taxes decreased from EUR 2,212 thousand in 2008 to EUR 1,267 thousand in 2009.

Current income tax includes cost for IRES and other corporation taxes and IRAP (which represents an Italian regional tax levied on profit (loss) before tax, plus personnel costs and net financial charges which are not considered tax-deductible). 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). For 2009, current income tax expenses (IRES) were accounted and deferred taxation was reassessed accordingly.

Assets

Non-current assets

EUR 1,000	As at 31 December	
Non-current assets	2009	2008
Property, plant and equipment	6,810	6,986
Goodwill	109	109
Other intangible assets	12,035	6,856
Financial assets	19,242	6,769
Deferred tax assets	1,246	1,208
Other non-current receivables	2,196	2,144
Total non-current assets	41,638	24,072

Property, plant and equipment primarily consists of the equipment in the plant that is used for the manufacturing of the MMX[®] tablets. No capacity additions were made but selected equipment was replaced.

Other intangible assets consists of costs for filing and extension of patents and of development costs on the Budesonide MMX[®] project capitalized starting from 2008, and as at 31 December 2009

amounting to EUR 9,090 thousand.

Financial assets available for sale refers entirely to the investment in Santarus shares: as at 31 December 2009, the fair value of each share (market price NASDAQ) was equal to USD 4.62 with the total investment amounting to USD 27.72 million (corresponding to EUR 19,242 thousand, at 31 December 2009 USD/EUR exchange rate).

Current assets

EUR 1,000	As at 31 December	
Current assets	2009	2008
Inventories	1,515	1,507
Trade receivables	5,517	3,549
Current tax assets	994	578
Other receivables and other assets	4,500	5,893
Current financial assets	139	-
Cash and cash equivalents	17,161	22,166
Total current assets	29,826	33,693

Trade receivables increased as at 31 December 2009 due to the increase in the revenue for royalties of the last quarter 2009 and for the deliveries of Lialda[®]/Mezavant[®] to Shire in December 2009 (no deliveries in December 2008).

Equity and liabilities

Equity

EUR 1,000	As at 31 December	
Equity	2009	2008
Share capital	3,469	3,469
Share premium	29,960	29,372
Treasury shares	(1,146)	(394)
Other reserves	2,162	2,162
Stock option plan reserve	1,306	667
Available-for-sale financial assets reserve	10,477	(1,557)
Retained earnings	9,517	116
Profit for the year	4,050	9,401
Total equity	59,795	43,236

Total equity increased by 38.3% to EUR 59,795 thousand primarily due to the reserve on financial assets available for sale and retained earnings. Equity now finances 83.7% of total assets, an increase from 74.8%.

As at 31 December 2009 and 2008, 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.

Non-current liabilities

EUR 1,000	As at 31 December	
Non-current liabilities	2009	2008
Interest-bearing loans and borrowings	1,642	2,903
Employee benefits	492	511
Deferred tax liabilities	2,247	1,731
Total non-current liabilities	4,381	5,145

Non-current liabilities decreased from EUR 5,145 thousand to EUR 4,381 thousand, due to the reclassification of the short-term portion of interest-bearing loans and borrowings as current liabilities, in accordance with the contractually foreseen repayment schedules of the loan and financial lease liabilities, partially compensated by the increase in deferred tax liabilities relating to temporary differences on the development costs capitalized in the local statutory financial statements.

Current liabilities

EUR 1,000	As at 31 December	
Current liabilities	2009	2008
Interest-bearing loans and borrowings	1,334	1,391
Trade payables	4,113	4,228
Deferred income	-	1,996
Current tax liabilities	540	562
Other current liabilities	1,301	1,207
Total current liabilities	7,288	9,384

Short-term interest-bearing loans, borrowings and bank overdrafts decreased from EUR 1,391 thousand to EUR 1,334 thousand, due to the repayment of loans and borrowings in accordance with the contractually foreseen repayment schedules.

Deferred income as at 31 December 2008 relates to the up-front payment received from Santarus and Dr. Falk Pharma for Rifamycin SV MMX® totally credited to 2009 profit and loss as the Company has completed the additional preclinical and phase I clinical studies requested by FDA.

MMX[®] manufacturing: the dry2

This is the drug production area. The first stage of the manufacturing process is to weigh the ingredients, which are mixed with a solution in the granulator to ensure they reach the right absorption value. The product is dried with warm air and is then ground and discharged into a steel bin where it is mixed with additional components. It is then compressed into tablet form, before the tablets are coated with pH-resistant acrylic copolymers to delay the release of the active ingredients.

Stefano Scazzosi

Manufacturing
Specialist

With Cosmo since 2006



Consolidated financial statements

Consolidated income statement

EUR 1,000	Notes	Year ended 31 December	
		2009	2008
Revenue	5	26,685	34,173
Other income		315	47
Cost of sales		(12,774)	(13,203)
Research and development costs		(4,454)	(4,287)
Selling, general and administrative costs		(5,329)	(5,546)
Net operating expenses	6	(22,242)	(22,989)
Operating result		4,443	11,184
Financial income	7	1,290	1,369
Financial expenses	7	(416)	(940)
Profit before taxes		5,317	11,613
Income tax expenses	8	(1,267)	(2,212)
Profit for the year		4,050	9,401
		EUR	
Earnings per share			
Basic	9	0.295	0.678
Diluted	9	0.273	0.678

Consolidated statement of comprehensive income

EUR 1,000	Notes	Year ended 31 December	
		2009	2008
Profit for the year (A)		4,050	9,401
Gains (/Losses) on fair value of available-for-sale financial assets		12,473	(1,996)
Income tax relating to components of other comprehensive income		(439)	439
Total other comprehensive income, net of tax (B)		12,034	(1,557)
Total comprehensive income (A)+(B)	22	16,084	7,844

Consolidated statement of financial position

EUR 1,000

	Notes	As at 31 December	
		2009	2008
Assets			
Non-current assets			
Property, plant and equipment	10	6,810	6,986
Goodwill	11	109	109
Other intangible assets	12	12,035	6,856
Financial assets	13	19,242	6,769
Deferred tax assets	14	1,246	1,208
Other non-current receivables	15	2,196	2,144
Total non-current assets		41,638	24,072
Current assets			
Inventories	16	1,515	1,507
Trade receivables	17	5,517	3,549
Current tax assets	18	994	578
Other receivables and other assets	19	4,500	5,893
Current financial assets	20	139	-
Cash and cash equivalents	21	17,161	22,166
Total current assets		29,826	33,693
Total assets		71,464	57,765

EUR 1,000

	As at 31 December		
	Notes	2009	2008
Equity			
Share capital		3,469	3,469
Share premium		29,960	29,372
Treasury shares		(1,146)	(394)
Other reserves		2,162	2,162
Stock option plan reserve		1,306	667
Available-for-sale financial assets reserve		10,477	(1,557)
Retained earnings		9,517	116
Profit for the year		4,050	9,401
Total equity	22	59,795	43,236
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	23	1,642	2,903
Employee benefits	24	492	511
Deferred tax liabilities	25	2,247	1,731
Total non-current liabilities		4,381	5,145
Current liabilities			
Interest-bearing loans and borrowings	26	1,334	1,391
Trade payables	27	4,113	4,228
Deferred income	28	-	1,996
Current tax liabilities	29	540	562
Other current liabilities	30	1,301	1,207
Total current liabilities		7,288	9,384
Total liabilities		11,669	14,529
Total equity and liabilities		71,464	57,765

Consolidated cash flow statement

EUR 1,000

	Notes	As at 31 December	
		2009	2008
Profit before taxes		5,317	11,613
Income taxes paid		(1,014)	(1,026)
Foreign exchange on available-for-sale financial assets		-	519
Financial income at fair value on subsidized loans	7	(1)	(363)
Financial expenses on subsidized loans at amortized cost	7	64	67
Share-payment-based expenses	31	639	639
Depreciation and amortization	10, 12	1,693	1,601
Accrual to employee benefits	24	250	257
		6,948	13,307
Change in inventories		(8)	42
Change in trade receivables		(1,968)	(149)
Change in trade payables		(115)	66
Change in other receivables and other assets		1,393	(2,954)
Change in current financial assets		(139)	-
Change in deferred income		(1,996)	1,996
Change in other current liabilities		94	502
Change in current tax liabilities		(64)	83
Payment of employee benefits	24	(269)	(376)
Cash flows from operating activities		3,876	12,517
Investments in property, plant and equipment	10	(1,231)	(1,370)
Investments in other intangible assets	12	(5,488)	(4,019)
Disposals of property, plant and equipment	10	23	12
Investments in financial assets available for sale	13	-	(9,284)
Disposal of financial assets available for sales			
Cash flows from investing activities		(6,696)	(14,661)
Proceeds from interest-bearing loans and borrowings		81	2,122
Repayments of interest-bearing loans and borrowings		(1,462)	(2,730)
Change in other non-current receivables		(52)	(191)
Change in other non-current liabilities		-	(2)
Purchase of treasury share	22	(2,359)	(404)
Sale of treasury share	22	1,607	10
Cash flows from financing activities		(2,185)	(1,195)
Net decrease in cash and cash equivalents		(5,005)	(3,339)
Cash and cash equivalents at the beginning of the year		22,166	25,505
Cash and cash equivalents at the end of the year	21	17,161	22,166
Cash at hand		10	5
Bank accounts		17,151	22,161
Total cash and cash equivalents at the end of the year	21	17,161	22,166

Consolidated statement of changes in equity

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	Retained earnings	Total
Net equity as at 1 January 2008	13,875,000	3,469	29,372	-	357	1,805	28	-	116	35,147
Personnel cost for stock options							639			639
Transactions with treasury shares				(394)						(394)
Total comprehensive income for the year							(1,557)	9,401		7,844
Net equity as at 31 December 2008	13,875,000	3,469	29,372	(394)	357	1,805	667	(1,557)	9,517	43,236
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							639			639
Transactions with treasury shares				(752)						(752)
Reassessment of deferred tax assets on share capital issue costs			588							588
Total comprehensive income for the year							12,034	4,050		16,084
Net equity as at 31 December 2009	13,875,000	3,469	29,960	(1,146)	357	1,805	1,306	10,477	13,567	59,795

Notes to the consolidated financial statements

1 General information

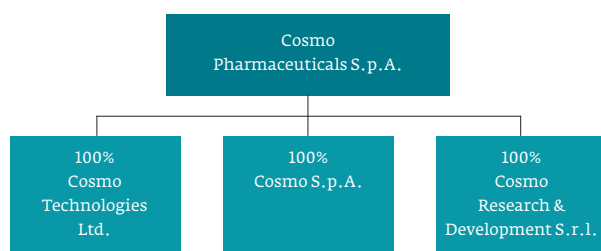
Cosmo Pharmaceuticals S.p.A. with its subsidiaries Cosmo S.p.A., Cosmo Technologies Ltd. and Cosmo Research & Development S.r.l. (“Cosmo Pharmaceuticals” or “Company” or “Group”) is a specialty pharmaceutical company: the Company’s objective is to become a global leader in the field of optimized therapies 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, five in clinical trials and a further three in preclinical development.

Since 12 March 2007, Cosmo Pharmaceuticals’ shares have been publicly listed at the Swiss Stock Exchange (SIX: COPN). The Company’s stock market capitalization as at 31 December 2009 was equal to CHF 323,981,250.

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

The structure of the Company as of 31 December 2009 is the following:



2 Basis of preparation

The 2009 consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (the 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).

The financial statements are prepared using the historical cost convention, modified as required for the valuation of certain financial assets as well as on the going concern assumption. In this respect, despite operating in a difficult economic and financial environment, the Group’s assessment is that no material uncertainties (as defined in paragraph 25 of IAS 1) exist about its ability to continue as a going concern.

The Company presents an income statement using a classification based on the function of expenses (otherwise known as the “cost of sales” method), rather than based on their nature, as this is believed to provide information that is more relevant. The format selected is that used for managing the business and for management reporting purposes and is consistent with international practice in the pharmaceutical sector.

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

3 New accounting standards and IFRIC interpretations

Standards, amendments and interpretations effective in 2009

The Group adopted the following new and amended IFRS and IFRIC interpretations in 2009. Adoption of these revised standards and interpretations did not have any material effect on the financial performance or position of the Group. They did, however, give rise to additional disclosures.

- _ IAS 1 (Revised), "Presentation of financial statements" (effective 1 January 2009): the revised version of IAS 1 "Presentation of financial statements" does not permit the presentation of components of comprehensive income in the statement of changes in equity, requiring these to be presented separately from owner changes in equity.

Under the revised standard, all non-owner changes in equity are required to be shown in one statement showing performance for the period (a statement of comprehensive income) or in two statements (an income statement and a statement of comprehensive income). These changes are also required to be shown separately in the statement of changes in equity.

The Group has adopted the revised standard retrospectively from 1 January 2009, electing to present both the income statement and the statement of comprehensive income and has consequently amended the presentation of the statement of changes in equity. Comparative information has been re-presented so that it also is in conformity with the revised standard. As the revised standard only impacts presentation aspects, there is no impact on the Group's financial position.

- _ IFRS 7 (Amendment), "Financial instruments: disclosures" (effective 1 January 2009): the amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level

of a fair value measurement hierarchy. As the amendment only results in additional disclosures, there is no impact on the Group's financial position.

Standards, amendments and interpretations effective in 2009, but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2009 but they are not relevant to the Group's operations.

- _ IFRS 1 (Amendment), "First time adoption of IFRS", in conjunction with IAS 27 "Consolidated and separate financial statements".
- _ IFRS 2 (Amendment), "Share-based payment".
- _ IFRS 8 (Amendment), "Operating segment information".
- _ IAS 23 (Amendment), "Borrowing costs".
- _ IAS 32 (Amendment), "Financial instruments: presentation", and IAS 1 (Amendment), "Presentation of financial statements – Puttable financial instruments and obligations arising on liquidations".
- _ IFRIC 15 (Amendment), "For construction of real estate".

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group

The following amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods. The Group is currently assessing any effect that the adoption of these new standards, amendments and interpretations to existing standards may have on the financial statements if they are relevant for the Group operations.

- _ IFRS 3 (Revised), "Business combinations" (effective 1 July 2009).
- _ IFRS 8 (Improvements to IFRSs), "Operating segment information" (effective 1 January 2010).

_ IFRS 9, “Financial instruments: classification and measurement” only requires to be adopted by 1 January 2013 although earlier adoption is permitted.

_ IAS 7 (Improvements to IFRSs), “Statement of cash flows” (effective from 1 January 2010).

_ IAS 18 (Improvements to IFRSs), “Revenue”.

_ IAS 27 (Revised), “Consolidated and separate financial statements” (effective 1 July 2009).

_ IAS 36 (Improvements to IFRSs), “Impairment of assets” (effective 1 January 2010).

_ IFRS 2 (Improvements to IFRSs), “Scope of IFRS 2 and IFRS 3 (Revised)” (effective 1 January 2010).

_ IFRS 5 (Improvements to IFRSs), “Non-current assets held for sale and discontinued operations” (effective 1 January 2010).

_ IAS 1 (Improvements to IFRSs), “Current/non-current classification of convertible instruments” (effective 1 January 2010).

_ IAS 17 (Improvements to IFRSs), “Classification of leases of land and buildings” (effective 1 January 2010).

_ IAS 38 (Improvements to IFRSs), “Additional consequential amendment arising from IFRS 3 (Revised)” and “Measuring the fair value of an intangible asset acquired in a business combination” (effective 1 January 2010).

_ IAS 39 (Improvements to IFRSs), “Additional consequential amendment arising from IFRS 3 (Revised)”, “Measuring the fair value of an intangible asset acquired in a business combination”, “Treating loan prepayment penalties as closely related derivatives” and “Scope exemption for business combination contracts” (effective 1 January 2010).

_ IAS 24 (Revised), “Related party disclosures” (effective 1 January 2011).

_ IFRIC 9 and IFRS 3 (Revised) (Improvements to IFRSs), “Reassessment of embedded derivatives” (effective 1 July 2009).

_ IFRIC 17, “Distribution of non-cash assets to owners” (effective 1 July 2009).

_ IFRIC 18, “Transfers of assets from customers” (effective 1 July 2009).

_ IFRIC 16 (Improvements to IFRSs), “Hedges of a net investment in a foreign operation” (effective 1 July 2009).

4 Accounting policies

The major accounting policies adopted are detailed below.

Basis of consolidation

The consolidated financial statements include the financial statements of Cosmo Pharmaceuticals S.p.A. and its subsidiaries Cosmo S.p.A., Cosmo Technologies Ltd. and Cosmo Research & Development S.r.l.

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

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

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

Property, plant and equipment

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

The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

Subsequent expenditures are capitalized only if they increase the future economic benefits embodied in the related item of property, plant and equipment. All other expenditures are expensed as incurred.

Property, plant and equipment that are being constructed or developed for future use are classified as “Assets under construction” and stated at cost until construction is complete, at which time they are reclassified as property, plant and equipment.

Where parts of an item of property, plant and equipment have different useful lives, they are separately identified and depreciated on the basis of their estimated useful lives (“component approach”).

The cost of replacing part of an item is recognized in the carrying amount of an item of property, plant and equipment when that cost is incurred if it is probable that the future economic benefits embodied in the item will flow to the Group and the cost of the item can be measured reliably. The residual carrying amount of the replaced component is recognized in the income statement as an expense. All other costs are recognized in the income statement as an expense as incurred. Financial expenses related to the purchase of such assets are recognized in the income statement.

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.

For assets disposed of during the year, depreciation is calculated for the period in which the asset was available for use, excluding assets purchased during the year.

Residual amounts, useful lives and the depreciation methods are reviewed at the end of every accounting period. The depreciation rates applied to the items of property, plant and equipment are the following:

Buildings – owned buildings	33 years
Buildings – leasehold improvements	At the lower of the useful life of the improvement and the residual term of the lease
Plant and machinery – general	10 years
Plant and machinery – specific	8 years
Industrial and commercial equipments	3 years
Other tangible assets – office equipments – electronics	5 years
Other tangible assets – office equipments – furniture	8 years
Other tangible assets – means of internal transportation	5 years

Appurtenance land related to own buildings or purchased through finance leases is stated separately and is not depreciated.

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.

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

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.

Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising upon the acquisition of subsidiaries, associates and joint ventures. In respect of business acquisitions that have occurred since 1 January 2004, goodwill represents the difference between the acquisition cost and the fair value of the net identifiable assets and liabilities acquired, in proportion to the interest acquired.

In respect of acquisitions prior to this date, goodwill has been retained at the previous Italian GAAP amount, subject to being tested for impairment at that date. The classification and accounting treatment of business combinations that occurred prior to 1 January 2004 has not been reconsidered in preparing the Group's opening IFRS balance sheet at 1 January 2004.

Goodwill arising on business combinations is no longer amortized, but is tested annually for impairment, as described in the paragraph "Impairment of property, plant and equipment and intangible assets".

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 (see below) and impairment losses, if any.

Subsequent expenditures on capitalized intangible assets are capitalized only when they increase the future economic benefits embodied in the specific assets to which they relate. All other expenditure is expensed as incurred.

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. The estimated useful lives are as follows:

- _ Patents and rights are amortized over their useful lives.
- _ Trademarks and licences: trademarks are amortized over 10 years. Licences are amortized over the duration of the contract to which they relate.

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 con-

tinuing 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 (pretax) takes into account the risk implicit in the business sector and the financial component based on the timing. With the exception of losses on goodwill, impairments in value are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Financial assets

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

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

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified in any of

the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value, at the close of business on the balance sheet date, with unrealized gains or losses recognized directly in equity until the investment is derecognized or determined to be impaired, at which time the cumulative gain or loss previously recorded in equity is recognized in profit or loss.

The fair values of listed investments are based on current market prices. If the market for a financial asset is not active and for unlisted securities, the Group establishes fair values by using valuation techniques. These include the use of recent arm's-length transactions, reference to other instruments that are 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 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 and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses.

The cost of inventories is determined in accordance with the first-in first-out (FIFO) principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, the cost includes an appropriate share of overhead costs that may reasonably be attributable to the performance of manufacturing activities in normal operating conditions.

A provision for inventories is calculated to take into account obsolete and slow-moving items, considering their possible future use and realizable value. Estimated realizable value represents the estimated sales price in normal business, net of estimated costs to sell.

Foreign currency transactions and translation of financial statements of the foreign controlled companies

Transactions in foreign currency are translated into euros using the exchange rate ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into euros at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into euros at foreign exchange rates ruling at the dates the fair value was determined.

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.

They are included in current assets or liabilities, except for maturities greater than 12 months after the balance sheet date.

Derivative financial instruments

Derivative financial instruments are used for hedging purposes, in order to reduce currency, interest rate and market price risks. In accordance with IAS 39, derivative financial instruments qualify for hedge accounting only when at the inception of the hedge there is formal designation and documentation of the hedging relationship, the hedge is expected to be highly effective, its effectiveness can be reliably measured and it is highly effective throughout the financial reporting periods for which the hedge is designated.

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

_ Fair value hedge – Where a derivative financial instrument is designated as a hedge of the exposure to changes in fair value of a recognized asset or liability that is attributable to a particular risk and could affect the income statement, the gain or loss from remeasuring the hedging instrument at fair value is recognized in the income statement. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in the income statement.

_ Cash flow hedge – Where a derivative financial instrument is designated as a hedge of the exposure to variability in future cash flows of a recognized asset or liability or a highly probable forecasted transaction and could affect the income statement, the effective portion of any gain or loss on the derivative financial instrument is recognized directly in equity. The cumulative gain or loss is removed from equity and recognized in the income statement at the same time as the economic effect arising from the hedged item affects income. The gain or loss associated with a hedge or part of a hedge that has become ineffective is recognized in the income statement immediately. When a hedging instrument or hedge relationship is

terminated but the hedged transaction is still expected to occur, the cumulative gain or loss realized to the point of termination remains in shareholders' equity and is recognized in the income statement at the same time as the underlying transaction occurs. If the hedged transaction is no longer probable, the cumulative unrealized gain or loss held in shareholders' equity is recognized in the income statement immediately.

Cash and cash equivalents

Cash and cash equivalents comprises cash balances and call deposits. Advances on invoices and bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are initially recognized at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

They are included in current liabilities, except for maturities greater than 12 months after the balance sheet date.

Employee benefits

Obligations for contributions to defined-contribution pension plans are recognized as an expense in the income statement as incurred.

Employee termination benefits

The employee termination benefit is considered as a defined benefit plan under IAS 19. The benefits guaranteed to employees, in the form of the employee termination benefit paid out upon leaving the Company, are recognized in the period in which

the right matures. The relating liability is calculated on the basis of actuarial assumptions and the benefit vested and not yet paid out at the balance sheet date, applying the criteria required by the Italian law.

The discounting process is based on demographic and financial assumptions, using the “Projected Unit Credit Method” (vested benefit method) applied by professional actuaries.

This method involves calculating the average present value of the vested pension benefit on the basis of the employee’s service rendered to the measurement date, based on a projection of the employee’s remuneration.

Actuarial gains and losses are taken to income statements on an accrual basis in line with the period of service necessary to earn the benefits. The Group has decided not to use the so-called “corridor method”, which would allow it not to record the cost component calculated in accordance with the method described represented by actuarial profits or losses, where it does not exceed 10%.

Not applying the “corridor method”, the actuarial gains and losses are taken to the income statement during the year.

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.

Provisions

Provisions are recorded when:

- _ the Group has an obligation, legal or constructive, to third parties;
- _ it is probable that resources will be expensed in order to meet the obligation;
- _ a reliable estimate of the amounts of the obligation can be made.

An implied obligation is defined as an obligation arising when the Group has made other parties aware, by way of routine procedure, public company policy or a sufficiently specific announcement, that it accepts the obligation in a way that, as a consequence, it leads the third party to believe that the Group will honour its obligation.

Provisions for risks and charges are recognized at an amount which represents the best estimate of the amount the Group will have to pay in order to settle the obligation, or otherwise transfer it to third parties at the end of the year.

When the effect of the time value of money is material and the payment dates for the obligations may be estimated reliably, the provision is calculated by discounting the estimated future financial cash flows using a pretax discount rate in order to reflect the current market assessments of the current value of money and the specific risks connected to the liabilities. Following discounting, the increase in the provision is recognized in the income statement caption “financial expenses”.

The provisions are updated regularly to reflect changes in cost estimates, settlement times and the discount rate. Reviews of the estimate of the provisions are recognized under the same income statement caption where the provision was previously recognized.

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 licencing 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 provisioned therefore. Where continuing significant involvement is required in the form of support, revenues are recognized over the relevant period.

Revenues from licencing 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.

Rental income from investment property is recognized in the income statement on a straight-line basis over the term of the lease.

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.

Expenditures on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, as well as development costs not capitalized, are recognized in the income statement as an expense as incurred.

Income tax

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

Deferred tax assets and liabilities are determined on the basis of all the temporary differences between the carrying amount of an asset or liability in the statement of financial position and its corresponding tax basis. Deferred tax assets resulting from unused tax losses and temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which they can be utilized.

Current and deferred income taxes and liabilities are offset when there is a legally enforceable right to offset.

Deferred tax assets and liabilities are measured at the substantively enacted tax rates that are expected to apply to taxable income in the periods in which temporary differences will be reversed.

Cosmo Pharmaceuticals S.p.A. and its Italian subsidiaries Cosmo S.p.A. and Cosmo Research & Development S.r.l. have elected to take part in the domestic tax consolidation programme pursuant

to Articles 117/129 of the Consolidated Income Tax Act (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.

Dividends

Dividends payable are reported as a movement in equity in the period in which they are approved by shareholders.

Earnings per share

Basic earnings per share is calculated dividing the net profit (loss) attributable to the owners of ordinary shares in the Company (the numerator) by the weighted average number of ordinary shares in issue (the denominator) during the year.

Diluted earnings per share is calculated by adjusting the net profit (loss) attributable to owners of ordinary shares and the weighted average number of ordinary shares during the year to take account of all potential ordinary shares with a diluting effect. A potential ordinary share

is a financial instrument or other contract that could give its owner the right to obtain ordinary shares.

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 the 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.

Critical accounting estimates, assumptions and judgments

The preparation of the consolidated financial statements and the related notes requires the use of estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. However, as they are estimates, actual future results could differ from those included in the consolidated financial statements. Such estimates and assumptions are based on accumulated experience and on other factors deemed to be appropriate in the calculation of the carrying amounts of assets and liabilities that cannot be measured on the basis of other sources. Revisions to accounting estimates are

recognized in the period in which the estimate is revised and any future period affected.

Accounting estimates that require the more subjective judgment of the Management in making assumptions or estimates regarding the effects of matters that are inherently uncertain and for which changes in conditions may significantly affect the results reported in the consolidated financial statements, are reported below.

Impairment of property, plant and equipment, goodwill, other intangible assets and financial assets

The Management reviewed the carrying amount of property, plant and equipment, goodwill, other intangible assets and financial assets at balance sheet date to determine whether there was any indication of impairment and determined that such an indication did not exist.

For financial assets available for sale the Management concludes that an available-for-sale financial asset is impaired if its fair value falls either significantly or for a prolonged period below its cost, less any impairment loss previously recognized in profit or loss.

The Management takes the volatility and the market environment (if applicable) of the specific asset into account when assessing the significance of the asset's reduction in fair value.

Financial assets available for sale for which the reduction in fair value is more than 30% of the initial measurement and for which the reduction is observed for a continuous period of 12 or more consecutive months are usually tested for impairment.

Deferred tax assets

The Group has a considerable amount of tax losses carried forward and temporary differences between carrying amount of assets and liabilities for financial reporting purposes and for taxation purposes that allow for the recognition of deferred tax assets. Deferred tax assets are recognized only to the extent that it is probable that future taxable

profits will be available against which the asset can be utilized, determined on the basis of future results forecasts.

Share-based compensation expenses

The Group has granted stock options to some of its employees and Directors. Since there is no market for trading stock options, the Management must use a fair value method to value the stock options. Fair value methods require the Management to make several assumptions, the most significant of which are the selection of a fair value model, stock price volatility and the average life of an option. The fair value of the stock options is determined separately by an external appraiser. Estimates have been based on Company history or market data where appropriate. There is no certainty that the results of a fair value method would be the value at which the stock options would be traded for cash. Should different assumptions be used, the expenditure recognized could be different. Additional information is reported in "Accounting policies – Employee benefits – Forms of remuneration involving participation in stock capital (stock option plans)".

Development costs

Development costs are capitalized in accordance with the accounting policy detailed in "Other intangible assets".

Based on facts and circumstances of the project Budesonide MMX[®], the Management has determined that the capitalization criteria were fulfilled at 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. The Management believes that it is higher for this project, as budesonide is a well-known molecule, that 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, the Company has continued the clinical phase III development; and in December it has

completed the enrolment of patients in the European study. 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.

5 Revenue

Revenue can be split as follows:

EUR 1,000	Year ended 31 December	
	2009	2008
Manufacturing on behalf of third parties:		
Manufacturing of generic products and speciality drugs	10,500	12,375
Manufacturing of MMX® products	6,793	7,147
Related services	1,081	564
Other revenues from sale	204	161
Licence fees, up-front fees and milestones	2,101	10,388
Royalties	6,006	3,538
Total revenue	26,685	34,173

The decrease in revenue from “manufacturing of generic products and speciality drugs” in 2009 compared to 2008 is mainly due to the fact that the Company discontinued a marginally profitable project which would have required additional capital investment and started to shift selected capacity to generics projects which should be more profitable in the near future.

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: In 2009, Shire increased its revenue from Lialda®/Mezavant® (see above “royalties”), but the Company delivered less tablets than in 2008. This is due to the fact that in 2008 Shire ordered substantial

amounts of tablets for the initial marketing push with heavy distribution of samples and build-up of inventories. Shire’s increased sales in 2009 were thus partially generated from products delivered in 2008.

The increase in revenue from “related services” in 2009 compared to 2008 is due to a new contract for the provision of services related to contract manufacturing.

Revenue from “licence fees, up-front fees and milestones” in 2009 comprises i) EUR 1,996 thousand referring to the 2008 deferred income on the up-front payment for Rifamycin SV MMX® received from Santarus and Dr. Falk Pharma, totally credited to 2009 profit and loss as the Company has completed the additional preclinical and phase I clinical studies requested by FDA, ii) EUR 105 thousand for the development of a generic product.

In 2008, revenue from “licence fees, up-front fees and milestones” consisted of i) EUR 7,737 thousand as up-front fee on the Budesonide MMX® licence agreement signed with Santarus for the US market, ii) EUR 2,486 thousand as up-front fee on the two Rifamycin SV MMX® licence agreements signed with Dr. Falk Pharma and Santarus for the European and the US market respectively, iii) EUR 165 thousand for the development of a generic product.

Revenue from “royalties” in 2009 includes EUR 5,983 thousand relating to the royalties on Lialda®/Mezavant®/Mesavancol® sales (the item amounted to EUR 3,516 thousand in 2008); it also includes EUR 23 thousand for royalties on the generic product containing simethicone, a product internally developed and launched in 2003 by an Italian customer (the item amounted to EUR 22 thousand in 2008).

6 Net operating expenses

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

EUR 1,000	Year ended 31 December	
	2009	2008
Other income	315	47
Changes in inventories of finished goods and work in progress	(64)	148
Raw materials and consumables used	(5,091)	(5,791)
Personnel expenses	(7,044)	(7,028)
Outsourced preclinical and clinical trial costs	(2,089)	(1,928)
Other operating expenses	(6,576)	(6,836)
Depreciation and amortization	(1,693)	(1,601)
Total net operating expenses	(22,242)	(22,989)

Other income

“Other income” comprises the following:

EUR 1,000	Year ended 31 December	
	2009	2008
Lease of offices	8	13
Tax credit	279	-
Other	28	34
Total other income	315	47

In 2009, “other income” comprises of EUR 279 thousand tax credits on research and development activities performed by Cosmo S.p.A. in 2007, 2008 and 2009. In June 2008, the Italian government granted companies a 10% tax credit on costs incurred for research and development activities in the years 2007, 2008 and 2009. The said 10% credit may be further increased to 40% in case those costs refer to activities performed by universities and other governmental research institutions, based on a specific research agreement. The Company started recognizing this income in these financial statements, since only in March 2009, after a clarification from the Italian government, it was able to get the official authorization for utilizing the said 10% tax credit, which can be used to offset any other tax disbursement.

The item in 2009 and 2008 includes income for “lease of offices” arising from sublease of some offices to other companies and other minor income.

Changes in inventories of finished goods and work in progress

The item comprises the following:

EUR 1,000	Year ended 31 December	
	2009	2008
Changes in inventories of finished goods	(295)	141
Changes in inventories of work in progress (wip)	231	7
Total change in inventories of finished goods and wip	(64)	148

Raw materials and consumables used

The item “raw materials and consumables used” comprises the following:

EUR 1,000	Year ended 31 December	
	2009	2008
Purchase of raw materials and packaging	4,401	4,928
Purchase of consumables	309	224
Purchase of laboratory supplies and materials for clinical trial	347	241
Purchase of maintenance materials	38	123
Purchase of safety materials	45	52
Purchase of wrapping and crate	23	33
Total purchases	5,163	5,601
Changes in raw materials inventories	(72)	190
Total raw materials and consumables used	5,091	5,791

Raw materials in the pharmaceutical industry are mainly referred to as the active pharmaceutical ingredient (API) of the product, which is the most significant cost item of material consumption, mainly when the production is related to generic products, while for the production of branded speciality drugs it is generally provided by the commissioning company in account for manufacture as part of the working contract; other raw materials are the excipients and the packaging materials.

The reduction in the cost for raw materials and packaging has to be put in relation to the reduction in the revenue from manufacturing on behalf of third parties.

Personnel expenses

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

EUR 1,000	Year ended 31 December	
	2009	2008
Salaries and wages	5,028	5,029
Social security contributions	1,242	1,216
Employee benefits	250	257
Stock options	463	463
Other costs	61	63
Total personnel expenses	7,044	7,028

Personnel expenses increased only slightly in 2009 compared to 2008, less than the increase in the staff (see tables below). In 2008, personnel expenses included a one-off payment of EUR 191 thousand.

The average numbers of the entire staff for the years ended 31 December 2009 and 2008 are the following:

No. of people	Year ended 31 December	
	2009	2008
Managers	15.0	13.0
Junior managers	6.0	6.5
Employees	54.5	54.0
Workers	57.0	54.5
Total average number	132.5	128.0

The numbers by category of the entire staff as at 31 December 2009 and 2008 are the following:

No. of people	Year ended 31 December	
	2009	2008
Managers	15	15
Junior managers	7	5
Employees	55	54
Workers	57	57
Total number	134	131

Outsourced preclinical and clinical trial costs

Preclinical and clinical trial costs outsourced to subcontractors and expensed in the profit and loss accounts mainly refer to Rifamycin SV MMX[®], LMW Heparin MMX[®] and CB-03-01: they increased from EUR 1,928 thousand to EUR 2,089 thousand; 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 12, “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 (in 2009 and 2008, those amounted to EUR 3,950 thousand and to EUR 2,951 thousand respectively).

Other operating expenses

“Other operating expenses” comprises the following:

EUR 1,000	Year ended 31 December	
	2009	2008
Service costs	4,157	4,601
Operating lease expenses	1,943	1,796
Other operating costs	476	439
Total other operating expenses	6,576	6,836

“Service costs” mainly comprise costs for professional and consultancy services (i.e. scientific, commercial and administrative services), utilities (gas, electricity, water), maintenance services and third-party manufacturing, which are detailed as follows:

EUR 1,000	Year ended 31 December	
	2009	2008
External consultancy services	571	817
Patent costs	77	85
Maintenance	539	525
Investor relations and website maintenance	273	224
Technical assistance	33	36
Utilities, electrical power	529	565
Utilities, gas and heating	206	225
Utilities, water	35	44
Waste disposal	82	84
Premises cleaning	63	75
Receptionist and security services	154	140
Utilities, telephone, internet	89	100
Insurance	160	139
Non-Executive Directors	208	218
Stock options non-Executive Directors	176	176
Board of Statutory Auditors	39	47
Auditing	90	66
Advertising and marketing costs	73	199
Freight and customs	51	58
Travel expenses	219	184
Subcontracting and other services in relation to the manufacturing	267	355
Other costs	223	239
Total service costs	4,157	4,601

“Operating lease expenses” are detailed as follows:

EUR 1,000	Year ended 31 December	
	2009	2008
Rent	1,510	1,374
Other rentals	433	422
Total operating lease expenses	1,943	1,796

“Rent” increased in 2009 compared to 2008, as the Company, starting from 1 June 2008, rented some additional space from Cristoforo Colombo Real Estate S.r.l., namely a 3-floor office building in the Lainate complex; in 2009 the total cost for the rent of the Lainate complex was EUR 1,461 thousand (see note 33, “Related parties transactions – Lease agreement for Lainate”).

“Rent” also includes EUR 37 thousand and EUR 13 thousand respectively for the annual rent of the Dublin office and the rent of a laboratory for preclinical activities in Catania, Italy.

“Other rentals” in 2009 and 2008 include the amount of EUR 308 thousand, for the rent of the equipment of the new plant, such as HVAC, electrical and mechanical, purified water equipment, etc. (see note 33, “Related parties transactions – Lease agreement for Lainate”). It also includes the rent of photocopy machines and cars.

“Other operating costs” are detailed as follows:

EUR 1,000	Year ended 31 December	
	2009	2008
Representation expenses	216	204
Stationery	31	50
Newspapers and magazines	16	17
Fuel and oil	30	32
Tax, other than income tax	57	31
Club memberships	19	17
Postal costs	78	75
Other costs	29	13
Total other operating costs	476	439

Depreciation and amortization

The item comprises the following:

EUR 1,000	Year ended 31 December	
	2009	2008
Depreciation of property, plant and equipment	1,384	1,263
Amortization of other intangible assets	309	338
Total depreciation and amortization	1,693	1,601

7 Financial income/expenses

The item comprises the following:

EUR 1,000	Year ended 31 December	
	2009	2008
Financial income		
Other	1,290	1,369
Total financial income	1,290	1,369
Financial expenses		
Interests on medium- and long-term bank loans	106	184
Interests on financial lease payables	29	101
Other	281	655
Total financial expenses	416	940
Financial income, net	874	429

Financial income in 2009 mainly includes EUR 198 thousand due to the interest received on cash and cash equivalents (EUR 942 thousand in 2008), foreign exchange differences for EUR 435 thousand (EUR 2 thousand in 2008), foreign exchange differences on forward currency contracts for EUR 454 thousand (EUR 0 thousand in 2008); it also includes EUR 1 thousand arising from the measurement at fair value of the subsidized loans (EUR 363 thousand in 2008).

Interest expenses on medium- and long-term bank loans in 2009 include also EUR 64 thousand arising from the application of the amortized costs to the subsidized loans (EUR 67 thousand in 2008).

Other financial expenses include foreign exchange differences and other bank and financial expenses.

8 Income tax expenses

The item comprises the following:

EUR 1,000	Year ended 31 December	
	2009	2008
Income tax IRES and other corporation taxes	405	765
Income tax IRAP	235	264
Current income tax	640	1,029
Deferred tax assets	111	665
Deferred tax liabilities	516	518
Deferred tax	627	1,183
Total income tax expenses	1,267	2,212

Current income tax includes IRAP, which represents an Italian regional tax applied at a rate equal to 3.9% and levied on profit (loss) before tax, plus personnel costs and net financial charges which are not considered tax-deductible, as well as IRES, which represents the Italian corporate income tax applied at a rate equal to 27.5%, and the Irish corporation tax applied at a rate equal to 12.5% to the taxable income of Cosmo Technologies Ltd.

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). For 2009, current income tax expenses (IRES) were accounted and deferred taxation was reassessed accordingly.

For explanation of deferred tax see note 14 and note 25.

The reconciliation between theoretical income taxes determined on the basis of the tax rates applicable in Italy and the income taxes (current and deferred) reported in the consolidated financial statements for the year ended 31 December 2009 and 2008 is as follows:

EUR 1,000	Year ended 31 December	
	2009	2008
Profit before taxes	5,317	11,613
IRES tax rate	27.5%	27.5%
IRES theoretical income taxes	1,462	3,194
Operating income for IRAP tax basis (a)	695	928
Personnel costs not deductible for IRAP (a)	5,459	5,361
IRAP tax basis	6,154	6,289
IRAP tax rate	3.90%	3.90%
IRAP theoretical income taxes	240	245
Total theoretical income taxes	1,702	3,439
Tax effect of permanent differences (b)	(117)	(35)
Effect of different corporate tax rate in the Irish subsidiary (c)	(584)	(1,378)
Unrecognized theoretical tax benefit for loss carry-forward (e)	-	182
Tax on treasury shares gain directly recognized in equity (d)	90	-
Unrecognized deferred tax on temporary differences (IPO costs) (e)	-	(172)
Theoretical tax effect on permanent difference for stock option costs	176	176
Current and deferred income tax recognized in the consolidated financial statements	1,267	2,212

(a) Operating income and personnel costs of the Italian companies relevant for IRAP

(b) It mainly includes non-deductible costs for entertainment expenses and company cars and deductible personnel costs for IRAP

(c) Applicable tax rate of 12.5% in Ireland for the subsidiary Cosmo Technologies Ltd.

(d) Applicable tax rate of 27.5% on gain on sell of treasury shares

(e) In 2008 no deferred tax asset was calculated on loss of Cosmo Pharmaceuticals S.p.A., due to uncertainty on the taxable profit in the foreseeable future

Starting from 1 January 2009 losses of Cosmo Pharmaceuticals S.p.A. were compensated in the domestic tax consolidation programme.

As at 31 December 2009 and 2008, the total income tax was EUR 1,267 thousand and EUR 2,217 thousand respectively (for details see also notes 14 and 25).

Theoretical income taxes are calculated by applying the IRES tax rate (27.5%) to the result before tax, and the IRAP (an Italian regional tax) tax rate (3.90%) to the operating income plus personnel cost for the Italian companies.

9 Basic and diluted earnings per share

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

	Year ended 31 December	
	2009	2008
Net profit attributable to shareholders (in EUR 1,000)	4,050	9,401
Weighted average number of outstanding ordinary shares	13,717,407	13,871,249
Basic earnings per share (in EUR)	0.295	0.678

Diluted earnings per share are calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, plus the weighted average number of potential ordinary shares.

With reference to the stock option plan, the potential number of ordinary shares is represented by the shares that would be issued as a consequence of the conversion of all options into ordinary shares; regarding the stock option plan set up in December 2007, the exercise price as at 31 December 2009 was higher than the weighted average market price, therefore the options would not have been exercised and consequently they are not dilutive.

With reference to the public tender offer for BioXcell shares launched in December 2009 (see note 35, "Subsequent events"), the 1,120,743 related

shares issued upon its successful conclusion in March 2010 have been considered as contingently issuable ordinary shares. They were accordingly treated as outstanding shares and included in the calculation of diluted earning per share starting from 1 January 2009.

	Year ended 31 December	
	2009	2008
Net profit attributable to shareholders (in EUR 1,000)	4,050	9,401
Weighted average number of outstanding ordinary shares	14,838,150	13,871,249
Diluted earnings per share (in EUR)	0.273	0.678

10 Property, plant and equipment

The composition and variation of “property, plant and equipment” are shown in the following tables:

EUR 1,000	Plant and machinery	Industrial and commercial equipment	Other fixed assets	Assets under construction and payments on account	Total
Cost					
Balance at 1 January 2009	9,574	1,351	1,439	7	12,371
Additions	491	96	117	527	1,231
Construction completed	519	-	15	(534)	-
Disposals	-	-	(23)	-	(23)
Balance at 31 December 2009	10,584	1,447	1,548	-	13,579
Accumulated depreciation					
Balance at 1 January 2009	3,464	1,237	684	-	5,385
Depreciation charge for the year	1,103	102	179	-	1,384
Disposals	-	-	-	-	-
Balance at 31 December 2009	4,567	1,339	863	-	6,769
Net book value as at 31 December 2009	6,017	108	685	-	6,810
EUR 1,000	Plant and machinery	Industrial and commercial equipment	Other fixed assets	Assets under construction and payments on account	Total
Cost					
Balance at 1 January 2008	8,707	1,272	1,027	13	11,019
Additions	699	79	164	428	1,370
Construction completed	182	-	252	(434)	-
Disposals	(14)	-	(4)	-	(18)
Balance at 31 December 2008	9,574	1,351	1,439	7	12,371
Accumulated depreciation					
Balance at 1 January 2008	2,466	1,121	541	-	4,128
Depreciation charge for the year	1,003	116	144	-	1,263
Disposals	(5)	-	(1)	-	(6)
Balance at 31 December 2008	3,464	1,237	684	-	5,385
Net book value as at 31 December 2008	6,110	114	755	7	6,986

“Plant and machinery” mainly relates to the cost of acquisition of machinery and production facilities for the manufacturing business of pharmaceutical products; the increase in 2009 and 2008 mainly refers to the acquisition for the renewal of production machinery. The total historical cost includes EUR 4,176 thousand as plant and machinery acquired through finance lease agreements.

“Industrial and commercial equipment” relates to the investment in the modernization of laboratory equipment which occurred throughout the years. Of the laboratory equipment historical costs, approximately EUR 341 thousand were acquired by way of finance lease agreements.

“Other fixed assets” increased in 2009 and 2008, in relation to the investments (i) in fittings and furniture for the new laboratories, (ii) in computers and servers and (iii) in lift and pallet trucks for plant and warehouse. Approximately EUR 64 thousand of total historical costs refer to other fixed assets acquired by way of finance lease agreements.

11 Goodwill

The item “goodwill” is detailed as follows:

EUR 1,000	As at 31 December	
	2009	2008
Opening carrying amount	109	109
Additions/disposals for the year	-	-
Write-downs/revaluations for the year	-	-
Closing carrying amount	109	109

“Goodwill” relates to the acquisition in 1997 from Parke Davis of the manufacturing business of pharmaceutical products.

The goodwill has been tested for impairment. The recoverable amount is determined based on value-in-use calculations. These calculations use cash flow projections based on financial plans approved by the Management covering a 3-year

period. Cash flows beyond the 3-year period are extrapolated using the estimated growth rates stated below.

Key assumptions for the goodwill positions include:

Terminal growth rate ¹	0.0%
Weighted average cost of capital (WACC) ²	8.3%

1) Used for calculating the terminal value: prudently considered 0%

2) Pretax discount rate applied to the cash flow projections

In making cash flow projections, the Management determined gross margins based on past performance and its expectations of market developments.

The growth rates used are consistent with the forecasts and the levered WACC used is pretax.

Based on the impairment test conducted, no impairments were recognized in 2009.

12 Other intangible assets

The composition and variation of “other intangible assets” are shown in the following table:

EUR 1,000	Patents and rights	Trade- marks and licences	Develop- ment costs	Total
Cost				
Balance at 1 January 2009	4,607	20	3,779	8,406
Additions	177	-	5,311	5,488
Disposals	-	-	-	-
Balance at 31 December 2009	4,784	20	9,090	13,894
Accumulated amortization				
Balance at 1 January 2009	1,535	15	-	1,550
Amortization charge for the year	308	1	-	309
Disposals	-	-	-	-
Balance at 31 December 2009	1,843	16	-	1,859
Net book value as at 31 December 2009	2,941	4	9,090	12,035

EUR 1,000	Patents and rights	Trade- marks and licences	Develop- ment costs	Total
Cost				
Balance at 1 January 2008	4,367	20	-	4,387
Additions	240	-	3,779	4,019
Disposals	-	-	-	-
Balance at 31 December 2008	4,607	20	3,779	8,406
Accumulated amortization				
Balance at 1 January 2008	1,198	14	-	1,212
Amortization charge for the year	337	1	-	338
Disposals	-	-	-	-
Balance at 31 December 2008	1,535	15	-	1,550
Net book value as at 31 December 2008	3,072	5	3,779	6,856

“Patents and rights” refers to the costs for filing and extension of patents owned by the Group.

“Development costs” refers to the Budesonide MMX® project: 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 the Company continued the clinical phase III development; and in December it completed the enrolment of patients in the European study. 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 (more than 90% of the amount capitalized), 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.

13 Financial assets

The item is detailed as follows:

EUR 1,000	As at 31 December	
	2009	2008
Financial assets available for sale	19,242	6,769
Financial assets	19,242	6,769

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

As at 31 December 2009, the fair value of the share (market price NASDAQ) was equal to USD 4.62 for a total of USD 27.72 million (corresponding to EUR 19,242 thousand, at 31 December 2009 USD/EUR exchange rate). The gain of EUR 12,473 thousand was recognized in the “comprehensive income” without any deferred tax effects, as the condition required for the participation exemption for this investment was achieved in this year.

14 Deferred tax assets

The caption changed as follows:

EUR 1,000	As at	Changes during			As at	Changes during			As at
	1 January	the year			31 December	the year			31 December
	2008	Increase	Decrease	Directly in equity	2008	Increase	Decrease	Directly in equity	2009
Goodwill depreciation	3	2	-	-	5	3	-	-	8
Entertaining expenses and others	23	1	(9)	-	15	1	(7)	-	9
Directors' fee not paid	8	-	(8)	-	-	-	-	-	-
Losses carried forward	883	-	(811)	-	72	142	-	-	214
Patents	493	-	(38)	-	455	-	(38)	-	417
Other costs	2	-	(2)	-	-	-	-	-	-
Gain on assignment of enterprise	15	-	(4)	-	11	-	(4)	-	7
Development costs	-	93	-	-	93	104	-	-	197
Fair value financial investments available for sale	-	114	-	439	553	-	(114)	(439)	-
IPO costs	-	-	-	-	-	-	(196)	588	392
Formation and start-up expenses	7	-	(3)	-	4	-	(2)	-	2
Total deferred tax assets	1,434	210	(875)	439	1,208	250	(361)	149	1,246

The following table sets out the nature of temporary differences determining the caption deferred tax assets.

EUR 1,000	Temporary differences as at 31 December		Tax effect as at 31 December	Temporary differences as at 31 December		Tax effect as at 31 December
	2008	%	2008	2009	%	2009
Goodwill depreciation	17	31.40	5	26	31.40	8
Entertaining expenses and others	49	31.40	15	32	29.29	9
Directors' fee not paid	-	27.50	-	-	27.50	-
Losses carried forward	261	27.50	72	1,397	15.31	214
Patents	3,644	12.50	455	3,340	12.50	417
Other costs	-	31.40	-	-	31.40	-
Gain on assignment of enterprise	36	31.40	11	24	31.40	7
Development costs	295	31.40	93	626	31.40	197
Fair value financial investments available for sale	2,515	22.00	553	-	-	-
IPO costs	-	31.40	-	1,249	31.40	392
Formation and start-up expenses	14	31.40	4	8	31.40	2
Total deferred tax assets	6,831		1,208	6,702		1,246

“Deferred tax assets on losses carried forward” increased to EUR 214 thousand due to the 2009 tax losses of Cosmo Technologies Ltd.

“Deferred tax assets on patents” relates to the elimination of the gain on assignment of patents from Cosmo S.p.A. to Cosmo Technologies Ltd. which occurred in 2004, net of the deduction for the period.

“Deferred tax assets on development costs” relates to the difference on the amount of development costs capitalized in the consolidated accounts compared to the amount capitalized in the local statutory financial statements.

“Deferred tax assets on change in the fair value” arising from the measurement at fair value of the investment in Santarus share has been completely reversed due to the increase in the fair value of the investment and no deferred tax liabilities has been accounted, as the condition required for the partici-

pation exemption for this investment was achieved in this year.

“Deferred tax assets on IPO costs” refers to the reassessment, directly in equity - net of the deduction for the period - of the deferred tax assets which in 2007 were not recognized on the share capital issue costs directly deducted from equity. This follows the Company’s decision to take part, with its Italian subsidiaries Cosmo S.p.A. and Cosmo Research & Development S.r.l., in the domestic tax consolidation programme, pursuant to Articles 117/129 of the Consolidated Income Tax Act (TUIR).

The deferred tax assets included in the consolidated financial statements as at 31 December 2009 are deemed recoverable on the basis of future economic forecasts as set out in the business plan to 2015, approved by the Board of Directors.

In the analysis of the recoverability of this item, analyses, based on the normal estimation process

that the Management carries out in the preparation of the consolidated financial statements, along with and consistent with the impairment testing of goodwill as well as the assumptions regarding growth that form the basis of future results forecasts, have been subjected to sensitivity analysis. At the balance sheet date, these analyses have not highlighted any critical areas that would require adjustments to the deferred tax asset values.

15 Other non-current receivables

The item is detailed as follows:

EUR 1,000	As at 31 December	
	2009	2008
Other receivables	2,196	2,144
Total other non-current receivables	2,196	2,144

“Other receivables” relates to guarantee deposits for rents of the Lainate complex: the increase in 2009 relates to the legal interests accrued for 2009 in relation with the rent of plant, laboratories and related offices and the rent of equipment (see note 33, “Related parties transactions – Lease agreement for Lainate”).

16 Inventories

“Inventories” comprises the following:

EUR 1,000	As at 31 December	
	2009	2008
Raw materials, auxiliary materials and consumables	1,067	995
Work in progress	425	194
Finished goods	243	538
Depreciation fund	(220)	(220)
Total inventories	1,515	1,507

The item “raw materials, auxiliary materials and consumables” covers the raw materials and packaging materials used by the Group in its manufacturing activity; the item “work in progress” refers to

the “bulk” ready to be packaged.

The value of raw materials in 2009 and 2008 includes a depreciation fund, amounting to EUR 220 thousand, which specifically refers to a slow moving item.

17 Trade receivables

“Trade receivables” comprises the following:

EUR 1,000	As at 31 December	
	2009	2008
Domestic customers	2,742	2,182
EU customers	1,268	386
Non-EU customers	66	176
Domestic customers – invoice to be issued	14	48
EU customers – invoice to be issued	1,615	789
Domestic customers – credit note to be issued	(156)	–
Bad debt provision	(32)	(32)
Total trade receivables	5,517	3,549

The item covers receivables from clients deriving from manufacturing of pharmaceutical products and supply of related services, net of the provision for bad debt, and from the royalties with respect to the licence agreement for Lialda®/Mezavant®/MesavancoI® (mesalazine MMX®).

18 Current tax assets

“Current tax assets” comprises the following:

EUR 1,000	As at 31 December	
	2009	2008
Advance payments of income taxes	994	578
Total current tax assets	994	578

As at 31 December 2009, “current tax assets” included the refundable tax withheld on the royalties payments from Giuliani International Ltd. for EUR 876 thousand; the residual amount refers to the advance payments of income taxes (IRAP)

exceeding the amount due for the year and the residual tax credit on research and development activities performed by Cosmo S.p.A. not yet used to offset any other tax disbursement.

As at 31 December 2008, “current tax assets” included the residual amount of tax withheld at the source from interest receivable; it also included the refundable tax withheld on the payment from Dr. Falk Pharma for the licence contract of Rifamycin SV MMX® and on the royalties payments from Giuliani International Ltd.

19 Other receivables and other assets

“Other receivables and other assets” comprises the following:

EUR 1,000	As at 31 December	
	2009	2008
Government grant	78	245
Receivables from other companies	1,516	2,951
VAT receivables	540	717
Prepaid expenses	2,323	1,923
Other prepaid	43	57
Total other receivables and other assets	4,500	5,893

For 2009, the item “government grant” of EUR 78 thousand refers to the portion still to be collected for the grant filed with the Ministry of Production Activities – “Bando Tematico Lombardia” – for the research project on the modified release of butyric acid completed in 2006: at the end of 2008 the Ministry made the final check, and the residual amount is expected to be collected in 2010. For 2008 “government grant” included also the residual amount (collected in 2009) of the grant filed with the Italian Ministry of University and Research (MIUR) for the preclinical activity on the anti-androgen product CB-03-01.

“Receivables from other companies” at the end of 2009 and 2008 refers to the amount due by Santarus according to the strategic collaboration agreement with Santarus which foresees that

starting from phase III clinical trials, the costs for the US Budesonide MMX® clinical trial are reimbursed by Santarus to Cosmo.

“VAT receivables” as at 31 December 2009 refer to Cosmo S.p.A., Cosmo Research & Development S.r.l. and Cosmo Pharmaceuticals S.p.A. and will be offset in 2009, by payables to social security authorities for contributions and to tax authorities for income tax on salaries.

“Prepaid expenses” in 2009 mainly includes advance payments to Cristoforo Colombo Real Estate S.r.l. for (i) the rent of plant, laboratories and related offices for EUR 503 thousand, (ii) the rent of plant equipment for EUR 1,639 thousand and (iii) the rent of the 3-floor office building for EUR 105 thousand (see note 33, “Related parties transactions – Lease agreement for Lainate”).

“Other” refers to advance payments to suppliers of services.

20 Current financial assets

“Current financial assets” comprises the following:

EUR 1,000	As at 31 December	
	2009	2008
Cash flow hedge on currency risk forward contract	139	-
Current financial assets	139	-

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

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

The Santarus deal in December 2008 has called

for a change in the Company's natural hedge strategy since Santarus bears USD costs that were in the past used by the Company to hedge its USD income. In 2009, in order to manage currency risk, the Management decided to hedge foreign exchange risk by selling forward the 2009 excess cash flows in US dollar, which essentially derive from the royalty payments on Lialda®/Mezavant® sales, for an amount of USD 5.7 million and for the period from April 2009 to January 2010.

21 Cash and cash equivalents

"Cash and cash equivalents" comprises the following:

EUR 1,000	As at 31 December	
	2009	2008
Cash at hand	10	5
Bank accounts	17,151	22,161
Total cash and cash equivalents	17,161	22,166

"Bank accounts" include availability on current bank account.

22 Total shareholders' equity

"Total shareholders' equity" comprises the following:

EUR 1,000	As at 31 December	
	2009	2008
Share capital	3,469	3,469
Share premium	29,960	29,372
Treasury shares	(1,146)	(394)
Other reserves	2,162	2,162
Stock option plan reserve	1,306	667
Available-for-sale financial assets reserve	10,477	(1,557)
Retained earnings	9,517	116
Profit for the year	4,050	9,401
Total shareholders' equity	59,795	43,236

Share capital

As at 31 December 2009 and 2008, 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.

On 16 December 2009, the shareholders' meeting delegated to the Board of Directors the creation of up to 1,132,500 new shares for the public tender offer for BioXell shares (see note 35, "Subsequent events"); on 5 March 2010, upon the successful conclusion of the public tender 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).

Share premium

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

Treasury shares

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

As at 31 December 2008, the number of treasury shares amounted to 152,161; during the year 2009, 244,476 treasury shares were purchased and 138,307 treasury shares were sold with a gain of EUR 328 thousand directly recognized in the equity.

The number of shares outstanding developed as follows:

	2009	2008
As at 1 January	13,829,008	13,875,000
Purchased	(244,476)	(46,992)
Sold	138,307	1,000
As at 31 December	13,722,839	13,829,008

Other reserves

“Other reserves” as at 31 December 2009 and 2008 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 2009, the expense for the stock options, all allocated in 2007, amounted to EUR 639 thousand, of which EUR 463 thousand for the personnel and EUR 176 thousand for non-Executive Directors (in 2008, the total was EUR 639 thousand, of which EUR 463 thousand for the personnel and EUR 176 thousand for non-Executive Directors).

Available-for-sale financial asset reserve

“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 13, “Financial assets”) without any deferred tax effects due to the achievement this year of criteria required for the participation exemption for this investment.

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

“Interest-bearing loans and borrowings” comprises the following:

EUR 1,000	As at 31 December	
	2009	2008
Bank loans	1,453	2,193
Total bank loans	1,453	2,193
Financial lease liabilities	189	710
Total financial lease liabilities	189	710
Total interest-bearing loans and borrowings (non-current)	1,642	2,903

As at 31 December 2009, “bank loans” consisted of:

- _ a loan of initially EUR 1,320 thousand at a nominal interest rate of Euribor rate plus 0.80%, received on 22 April 2008 from Banca Intesa S.p.A., due to expire on 30 April 2011;
- _ a subsidized loan of initially EUR 882 thousand at a nominal interest rate of 0.500% p.a., received on 16 January 2008 for the amount of EUR 637 thousand, on 12 June 2008 for the amount of EUR 164 thousand and on 29 October 2009 for the amount of EUR 81 thousand from BNL BNP Paribas, pursuant to a grant filed with the Ministry of University and Research for the preclinical activities on the anti-androgen product CB-03-01, due to expire on 1 July 2015;
- _ a subsidized loan of initially EUR 1,052 thousand at a nominal interest rate of 0.816% p.a., received on 8 May 2006 for the amount of EUR 643 thousand and on 2 October 2007 for the amount of EUR 409 thousand from Centrobanca S.p.A., pursuant to a grant filed with the Ministry of Production Activities – “Bando Tematico Lombardia” – for the research project for the modified release of butyric acid, due to expire on 6 October 2018.

A summary of the above description of long-term bank loans is shown below:

EUR 1,000	As at 31 December	
	2009	2008
San Paolo IMI	-	192
Banca Intesa	235	687
BNL BNP Paribas	491	513
Centrobanca	727	801
Bank loans (non-current)	1,453	2,193

“Financial lease liabilities” as at 31 December 2009 and 2008 consist of the long-term portion of leasing payables due to Intesa Leasing S.p.A. and relate to plant and machinery, industrial equipment and other fixed assets (see note 10).

24 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.

It consists of:

EUR 1,000	As at 31 December	
	2009	2008
Managers	45	44
Junior managers	57	56
Employees	182	192
Workers	208	219
Employee benefits	492	511

Movements in the period are as follows:

EUR 1,000	As at	Changes during		As at	Changes during		As at
	1 January	the year		31 December	the year		31 December
	2008	Accrued	Utilized	2008	Accrued	Utilized	2009
Employee benefits	630	257	(376)	511	250	(269)	492
Total employee benefits	630	257	(376)	511	250	(269)	492

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

%	2009	2008
Discount rate	4.59	4.25
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	Year ended 31 December	
	2009	2008
Costs in the income statements	250	257
Current services cost*	240	212
Interest expenses on obligation	14	26
Actuarial gains (/losses)	(4)	19
	250	257

* of which EUR 237 and EUR 211 thousand respectively for 2009 and 2008, amount transferred to external fund

25 Deferred tax liabilities

The caption changed as follows:

EUR 1,000	As at	Changes during		As at	Changes during		As at
	1 January	the year		31 December	the year		31 December
	2008	Increase	Decrease	2008	Increase	Decrease	2009
Trade receivables	(14)	-	-	(14)	-	-	(14)
Gain on sales of investment properties	(604)	-	201	(403)	-	201	(202)
Amortization patent and software	(18)	-	14	(4)	-	3	(1)
Development costs	-	(509)	-	(509)	(705)	-	(1,214)
Amortization patent and software	(271)	(21)	-	(292)	-	63	(229)
Goodwill	(34)	-	-	(34)	-	-	(34)
Financial lease on property, plant and equipment	(241)	(132)	6	(367)	(105)	10	(462)
Fair value of loans	-	(81)	-	(81)	-	18	(63)
Employee benefits	(31)	-	4	(27)	(1)	-	(28)
Total deferred tax liabilities	(1,213)	(743)	225	(1,731)	(811)	295	(2,247)

The following table sets out the nature of temporary differences determining the caption “deferred tax liabilities”:

EUR 1,000	Temporary differences as at		Tax effect as at	Temporary differences as at		Tax effect as at
	31 December		31 December	31 December		31 December
	2008	%	2008	2009	%	2009
Trade receivables	(54)	27.5	(14)	(54)	27.5	(14)
Gain on sales of investment properties	(1,282)	31.4	(403)	(641)	31.4	(202)
Amortization patent and software	(14)	31.4	(4)	(39)	3.9	(1)
Development costs	(4,074)	12.5	(509)	(9,717)	12.5	(1,214)
Amortization patent and software	(2,333)	12.5	(292)	(1,830)	12.5	(229)
Goodwill	(108)	31.4	(34)	(108)	31.4	(34)
Financial lease on property, plant and equipment	(1,166)	31.4	(367)	(1,466)	31.4	(462)
Fair value of loans	(296)	27.5	(81)	(233)	27.5	(63)
Employee benefits	(97)	27.5	(27)	(99)	27.5	(28)
Total deferred tax liabilities	(9,424)	-	(1,731)	(14,187)	-	(2,247)

As at 31 December 2009, the item mainly includes i) EUR 202 thousand relating to deferred tax liabilities on the gain, resulting from the sale in 2006 of the real estate “investment properties”, and taxable in five years (in 2008, the amount was equal to EUR 403 thousand), ii) EUR 462 thousand relating to temporary differences deriving from the application of IAS 17 in relation to finance leases on property, plant and equipment (EUR 367 thousand in 2008), iii) EUR 230 thousand (EUR 229 thousand and EUR 1 thousand) relating to temporary differences deriving from patents and software, iv) EUR 1,214 thousand relating to temporary differences on the development costs capitalized in the local statutory financial statements (EUR 509 thousand in 2008).

26 Interest-bearing loans and borrowings (current)

“Interest-bearing loans and borrowings” comprises the following:

EUR 1,000	As at 31 December	
	2009	2008
Bank loans	813	813
Total bank loans	813	813
Financial lease liabilities	521	578
Total financial lease liabilities	521	578
Total interest-bearing loans and borrowings (current)	1,334	1,391

The item “bank loans” refers to the short-term portion of interest-bearing loans and is detailed as follows:

EUR 1,000	As at 31 December	
	2009	2008
San Paolo IMI	192	185
Unicredit Banca	-	50
Banca Intesa	452	428
BNL BNP Paribas	95	79
Centrobanca	74	71
Bank loans (current)	813	813

In addition to the loans detailed in note 23, current interest-bearing loans include:

- a subsidized loan of initially EUR 1,463 thousand at a nominal interest rate of 2% p.a., received on 17 October 2001 from San Paolo IMI S.p.A., pursuant to a grant filed with the then named MURST, now MIUR (Italian Ministry for University and Research), due to expire on 1 January 2011.

“Financial lease liabilities” as at 31 December 2009 and 2008 consists of the short-term portion of leasing payables due to Intesa Leasing S.p.A. and relates to plant and machinery, industrial equipment and other fixed assets (see note 10).

27 Trade payables

“Trade payables” includes the following:

EUR 1,000	As at 31 December	
	2009	2008
Domestic suppliers	2,201	2,345
EU suppliers	660	666
Non-EU suppliers	82	143
Domestic suppliers - invoices to be received	526	678
EU suppliers - invoices to be received	460	398
Non-EU suppliers - invoices to be received	184	3
Domestic suppliers - credit notes to be received	-	(5)
Total trade payables	4,113	4,228

28 Deferred income

EUR 1,000	As at 31 December	
	2009	2008
Deferred income on up-front payment	-	1,996
Total deferred income	-	1,996

“Deferred income” as at 31 December 2008 relates to the up-front payment received from Santarus and Dr. Falk Pharma for Rifamycin SV MMX® totally credited to 2009 profit and loss as the Company has completed the additional preclinical and phase I clinical studies requested by the FDA.

29 Current tax liabilities

“Current tax liabilities” includes:

EUR 1,000	As at 31 December	
	2009	2008
Withholding tax for employees	158	221
Withholding tax for consultants	12	13
Tax payables	370	328
Total current tax liabilities	540	562

Tax liabilities comprises the amounts due to the tax authorities in relation to income tax withheld from salaries and the net amount due by the Group for corporate taxes (IRES and IRAP and other corporation taxes), net of advance payments made during the year.

30 Other current liabilities

“Other current liabilities” includes the following:

EUR 1,000	As at 31 December	
	2009	2008
Social security payables	224	251
VAT payable	325	228
Other liabilities	701	702
Advances from customers	46	12
Accrued expenses and deferred income	5	14
Total other current liabilities	1,301	1,207

“Social security payables” comprises both the contributions withheld from salaries and the contributions due in accordance with current laws and regulations.

“VAT payable” refers to the VAT balance payable by Cosmo Technologies Ltd.

“Other liabilities” mainly includes payables to employees related to accruals of deferred pay elements, calculated on the basis of the collective labour agreement currently in force (Contratto Collettivo Nazionale di Lavoro).

“Accrued expenses and deferred income” refers to interest on the long-term loans and income for rent, to be deferred in compliance with the accrual basis rule.

31 Share-based payment

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

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

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

32 Contractual obligation, contingencies and commitments

The following table sets forth the contractual commitments and principal payments the Group was obliged to make as of 31 December 2009 and 2008 under debt instruments, financial leases and other agreements.

EUR 1,000	Total	Less than 1 year	1-5 years	More than 5 years
Bank loans	3,006	813	1,555	638
Financial lease liabilities	1,288	578	710	-
Employee benefits	511	-	-	511
Operating lease expenses ¹	6,662	2,114	4,503	45
Total contractual obligations as at 31 December 2008	11,467	3,505	6,768	1,194
Bank loans	2,266	813	998	455
Financial lease liabilities	710	521	189	-
Employee benefits	492	-	-	492
Operating lease expenses ¹	4,744	2,144	2,600	-
Total contractual obligations as at 31 December 2009	8,212	3,478	3,787	947

1) not a balance sheet item

“Bank loans” and “financial lease liabilities” consider the residual debt for principal.

“Non-current liabilities” as at 31 December 2009 includes EUR 494 thousand related to required indemnities for termination of employees (“Indennità di fine rapporto”/TFR) of the Italian Group companies. These obligations are payable to employees upon the termination of employment and, although in practice a part of this liability may come within 12 months, this portion is not quantifiable and is conventionally treated as long-term.

“Operating lease expenses” mainly refers to the lease from Cristoforo Colombo Real Estate S.r.l. for plant and offices at Lainate headquarters. The lease has a duration of six years (renewable for an equal period of time) starting from 1 December 2006 at an initial rent of EUR 1,150 thousand per year, with annual increase upon cost of life (ISTAT). Starting from the same date as the lease, the Company has also rented from the Cristoforo Colombo Real Estate S.r.l. equipment, such as heating, vacuum and air conditioning (HVAC), electrical and mechanical, purified water equipment, etc. of the new plant. The annual rent for the equipment amounts to EUR 740 thousand for a duration of five years; for the following seven years, namely until the date of expiration of the lease for plant and offices, the equipment will be gratuitously used by the Company in the form of a commodate. Starting from 1 June 2008, the company rented from Cristoforo Colombo Real Estate S.r.l. the ground floor of an office building in the Lainate complex at an annual rent of EUR 90 thousand (six-year duration, renewable at the same terms for an equal period of time) and second and third floor, plus meeting and conference rooms at the basement, at a rent of EUR 160 thousand (one-year duration, renewable at the same terms for an equal period of time), (see note 33, “Related parties transactions – Lease agreement for Lainate”).

Other guarantees

EUR 1,000	As at 31 December	
	2009	2008
Guarantees – given	60	92
Guarantees – received	300	1,000
Total other non-current receivables	360	1,092

“Guarantees – given” refers to bank guarantees issued by Banca Intesa S.p.A. and Credito Artigiano S.p.A. in the interest of the Company and in favour of the suppliers of gas and electricity.

“Guarantees – received” refers for EUR 300 thousand (EUR 1,000 thousand as at 31 December 2008) to money pledged by Cosmo Holding S.p.A., the Group controlling company, to Intesa Leasing S.p.A. as a guarantee on the finance lease agreements for the industrial machinery of the new industrial plant.

Contingencies

With respect to the arbitration invoked by Mr Maurizio Zanetti in 2008, on 25 June 2009, the Arbitration Board, making its final award, rejected in toto Mr Zanetti’s petition to order Cosmo S.p.A. to make a milestone payment plus interests and split arbitration expenses equally between the parties. It is important to note that the Arbitrators also pointed out that, since the condition (first sublicence) precedent for the success fee to be due had not occurred, “... it cannot be claimed by Zanetti that Cosmo has infringed that article; therefore, the warning letter sent by the former on 26 July 2005, asking Cosmo to comply with its obligations did not resolve the contract inter partes ... and the licence agreement is still effective between the parties.” This matter concerned activities in the part of Cosmo Group that was demerged prior to the IPO. The case is over, as the award was not appealed by Mr Zanetti.

In 2009, the Italian company Bioactive 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 parties were first convened in June for a tentative settlement and in November for a first hearing. The Company's counsels deem that Cosmo has very good arguments to resist the claim.

33 Related parties transactions

The Company is controlled by Cosmo Holding S.p.A. (incorporated in Italy), which as at 31 December 2009, owns 63% 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, in 2009 carried out for the Company some scientific tests on the mechanism of action of LMW Heparin MMX® and on the assessment of immuno-modulatory activities of another molecule. The Board of Directors of the Company unanimously approved the above activities, which in 2009 amounted to USD 750,000 (EUR 563 thousand). Additional analyses will be performed in 2010.

Key Management personnel compensation

Key Management personnel consist of the Board of Directors and the Executive Management; the table below shows the compensation recognized in the profit and loss statement 2009.

EUR

Board of Directors	Function	Base compensation	Additional compensation	Cash bonus	Fringe benefits	Stock options **	Total compensation
Rolf Stahel	non-Executive Chairman	80,000	-	-	-	74,352	154,352
Mauro S. Ajani	Deputy Chairman, CEO	200,000	-	-	-	-	200,000
Gianluigi Bertolli	Member, non-Executive	30,000	-	-	-	25,367	55,367
Alessandro Della Chà	Member, non-Executive	30,000	-	-	-	25,367	55,367
Dieter A. Enkelmann	Member, non-Executive	30,000	-	-	-	25,367	55,367
Chris Tanner*	Member, Executive CFO	177,750	-	-	-	156,580	334,330
Friedrich von Bohlen und Halbach	Member, non-Executive	30,000	-	-	-	25,367	55,367
Total		577,750	-	-	-	332,400	910,150

EUR

Executive Management	No. of members	Base compensation	Cash bonus	Fringe benefits	Stock options **	Total compensation
Executive Management	13 members	1,188,388	25,693	25,002	306,600	1,545,683
Highest paid of 13 members		155,000	0	0	83,100	238,100

* compensation as CFO

** cost to the Company of stock options allocated in 2007

Additional fees and remuneration

Studio Bertolli, through its managing partner Dr Gianluigi Bertolli, who is the Company's Tax Advisor on the majority of Italian tax issues: EUR 59.6 thousand.

Studio Legale Edoardo Ricci e Associati, Milan, through the intermediation of Avv. Alessandro Della Chà, who is the Company's Legal Advisor on all Italian and many international corporate matters: EUR 200 thousand.

34 Financial risk management objectives and policies

Financial risk management

The Group's principal financial liabilities, which comprise bank loans, financial leases and trade payables, are mainly created to raise financing for its operations.

The Group's financial assets, such as cash and cash equivalents, trade receivables and other receivables, are generated by its operations and managed by the Group's Treasury.

The major risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk (primarily interest rate risk and foreign currency risk). The Group's Audit Committee periodically reviews the policies for managing each of the above-mentioned risks.

To illustrate the correlation between the financial instruments and the related risk exposure, a description of the policies and the measures adopted by the Group to manage its financial risk exposure is provided here below.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or a counterparty to a financial instrument fails to meet its contractual obligations. It arises mainly from the Group's trade receivables and from cash and cash equivalents.

The Group's exposure to credit risk is driven by the individual characteristics of each customer. The Group has a series of long-standing customers and has established considerable experience in assessing

these customers' credit risk. For these customers, the risk of credit deterioration is monitored. To this end, the Group follows the development of ratings, and where the counterparty is not rated, it relies on proactive market information. When taking on a new client, the Group, where credit ratings are not available, requests bank references; and if these fail to generate sufficient comfort, may transact only on a prepayment basis. In order to reduce the credit risk concentration, the Group's policy is to limit days receivables allowed to its major customers and to allocate its cash and equivalents to at least four banks, which as a group, may not be active in the same area of activity.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damages to the Group's reputation.

To this end, the Group has invested its cash in short-term deposits or quickly realizable financial investments only. Where it has entered into long-term financial obligations, these are structured in such a way that maturities are evenly spread out. Furthermore, the Group strives to have uncommitted lines of credit available from at least two banks.

The Group rates managing the liquidity risk as more important than optimizing investment income.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control the market risk exposures within acceptable parameters, while optimizing the return on risk.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash in bank deposits and equivalent investments, loans and financial leases with floating interest rates. No material hedging activities (such as interest rate swaps) were used during the period under review.

The Group's policy is to maintain its investments in variable rate instruments and to have all its financial obligations in variable rates, thus creating a natural hedge.

Foreign currency risk

The Group is exposed to currency risk on revenues and purchases that are denominated in a currency other than its functional currency (EUR).

The Group intends to work with natural hedges where possible, matching foreign currency inflows with outflows.

Where this is not possible foreign currency advice from renowned experts will be sought, and a decision will then be made to either run the currency risk or to hedge it.

Other market price risk

Equity price risk arises from available-for-sale equity investments. The Group will from time to time reassess whether it is opportune to hedge these investments. Generally, however, it will only enter into equity investments where it thinks that the equity value will appreciate and will thus generally not hedge the market risks.

Capital management

Group's capital management objectives are focused on safeguarding the Group's capacity to safely execute the business plan of the Group. To this end, the Group will not rely on debt to finance any of its longer-term capital requirements and will not strive to maintain an optimal capital structure until its income streams reach a high level of predictability.

From time to time, the Group purchases its own shares on the market; and the timing of these

purchases depends on market prices. Buy and sell decisions are made by the CFO after pre-discussion with the CEO, who was authorized by the shareholders, according to the Italian Civil Code, to buy in the market up to maximum 1,387,500 shares of the Company until April 2010.

Neither the Company nor any of its subsidiaries are subject to capital requirements imposed by any regulatory agency or similar body.

With reference to the supplemental disclosures required by IFRS 7, the comments below supply details about the measures and mechanisms implemented by the Group to manage its exposure to financial risks.

Classes of financial instruments

The table below shows the financial assets and liabilities, as required by IFRS 7 within the framework of the different categories contemplated by IAS 39, resulting on 31 December 2009 and 2008.

Separate information is provided on current and non-current financial liabilities, as required by IFRS 7 within the framework of the different categories contemplated by IAS 39, resulting on 31 December 2009 and 31 December 2008.

EUR 1,000	As at 31 December	
	Carrying amount	
	2009	2008
Financial assets available for sale	19,242	6,769
Other non-current receivables*	2,196	2,144
Trade receivables	5,517	3,549
Other receivables and other assets**	1,594	3,196
Cash flow hedge on currency risk forward contract	139	-
Cash and cash equivalents	17,161	22,166
Financial lease liabilities	(710)	(1,288)
Subsidized loans	(1,579)	(1,841)
Unsecured bank loans	(687)	(1,165)
Trade payables	(4,113)	(4,228)
Other current liabilities**	(46)	(12)

* interest bearing guarantee deposit

** only financial assets/liabilities

Information and financial risk analysis

Credit risk

Exposure to credit risk

The following table shows the trade receivables outstanding as of 31 December 2009 and 2008, with separate information on the commercial receivables not yet due (“to come due” line) and those already come due, with an indication of the period for which they are past due (“0–90 days”, “90–120 days” and “more than 120 days” lines).

The exposure to credit risk as of the end of 2009 and 2008 is outlined in the following table.

EUR 1,000	As at 31 December	
	2009	2008
Ageing of trade receivables		
0–90 days	20	19
90–120 days	-	-
120+ days	(2)	(2)
Total	18	17
(allowance for bad debt)	(32)	(32)
Receivables to come due	5,531	3,564
Total trade receivables	5,517	3,549

As at 31 December 2009 and 2008, the item “other receivables” does not include overdue positions.

Receivables and write-downs

The changes in the reserve for the write-down of commercial and other receivables are shown in the following table.

EUR 1,000	As at 31 December	
	2009	2008
Movement in the reserve for doubtful debts		
Balance at beginning of the year	32	32
Impairment losses recognized on receivables	-	-
Amounts written off as uncollectible	-	-
Amounts recovered during the year	-	-
Impairment losses reversed	-	-
Balance at end of the year	32	32

At present, there are no pending litigations with reference to Group’s trade receivables, nor has there been any record of litigations in the past. Nevertheless, receivables are constantly monitored by the Management within the context of a risk management system, approved by the Board of Directors.

Based on past experience, the Group believes that the amount recorded in the reserve for doubtful debt is sufficient in respect to the risk related to trade receivables that are not past due; all trade receivables relate to customers that have a good track record in the business relations with the Group.

Liquidity risk

The liquidity risk is the risk that the Group will encounter difficulty in meeting future obligations with respect to financial liabilities, after considering the Company’s cash and cash equivalents’ availability. The risk analysis is aimed at quantifying, on the basis of contractual maturity, the cash flow in relation to the reimbursement of the Company’s financial liabilities as of 31 December 2008 and 2009 as much as they are considered significant for the purpose of liquidity risk.

The Company’s objective is to achieve a balance between (a) the maintenance of bank credit capacity, and (b) flexibility through the use of medium-term financing.

The Group monitors its liquidity risk using a recurring liquidity planning tool. This tool considers the maturity of its financial assets (e.g. cash and cash equivalents, accounts receivables and other financial assets) as well as projected cash flows from operations.

Corporate Treasury maintains flexibility in funding, by maintaining uncommitted credit lines, and monitors rolling forecasts of the Group’s liquidity reserve (which comprises undrawn borrowing facility and cash and cash equivalents on the basis of expected cash flow).

With reference to the maturities of cash flows related to the Company’s financial exposure, the reimbursement plans for the medium-term debt are

deemed important for the purpose of liquidity risk, particularly considering the nature of the Company's cash flow cycle.

Here below the debt repayment plans for annual periods are presented, to quantify the liquidity risk and the necessary cash flows.

In this regard it is noted that the quantification of the cash flow payments on non-current financial liabilities is represented by the future flows generated by the financial instrument, taking into account the contractual repayment plan and the future interest rates estimated on the basis of the IRS interest rates by year as implied by the Euribor curve on 31 December 2009 and 2008.

EUR 1,000	Carrying amount	Total	Less than 1 year	1-2 years	2-5 years	More than 5 years
Bank loans	2,266	2,559	890	469	699	501
Financial lease liabilities	710	740	549	191	-	-
Total as at 31 December 2009	2,976	3,299	1,439	660	699	501
Bank loans	3,006	3,422	928	886	894	714
Financial lease liabilities	1,288	1,408	614	557	237	-
Total as at 31 December 2008	4,294	4,830	1,542	1,443	1,131	714

Market risk

The actual exposure to such sources of risk is illustrated as of 31 December 2009 and 2008, along with the possible balance sheet impact of the risk factor's plausible variations.

Interest rate risk

The Group is exposed to interest rate risk for its floating-rate, medium-/long-term debt obligations and cash and cash equivalents, as identified in the following tables:

EUR 1,000	31 December 2009					
	Currency	Interest	Interest rate	Expiry	Nominal value	Carrying amount
Fixed interest rate subsidized loans						
San Paolo IMI	EUR	fixed rate	2.000%	01.01.11	1,463	192
BNL BNP Paribas	EUR	fixed rate	0.500%	01.07.15	882	586
Centrobanca	EUR	fixed rate	0.816%	06.10.18	1,052	801
Unsecured bank loans						
Unicredit Banca	EUR	floating rate	Euribor +2.00%	30.09.09	250	-
Banca Intesa	EUR	floating rate	Euribor +0.80%	30.04.11	1,320	687
Uncommitted bank overdraft						
Various banks (5)	EUR	floating rate	Euribor +various %	until revocation	3,327	not utilized
Financial lease liabilities						
Intesa Leasing (various)	EUR	floating rate	Euribor +1.00%	from 01.11.08 to 01.06.11	3,942	710

EUR 1,000

31 December 2008

	Currency	Interest	Interest rate	Expiry	Nominal value	Carrying amount
Fixed interest rate subsidized loans						
San Paolo IMI	EUR	fixed rate	2.000%	01.01.11	1,463	377
BNL BNP Paribas	EUR	fixed rate	0.500%	01.07.15	801	592
Centrobanca	EUR	fixed rate	0.816%	06.10.18	1,052	872
Unsecured bank loans						
Unicredit Banca	EUR	floating rate	Euribor +1.75%	31.12.08	350	-
Unicredit Banca	EUR	floating rate	Euribor +2.00%	30.09.09	250	50
Banca Intesa	EUR	floating rate	Euribor +1.55%	31.03.08	400	-
Banca Intesa	EUR	floating rate	Euribor +0.80%	30.04.11	1,320	1,115
Uncommitted bank overdraft						
Various banks (5)	EUR	floating rate	Euribor +various %	until revocation	4,910	not utilized
Financial lease liabilities						
Intesa Leasing (various)	EUR	floating rate	Euribor +1.00%	from 01.11.08 to 01.06.11	3,942	1,288

EUR 1,000

31 December 2009

	Currency	Interest	Interest rate	Expiry	Nominal value	Carrying amount
Cash at hand	Various	n/a	n/a	n/a	n/a	10
Bank accounts, various banks (9)	EUR	floating rate	Euribor +various %	n/a	n/a	15,812
Bank accounts, various banks (1)	USD	floating rate	Euribor +various %	n/a	n/a	1,339

EUR 1,000

31 December 2008

	Currency	Interest	Interest rate	Expiry	Nominal value	Carrying amount
Cash at hand	Various	n/a	n/a	n/a	n/a	5
Bank accounts, various banks (9)	EUR	floating rate	Euribor +various %	n/a	n/a	21,068
Bank accounts, various banks (1)	USD	floating rate	Euribor +various %	n/a	n/a	1,093

Sensitivity analysis – interest rate risk

The table below provides an indication of the impact on the profit before tax of a parallel +/- 50 basis-point shift of the rate curve estimated as of 31 December 2009 and 2008. The analysis was carried out by assuming that the other variables remained constant, and it was also carried out for 2009 and 2008 on the basis of the same assumptions.

EUR 1,000	Profit/(Loss)	
	50bp increase	50bp decrease
31 December 2009		
Variable rate instruments	(10)	10
Cash and cash equivalents	103	(103)
Cash flow sensitivity (net)	93	(93)

EUR 1,000	Profit/(Loss)	
	50bp increase	50bp decrease
31 December 2008		
Variable rate instruments	(16)	16
Cash and cash equivalents	120	(120)
Cash flow sensitivity (net)	104	(104)

Foreign currency risk

The Group is exposed to currency risk on revenues and costs that are denominated in a currency other than the functional currency of the Group (EUR). It is the Group's policy only to primarily invest its cash and cash equivalents in euro and only hold short-term foreign exchange balances in anticipation of short-term payment obligations in foreign currency.

At the beginning of 2009, all projected excess US dollar exposure was sold forward. Following consultation with renowned currency experts, the Company decided not to sell forward its excess US dollar inflows in 2010. At the present time no hedges are in place but the Company regularly reviews this position.

Sensitivity analysis – foreign currency risk

A 10% strengthening of the euro against the US dollar as at 31 December 2009 would have resulted in a profit decrease of EUR 507 thousand (EUR 609 thousand as at 31 December 2008).

A 10% weakening of the euro against the US dollar as at 31 December 2008 would have had the opposite effect, for the equal amount shown above.

The analysis assumes that all other variables, in particular interest rates, remain constant.

Other market price risk

As a consequence of the Santarus deal, in December 2008 the Group acquired an equity investment in Santarus, whose shares are listed on the New York Stock Exchange. This investment represents 10.28% of the common shares of Santarus and was received as non-monetary down payment in the licence agreement signed on 10 December 2008.

This equity ownership in Santarus reflects the Group's confidence in the long-term value of Santarus' business. The shares are subject to an initial 15 months' restriction on their sale or transfer which expires on 15 March 2010 and the investment is actively monitored and managed on a fair value basis.

Sensitivity analysis – other market risk

Assuming that the other variables remained constant, a 10% increase in the share price at the reporting date would have increased equity by EUR 1,924 thousand; an equal change in the opposite direction would have decreased equity by EUR 1,924 thousand after tax.

Share capital and share premium

As at 31 December 2009, the authorized share capital comprised 13,875,000 ordinary shares (2008: 13,875,000). All issued shares are fully paid.

The holders of ordinary shares are entitled to receive dividends upon shareholders' resolution; and they are entitled to one vote per share at the shareholders' meetings.

According to the Italian Civil Code, all the rights for own shares held by the Group are suspended.

EUR 1,000	As at 31 December	
	2009	2008
Total assets	71,464	57,765
Equity	59,795	43,236
Equity ratio	84%	75%

Fair values versus carrying amounts of financial assets and liabilities

This table shows the comparison of fair values versus carrying amounts of financial assets and liabilities, as required by IFRS 7.

EUR 1,000	As at 31 December 2009		As at 31 December 2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets available for sale	19,242	19,242	6,769	6,769
Other non-current receivables *	2,196	2,196	2,144	2,144
Trade receivables	5,517	5,517	3,549	3,549
Other receivables and other assets **	1,594	1,594	3,196	3,196
Cash flow hedge on currency risk forward contract	139	139	-	-
Cash and cash equivalents	17,161	17,161	22,166	22,166
Financial lease liabilities	(710)	(710)	(1,288)	(1,288)
Subsidized loans	(1,579)	(1,762)	(1,841)	(1,913)
Unsecured bank loans	(687)	(687)	(1,165)	(1,165)
Trade payables	(4,113)	(4,113)	(4,228)	(4,228)
Other current liabilities **	(46)	(46)	(12)	(12)
	38,714	38,531	29,290	29,218
Unrecognized loss		(183)		(72)

* interest bearing guarantee deposit

** only financial assets/liabilities

On the next page a summary of the significant methods and assumptions used in estimating the fair values of financial instruments in the table above.

Equity investments

The fair value of the available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date.

Subsidized loans

The fair value is calculated based on the present value of future principal and interest cash flows, discounted at interest market rate at the reporting date.

Fair value hierarchy

The Group uses the following hierarchy for disclosure of the fair value of financial instruments by valuation technique:

- _ Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- _ Level 2: techniques for which all input that have a significant effect on the recorded fair value are observable, either directly or indirectly;
- _ Level 3: techniques which use inputs that have a significant effect on the recorded fair value and which are not based on observable market data.

As at 31 December 2009, the Group held the following financial instruments measured at fair value:

EUR 1,000	As at 31 December 2009				As at 31 December 2008			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets measured at fair value								
Financial assets available for sale								
Equity shares	19,242	-	-	19,242	6,769	-	-	6,769
Financial assets at fair value through profit or loss								
Cash flow hedge on currency risk forward contract	-	139	-	139	-	-	-	-

For the periods under review the Group did not hold any financial liabilities measured at fair value.

35 Subsequent events

In July 2009, Cosmo approached BioXell S.p.A., an Italian company listed at 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 shares 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.

On 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.

Currently, Cosmo does not intend to continue developing any of BioXell's clinical programmes, as they do not fit into Cosmo's existing expertise and

development strategy. From Cosmo's perspective, this transaction is considered as an alternative to a capital increase of Cosmo; and all its costs and benefits were weighed against such a capital increase transaction. The primary intention of the transaction was to increase Cosmo's free float, thus improving the liquidity of the Cosmo shares. The transaction further creates additional value for shareholders of Cosmo as it results in approximately additional EUR 15.7 million in cash available to Cosmo, which will give Cosmo the ability to develop certain clinical programmes faster and to negotiate certain agreements more conveniently.

Cosmo plans to have the BioXell shares delisted from SIX Swiss Exchange in the short term. Furthermore, Cosmo currently intends to liquidate the assets of BioXell and may subsequently put BioXell in liquidation according to sections 2484 of the Italian Civil Code. However, it may potentially also be an option for Cosmo, after delisting of BioXell, to keep BioXell as a privately held affiliated company.

Auditors' report



Report of the Independent Auditor

To the Board of Directors of
Cosmo Pharmaceuticals S.p.A.

We have audited the accompanying consolidated financial statements of Cosmo Pharmaceuticals S.p.A., which comprise the consolidated statement of financial position as at December 31, 2009, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flows statement for the year then ended, and the Notes to consolidated financial statement.

Management's Responsibility for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

MAZARS

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SPA - CAPITALE SOCIALE DELIBERATO € 3.000.000,00 - SOTTOSCRITTO € 2.803.000,00, VERSATO € 2.612.500,00 - SEDE LEGALE: C.SO DI PORTA VIGENTINA, 35 - 20122 MILANO

REA N. 1059307 - REG. IMP. MILANO E COD. FISC. N. 01507630489 - P. IVA 05902570158 - AUTORIZZATA AI SENSI DI L. 1966/39 - REGISTRO DEI REVISORI CONTABILI GU 60/1997
ALBO SPECIALE DELLE SOCIETÀ DI REVISIONE CON DELIBERA CONSOB N° 10829 DEL 16/07/1997
UFFICI IN ITALIA: BOLOGNA - BRESCIA - FIRENZE - GENOVA - MILANO - NAPOLI - PADOVA - PALERMO - ROMA - TORINO





Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Cosmo Pharmaceuticals S.p.A. as of December 31, 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Milan, March 18, 2010



Mazars S.p.A.
Carlo Consonni
Partner

Administration

The Human Resources and Accounting teams run Cosmo's administrative activities. The Human Resources team coordinates employee recruitment and relations and assists with compensation. The Accounting Department is responsible for all financial reporting and coordination to ensure compliance with all regulations.

Elisabetta Cattaneo

Senior Accountant –
accounts receivables
With Cosmo since 2001

Irene Benassai

Accounting Manager
With Cosmo since 2001

Arianna Bertoli

Human Resources
Assistant
With Cosmo since 2007

(from left to right)



Information for investors

Capital structure

EUR 1,000	31.12.2009
Equity	59,795
Share capital	3,469
Reserves	52,276
Profit for the period	4,050
Number of registered shares	13,875,000
Nominal value per share (in EUR)	0.25

Major shareholders	No. of shares	% of share capital
Cosmo Holding S.p.A.	8,740,000	62.99%
dievini Hopp Biotech GmbH & Co. KG	1,476,876	10.64%
Heinrich Herz AG	515,000	3.71%

Share price data

CHF	Price	Date
First trading day	22.30	12.3.2007
2009 lowest	11.25	13./16./ 17.3.2009
2009 highest	23.50	29.12.2009
2009 last trading day	23.35	30.12.2009
Market capitalization (in CHF million)	323.98	31.12.2009

Share earnings

EUR	31.12.2009
Earnings	0.295

Stock exchange information

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

Research coverage

Bank Am Bellevue	Bob Pooler	Phone: +41 44 267 7237
Jefferies In- ternational	Peter Welford	Phone: +44 20 7029 8668
Sal. Oppenheim	Carri Duncan	Phone: +41 44 214 2326
Vontobel	Silvia Schanz	Phone: +41 58 283 6344

Calendar

Key reporting dates

Half Year Report – 30 July 2010
Annual Report – April 2011

Upcoming conferences

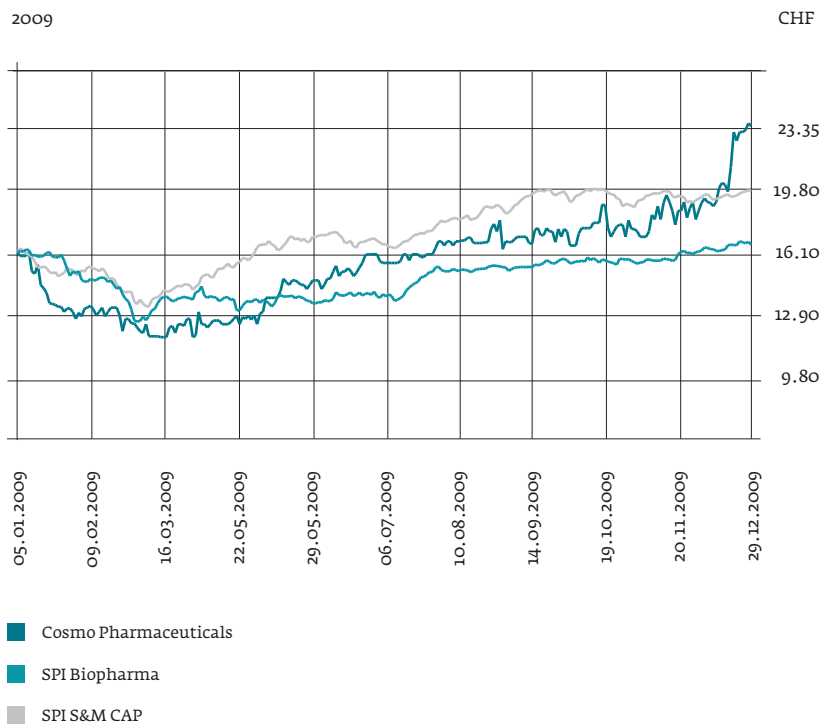
Swiss Equity Biotech Day,
Zurich, 13 April 2010

**7th Annual Bank of America Merrill
Lynch Pan-European Biotech /
Mid-Cap Pharma One-on-One Forum**
London, 25 – 26 May 2010

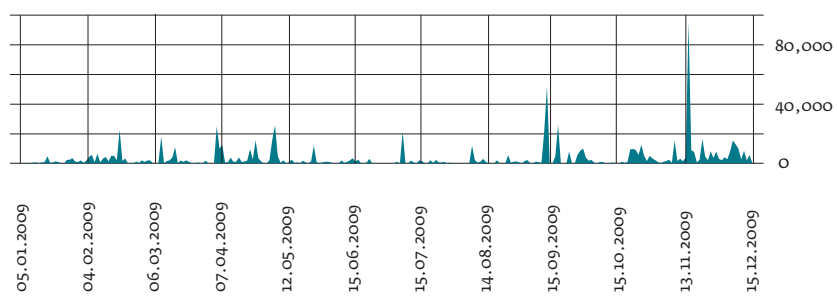
Jefferies' 4th Annual Healthcare Conference,
New York, 8 – 11 June 2010

Jefferies' 1st Biopharma Conference,
London, 5 – 6 October 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 that involves individuals genetically predisposed.

Androgens

Male sex hormones.

Antibiotic

Drug that kills bacteria or prevents them from multiplying.

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.

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 and 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) that 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.

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.

EMEA

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.

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.

Ileum

The ileum is the final portion of the small intestine.

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 that 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.

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 that is not part of existing technical know-how.

NDA

The New Drug Application, a procedure through which drug sponsors formally propose that the FDA approves 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 that 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 Cmax, Tmax, 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 Chemical substances.

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.

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.

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 the 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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