Half-Year Report 2018

COSMO
Pharmaceuticals

Certain Defined Terms

In this report, unless otherwise specified, the terms “we”, “our”, “us”, “the Company”, “the Group” and “Cosmo” refer to Cosmo Pharmaceuticals N.V., together with its subsidiaries, or any one or more of them, as the context may require.

Forward looking Statements

This report contains certain “forward-looking statements”. These forward-looking statements may include terms such as “may,” “will,” “expect,” “could,” “should,” “intend,” “estimate,” “anticipate,” “believe,” “remain,” “target,” “objective,” “goal,” “forecast,” “projection,” “outlook,” “plan” or similar wording. Such forwardlooking 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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Key Figures

Income Statement

EUR 1,000	H1 2018	H1 2017
Revenue	**36,660**	**31,824**
Other income	240	268
Cost of sales	(10,714)	(10,670)
Research and development costs	(4,459)	(4,557)
Selling, general and administrative costs	(28,938)	(21,184)
Net operating expenses	**(43,871)**	**(36,143)**
Operating loss	**(7,211)**	**(4,319)**
Net financial income / (expenses)	4,823	(11,000)
Share of result of associates	(2,895)	(4,049)
Loss before taxes	**(5,283)**	**(19,368)**
Loss after taxes	**(7,789)**	**(17,270)**

Shares

	H1 2018	H1 2017
Weighted average number of shares	15,033,234	14,578,249
Earnings per share (in EUR)	(0.518)	(1.185)

Statement of financial position

EUR 1,000	30-Jun-18	31-Dec-2017
Non-current assets	263,193	300,668
Cash and cash equivalents	84,343	144,944
Other current assets	132,052	52,362
Liabilities	23,220	27,857
Equity attributable to owners of the Company	456,368	470,117
Equity ratio	95.2%	94.4%

Highlights

- Complete Response Letter received from FDA in May in relation to *Methylene Blue MMX* NDA. NDA not approved in current form, Type A meeting request and briefing document submitted to FDA. Type A meeting taking place on 25 July and outcome will be communicated once available.
- *Rifamycin SV MMX* New Drug Application seeking marketing authorisation for the treatment of Traveler's Diarrhea accepted by the FDA. PDUFA date of 16 November set by FDA to complete their review.
- *Rifamycin SV MMX* Phase II proof of concept study in IBS-D progressed.
- *Eleview* gross sales in the U.S. $4.6 million vs $2.1 million in H2 2017.
- License and supply agreement entered into with Pharmascience for *Eleview, Methylene Blue MMX, Rifamycin SV MMX* and *Qolotag* for the territory of Canada.
- *Eleview* agreement with FUJIFILM Europe B.V. expanded to South East Asia, Middle East, Africa, Australia and New Zealand. Under the agreement Cosmo to receive 45% of gross revenues.
- License and supply agreement entered into with EA Pharma for *Methylene Blue MMX* and *Eleview* for the territories of Japan and South Korea.
- Our associate Cassiopea SpA, of which we own 45.09%, communicated a sequence of very good news including the successful Phase III clinical trial outcome of its drug *Winlevi* for the treatment of acne. As at the 24th of July, Cosmo's stake in Cassiopea has a market value of €193.5 million compared to €134.2 million as at 31 December 2017.
- ICC Tribunal ruled that Valeant was not in breach of the *Uceris* License Agreement.

What we do

Cosmo is a pharmaceutical company with a specialized focus on gastroenterology and endoscopy. We develop and manufacture products which are distributed globally.

Our mission

To improve people's lives by developing innovative treatments that address significant unmet clinical needs and improve clinical outcomes.

Our clinical focus

Our development pipeline is focused on Bowel Diseases, Colon Infections and products to reduce the incidence of Colorectal Cancer (CRC) by increasing the detection rate of pre-cancerous lesions during colonoscopy.

Cosmo has also developed and launched a medical device to make the removal of these lesions safer and more efficient.

Cosmo's strong links to the specialist physician community provide a continuous flow of information with which we develop new products.

Proprietary technology

The Company's extensive galenic experience, which led to the development of the proprietary multi-matrix technology, *MMX*, provides an excellent basis for the development of new, patentable, yet lower-risk products, manufactured at the company's own GMP-approved plant.

Cosmo has a demonstrated ability to successfully identify unmet medical needs, manage the drug development process and obtain regulatory approval for new products. Cosmo then either licenses its approved products to partners with strong marketing and sales expertise or will market, sell and distribute its new products directly into selected markets.

Our target therapies

Cosmo's therapeutic focus is on the oral and endoscopic treatment of colon diseases primarily Bowel Diseases and Colorectal Cancer (CRC) prevention. Our *MMX* technology allows the delivery of active pharmaceutical ingredients into the lumen of the colon through tablets in a delayed and controlled way with the effect that the active pharmaceutical ingredients can be applied to the full length of the colon.

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, diarrhea, abdominal pain and weight loss. The main disease categories are Ulcerative Colitis and Crohn's Disease, both of which can have a significant adverse impact on the quality of life of an individual.

It is estimated that over 1 million people in the U.S. and 2.5 million people in Europe have IBD.

Global disease

1m US sufferers

2.5m Europe sufferers

Cosmo has two products approved for IBD treatment, *Uceris/Cortiment* and *Lialda* both of which were licensed out.

Colorectal Cancer (CRC)

Colon cancer is cancer of the large intestine (colon), rectal cancer affects the last part of the colon, together they are referred to as colorectal cancer (CRC). Colorectal cancer arises from adenomas that grow in the colon. Not all adenomas become cancer but all colon and rectal cancers start from adenomas. Epidemiologists estimate that, at birth, every person has a 5% chance of developing colorectal cancer during their lifetime.

Globally it is estimated that each year over 1.4 million people are diagnosed with colorectal cancer and at least 694,000 people die from the disease.

It is estimated that 75 – 90% of colorectal cancer could be prevented through the early detection and removal of pre-cancerous polyps.

1.4m patients diagnosed P.A.

75–90% estimated prevention rate through early detection

Our Product Portfolio

Methylene Blue MMX

In our Pivotal Phase III study, 17.71% more patients with one or more adenomas or carcinomas were identified when the patients took *Methylene Blue MMX* prior to the endoscopy procedure compared to Standard of Care White Light colonoscopy with High Definition endoscopes.

A Complete Response Letter (CRL) was received in May 2018 from US Food and Drug Administration (FDA) to our *Methylene Blue MMX* New Drug Application (NDA). In the CRL the FDA stated that although the result of our Phase III study achieved a statistically significant primary outcome the outcome was not sufficiently robust and recommended Cosmo to provide confirmation of effectiveness with a second Phase III trial. We believe that the concerns raised by the FDA are fully addressable and we are committed to working with the FDA to reslove these issues.

A new drug to improve ADENOMA DETECTION RATE, a key colonoscopy QUALITY INDICATOR

16m colonoscopies performed p.a. in the U.S.

17.71% improvement in adenoma detection rate

Our Product Portfolio

Rifamycin SV MMX

Rifamycin SV MMX is a new pharmaceutical product employing rifamycin SV engineered with the *MMX* technology. *Rifamycin SV MMX* is a broad spectrum, semi-synthetic, orally non-absorbable antibiotic which can potentially be used for the treatment of bacterial infections of the colon such as Traveler's Diarrhea, infectious colitis, Clostridium difficile associated disease, diverticulitis and also as supportive treatment of Inflammatory Bowel Diseases, IBS and Hepatic Encephalopathy. The superior properties of *Rifamycin SV MMX* give it the potential to displace other products used to treat these conditions.

Phase III clinical trials in Traveler's Diarrhea have been completed in the U.S. and in the EU.

In March 2018 we submitted our NDA for *Rifamycin SV MMX* to the US Food and Drug Administration (FDA) seeking marketing authorization for the treatment of Traveler's Diarrhea. In May 2018 the FDA accepted our NDA confirming a PDUFA date of 16 November 2018 to complete its review.

The US FDA has granted Qualified Infectious Disease Product (QIPD) and Fast Track designations for *Rifamycin SV MMX* for the treatment of patients with Traveler's Diarrhea. Under QUIP and Fast Track designations the NDA application is eligible for Priority Review. If approved *Rifamycin SV MMX* will be eligible for an additional five years of market exclusivity based on the QUIP designation under the Generating Antibiotic Incentives Now (GAIN) Act.

In November 2017 our partner Dr. Falk Pharma filed for marketing authorization of *Rifafalk 200mg* (*Rifamycin SV MMX* tablets) in Germany as Reference Member State through a decentralized procedure. Marketing approval if granted should be simultaneously release in United Kingdom, Spain, Austria, Sweden, Norway, Portugal, Poland, Finland, Hungary, Greece, Denmark and Bulgaria. The procedure is expected to take approximately 10 months.

In order to expand the indications of *Rifamycin SV MMX*, we commenced a Phase II proof of concept study of efficacy and safety of the drug in Irritable Bowel Syndrome – Diarrhea Predominant (IBS-D) and announced first patient randomized in December 2017. If successful this trial would pave the way for a Phase III trial for this second indication.

The application of *MMX* technology to rifamycin SV allows the antibiotic to be delivered directly into the colon, avoiding unwanted systemic side effects

Phase III trials completed in Traveler's Diarrhea

Phase II trials commenced in IBS-D

H1 2019 target launch*

*subject to regulatory approval in Europe and U.S.

Our Product Portfolio

Eleview

Eleview is an injectable composition, patented by Cosmo, intended for use in gastrointestinal endoscopic procedures for submucosal lift of polyps, adenomas, early stage cancers or other gastrointestinal mucosal lesions prior to excision with a snare or other endoscopic device. *Eleview* provides an immediate and long-lasting cushion that holds for up to 45 minutes. *Eleview* is designed to decrease the time needed to completely resect a lesion. *Eleview* requires less volume to create submucosal cushions compared to saline, it reduces the number of reinjections required compared to saline and reduces piecemeal excisions compared to saline.

Eleview contains methylene blue which increases visibility of target lesion margins. The improved margin visualization helps to decrease the risk of damage to the external muscular layer, incomplete resections and of leaving residual adenoma tissue.

Eleview is classified as a class II medical device in the U.S. and Europe. *Eleview* was launched in the U.S. in May 2017 and is the only commercially available device approved by the FDA for the removal of polyps and lesions in the colon. Cosmo has signed a co-promotion agreement with Olympus in the U.S. and established a distribution agreement with Fujifilm for Europe and South Africa and since March 2018 for South East Asia, Middle East, Africa, Australia and New Zealand.

A new medical device approved in U.S. and EU to REMOVE COLONIC LESIONS more safely and quickly

Improves visibility of target lesion margins

Decreases risk of intestinal perforation

45 mins cushion hold

Decreases time to resect and volume to inject

US$4.6m Gross sales in H1 2018

Our Product Portfolio

Remimazolam

Remimazolam is a fast-acting intravenous benzodiazepine agent in-licensed by Cosmo from PAION AG. We hold an exclusive right to develop and commercialize *Remimazolam* in the U.S. During 2017 PAION AG announced positive headline data in a *Remimazolam* US clinical safety trial of high risk (ASA III/IV) patients, the efficacy and efficiency gains were comparable to the first pivotal Phase III trial in colonoscopy patients. Positive headline results were also announced during 2017 by PAION AG in a U.S. Phase III trial for procedural sedation in patients undergoing bronchoscopy. The trial achieved the primary endpoint and therefore we expect to submit an NDA for *Remimazolam* to the FDA in Q4 2018/Q1 2019.

A new sedation agent to be USED IN ALL PROCEDURAL SEDATIONS, including colonoscopies, safer and faster than available alternatives

Reduces time to reach sedation

Reduces time back to normal

Phase III trials successfully completed in colonoscopy and bronchoscopy

Filing of NDA with FDA expected by **Q1 2019**

Our Product Portfolio

Uceris/Cortiment

Uceris /Cortiment is an oral tablet formulation which delivers budesonide directly to the lumen of the colon. Budesonide is a corticosteroid that acts as an anti-inflammatory pharmaceutical product. The specific pharmaceutical product dissolution profile increases the colonic specific bio-availability of budesonide and reduces the pre-colonic systemic absorption.

The intended reduction of systemic absorption reduces side effects associated with pharmaceutical product treatment while the intended delivery to the colon enables the product to be especially effective in the treatment of proximal and distal Ulcerative Colitis.

Uceris/Cortiment tablets are a prescription corticosteroid medicine used TO HELP GET ACTIVE, MILD TO MODERATE ULCERATIVE COLITIS UNDER CONTROL (induce remission) and may help relieve the symptoms of Ulcerative Colitis

US$69.7m *Uceris* net sales in H1 2018

€13.0m Manufacturing and Royalty income in H1 2018

€7.2m *Cortiment* net sales in H1 2018

€1.8m Manufacturing and Royalty income in H1 2018

Our Product Portfolio

Lialda

Lialda / *Mezavant* / *Mesavancol* is an oral tablet formulation able to deliver mesalazine directly into the lumen of the colon; the specific pharmaceutical product dissolution profile increases the colonic specific disposition of mesalazine, reduces the pre-colonic systematic absorption and allows the product to be especially effective for the treatment of both proximal and distal Ulcerative Colitis.

Through the application of the *MMX* technology, patients taking mesalazine in non-acute phases will have to take about two tablets a day, and during acute phases of Ulcerative Colitis, about three to four tablets a day. The expected reduction in the number of tablets to be taken in comparison to standard oral administration of mesalazine facilitates increased patient compliance.

Lialda is a ONCE-DAILY mesalamine approved to help get active, mild to moderate Ulcerative Colitis into remission

€10.6m Manufacturing and Royalty income in H1 2018

Our Product Portfolio

Qolotag

Qolotag is a liquid, blue colored emulsion developed by Cosmo as an enema formulation to be used for the mechanical cleansing, and simultaneous staining, of the sigmoid colon and rectal mucosa to aid visualization of the structure and mucosal lesions by the endoscopist during flexible sigmoidoscopy evaluation. The product is a single packaged, ready to use enema formulation based on a Cosmo proprietary technology and exerts a double action: it softens the faeces, allowing an easy bowel emptying and cleaning prior to the endoscopy, and meanwhile adheres to the mucosal walls, maximizing the contact time between the dye (methylene blue) and the mucosa, for an improved staining.

Qolotag is a new product, which allows for a faster and better enhancement of detection of small lesions or dysplasias during sigmoidoscopies.

Qolotag is approved for marketing in the E.U. and carries the CE mark.

Dear Shareholder

Mauro S. Ajani

Alessandro Della Chà

The first half of 2018 has presented challenges, however we remain focused on executing our strategy to expand our pipeline and position Cosmo for long-term growth.

In May we received a Complete Response Letter (CRL) from the FDA in relation to our *Methylene Blue MMX* NDA. In the CRL the FDA stated that it had determined that it could not approve the NDA in its present form. The CRL did not raise any safety or manufacturing concerns but stated that, although the Phase III trial has translated in a statistically significant outcome, the outcome is not sufficiently "robust" and recommended a second Phase III trial to provide confirmation of effectiveness. In June we submitted a Type A Meeting Request and Briefing Document to the FDA. The purpose of the meeting is to confer upon the issues identified in the CRL and to ask the FDA to reconsider the NDA as submitted. The meeting will take place on the 25th July and we will communicate the outcome once it is available.

We are convinced that *Methylene Blue MMX*, if approved, will improve clinical outcomes and save lives by increasing adenoma detection rate and, as a consequence, reduce the incidence of interval colorectal cancer. During Digestive Disease Week in Washington DC in May, Key Opinion Leaders presented data from our *Methylene Blue MMX* Phase III trial at the ASGE Presidential Plenary and the Emerging Technologies in Colonoscopy sessions. The attendance and interest from clinicians was very strong and the sessions were fully booked. The receipt of the CRL was certainly an unexpected setback, however we are encouraged by the very positive reception to the presentation of the data at DDW and we are strongly committed to working with the FDA to resolve the issues raised in the CRL.

In a significant step forward in the regulatory approval pathway for *Rifamycin SV MMX*, the FDA accepted our *Rifamycin SV MMX* New Drug Application (NDA) in May which seeks marketing authorization for the treatment of Traveler's Diarrhea under an expedited review process. The FDA have set a PDUFA date of 16 November 2018 to complete their review.

Rifamycin SV MMX has been granted Qualified Infectious Disease Product (QIDP) and Fast Track designations for the treatment of Traveler's Diarrhea by the FDA and, under these designations, *Rifamycin SV MMX* is eligible for priority review. As a New Chemical Entity (NCE), *Rifamycin SV MMX* is eligible for 5 years of NCE market exclusivity and, if approved, *Rifamycin SV MMX* will be eligible for an additional five years of market exclusivity based on the QIDP designation under the GAIN Act, this providing Cosmo with a 10-year exclusivity period. Subject to approval we expect to launch the product in the U.S. in the first half of 2019.

In parallel, our *Rifamycin SV MMX* Phase II proof of concept study in IBS-D is progressing, the trial is open in Belgium, Italy, Spain and Germany and recruitment is ongoing.

In February, we entered into a license and supply agreement for *Eleview*, *Methylene Blue MMX*, *Rifamycin SV MMX* and *Qolotag* for the territory of Canada with Pharmascience, the fourth largest Company in Canada by number of prescriptions. The agreement includes an up-front payment of CA$5 million as well as additional commercial milestones based on reaching certain net sales thresholds and high double-digit royalties.

In March we expanded our exclusive distribution agreement for *Eleview* with FUJIFILM Europe B.V. beyond Europe and South Africa to South East Asia, Middle East, Africa, Australia and New Zealand. FUJIFILM are planning market launch in the second half of 2018 and Cosmo will receive 45% of gross revenues under the terms of the agreement.

Also in March, Cosmo entered into a license and supply agreement for *Methylene Blue MMX* and *Eleview* with EA Pharma for the territories of Japan and South Korea. Under this agreement, which is subject to confirmatory due diligence, Cosmo will receive an upfront payment as well as additional development and commercial milestone payments upon reaching certain annual net sales thresholds plus royalties once the products are approved.

A pre-NDA meeting for *Remimazolam* took place with the FDA on the 12th of July and the preparation of the NDA submission package is ongoing. The filing of the NDA is expected by Q1 2019.

Our development pipeline continues to progress for several other products in pre-clinical development stages.

Lialda/Mezavant/Mesavancol manufacturing and royalty income in the first half of 2018 declined by €2.2 million to €10.6 million. The decline arose as a result of the launch of a generic in the U.S. which was partially offset by an increase in income related to Japan and Europe. In the U.S., the combined total number of *Lialda* prescriptions (TRx) of branded and Authorised Generic is approximately 50% of the *Lialda* branded TRx pre-approval of the generic. Cosmo is the exclusive manufacturer of both products.

Cortiment sales continue to grow under license with Ferring, net sales were €7.3 million in the first half of 2018 up 14.3% compared to last year, and our *Cortiment* royalty and manufacturing income was €1.8 million versus €1.4 million last year.

Uceris net sales in the U.S. were US$69.7 million in the first half of 2018, up 10.9% compared to the same period last year, and our *Uceris* royalty and manufacturing income was €13.0 million compared to €12.1 million in the same period last year.

Eleview gross sales in the U.S. were US$4.6 million in the first half of 2018 compared to US$2.1 million in H2 2017.

Disappointingly, in April the ICC Arbitral Tribunal ruled that Valeant was not in breach of the *Uceris* License Agreement notwithstanding our claims.

In July, our associate Cassiopea SpA, of which we own 45.09%, communicated a sequence of very good news including the successful Phase III clinical trial outcome of its drug *Winlevi* for the treatment of acne. As at the 24th of July, Cosmo's stake in Cassiopea has a market value of €193.5 million compared to €134.2 million as at 31 December 2017.

Financial Performance H1 FY18

In the first half of this year revenues were €36.7 million (H1 2017: €31.8 million) and our operating loss was €7.2 million (H1 2017: €4.3 million). Net operating expenses in H1 were €43.9 million of which the costs associated with our U.S. organization were €20.3 million. We are now generating sales in the U.S. and we are preparing for the launch of *Rifamycin SV MMX* in the first half of 2019 subject to regulatory approval.

Our people

We thank our employees for their continued hard work, professionalism, dedication and focus on quality and our Board of Directors for their advice and oversight.

Key priorities for second half of 2018 and beyond

Our primary focus for the remainder of 2018 and beyond will be to continue to pursue regulatory approval for *Methylene Blue MMX*, progress the tasks to bring *Rifamycin SV MMX* and *Remimazolam* to market and progress our product pipeline.

We thank you our shareholders for your continued support and we look forward to updating you on Cosmo's developments.

Dublin, Ireland, 25 July 2018

Mauro S. Ajani
Chairman

Alessandro Della Chà
Chief Executive Officer

Directors Report

Principal risks and uncertainties

The Board is responsible for determining Cosmo's risk tolerance and for ensuring that systems of risk management and internal control are in place. To this end the Board has implemented a comprehensive risk management framework in order to assure that the internal processes are adequate, financial reporting is reliable, the assets of the Company are protected and all laws and internal regulations are complied with.

Our risk management framework is designed to identify, evaluate and mitigate risks. Risks identified through our risk management framework are categorized, prioritised and each assigned to a separate person who is required to continually monitor, evaluate and report on the risks for which they are responsible.

Risks are classified into risks that can be managed by appropriate in-house action or risks that cannot be managed by internally. 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 these must be borne as business risks.

1 Risk Factors

The following sets out the principle risks and uncertainties associated with the business which have been identified through the Company's risk management and control systems.

a Strategic Risks

Strategic risk relates to the Company's future business plans and strategies and includes risks associated with the environment in which we operate, intellectual property and risks including the demand for our products, competitive threats, information technology and public policy.

i Generic Competition and Intellectual property rights

All Pharmaceutical companies face generic competition when their products lose patent or other intellectual property protection. The Company takes active measures to protect its patents, trademarks and other intellectual property and to extend product life cycles. The Company has a dedicated patent department headed by its Chief Patent Counsel which manages its intellectual property assets and supported with the services of specialist intellectual property law firms based in the countries where we primarily operate.

ii Research and Development and new product development

The future growth of our business is dependent on our ability to develop new products that address unmet medical needs and are accepted by patients and physicians. New products must also be reimbursed by payers. The process to develop and obtain regulatory approval for new products is costly and can take considerable time. At each stage in the development of new products and process to obtain regulatory approval obstacles may be encountered. There is no guarantee that clinical endpoints will be attained forcing us to abandon a product, or regulatory approval will be obtained.

The Company has a demonstrated track record of developing products which meet unmet clinical needs and successfully concluding clinical trials. The unique characteristics of our *MMX* technology has enabled us to develop new products using chemical entities that are already on the market. We initially focused on Inflammatory Bowel Disease but our most recent products have been developed by focusing on unmet needs in the treatment of colon diseases and we believe that this provides ample new product development

opportunity. Where possible we seek to improve the safety profile, efficacy or make more patient or user friendly molecules that are already on the market in order to reduce new product development risk.

iii Commercial success of our products

The Company ability to grow depends on the commercial success of our products. The success of our products could be impacted by several factors beyond our control including new competing products, pricing pressures, loss of intellectual property protection and changes in physician prescribing habits. Where we licence our products to partners we rely on them to market, sell and distribute our products. In future where we choose to sell our products directly into selected markets the timing and rate of commercial acceptance of our products cannot be guaranteed. Should we fail to achieve our commercial goals, or fail to do so within the time frame we have set ourselves it could have a material adverse impact on result of operations, our business or our financial condition.

iv Pricing and reimbursement

The commercial success of our products depends on our ability and the ability of our partners to establish appropriate reimbursement for our products. Across the world, governments and payers continue to seek ways to reduce expenditure in the face of rising healthcare costs.

We believe that our focus on quality and on developing products which improve clinical outcomes and patient safety positions us to achieve the appropriate reimbursement for our products.

b Operational Risks

Operational risks are those which relate to our systems, people, processes and external events which affect our business and include manufacturing, supply chain, product safety and performance, information management and data protection and security, human resources and reputation.

i Manufacturing of finished products and supply of raw materials

Any issue with our manufacturing processes could have serious consequences for the health of patients and damage our reputation. Our manufacturing facilities are subject to strict regulatory requirements. If we fail to meet our regulatory requirements there is a risk that we would have to temporarily suspend or cease production. Any interruption to the supply chain of our raw materials could impair the supply of our products and consequently damage sales. The manufacturing process at the Company's manufacturing facility in Lainate, Milan is controlled with respect to raw materials, process parameters and final product quality. The controls are in accordance with procedures which comply with the provisions of Good Manufacturing Practices (GMP). The FDA has certified the Company for the production of *Lialda* and *Uceris* tablets for the US market.

ii Continuity of Supply

The supply chain for our products is subject to regulatory requirements. Any failure on our part, or failure on the part of our partners, to meet supply chain regulatory requirements could disrupt the supply chain and result in product shortages and loss of revenue.

iii IT security, data and information systems

We are dependent on information technology infrastructure and systems. The loss of sensitive or confidential information and /or other security breaches or data leakages could have an adverse effect on our financial position or financial results. Our use of IT systems at times involves gathering personal information relating to patients, customers, vendors, employees and others. A breach of our systems or any other failure to protect personal information held on our systems could expose the personal information to unauthorised persons. Any such breach could result in liability and reputational damage.

The Company has committed and continues to commit significant management focus and resources to the protection of its data and information technology systems.

iv Human Resources

The Company relies on recruiting and retaining highly skilled employees to meet its strategic objectives. The Company faces competition for highly qualified personnel from other companies and organisations and the supply of people with the necessary skills may be limited. If the Company is unable to retain key individuals or recruit new employees with the necessary skills and experience the implementation of the Company's strategic objectives could be adversely impacted and as a consequence the Company's financial performance or financial position could be adversely impacted. The Company seeks to ensure that remuneration packages are competitive with the market and has an ESOP and a bonus scheme in place for management and an Employee Incentive Plan for other employees.

c Financial Risks

The Group is exposed to various financial risks in the normal course of business. The principle financial risks to which it is exposed include credit risks related to the creditworthiness of its customers and counterparties of investment portfolio, with which it invests surplus cash funds, liquidity risks associated with the availability of sufficient capital resources, foreign currency risk, including both translation and transaction risk, and interest rate risk.

The Group measures and manages financial risks in accordance with Group Policy. The Board of Directors have overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identity and analyse the risks faced by the Group, to set appropriate risk limits, controls and to monitor risks and adherence limit. The Audit Committee of the Board periodically reviews the policies and adequacy of the risk management framework with regard to the risks faced by the Group.

i Credit Risk

The Group's has a credit risk exposure in respect of the creditworthiness of its customers. The Group has series of long-standing customers and has established on-going monitoring for risk of credit deterioration. Credit risk for new customers is managed by ensuring strict credit procedures. For instance, in the event where a new customer credit rating is not available, the customer is required to provide bank reference. If the Company is unable to reach sufficient comfort over the creditworthiness, the Company will transact based on prepayment basis only.

Credit risk exposure also exists in relation to the investment by the Group in financial assets and the cash which the Group places on deposit with financial institutions. The Group actively manages these risks by investing in financial assets and placing desposits with financial institutions in accordance with strict credit risk management policies and controls as specified by the Group's Board of Directors. The Group's cash and cash equivalents as at 30 June 2018 was held on deposit with banks whose FITCH credit rating ranged from BB+ to A.

ii Liquidity Risk

The Group's primary objectives in managing liquidity is to ensure:

- adequate resources to fund its continued operations
- availability of sufficient resources to sustain future development and growth of the business
- maintain sufficient resources to mitigate risks and unforeseen events which may arise

The Group manages risks associated with liquidity by investing its cash in short-term deposits and short term financial investments which can be readily realised into cash. Where the Group has entered into long-term financial investment obligations, the maturity dates are spread out evenly in order to attain the most effective rate of liquidity.

iii Currency Risk

The Group is subject to a number of foreign currency risks for transactions that are denominated in a currency other than its functional currency (Euro) and given the global nature of its operations. The Group is subject to increased exposure to fluctuation in exchange rates between US dollar and Euro due to its expansion in operations into the US Market. The Group manages its foreign exchange exposures with natural hedging and effective management of foreign currency cash inflows and outflows.

iv Interest Rate Risk

The Group is exposed to interest rate risk in respect of its cash and cash equivalents, investment in financial assets, bank loans and financial leases with variable interest rates. There were no material hedging activities, such as interest rate swaps, utilised during the financial period under review. Except for a very small level of debt our interest rate exposure is restricted to our investments. We primarily invest in fixed rate instruments with maturities varying according to our liquidity needs. This process is overseen by an investment committee and implemented by an external expert investment manager.

d Legal, Compliance and Regulatory Risks

Legal, Compliance and Regulatory risks relate to the legal and regulatory environment within which we operate.

i Laws and regulations governing the sale and marketing of our products

Where we have licenced our products, the responsibility to comply with laws and regulations governing the sale of our products rests with our licensees. Any failure on the part of our licensees to comply with laws and regulations governing the marketing and selling of our products could impact on our revenues and profitability.

For products which we market and sell directly, any failure on our part to comply with laws and regulations governing the sale and marketing of our products could impact on our revenues and profitability.

ii Regulatory approval for new products and approvals for new indications for existing products

Our future commercial success depends on gaining regulatory approval for new products and obtaining approvals for existing products for new indications. The Company outsources certain tasks required as part of the approval process. The Company takes commercially reasonable steps to ensure that we engage with quality outsource partners. However notwithstanding the steps which we take, there is no guarantee that regulatory approval will be obtained for new products or new indications for existing products.

iii Tax

We operate in a number of tax jurisdictions and are taxed accordingly. The OECD has proposed a number of tax law changes under its Base Erosion and Profit Shifting (BEPS) Action Plans. We have taken steps and continue to take steps to be in compliance with evolving tax initiatives. Such tax law changes could require us to adapt our tax structure, increase our effective tax rate and adversely affect our financial performance.

Financial review

EUR 1,000	H1 2018	H1 2017
Revenue	**36,660**	**31,824**
Net operating expenses	(43,871)	(36,143)
Operating loss	**(7,211)**	**(4,319)**
Net financial income / (expenses)	4,823	(11,000)
Share of result of associates	(2,895)	(4,049)
Loss before taxes	**(5,283)**	**(19,368)**
Income tax expenses	(2,506)	2,098
Loss for the period	**(7,789)**	**(17,270)**

Income Statement

- First-half revenue increased year on year by 15.2% to €36,660 thousand. The increase is primarily due to up-front fees which increased by €3,205 thousand to €3,705 thousand due to a license and supply agreement with Pharmascience.
- Net operating expenses increased by 21.4% or €7,728 thousand to €43,871 thousand mainly due to an increase in the costs associated with the U.S. organization and legal fees related to the Valeant arbitration case.
- Net financial income of €4,823 thousand includes a net foreign exchange gain of €3,489 thousand relating to the Group's US$ cash balances and US$ denominated investments arising from the movement in the €/$ exchange rate over the period.
- Share of result of associates relates to the Company's 45.09% stake in Cassiopea. Cassiopea continues to develop its projects but has not generated any revenue yet.

Revenue

EUR 1,000	H1 2018	% of revenue	H1 2017	% of revenue
Manufacturing on behalf of third parties:				
Manufacturing of generic products and specialty drugs	4,078	11.1	4,331	13.6
Manufacturing of *MMX* products	15,899	43.4	18,093	56.9
Related services	520	1.4	369	1.2
Other revenues from sales	120	0.3	244	0.8
Marketed products – *Eleview*	2,761	7.5	32	0.1
Licence fees, up-front fees and milestones	3,705	10.1	500	1.6
Royalties	9,577	26.1	8,255	25.9
Total revenue	**36,660**	**100.0**	**31,824**	**100.0**

Manufacturing on behalf of third parties

- *Uceris* manufacturing revenues increased by 6.3% to €5,936 thousand.
- *Cortiment* manufacturing revenue was up 25.2% to €303 thousand.
- *Lialda/Mezavant/Mesavancol* manufacturing revenue decreased by 21.3% to €9,660 thousand mainly due to a reduction in Shire purchase orders for *Lialda* as a result of the launch of a *Lialda* generic product in the U.S. market partially offset by an increase in revenue related to Japan.

Marketed products – *Eleview*

During the period, 10,656 *Eleview* units were sold to end customers and income was €2,761 thousand.

Licence fees, up-front fees and milestones

Includes CAD$5,000 thousand (€3,205 thousand) relating to a licence and supply agreement for *Eleview*, *Methylene Blue MMX*, *Qolotag* and *Rifamycin SV MMX* with Pharmascience for the Canadian territory and a milestone fee of €500 thousand for *Rifamycin SV MMX* relating to a license and supply agreement for the Italian territory.

Royalties

Income from royalties increased by 16.0% to €9,577 thousand (H1 2017: €8,255 thousand).

- *Uceris* royalty income increased by 8.3% to €7,110 thousand. In H1 2018 estimated net sales by Valeant are $69.7 million (H1 2017: $62.9 million).
- *Cortiment* royalty income was up 26.8% to €1,521 thousand. In H1 2018 net sales by Ferring were €7.2 million (H1 2017: €6.3 million).

Net operating expenses

EUR 1,000	H1 2018	% of revenue	H1 2017	% of revenue
Other income	240	0.7	268	0.8
Cost of sales	(10,714)	(29.2)	(10,670)	(33.5)
Research and development costs	(4,459)	(12.2)	(4,557)	(14.3)
Selling, general and administrative costs	(28,938)	(78.9)	(21,184)	(66.6)
Total net operating expenses	**(43,871)**	**(119.7)**	**(36,143)**	**(113.6)**

Operating expenses by nature

EUR 1,000	H1 2018	% of revenue	H1 2017	% of revenue
Other income	240	0.7	268	0.8
Changes in inventories of finished goods and works in progress	157	0.4	320	1.0
Raw materials and consumables used	(3,128)	(8.5)	(4,302)	(13.5)
Personnel expenses	(19,824)	(54.1)	(16,279)	(51.2)
Outsourced preclinical and clinical trial costs	(771)	(2.1)	(326)	(1.0)
Other operating expenses	(18,482)	(50.4)	(14,352)	(45.1)
Depreciation and amoritzation	(2,063)	(5.6)	(1,472)	(4.6)
Total net operating expenses	**(43,871)**	**(119.7)**	**(36,143)**	**(113.6)**

Other Income

Other income includes a tax credit for research and development costs of €164 thousand (H1 2017: €239 thousand) and rental income of €33 thousand (H1 2017: €23 thousand) relating to the sublease of laboratory space in the Group's research and development subsidiary in the U.S.

Raw materials and consumables used

Expenditure on raw materials and consumables used decreased by €1,174 thousand to €3,128 thousand due to changes in product mix.

Personnel expenses

Personnel expenses increased by €3,545 thousand to €19,824 thousand. The increase primarily relates to the build-up of the U.S. organization where 85 people were employed at 30 June 2018 of which 61 employees are sales and marketing, 10 employees are MSL and scientific affairs and 14 employees are management and administration.

The number of Employees as at 30 June 2018 by function was as follows:

EUR 1,000	H1 2018	% of total	H1 2017	% of total
Research and Development	40	13.7	40	13.4
Production and Logistics	135	46.4	140	47.0
Selling, General Administration & Finance, IT and others	116	39.9	118	39.6
Total	**291**	**100.0**	**298**	**100.0**

Outsourced preclinical and clinical trial costs

Clinical trial costs relate largely to *Rifamycin SV MMX* Phase II trial for IBS-D and other pre-clinical stage trials.

Other operating expenses

Other operating expenses increased by €4,130 thousand to €18,482 thousand mainly due to:

- Valeant legal fees of €2,716 thousand relating to the *Uceris* arbitration case.
- an increase of €2,181 thousand to €6,069 thousand in advertising and marketing costs related to *Eleview* and pre-commercialisation activity for *Rifamycin SV MMX* and *Methylene Blue MMX*.

Depreciation and amortization

Depreciation of property plant and equipment relates mainly to the manufacturing facility, laboratories and property in Lainate. The increase compared to last year is due to the €12.3 million addition of the *Methylene Blue MMX* and *Rifamycin SV MMX* manufacturing facility in 2017.

Amortization of other intangible assets primarily relates to amortisation of patents and rights. The increase compared to last year relates to the commencement of amortisation of *Eleview* capitalised development costs on commercialisation of the product in May 2017.

Financial income and expenses

EUR 1,000	H1 2018	H1 2017
Financial income	6,116	1,892
Financial expenses	(1,293)	(12,892)
Net financial income / (expenses)	**4,823**	**(11,000)**

The movement in net financial income / (expenses) largely relates to net foreign exchange gains of €3,489 thousand due to the strengthening of the US$ against the Euro during the period compared to net foreign exchange losses in the prior year of €11,520 thousand.

Assets

Non-current assets

EUR 1,000	30-Jun-18	31-Dec-17
Property, plant and equipment	29,497	30,152
Goodwill	109	109
Other intangible assets	31,325	28,525
Investments in associates	132,898	135,742
Financial assets	58,620	93,811
Deferred tax assets	8,638	10,456
Other non-current receivables	2,106	1,873
Total non-current assets	**263,193**	**300,668**

Property, plant and equipment primarily consists of the real estate property in Lainate (industrial plant, laboratories and offices), inclusive of surrounding land and of the equipment in the plant that is used for the manufacturing of *MMX* tablets.

Other intangible assets as at 30 June 2018 consist of:

- Patents and rights of €3,830 thousand (2017: €3,820 thousand).
- Capitalized *Remimazolam* license costs of €10,000 thousand (2017: €10,000 thousand) in relation to the license agreement signed with PAION AG.
- Capitalized development costs of €17,495 thousand (2017: €14,705 thousand).

Capitalized development costs of €17,495 thousand consist of:

- *Methylene Blue MMX* (CB-17-01) €8,424 thousand (2017: €9,464 thousand)
- *Rifamycin SV MMX* (CB-01-11) €6,586 thousand (2017: €3,197 thousand)
- *Eleview* (CB-17-04) €1,560 thousand (2017: €1,607 thousand)
- *Remimazolam* (CB-07-01) €925 thousand (2017: €437 thousand)

The development projects are progressing in line with the technical and economic plan and after review, Management confirms the recoverability of the relevant capitalized costs, based on probable future economic benefits.

Investment in associates relates to the Group's 45.09% interest in Cassiopea S.p.A. and financial assets relate to the Group's current bond investments in funds and equity investments.

Current assets

EUR 1,000	30-Jun-18	31-Dec-17
Inventories	3,947	3,241
Trade receivables	16,200	13,190
Current tax assets	4,065	2,972
Other receivables and other assets	5,082	5,200
Current financial assets	102,758	27,759
Cash and cash equivalents	84,343	144,944
Total current assets	**216,395**	**197,306**

Current financial assets of €102,758 thousand relate to the current element of our investment portfolio in international listed bonds and investments in funds.

Equity and liabilities

EUR 1,000	30-Jun-18	31-Dec-17
Share capital	3,910	3,910
Share premium	84,448	84,448
Other reserves	47,845	47,845
Treasury shares	(3,449)	–
Stock option plan reserve	14,566	9,597
Fair value reserve	(595)	3,894
Employee benefits actuarial gains / losses reserve	(152)	(155)
Currency translation differences	61	958
Retained earnings	317,523	352,067
(Loss)/Profit for the year	(7,789)	(32,447)
Equity attributable to owners of the company	**456,368**	**470,117**
Total equity	**456,368**	**470,117**

As at 30 June 2018, Cosmo Pharmaceuticals had 15,037,483 (2017: 15,037,483) shares issued, fully subscribed and paid up, each share with a nominal value of €0.26.

As at 30 June 2018, the number of treasury shares was 35,411 which were purchased during H1 2018 at an average purchase price of CHF 112.57 per share.

Non-current liabilities

EUR 1,000	30-Jun-18	31-Dec-17
Interest-bearing loans and borrowings	3,630	3,827
Employee benefits	291	318
Deferred tax liabilities	4,608	4,280
Total non-current liabilities	**8,529**	**8,425**

Current liabilities

EUR 1,000	30-Jun-18	31-Dec-17
Interest-bearing loans and borrowings	634	649
Trade payables	9,573	11,328
Current tax liabilities	385	1,538
Other current liabilities	4,099	5,917
Total current liabilities	**14,691**	**19,432**

Other current liabilities mainly include payables to employees related to accruals of deferred pay elements, calculated on the basis of the collective labour agreements currently in force.

Cashflow

EUR 1,000	H1 2018	H1 2017
Loss for the period before tax	**(5,283)**	**(19,368)**
Adjustment for non-monetary item	5,246	18,551
Change in net working capital	(8,512)	(2,931)
Income taxes paid (net)	(3,961)	(5,795)
Cash flows from operating activities	**(12,510)**	**(9,543)**
Cash flows from investing activities	**(47,561)**	**(38,271)**
Cash flows from financing activities	**(3,661)**	**73,146**
Net increase/(decrease) in cash and cash equivalents	**(63,732)**	**25,332**
Cash and cash equivalents at the beginning of the period	**144,944**	**117,649**
Unrealized foreign exchange (loss) / gain on cash and cash equivalents	**3,131**	**(6,666)**
Total cash and cash equivalents at the end of the period	**84,343**	**136,315**

The net outflow from operating activities was €12,510 thousand (H1 2017: €9,543 thousand). Working capital outflows during the period were €8,512 thousand (H1 2017: €2,931 thousand).
Income taxes paid were €3,961 thousand (H1 2017: €5,795 thousand)

Investment in other intangible assets of €3,197 thousand (H1 2017: €5,848 thousand) relates to capitalized development costs mainly associated with *Rifamycin SV MMX* and *Remimazolam*.

Net outflows related to investment in financial assets were €44,898 thousand (H1 2017: €29,777 thousand).

During the period the Company purchased 35,411 treasury shares resulting in an outflow of €3,449 thousand.

No dividends were paid during the period. In the same period last year a dividend of €1.50 per share was paid relating to the year ended 31 December 2016 resulting in an outflow of €22,556 thousand.

Responsibility Statement

In accordance with Section 5:25d(2)(c) of the Dutch Financial Supervision Act, the Board of Directors of the Company hereby declare that, to the best of their knowledge:

1. the Half-Year Consolidated Financial Statements as of and for the six months ending 30 June 2018 give a true and fair view of the assets, liabilities, financial position and the profit/(loss) of the company and its consolidated entities;

2. the mid-year directors' report for the first half of this financial year gives a true picture of:

   a) the most important events which have occurred in the first six months of this financial year and of the effect of those on the mid-year financial statements,

   b) the most important transactions with related parties which were entered into during this period,

   c) the main risks and uncertainties for the remaining six months of the financial year in question.

Dublin, Ireland, 25 July 2018

The Board of Directors
Mauro Ajani
Alessandro Della Chà
Hans Christoph Tanner
Dieter Enkelmann
Maria Grazia Roncarolo
Kevin Donovan
Eimear Cowhey

Cosmo Pharmaceuticals N.V. and Subsidiaries

Half-year consolidated financial statements and notes as of and for the six months ended 30 June 2018

Consolidated income statement (unaudited)

EUR 1,000	Notes	H1 2018	H1 2017 (restated Note 4)
Revenue	5	**36,660**	**31,824**
Other income		240	268
Cost of sales		(10,714)	(10,670)
Research and development costs		(4,459)	(4,557)
Selling, general and administrative costs		(28,938)	(21,184)
Net operating expenses	6	**(43,871)**	**(36,143)**
Operating loss		**(7,211)**	**(4,319)**
Financial income		6,116	1,892
Financial expenses		(1,293)	(12,892)
Net financial income / (expenses)	7	**4,823**	**(11,000)**
Share of result of associates	11	(2,895)	(4,049)
Loss before taxes		**(5,283)**	**(19,368)**
Income tax expenses	8	(2,506)	2,098
Loss for the period		**(7,789)**	**(17,270)**
(Loss)/profit attributable to:			
Owners of the company		(7,789)	(17,270)
Non-controlling interest		–	*
Earnings per share		Eur	Eur
Basic		(0.518)	(1.185)
Diluted		(0.518)	(1.185)

* Less than EUR 1 thousand

The accompanying notes form an integral part of the Half-Year Consolidated Financial Statements.

Consolidated statement of comprehensive income (unaudited)

EUR 1,000	Notes	H1 2018	H1 2017
Loss for the period (A)		**(7,789)**	**(17,270)**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss to profit or loss:			
Gains / (losses) on equity instruments measured at FVOCI		(3,875)	–
Remeasurement of defined benefit liability	17	4	*
Income tax	8	223	*
Total items that will not be reclassified subsequently to profit or loss (B1)		**(3,648)**	*****
Items that may be reclassified subsequently to profit or loss			
Gains / (losses) on debt securities measured at FVOCI		(1,047)	–
(Gains) / losses on disposal of debt securities measured at FVOCI reclassified to profit or losss		(258)	–
Gains / (losses) on fair value of available for sale finacial assets		–	2,491
(Gains) / losses on disposal of available for sale financial assets reclassified to profit or loss		–	919
Exchange differences on translating foreign operations		(897)	800
Income tax	8	431	177
Total items that may be reclassified subsequently to profit or loss (B2)		**(1,771)**	**4,387**
Total other comprehensive income/(loss), net of tax (B)=(B1+B2)		**(5,419)**	**4,387**
Total comprehensive income (A)+(B)		**(13,208)**	**(12,883)**
Total comprehensive income attributable to:			
Owners of the company		**(13,208)**	**(12,883)**
Non-controlling interest		–	*

* Less than EUR 1 thousand

The accompanying notes form an integral part of the Half-Year Consolidated Financial Statements.

Consolidated statement of financial position as at 30 June 2018 (unaudited)

EUR 1,000	Notes	30-Jun-18	31-Dec-17
Assets			
Non-current assets			
Property, plant and equipment		29,497	30,152
Goodwill		109	109
Other intangible assets		31,325	28,525
Investments in associates	11	132,898	135,742
Financial assets	12	58,620	93,811
Deferred tax assets		8,638	10,456
Other non-current receivables		2,106	1,873
Total non-current assets		**263,193**	**300,668**
Current assets			
Inventories		3,947	3,241
Trade receivables		16,200	13,190
Current tax assets		4,065	2,972
Other receivables and other assets	13	5,082	5,200
Current financial assets	12	102,758	27,759
Cash and cash equivalents	14	84,343	144,944
Total current assets		**216,395**	**197,306**
Total assets		**479,588**	**497,974**

The accompanying notes form an integral part of the Half-Year Consolidated Financial Statements.

Consolidated statement of financial position as at 30 June 2018, (unaudited, continued)

EUR 1,000	Notes	30-Jun-18	31-Dec-17
Equity			
Share capital		3,910	3,910
Share premium		84,448	84,448
Other reserves		47,845	47,845
Stock option plan reserve		14,566	9,597
Treasury shares		(3,449)	–
Fair value reserve		(595)	3,894
Employee benefits actuarial gains / losses reserve		(152)	(155)
Currency translation reserve		61	958
Retained earnings		317,523	352,067
Loss for the period		(7,789)	(32,447)
Equity attributable to owners of the company		**456,368**	**470,117**
Total equity	**15**	**456,368**	**470,117**
Liabilities			
Non-current liabilities			
Interest-bearing loans and borrowings	16	3,630	3,827
Employee benefits	17	291	318
Deferred tax liabilities		4,608	4,280
Total non-current liabilities		**8,529**	**8,425**
Current liabilities			
Interest-bearing loans and borrowings	16	634	649
Trade payables	18	9,573	11,328
Current tax liabilities		385	1,538
Other current liabilities	19	4,099	5,917
Total current liabilities		**14,691**	**19,432**
Total liabilities		**23,220**	**27,857**
Total equity and liabilities		**479,588**	**497,974**

The accompanying notes form an integral part of the Half-Year Consolidated Financial Statements.

Consolidated cash flow statement (unaudited)

EUR 1,000	Notes	H1 2018	H1 2017 (restated Note 4)
Loss for the period before tax		**(5,283)**	**(19,368)**
Adjustment for:			
Depreciation and amortization	6	2,063	1,472
Accrual to employee benefits	17	193	190
Share payment based expenses	20	4,918	4,285
Interest income recognized in profit or loss		(1,431)	(1,396)
Loss on investments in funds		50	–
Share of result of associate Cassiopea		2,895	4,049
Impairment loss on financial assets		–	24
Unrealised foreign exchange (gain) / losses on cash and bond		(3,442)	9,927
Operating cash outflow before changes in working capital		**(37)**	**(817)**
Change in inventories		(706)	(666)
Change in trade receivables		(3,010)	(926)
Change in trade payables		(2,652)	6,060
Change in other receivables and other assets		(58)	(1,889)
Change in other liabilities		(1,818)	(5,240)
Change in current tax liabilities		(52)	(57)
Payment of employee benefits	17	(216)	(213)
Cash flows from operating activities		**(8,549)**	**(3,748)**
Income taxes paid (net)		(3,961)	(5,795)
Net cash from operating activities		**(12,510)**	**(9,543)**
Investment in property, plant and equipment		(1,011)	(5,135)
Investment in other intangible assets		(3,197)	(5,848)
Disposal of property, plant and equipment		–	14
Investment in financial assets		(79,349)	(70,416)
Disposal of financial assets		34,451	40,639
Interest received		1,545	2,475
Cash flow from investing activities		**(47,561)**	**(38,271)**
Repayments of interest-bearing loans and borrowings		(212)	(378)
Change in other non-current receivables		–	(173)
Sale of treasury shares		–	47,290
Purchase of treasury shares	15	(3,449)	–
Capital increase/Stock option exercise		–	48,963
Dividends paid		–	(22,556)
Cash flows from financing activities		**(3,661)**	**73,146**
Net increase in cash and cash equivalents		**(63,732)**	**25,332**
Cash and cash equivalents at the beginning of the period		**144,944**	**117,649**
Unrealised foreign exchange (gain) / loss on cash and cash equivalents		**3,131**	**(6,666)**
Cash and cash equivalents at the end of the period		**84,343**	**136,315**
Cash at hand		14	11
Bank accounts		84,329	136,304
Total cash and cash equivalents at the end of the period	14	**84,343**	**136,315**

The accompanying notes form an integral part of the Half-Year Consolidated Financial Statements.

Consolidated statement of changes in equity (unaudited)

EUR 1,000	Number of shares (n)	Attributable to owners of the Company											Non-controlling interests	Total
		Share capital	Share premium	Other reserves	Treasury shares	Stock option plan reserve	Fair value reserve	Employee benefits actuarial gains / losses reserve	Currency translation reserve	Retained earnings	Total			
Net equity as at 1 January 2017	***14,418,983***	**3,749**	**–**	**47,845**	**(28,073)**	**16,457**	**3,057**	**(169)**	**118**	**372,562**	**415,546**		**12**	**415,558**
Total comprehensive income for the period														
Loss for the period										(17,270)	(17,270)		*	(17,270)
Other comprehensive income for the period							3,587	*	800		4,387			4,387
Transactions with owners of the company														
Dividends payment										(22,556)	(22,556)			(22,556)
Capital increase/stock option excercise	***618,500***	161	65,231			(16,429)					48,963			48,963
Personnel cost for stock options						4,337					4,337			4,337
Sale of treasury shares			19,217		28,073						47,290			47,290
Net equity as at 30 June 2017	***15,037,483***	**3,910**	**84,448**	**47,845**	**–**	**4,365**	**6,644**	**(169)**	**918**	**332,736**	**480,697**		**12**	**480,709**

*Less than EUR 1 thousand

The accompanying notes form an integral part of the Half-Year Consolidated Financial Statements.

Consolidated statement of changes in equity (unaudited)

EUR 1,000	Number of shares (n)	Attributable to owners of the Company											Non-controlling interests	Total
		Share capital	Share premium	Other reserves	Treasury shares	Stock option plan reserve	Fair value reserve	Employee benefits actuarial gains / losses reserve	Currency translation reserve	Retained earnings	Total			
Net equity as at 31 December 2017	**15,037,483**	**3,910**	**84,448**	**47,845**		**9,597**	**3,894**	**(155)**	**958**	**319,620**	**470,117**		–	**470,117**
Impact of the adoption of IFRS9							36			(36)				–
Net equity as at 1 January 2018	**15,037,483**	**3,910**	**84,448**	**47,845**		**9,597**	**3,930**	**(155)**	**958**	**319,584**	**470,117**		–	**470,117**
Total comprehensive income for the period														
Profit for the period										(7,789)	(7,789)		–	(7,789)
Other comprehensive income for the period							(4,525)	3	(897)		(5,419)		–	(5,419)
Transactions with owners of the company														
Personnel cost for stock options						4,969				(2,061)	2,908		–	2,908
Purchase of treasury shares					(3,449)						(3,449)		–	(3,449)
Net Equity as at 30 June 2018	**15,037,483**	**3,910**	**84,448**	**47,845**	**(3,449)**	**14,566**	**(595)**	**(152)**	**61**	**309,734**	**456,368**		–	**456,368**

*Less than EUR 1 thousand

The accompanying notes form an integral part of the Half-Year Consolidated Financial Statements.

Notes to the Half-Year Consolidated Financial Statements (unaudited)

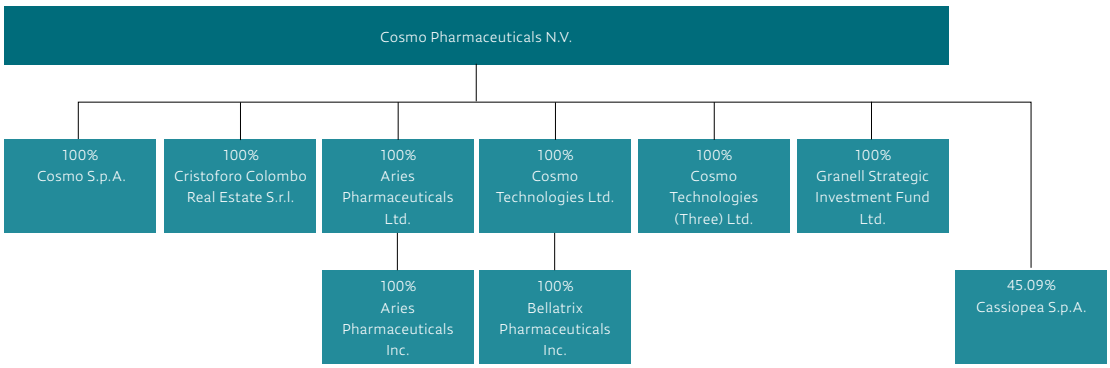
1 General information

Cosmo Pharmaceuticals N.V. with its subsidiaries and associates, ("Cosmo" or "Cosmo Pharmaceuticals" or "Company" or "Group") is a specialty pharmaceutical company registered in the Netherlands with its seat of management at Riverside II, Sir John Rogerson's Quay, Dublin, Ireland, and listed on the SIX Swiss Exchange (SIX: COPN), the Company has a Swiss branch located in Lugano, Switzerland. The Company is regestered at the Dutch trade register under number 65617738.

Cosmo is a pharmaceutical company with a specialized focus on gastroenterology and endoscopy. We develop and manufacture products which are distributed globally. Our mission is to improve people's lives by developing innovative treatments that address unmet clinical needs and improve clinical outcomes.

Since 12 March 2007, Cosmo Pharmaceuticals' shares have been publicly listed on the Swiss Stock Exchange (SIX: COPN). The Company's stock market capitalization as at 30 June 2018 was equal to CHF 1,684,198,096.

The structure of the Company as of 30 June 2018, is as follows:



Cassiopea S.p.A. is an associate – refer to note 11 Investment in associates

2 Basis of preparation

a Authorization of Consolidated Financial Statements and compliance with International Financial Reporting Standards

The Half-Year Condensed Consolidated Financial Statements, together with notes, of Cosmo Pharmaceuticals N.V. at 30 June 2018 were authorized for issuance by the Board of Directors on 25 July 2018 and have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU-IFRS). The designation 'IFRS' also includes International Accounting Standards (IAS) as well as all interpretations of the IFRS Interpretations Committee (IFRIC).

This report has been prepared in accordance with IAS 34, 'Interim Financial Reporting', and accordingly does not include all information and disclosures as required by IFRS for complete financial statements.

b Basis of Preparation

The accounting principles and policies used in preparation of the Half-Year Condensed Consolidated Financial Statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2017, except as otherwise stated under 'Changes in accounting policies' in the following paragraphs.

The preparation of the Half-Year Condensed Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and disclosure of contingent assets and liabilities at the date of the Half-Year Condensed Consolidated Financial Statements. If in the future such estimates and assumptions, which are based on the management's best judgement at the date of the Half-Year Consolidated Financial Statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

These Half-Year Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements for the year ended 31 December 2017 as they provide an update of previously reported information. Operating results for the six months ended 30 June 2018 are not necessarily indicative of the results that may be expected for the year ending 31 December 2018.

The Half-Year Condensed Consolidated Financial Statements are prepared under the historical cost method, modified as required for the measurement of certain financial instruments, as well as on a going concern basis. In this respect, the Group's assessment is that no material uncertainties (as defined in paragraph 25 of IAS 1 – Presentation of Financial Statements) exist about its ability to continue as a going concern.

For presentation of the Half-Year Condensed Consolidated Financial Statements, the Group uses a classification based on the function of expenses, rather than based on their nature, as it is more representative of the format used for internal reporting and management purposes and is consistent with international practice in the pharmaceuticals sector. The statement of financial position has been prepared presenting assets and liabilities as current and non-current; the statements of cash flows present cash flows from operating activities using the indirect method and the statement of changes in equity includes all the changes in equity.

The Consolidated Financial Statements are expressed in thousands of euros unless stated otherwise, rounding the amounts to the nearest thousand.

3 Accounting Policies

a Changes in accounting policies

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2017.

The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ending 31 December 2018.

The Group has initially adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from 1 January 2018. A number of other new standards are effective from 1 January 2018 but they do not have a material effect on the Group's financial statements.

IFRS 15 Revenue from Contracts with Customers

The Group implemented the new standard IFRS 15 Revenue from Contracts with Customers as of 1 January 2018. The new standard amends revenue recognition requirements and establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The standard replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations.

The Group has adopted IFRS 15 using the cumulative effect method with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). Accordingly, the information presented for 2017 has not been restated - i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations.

The was no material impact of transition to IFRS 15 on retained earnings at 1 January 2018, the Group's interim statement of financial position as at 30 June 2018 and its interim statement of profit or loss, OCI and cash flows for the six months then ended.

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various revenue streams are set out below.

Nature of revenue	**Nature, timing of satisfaction of performance obligations, significant payment terms**	**Nature of change in accounting policy**
Manufacturing on behalf of third parties	Sales from the manufacture of generic, specialty drugs, *MMX* products and related services where control tranfers to our customers and performance obligations are satisfied at the time of shipment to or receipt of the products by the customer or when the services are performed.	The adoption of IFRS 15 did not significantly change the timing or amount of revenue recognized.
Marketed products – *Eleview*	Marketed products – *Eleview* sales are derived from the sale of the device *Eleview* directly in the US market through distributers. Revenue is recognized on receipt of the prouct by the distributor as control, as indicated under IFRS 15, is deemed to have transferred. For contracts that permit a right of return, under IFRS 15 revenue is recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Therefore, the amount of revenue recognized is adjusted for expected returns, which are estimated based on historical data. This is applied to the amounts invoiced, also considering the amount of returned products to be destroyed versus products that can be placed back in inventory for resale. Where shipments are made on a re-sale or return basis, without sufficient historical experience for estimating sales returns, revenue is only recorded when there is evidence of consumption or when the right of return has expired.	The adoption of IFRS 15 did not significantly change the timing or amount of revenue recognized.
License fees, up-front fees and milestones	These license agreements are accounted for as a right to use IP. The performance obligation to transfer the licenses to the counterparty to the agreement (the licensee) has been satisfied, revenue is recognized at the point in time when the upfront payment is received and when the milestone criteria is highly probable to be met. Milestone criteria refer to such events as NDA acceptance or approval, marketing authorization of the product in the territory, sales targets, etc.	The adoption of IFRS 15 did not significantly change the timing or amount of revenue recognized.
Royalties	Royalty income relates to the out-licensing of intellectual property (IP). These are sales-based royalties and revenue is recognized based on the customer's subsequent sales.	The adoption of IFRS 15 did not change accounting for these royalty arangements, as the standard's royalty exception is applied for IP licenses.

Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

Where the consideration promised in a contract includes variable consideration, the amount of consideration to which the Company will be entitled is estimated only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved.

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

In particular, it amends the previous guidance in two main areas;

- The classification and measurement of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held;
- The accounting for impairment of financial assets through the introduction of an 'expected credit loss' impairment model, replacing the incurred loss method under IAS 39.

In accordance with the transitional provisions in IFRS 9, the Group did not restate prior periods. Comparative figures have not been restated for the classification and measurement provisions of the standard, including impairment, and continue to be reported under the accounting standards in effect for periods prior to 1 January 2018. The impact of adoption on our Consolidated Financial Statements was not material.

The following table summarizes the impact, net of tax, of transition to IFRS 9 on the opening balance of reserves and retained earnings.

EUR 1,000

Fair value reserve	
Recognition of expected credit losses under IFRS 9 for debt securities measured at FVOCI	54
Related tax	(18)
Restated at 31 December 2017	**36**

Retained Earnings	
Recognition of expected credit losses under IFRS 9	(54)
Related tax	18
Restated at 31 December 2017	**(36)**

Financial assets and liabilities

Financial assets primarily include trade and other receivables, cash and cash equivalents, investments in other companies, investments in funds and debt securities that represent temporary investments of available funds and do not satisfy the requirements for being classified as cash equivalents.

Financial liabilities primarily consist of debt, trade payables and other liabilities. The classification of financial liabilities under IFRS 9 is unchanged compared with the previous accounting requirements under IAS 39.

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

i Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortized cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The group considers whether the contractual cash flows represent solely payments of principal and interest that are consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial assets are classified and measured at fair value through profit or loss (FVPL).

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial assets at amortized cost	These assets are subsequently measured at amortized cost using the effective interest metod. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

Factors considered by the Group in determining the business model for a group of financial assets include:

- past experience on how the cash flows for these assets were collected
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and future sales activity expectations
- how the asset's performance is evaluated and reported to key management personnel
- how risks are assessed and managed and how management is compensated

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018.

Financial statement line item	Notes	Original classification under IAS 39	Original carrying amount under IAS 39	New carrying amount under IFRS 9	New classification under IFRS 9	Financial statement line item
Non-current financial assets						
Financial assets available for sale	(a)	Cost (AFS)	2,894	2,894	FVOCI – equity instrument	Equity instruments measured at FVOCI
Financial assets available for sale	(a)	FVOCI (AFS)	16,458	16,458	FVOCI – equity instrument	Equity instruments measured at FVOCI
Other financial assets available for sale – investment securities	(b)	FVOCI (AFS)	74,459	74,459	FVOCI – debt instrument	Debt securities measured at FVOCI
Other non-current receivables	(c)	Loans and receivables	1,873	1,873	Amortised cost	Other non-current receivables
Current financial assets						
Other financial assets available for sale – investment securities	(b)	FVOCI (AFS)	27,759	27,759	FVOCI – debt instrument	Debt securities measured at FVOCI
Trade receivables	(c)	Loans and receivables	13,190	13,190	Amortised cost	Trade receivables
Other receivables and other assets	(c)	Loans and receivables	56	56	Amortised cost	Other receivables and other assets
Cash and cash equivalents		Loans and receivables	144,944	144,944	Amortised cost	Cash and cash equivalents
Total financial assets			**281,633**	**281,633**		

a. Investments in other companies are measured at fair value. Equity investments for which there is no quoted market price in an active market and there is insufficient financial information in order to determine fair value may be measured at cost as an estimate of fair value, as permitted by IFRS 9. The Group may irrevocably elect to present subsequent changes in the investment's fair value in Other comprehensive income (OCI) upon the initial recognition of an equity investment that is not held to sell. This election is made on an investment-by-investment basis. Generally, any dividends from these investments are recognized in Other income from investments when the Group's right to receive payment is established. Other net gains and losses are recognized in OCI and will not be reclassified to the Consolidated Income Statement in subsequent periods. Impairment losses (and the reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value in OCI.

b. The corporate debt securities categorized as available-for-sale under IAS 39 are held by Group treasury in a separate portfolio to provide interest income, but may be sold to meet liquidity requirements arising in the normal course of business. The Group considers that these securities are held within a business model whose objective is achieved both by collecting contractual cash flows and by selling securities. The corporate debt securities mature in one to five years and the contractual terms of these financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These assets have therefore been classified as financial assets at FVOCI under IFRS 9.

c. Trade and other receivables that were classified as loans and receivables under IAS 39 are now classified at amortized cost.

d. Cash and cash equivalents include cash at banks and short-term deposits that are readily convertible into cash with original maturities of six months or less at the date of purchase. Cash and cash equivalents are subject to an insignificant risk of changes in value and consist of balances across various financial institutions. Cash at banks and other cash equivalents are measured at amortized cost.

ii Impairment of financial assets

The IFRS 9 impairment requirements are based on a forward-looking expected credit loss ("ECL") model. ECL is a probability-weighted estimate of the present value of cash shortfalls.

The calculation of the amount of ECL is based on the risk of default by the counterparty, which is determined by taking into account the information available at the end of each reporting period as to the counterparty's solvency, the fair value of any guarantees and the Group's historical experience. The Group considers a financial asset to be in default when: (i) the borrower is unlikely to pay its obligations in full and without consideration of compensating guarantees or collateral (if any exist); or (ii) the financial asset is more than 90 days past due.

The Group applies two impairment models for financial assets as set out in IFRS 9: the simplified approach and the general approach. The table below indicates the impairment model used for each of our financial asset categories. Impairment losses on financial assets are recognized in the Consolidated Income Statement within the corresponding line items, based on the classification of the counterparty.

Financial Asset	IFRS 9 impairment model
Trade and other receivables	Simplified approach
Cash and cash equivalents	General approach
Debt securities carried at FVOCI	General approach

In order to test for impairment, individually significant receivables and receivables for which collectability is at risk are assessed individually, while all other receivables are grouped into homogeneous risk categories based on shared risk characteristics such as instrument type, industry or geographical location of the counterparty.

The simplified approach for determining the lifetime ECL allowance is performed in two steps:

- All trade receivables that are in default, as defined above, are individually assessed for impairment; and
- A general reserve is recognized for all other trade receivables (including those not past due) based on historical loss rates.

The Group applies the general approach as determined by IFRS 9 by assessing at each reporting date whether there has been a significant increase in credit risk on the financial instrument since initial recognition. The Group considers receivables to have experienced a significant increase in credit risk when certain quantitative or qualitative indicators have been met or the borrower is more than 60 days past due on its contractual payments.

The 'three-stages' for determining and measuring the impairment based on changes in credit quality since initial recognition are summarized below:

Stage	Description	Time period for measurement of ECL
Stage 1	A financial instrument that is not credit-impaired on initial recognition	12-month ECL
Stage 2	A financial instrument with a significant increase in credit risk since initial recognition	Lifetime ECL
Stage 3	A financial instrument that is credit-impaired or has defaulted	Lifetime ECL

Considering forward-looking economic information, ECL is determined by projecting the probability of default, exposure at default and loss given default for each future contractual period and for each individual exposure or collective portfolio. The discount rate used in the ECL calculation is the stated effective interest rate or an approximation thereof. Each reporting period, the assumptions underlying the ECL calculation are reviewed and updated as necessary. Since adoption, there have been no significant changes in estimation techniques or significant assumptions that led to material changes in the ECL allowance.

The gross carrying amount of a financial asset is written-off to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that a debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities.

Impact of the new impairment model

The Group has determined that the application of IFRS 9's impairment requirements at 1 January 2018 results in an additional impairment allowance as follows:

EUR 1,000

Loss allowance at 31 December 2017 under IAS 39	**32**
Additional impairment recognised at 1 January 2018 on:	
Debt securities measured at FVOCI	54
Loss allowance at 1 January 2018 under IFRS 9	**86**

Debt securities at FVOCI are considered to have low credit risk, and the loss allowance recognised during the period was therefore limited to 12 months expected losses. The credit risk on debt securities at FVOCI has not increased significantly since initial recognition. Management consider 'low credit risk' for listed bonds to be an investment grade credit rating with at least one major rating agency.

The Company concludes that its trade receivables do not include a significant financing component because they are due within 0-60 days of the invoice date. Hence, the Company apply the simplified approach and recognise lifetime ECLs on trade receivables. Cosmo applies the provision matrix as a practical expedient to calculate ECLs under the simplified approach. The provision matrix is based on the Company's historical observed default rates and is adjusted for forward-looking estimates. Overall, the impact was immaterial.

b Standards, amendments and interpretations issued but not yet adopted

A number of new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The Group has the following updates to information provided in the last annual financial statements about the standards issued but not yet effective that may have a significant impact on the Group's consolidated financial statements.

IFRS 16 Leases

IFRS 16 replaces existing leases guidance, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

The Group has considered the potential impact on its consolidated financial statements but has not yet completed its detailed assessment. The actual impact of applying IFRS 16 on the financial statements in the period of initial application will depend on future economic conditions, including the Group's borrowing rate at 1 January 2019, the composition of the Group's lease portfolio at that date, the Group's latest assessment of whether it will exercise any lease renewal options and the extent to which the Group chooses to use practical expedients and recognition exemptions.
So far, the most significant impact identified is that the Group will recognize new assets and liabilities for its operating leases.

In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities.

No significant impact is expected for the Group's finance leases.

c Critical accounting estimates, assumptions and judgments

In preparing these interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for:

- Classification of share of result of associate in operating result as detailed below and;
- new significant judgements and key sources of estimation uncertainty related to the application of IFRS 15 and IFRS 9, which are described in Note 3 (a).

Classification of share of result of associate in operating result

The Group's share in the loss of Cassiopea was presented in prior years as part of the operating result. There is no obligation in relation to the presentation of the income statement under IAS 1. However, the standard states that components can only be presented as part of the results of operating activities or similar line item, when these are representative of activities that would normally be regarded as 'operating'. Given that Cosmo do not exercise control over Cassiopea, Management consider it more appropriate to present the 'Share of result in associates' below the operating result.

4 Restatement

a Restatement of Consolidated Income Statement

The interim 2017 Consolidated Income Statement comparative, published in 'Half-Year Report 2017', has been restated as follows:

'Share of result of associates' is now presented below 'Net financial income / (expenses)'.

	As at 30 June 2017		
EUR 1,000	Previously reported	Adjustment Reclassification	Restated amount
Revenue	**31,824**	**–**	**31,824**
Net operating expenses	**(36,143)**	**–**	**(36,143)**
Share of result of associates	(4,049)	4,049	–
Operating loss	**(8,368)**	**–**	**(4,319)**
Net financial income / (expense)	**(11,000)**	**–**	**(11,000)**
Share of result of associates	–	(4,049)	(4,049)
Loss before taxes	**(19,368)**	**–**	**(19,368)**

b Restatement of Consolidated Cashflow Statement

The interim 2017 Consolidated Cash Flow Statement comparative, published in 'Half-Year Report 2017', has been restated as follows:

'Income taxes paid (net)' is now presented below movements from working capital classified as 'Net cash from operating activities';

'Interest received' is separately disclosed and classified as 'Cash flows from investing activities' and 'Unrealized foreign exchange loss on cash and cash equivalents' has been moved between 'Cash and cash equivalents at the beginning of the period' and 'Cash and cash equivalents at the end of the period.

EUR 1,000	Previously reported	Adjustment Reclassification	Restated amount
Income taxes paid (net)	(5,795)	5,795	–
Accrued interest	1,079	(1,079)	–
Interest income recognized in profit or loss	–	(1,396)	(1,396)
Cash flows from operating activities	**(7,068)**	**3,320**	**(3,748)**
Income taxes paid (net)	–	(5,795)	(5,795)
Net cash from operating activities	**(7,068)**	**(2,475)**	**(9,543)**
Interest received	–	2,475	2,475
Cash flows from investing activities	**(40,746)**	**2,475**	**(38,271)**
Cash flows from financing activities	**73,146**	**–**	**73,146**
Unrealised foreign exchange loss on cash and cash equivalents	**(6,666)**	**6,666**	**–**
Net increase in cash and cash equivalents	**18,666**	**6,666**	**25,332**
Cash and cash equivalents at the beginning of the year	**117,649**	**–**	**117,649**
Unrealised foreign exchange loss on cash and cash equivalents	**–**	**(6,666)**	**(6,666)**
Cash and cash equivalents at the end of the year	**136,315**	**–**	**136,315**

5 Revenue

EUR 1,000	H1 2018	H1 2017
Manufacturing on behalf of third parties:		
Manufacturing of generic products and specialty drugs	4,078	4,331
Manufacturing of *MMX* products	15,899	18,093
Related services	520	369
Other revenues from sales	120	244
Marketed products – *Eleview*	2,761	32
Licence fees, up– front fees and milestones	3,705	500
Royalties	9,577	8,255
Total revenue	**36,660**	**31,824**

EUR 1,000	H1 2018	H1 2017
Own products	31,942	26,848
Third party products	4,718	4,976
Total revenue	**36,660**	**31,824**

6 Net operating expenses

EUR 1,000	H1 2018	H1 2017
Other income	240	268
Changes in inventories of finished goods and work in progress	157	320
Raw materials and consumables used	(3,128)	(4,302)
Personnel expenses	(19,824)	(16,279)
Outsourced preclinical and clinical trial costs	(771)	(326)
Other operating expenses	(18,482)	(14,352)
Depreciation and amortization	(2,063)	(1,472)
Total net operating expenses	**(43,871)**	**(36,143)**

a Personnel expenses

In H1 2018 personnel expenses increased to €19,824 thousand (H1 2017: €16,279 thousand) mainly as a result of the hiring of sales and marketing personnel in the U.S. as the Company expands its organization to commercialize products directly in the U.S.

EUR 1,000	H1 2018	H1 2017
Salaries and wages	12,445	9,940
Social security contributions	2,472	2,055
Employee benefits	193	190
Stock options	4,668	4,031
Other costs	46	63
Total personnel expenses	**19,824**	**16,279**

The number of staff as at 30 June 2018 was as follows:

No. of staff	30-Jun-18	30-Jun-17
Managers	18	18
Junior managers	58	54
Employees	128	132
Workers	87	94
Total number	**291**	**298**

The average number of staff for the period ended 30 June 2018 was as follows:

No. of staff	H1 2018	H1 2017
Managers	18.0	18.0
Junior managers	62.5	45.5
Employees	130.0	99.5
Workers	90.5	91.5
Total number	**301.0**	**254.5**

In H1 2018 expense related to the value of employees and Directors services exchanged for stock options was €4,668 thousand (H1 2017: €4,031 thousand). The cost associated with the Cosmo Pharmaceuticals N.V. plan was €3,143 thousand (H1 2017: €2,661 thousand) and cost associated with the stock option plan of Aries Pharmaceuticals Ltd was €1,525 thousand (H1 2017: €1,370 thousand (see note 20 Share-based payment).

7 Financial income and expenses

EUR 1,000	H1 2018	H1 2017
Financial income:		
Interest received on listed bonds and securities	875	1,187
Interest received on cash and cash equivalents	556	209
Gain on sale of listed bonds and securities	794	383
Foreign exchange gains	3,867	85
Gain on investments in funds	5	–
Other	19	28
Total financial income	**6,116**	**1,892**
Financial expenses:		
Interest on bank overdraft/advance on invoices	(8)	(6)
Interest on medium and long-term bank loan	(4)	(4)
Interest on financial lease payables	(16)	(22)
Impairment loss on financial assets available for sale	–	(24)
Loss on sale of listed bonds and securities	(695)	(1,206)
Loss on investments in funds	(55)	–
Foreign exchange losses	(378)	(11,605)
Other	(137)	(25)
Total financial expenses	**(1,293)**	**(12,892)**
Net financial income / (expense)	**4,823**	**(11,000)**

8 Income tax expenses

Income tax recognized in profit or loss

EUR 1,000	H1 2018	H1 2017
Income tax	(2,842)	(2,937)
Current income tax	**(2,842)**	**(2,937)**
Deferred tax assets	672	5,038
Deferred tax liabilities	(336)	(3)
Deferred tax	**336**	**5,035**
Total income tax expenses	**(2,506)**	**2,098**

Income Tax recognized in other comprehensive income

EUR 1,000	H1 2018	H1 2017
Deferred tax		
Arising on income and expense recognised in other comprehensive income:		
Remeasurement of defined benefit liability	(1)	*
Fair value on remeasurement of equity instruments at FVOCI	224	–
Fair value on remeasurement of debt securities at FVOCI	346	–
Disposal of debt securities measured at FVOCI reclassified to profit or loss	85	–
Fair value remeasurement of available for sale financial assets	–	480
Disposal of available for sale financial assets reclassified through profit or loss	–	(303)
Total income tax recognised in other comprehensive income	**654**	**177**

*Less than EUR 1 thousand

9 Basic and diluted earnings per share

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

EUR 1,000	H1 2018	H1 2017
Net loss attributable to shareholders (in EUR 1,000)	(7,789)	(17,270)
Weighted average number of outstanding ordinary shares	15,033,234	14,578,249
Basic earnings (loss) per share (in EUR)	**(0.518)**	**(1.185)**

Diluted earnings per share

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, after adjustments for the effects of all dilutive potential ordinary shares. In relation to the stock option plans, 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.

Potential ordinary shares from the exercise of stock options only have a dilutive effect if the new ordinary shares from the exercise of stock options leads to a lower result per share.

In relation to H1 2018 and H1 2017 potential new ordinary shares do not have a dilutive effect.

EUR 1,000	H1 2018	H1 2017
Net profit (loss) attributable to shareholders (in EUR 1,000)	(7,789)	(17,270)
Weighted average number of outstanding ordinary shares	15,033,234	14,578,249
Incremental shares from assumed options exercise	n/a	n/a
Adjusted weighted average number of outstanding ordinary shares	15,033,234	14,578,249
Diluted earnings (loss) per share (in EUR)	**(0.518)**	**(1.185)**

10 Other intangible assets

a Patents and rights

Patents and rights of €3,830 thousand (2017: €3,820 thousand) relate to the cost of filing and extension of patents owned by the Group. Additions during the period amounted to €359 thousand. Patents and rights are amortized over their useful life based on their expiry date.

b Trademarks and licenses

Capitalized *Remimazolam* license costs of €10,000 thousand (2017: €10,000 thousand) relate to the license agreement signed with PAION AG in 24 June 2016. PAION AG is entitled to receive additional payments from the Company of up to €42.5 million contingent upon certain milestones related to the U.S. regulatory approval process. None of these milestones were met during H1 2018. Amortization of the capitalized license costs of *Remimazolam* will start from the date of commercial use of the product on a straight-line basis over the period of its expected benefit.

c Development costs

Capitalized development costs of €17,495 thousand (2017: €14,705 thousand) are associated with *Methylene Blue MMX* (CB-17-01) €8,424 thousand (2017: €9,464 thousand), *Rifamycin SV MMX* (CB-01-11) €6,586 thousand (2017: €3,197 thousand), *Eleview* (CB-17-04) €1,560 thousand (2017: €1,607 thousand) and *Remimazolam* (CB-07-01) €925 thousand (2017: €437 thousand).

These costs have been capitalized from the start of 2016 as Management believe that capitalization criteria were met from that date and Management confirms the recoverability of the relevant capitalized costs, based on probable future economic benefits. Assets are amortized from the date that they are available for use on a straight-line basis over the period of their expected benefit. The amortisation of capitalised development costs related to *Eleview* commenced in 2017.

11 Investments in associates

EUR 1,000	H1 2018	H1 2017
Share of result of associates	(2,895)	(4,049)
Share of result of associates	**(2,895)**	**(4,049)**

EUR 1,000	30-Jun-18	31-Dec-17
Cassiopea S.p.A.	132,898	135,742
Investments in associates	**132,898**	**135,742**

The Group's interests in associated companies refers to the Group's interest of 45.09% in Cassiopea S.p.A. an Italian company based in Lainate, Milano (Italy). As at 30 June 2018, Cassiopea had 10,000,000 shares issued, fully subscribed and paid up, each share with a nominal value of €1.00 and a total share capital of €10,000 thousand.

The following table shows the financial data of Cassiopea S.p.A. reconciled to the relative carrying amount in the Group consolidated statement of financial position, considering the fair value adjustment due to the loss of control in Cassiopea S.p.A. in 2015:

EUR 1,000	Cassiopea financial data as at H1 2018
Financial statment	
Total non-current assets	8,517
Total current assets	13,762
Total assets	**22,279**
Total non-current liabilities	–
Total current liabilities	2,232
Total liabilities	**2,232**
Total equity as at 30 June 2018	**20,047**
Income statement for the six months ended 30 June 2018	
Operating result	(7,085)
Loss before taxes	(6,729)
Loss after tax	(6,729)

EUR 1,000	Total shareholders' Equity	Group's Pro quota Equity	Adjustment for Fair value remeasurement	Consolidated investment carrying amount
Cassiopea SpA	**20,047**	**9,039**	**123,859**	**132,898**

The fair value of ownership interest in Cassiopea S.p.A. based on the quoted market price of the shares listed on SIX Swiss Exchange, is equal to €132,514 thousand as at 30 June 2018 (4,508,987 shares at CHF 34.00 per share, F/X 1.1569).

12 Financial assets

Non-current

EUR 1,000	30-Jun-18	31-Dec-17
Debt securities measured at FVOCI – investment securities	43,142	74,459
Equity instruments measured at FVOCI – Paion shares	11,000	14,195
Equity instruments measured at FVOCI – Volitionrx shares	1,584	2,263
Equity instruments measured at FVOCI – AIMM shares	2,594	2,594
Equity instruments measured at FVOCI – others	300	300
Non-current financial assets	**58,620**	**93,811**

Debt securities consist of listed bonds. Gains and losses arising from the adjustment to the fair value, were recognized in other comprehensive income.

PAION AG shares relates to 8.22% of the capital of PAION AG, a company listed on the Frankfurt Stock Exchange Prime Standard (PA8), acquired in 2016 when the Company also entered into a license agreement for *Remimazolam*. In addition to the stake acquired in 2016 the Company subscribed to a capital increase in PAION AG in February 2017 and as at 30 June 2018 Cosmo owns 5,238,225 PAION AG shares. As at 30 June 2018 the fair value of the Group's interest in PAION AG was €11,000 thousand (2017: €14,195 thousand) or €2.10 per share (Market Price Frankfurt Stock Exchange). The loss of €3,195 thousand in the period was recognized in other comprehensive income net of the tax effect.

VolitionRx shares refer to 3.07% of the capital of VolitionRx Limited an U.S. clinical stage life sciences company listed on the NYSE MKT (VNRX) and focused on developing blood-based diagnostic tests for detecting and diagnosing cancer and other diseases acquired in March 2016. As at 30 June 2018 the fair value was $1,846 thousand, €1,584 thousand (2017: $2,714 thousand, €2,263 thousand) or $2.00 per share (NYSE MKT). The loss of €679 thousand in the period was recognized in other comprehensive income net of the tax effect.

AIMM shares refers to 6.48% of the capital of AIMM Therapeutics B.V. (Amsterdam – The Netherlands), a company focused on antibody discovery, acquired in June 2013 for €2,594 thousand.
As at 30 June 2018 the investments in AIMM and other financial assets which are not publicly traded have been maintained at the initial recognized costs, as cost approximates to fair value. The carrying amount of the investments in AIMM and other equity instruments have been subject to impairment test using a value in use approach (DCF), which has not determined any impairment losses.

Current

EUR 1,000	30-Jun-18	31-Dec-17
Debt securities measured at FVOCI – current investment securities	23,392	27,759
Investment in Funds measured at FVTPL	79,366	–
Current financial assets	**102,758**	**27,759**

Current debt securities consist of short term or marketable securities (bonds) which represent temporary investments, but which do not satisfy all the requirements for being classified as cash equivalents.

Investments in funds consist of investments in "Money market", "Supply chain finance", "Corporate short duration" and "Floating rate credit" funds. Gains and losses arising from the adjustment to the fair value were recognized in profit or loss.

13 Other receivables and other assets

EUR 1,000	30-Jun-18	31-Dec-17
Receivables from associates companies	291	56
VAT receivables	2,804	3,617
Prepaid expenses	831	440
Other prepaid	1,156	1,087
Total other receivables and other assets	**5,082**	**5,200**

14 Cash and cash equivalents

EUR 1,000	30-Jun-18	31-Dec-17
Cash at hand	14	14
Bank accounts	84,329	144,930
Total cash and cash equivalents	**84,343**	**144,944**

Bank accounts include availability on current bank accounts and short-term deposits.

15 Total shareholders' equity

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

EUR 1,000	30-Jun-18	31-Dec-17
Share capital	3,910	3,910
Share premium	84,448	84,448
Other reserves	47,845	47,845
Treasury shares	(3,449)	–
Stock option plan reserve	14,566	9,597
Fair value reserve	(595)	3,894
Employee benefits actuarial gains/losses reserve	(152)	(155)
Currency translation reserve	61	958
Retained earnings	317,523	352,067
Loss for the period	(7,789)	(32,447)
Equity attributable to owners of the company	**456,368**	**470,117**
Total equity	**456,368**	**470,117**

a Share capital

	Ordinary shares	Preference shares
In issue at 1 January 2017 – fully paid	14,418,983	–
Exercise of share options	618,500	–
In issue at 31 December 2017 – fully paid	**15,037,483**	**–**
Authorized at 31 December 2017 – par value € 0.26	**36,047,457**	**36,047,457**
In issue at 1 January 2018 – fully paid	15,037,483	–
Exercise of share options	–	–
In issue at 30 June 2018 – fully paid	**15,037,483**	**–**
Authorized at 30 June 2018 – par value € 0.26	**36,047,457**	**36,047,457**

As at 30 June 2018 the authorized share capital amounts to €18,744,677.64 and is divided into 36,047,457 ordinary shares, each with a nominal value of €0.26 and 36,047,457 preferred shares, each with a nominal value of €0.26.

Share premium

As at 30 June 2018 the share premium of €84,448 thousand relates to the proceeds from the issue of the 618,500 shares on 31 March 2017 as a result of the exercise of vested stock options and from the sale of treasury shares in 2017.

b Other reserves

Include reserves available for distribution.

c Treasury shares

As at 30 June 2018, the number of treasury shares amounted to 35,411 which were purchased during the period at an average purchase price of CHF 112.57 per share.

The number of shares outstanding was as follows:

	Ordinary shares
In issue at 1 January 2017 – fully paid	**14,418,983**
Treasury shares	**315,447**
Outstanding at 1 January 2017 – fully paid	**14,103,536**
Issue of new shares	618,500
Treasury shares sold	315,447
Outstanding at 31 December 2017 – fully paid	**15,037,483**
In issue at 1 January 2018 – fully paid	**15,037,483**
Treasury shares	**–**
Outstanding at 1 January 2018 – fully paid	**15,037,483**
Issue of new shares	–
Treasury shares sold	–
Treasury shares purchased	(35,411)
Outstanding at 30 June 2018	**15,002,072**

d Stock option plan reserve

The stock option plan reserve relates to the stock option plan of Cosmo Pharmaceuticals N.V. allocated in 2014, 2016 and in 2017 and to the stock option plan of its subsidiary Aries Pharmaceuticals Ltd. allocated in 2016, 2017 and 2018.

e Fair value reserve

The fair value reserve is mainly due to measurement at fair value of the listed bonds and of the equity investments in PAION AG and VolitionRx Ltd. which are included in financial assets (non-current and current).

f Employee benefits actuarial gains / losses reserve

Employee benefits actuarial gains / losses reserve includes the cumulated actuarial gains / losses on the employee benefits, recorded following the application of the amendment to IAS 19.

g Currency translation reserve

Currency translation differences arise from the consolidation of foreign entities with a functional currency other than the euro.

h Dividend

No dividend was paid during H1 2018. In H1 2017 a dividend of €1.50 per share or €22,556 thousand was paid out of distributable reserves.

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

a Non-current

EUR 1,000	30-Jun-18	31-Dec-17
Bank loans	1,211	1,211
Total bank loans	**1,211**	**1,211**
Financial lease liabilities	2,419	2,616
Total financial lease liabilities	**2,419**	**2,616**
Total interest-bearing loans and borrowings (non-current)	**3,630**	**3,827**

b Current

EUR 1,000	30-Jun-18	31-Dec-17
Bank loans	243	243
Total bank loans	**243**	**243**
Financial lease liabilities	391	406
Total financial lease liabilities	**391**	**406**
Total interest-bearing loans and borrowings (current)	**634**	**649**

17 Employee benefits

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

Movements in the period are as follows:

	As at 1 January	Changes in the period				As at 30 June
EUR 1,000	2018	Accrued	Interest costs	Actuarial (Gains)/ losses	Utilized	2018
Employee benefits	318	193	*	(4)	(216)	291
Total Employee benefits	**318**	**193**	*****	**(4)**	**(216)**	**291**

	As at 1 January	Changes in the period				As at 30 June
EUR 1,000	2017	Accrued	Interest costs	Actuarial (Gains)/ losses	Utilized	2017
Employee benefits	409	190	*	*	(213)	386
Total Employee benefits	**409**	**190**	*****	*****	**(213)**	**386**

*Less than EUR 1 thousand

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

EUR 1,000	H1 2018	H1 2017
Discount rate (EUR Composite A yield curve)	0.93%	1.07%
Inflation rate	1.50%	1.50%
Future salary increase (inflation rate included)	n/a	n/a
Future pension increase	n/a	n/a
Mortality rate	RGS 48	RGS 48
Average annual departure rate	6.05%	6.73%

Amounts recognized in the income statements are as follows:

EUR 1,000	H1 2018	H1 2017
Current services cost*	193	190
Interest expenses on obligation**	***	***

* of which 185 and 183 respectively for 2018 and 2017, amount transferred to external fund
** interest expenses calculated on the present value of the liabilities for defined benefits plan
*** Less than EUR 1 thousand

Amounts recognized in the Other comprehensive income are as follows:

EUR 1,000	H1 2018	H1 2017
Actuarial (gains)/losses	(4)	*

*Less than EUR 1 thousand

18 Trade payables

EUR 1,000	30-Jun-18	31-Dec-17
Trade payables	4,005	7,640
Invoices/credit note to be received	5,568	3,688
Total trade payables	**9,573**	**11,328**

19 Other current liabilities

Other current liabilities includes the following:

EUR 1,000	30-Jun-18	31-Dec-17
Social security payables	390	496
VAT payable	–	8
Other liabilities	3,386	4,805
Advances from customers	–	266
Accrued expenses and deferred income	323	342
Total other current liabilities	**4,099**	**5,917**

20 Share-based payments

a Stock option plan of Cosmo Pharmaceuticals N.V.

Option Series 3 and 4

On 26 March 2014, the Board of Directors granted a total of 638,000 options with a vesting period of three years, expiring on 26 March 2020 and an exercise price of CHF 100.36 for 150,000 options (Option series 3) and an exercise price of CHF 79.64 for 488,000 options (Option series 4). The fair value of options granted, determined on the basis of a binomial tree generated by the Fincad program – technique similar to the Black-Scholes valuation model – resulted in a value of CHF 24.20 per option (Option series 3) and a value of CHF 35.01 per option (Option series 4). The options granted are recognized as costs over the vesting period.

With regard to Option Series 3 and Option Series 4, following the exercise of 618,500 options on 31 March 2017, 2,000 options are outstanding relating to Option Series 3 and 16,000 options are outstanding relating to Option Series 4.

Option Series 5

On 28 July 2016, the Board of Directors granted a total of 43,000 options with a vesting period of three years, expiring on 28 July 2022 at an exercise price of CHF 159.00 (Option series 5). The fair value of options granted, determined on the basis of a binomial tree generated by the Fincad program – technique similar to the Black-Scholes valuation model – resulted in a value of CHF 27.37 per option (Option series 5).

Option Series 6

On 11 April 2017, the Board of Directors granted a total of 832,300 options with a vesting period of three years, expiring on 11 April 2023 and an exercise price of CHF 154.90 (Option series 6). The fair value of options granted, determined on the basis of a binomial tree generated by the Fincad program – technique similar to the Black-Scholes valuation model – resulted in a value of CHF 25.05 per option (Option series 6). In H1 2018 2,000 options were forfaited relating to this option series.

Option Series 7

On 31 May 2017, the Board of Directors granted a total of 16,000 options with a vesting period of three years, expiring on 31 May 2023 and an exercise price of CHF 163.00 (Option series 7). The fair value of options granted, determined on the basis of a binomial tree generated by the Fincad program – technique similar to the Black-Scholes valuation model – resulted in a value of CHF 26.62 per option (Option series 7).

No stock options were granted during H1 2018 under the Cosmo Pharmaceuticals N.V. plan.

In H1 2018, the expense for the value of employees' and directors' services exchanged for stock options amounted to €3,393 thousand (H1 2017: €2,915 thousand) of which €3,143 thousand (H1 2017: €2,661 thousand) for management and personnel and €250 thousand (H1 2017: €254 thousand) for non-executive Directors.

Cosmo Pharmaceuticlas N.V. outstanding share options

Option series	Number Outstandng	Grant date	Vesting date	Expiry date	Exercise price CHF	Fair value of the option at the grant date CHF
Option series 3 – issued 26 March 2014	2,000	26/03/2014	26/03/2017	26/03/2020	100.36	24.20
Option series 4 – issued 26 March 2014	16,000	26/03/2014	26/03/2017	26/03/2020	79.64	35.01
Option series 5 – issued 28 July 2016	43,000	28/07/2016	28/07/2019	28/07/2022	159.00	27.37
Option series 6 – issued 11 April 2017	830,300	11/04/2017	11/04/2020	11/04/2023	154.90	25.05
Option series 7 – issued 31 May 2017	16,000	31/05/2017	31/05/2020	31/05/2023	163.00	26.62

	Number	Weighted average exercise price CHF
Outstanding as at 1 January 2017	**679,500**	**89.19**
Granted during the period	848,300	155.05
Forfeited during the period	–	–
Exercised during the period	(618,500)	84.55
Expired during the period	–	–
Outstanding as at 31 December 2017	**909,300**	**153.79**
Exercisable as at 31 December 2017	18,000	81.94
Outstanding as at 1 January 2018	**909,300**	**153.79**
Granted during the period	–	–
Forfeited during the period	(2,000)	154.90
Exercised during the period	–	–
Expired during the period	–	–
Outstanding as at 30 June 2018	**907,300**	**153.79**
Exercisable as at 30 June 2018	18,000	81.94

The share options outstanding as at 30 June 2018 had a weighted average exercise price of CHF 153.79 and a weighted average remaining contractual life of 4.7 years.

b Stock option plan of Aries Pharmaceuticals Ltd.

On 22 July 2016 the board of Aries Pharmaceuticals Ltd. established a share option program that entitles certain employees of Aries Pharmaceuticals Ltd. and its subsidiary Aries Pharmaceuticals Inc. to purchase share in Aries Pharmaceuticals Ltd. During H1 2018 the Board of Directors of Aries Pharmaceuticals Ltd. granted 580,445 options and 492,287 options were forfeited.

In H1 2018, the expense for the value of employees' and directors' services exchanged for stock options amounted to €1,525 thousand (H1 2017: €1,370 thousand) of which related to management and personnel.

The inputs used in the measurement of the fair values at grant date of the Aries Pharmaceuticals Ltd. stock option plan for options granted during H1 2018 were as follows:

Option series	**9a)**	**9b)**	**9c)**	**10)**
Issue Date	**02/01/18**	**02/01/18**	**02/01/18**	**02/01/18**
Fair value at grant date EUR	2.00	2.23	2.41	1.73
Share price at grant date EUR	10.24	10.24	10.24	10.24
Exercise price EUR	10.24	10.24	10.24	10.24
Expected volatility	25%	25%	25%	25%
Employee Exit Rate	0.00%	0.00%	0.00%	0.00%
Risk-free interest rate	0.24%	0.31%	0.35%	0.16%
Dividend yield	0.00%	0.00%	0.00%	0.00%
Exercise Multiple	1.2	1.2	1.2	1.2

Option series	**11a)**	**11b)**	**11c)**	**12)**
Issue Date	**22/03/18**	**22/03/18**	**22/03/18**	**22/03/18**
Fair value at grant date EUR	1.97	2.20	2.39	1.70
Share price at grant date EUR	10.04	10.04	10.04	10.04
Exercise price EUR	10.04	10.04	10.04	10.04
Expected volatility	25%	25%	25%	25%
Employee Exit Rate	0.00%	0.00%	0.00%	0.00%
Risk-free interest rate	0.34%	0.44%	0.52%	0.25%
Dividend yield	0.00%	0.00%	0.00%	0.00%
Exercise Multiple	1.2	1.2	1.2	1.2

The fair value of the options granted has been determined on the basis of the binomial tree generated by the Fincad program.

The expected volatility of the underlying instrument measures the expected fluctuations in price/value for a given period. The indicator that measures volatility in the model used to evaluate the options is the annualized standard deviation of the compound returns of a share. Aries Pharmaceuticals Ltd. is not listed; therefore, it was considered appropriated to assume the volatility equal to peer companies.

Aries Pharmaceuticlas Ltd. outstanding share options

Option series	Number Outstanding	Grant date	Vesting date	Expiry date	Exercise price EUR	Fair value of the option at the grant date EUR
1a) Issued 28 July 2016	1,550,000	28/07/2016	28/07/2018	27/07/2023	5.00	1.117
1b) Issued 28 July 2016	775,000	28/07/2016	28/07/2019	27/07/2023	5.00	1.252
1c) Issued 28 July 2016	775,000	28/07/2016	28/07/2020	27/07/2023	5.00	1.365
2a) Issued 31 October 2016	540,250	31/10/2016	31/10/2018	30/10/2023	5.00	1.124
2b) Issued 31 October 2016	270,125	31/10/2016	31/10/2019	30/10/2023	5.00	1.263
2c) Issued 31 October 2016	270,125	31/10/2016	31/10/2020	30/10/2023	5.00	1.378
3a) Issued 1 January 2017	123,200	01/01/2017	01/01/2019	31/12/2023	9.00	2.029
3b) Issued 1 January 2017	61,600	01/01/2017	01/01/2020	31/12/2023	9.00	2.282
3c) Issued 1 January 2017	61,600	01/01/2017	01/01/2021	31/12/2023	9.00	2.491
4a) Issued 31 March 2017	434,750	31/03/2017	31/03/2019	30/03/2024	9.00	2.038
4b) Issued 31 March 2017	217,375	31/03/2017	31/03/2020	30/03/2024	9.00	2.294
4c) Issued 31 March 2017	217,375	31/03/2017	31/03/2021	30/03/2024	9.00	2.506
5a) Issued 30 May 2017	86,750	30/05/2017	30/05/2019	29/05/2024	9.00	1.755
5b) Issued 30 May 2017	43,375	30/05/2017	30/05/2020	29/05/2024	9.00	1.948
5c) Issued 30 May 2017	43,375	30/05/2017	30/05/2021	29/05/2024	9.00	2.116
7a) Issued 25 October 2017	18,750	25/10/2017	25/10/2019	24/10/2024	9.00	1.753
7b) Issued 25 October 2017	9,375	25/10/2017	25/10/2020	24/10/2024	9.00	1.950
7c) Issued 25 October 2017	9,375	25/10/2017	25/10/2021	24/10/2024	9.00	2.121
9a) Issued 2 January 2018	33,553	02/01/2018	02/01/2020	01/01/2025	10.24	2.000
9b) Issued 2 January 2018	16,787	02/01/2018	02/01/2021	01/01/2025	10.24	2.227
9c) Issued 2 January 2018	16,766	02/01/2018	02/01/2022	01/01/2025	10.24	2.414
10) Issued 2 January 2018	146,125	02/01/2018	02/01/2019	01/01/2025	10.24	1.727
11a) Issued 22 March 2018	76,801	22/03/2018	22/03/2020	21/03/2025	10.04	1.972
11b) Issued 22 March 2018	38,401	22/03/2018	22/03/2021	21/03/2025	10.04	2.199
11c) Issued 22 March 2018	38,400	22/03/2018	22/03/2022	21/03/2025	10.04	2.395
12) Issued 22 March 2018	165,625	22/03/2018	22/03/2019	21/03/2025	10.04	1.698

The table below details the share options of Aries Pharmaceuticals Ltd.

	Number	Weighted average exercise price EUR
Outstanding as at 1 January 2017	**4,180,500**	**5.00**
Granted during the period	1,771,200	9.02
Forfeited during the period	–	–
Exercised during the period	–	–
Expired during the period	–	–
Outstanding as at 31 December 2017	**5,951,700**	**6.20**
Exercisable as at 31 December 2017	–	–

Outstanding as at 1 January 2018	**5,951,700**	**6.20**
Granted during the period	580,445	10.12
Forfeited during the period	(492,287)	9.19
Exercised during the period	–	–
Expired during the period	–	–
Outstanding as at 30 June 2018	**6,039,858**	**6.33**
Exercisable as at 30 June 2018	–	–

The share options outstanding as at 30 June 2018 had a weighted average exercise price of €6.33 and a weighted average remaining contractual life of 5.4 years.

21 Legal Proceedings

Uceris Arbitration

On 12 May 2017 the Company, in relation to its license agreement for *Uceris*, announced that it had filed for arbitration against Santarus Inc. ('Santarus') and its affiliate Valeant Pharmaceuticals Ireland Ltd ('Valeant Ireland', collectively 'Valeant') under the Rules of Arbitration of the International Chamber of Commerce (No. 22453/GR, Cosmo Technologies Ltd. et al. v. Santarus, Inc. et al.). A hearing was conducted from October 5 to 8, 2017.

On 12 April 2018 the Company announced that the ICC Arbitral Tribunal had ruled that Valeant was not in breach of the *Uceris* license agreement and that the Company will reimburse Valeant's legal costs.

22 Related-party transactions

The Company's major shareholder is Cosmo Holding S.a.r.l., which as at 30 June 2018 owns 5,571,209 of the Company shares amounting to 37.05% of the issued shares. Any member of the board who has an interest in a related party transaction which is under discussion by the board must abstain from this discussion and abstain from any vote on the approval of the related party transaction under discussion.

Cassiopea S.p.A.
In the period H1 2018 the Group charged its associate company Cassiopea S.p.A. under a service agreement €239 thousand (H1 2017: €290 thousand) for research and development services, regulatory services and related activities and €76 thousand (H1 2017: €73 thousand) for secretarial and accounting services. As at 30 June 2018 the amount owed by Cassiopea S.p.A. to the Group was €291 thousand (2017: €56 thousand).

Since May 2015 under an agreement with Cassiopea S.p.A., Cosmo Pharmaceuticals has provided Cassiopea S.p.A. with Chief Financial Officer and Chief Scientific Officer services by Hans Christoph Tanner and Luigi Moro. The Group has provided these services to Cassipoea S.p.A. at no charge. The services provided under this agreement shall not exceed 30% of the respective available working time of the individuals providing those services. During 2017 the board of Cassiopea S.p.A. granted 20,000, 20,000 and 10,000 options to subscribe to Cassiopea S.p.A. shares to Luigi Moro (CSO), Hans Christoph Tanner (Head of Transaction Office) and Marco Lecchi (Head of Internal Audit) respectively. In 2017 Cosmo Pharmaceutical N.V., under a stock option plan, granted 18,000 options to certain employees of Cassiopea S.p.A.

23 Fair value measurement

a Qualitative information

The fair value is the price that would be received when selling an asset or paid when transferring a liability in an orderly transaction between market participants (i.e. not as part of the compulsory liquidation or a below-cost sale) as at the measurement date. Fair value is a market measurement criterion, not specifically referring to a single entity. Underlying the definition of fair value is the assumption that the company is carrying out normal operations, without any intention of liquidating its assets, significantly reducing the level of operations or carrying out transactions at unfavourable conditions.

An entity has to measure the fair value of an asset or liability by adopting the assumptions that would be used by market participants when pricing an asset or liability, presuming that they act with a view to satisfying their own economic interest in the best way possible.

The fair value of financial instruments is determined according to a hierarchy of criteria based on the origin, type and quality of the information used (IFRS 13). In detail, this hierarchy assigns top priority to quoted prices (unadjusted) in active markets and less importance to unobservable inputs. Three different levels of input are identified:

- level 1: input represented by quoted prices (unadjusted) in active markets for identical assets or liabilities accessible by the entity as at the measurement date,
- level 2: input other than quoted prices included in level 1 that are directly or indirectly observable for the assets or liabilities to be measured,
- level 3: unobservable input for the asset or liability.

A market is regarded as active if quoted prices, representing actual and regularly occurring market transactions considering a normal reference period, are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency.

In specific cases research is carried out in order to verify the significance of official market values. In the event of a significant reduction in the volume or level of operations compared to normal operations for the asset or liability (or for similar assets or liabilities) highlighted by a number of indicators (number of transactions, limited significance of market prices, significant increase in implicit premiums for liquidity risk, expansion or increase of the bid-ask spread, reduction or total lack of market for new issues, limited publicly-available information), analyses of the transactions or of the quoted prices are carried out: if the conclusion is reached that the market is inactive, the asset or liability is reclassified to level 2 of the fair value hierarchy.

b Assets and liabilities that are measured at fair value on a recurring basis and non recurring basis

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

EUR 1,000	30-Jun-18 Carrying amount	30-Jun-18 Fair value	31-Dec-17 Carrying amount	31-Dec-17 Fair value
Non-current financial assets	58,620	58,620	93,811	93,811
Current financial assets	102,757	102,757	27,759	27,759
Total Assets	**161,377**	**161,377**	**121,570**	**121,570**

The following table shows the fair-value hierarchy for financial assets that are measured at fair value on a recurring basis:

EUR 1,000	30-Jun-18 Level 1	Level 2	Level 3	Total	31-Dec-17 Level 1	Level 2	Level 3	Total
Non-current financial assets								
Equity instruments measured at FVOCI – Volitionrx shares	1,584	–	–	1,584	14,195	–	–	14,195
Equity instruments measured at FVOCI – Paion shares	11,000	–	–	11,000	2,263	–	–	2,263
Equity instruments measured at FVOCI – AIMM shares	–	–	*2,594*	*2,594*	–	–	*2,594*	*2,594*
Equity instruments measured at FVOCI – others	–	–	*300*	*300*	–	–	*300*	*300*
Debt securities measured at FVOCI – investment securities	43,142	–	–	43,142	62,798	11,661	–	74,459
Current financial assets								
Debt securities measured at FVOCI – current investment securities	22,099	1,293	–	23,392	24,154	3,605	–	27,759
Investment in funds measured at FVTPL	79,366	–	–	79,366	–	–	–	–
Total	**157,191**	**1,293**	**2,894**	**161,378**	**103,410**	**15,266**	**2,894**	**121,570**

The following are considered as level 1 financial instruments:

- shares valued using official closing prices and/or fixing provided by regulated stock exchanges,
- bonds and shares of Funds valued using official closing prices and/or fixing provided by local authorities (central bank, monetary authority or local stock exchange),
- bonds and shares of Funds quoted on Multilateral Trading Facility (i.e. the EuroTLX or NASD TRACE circuit) or for which it is possible to continuously derive the quotation from the main price contribution international platforms.

When no quotation on an active market exists or the market is not functioning regularly, that is, when the market does not have a sufficient and continuous number of trades, and bid-ask spreads and volatilities that are not sufficiently contained, the fair value of the financial instruments is mainly determined through the use of valuation techniques whose objective is the establishment of the price at which, in an orderly transaction, the asset could be sold or the liability transferred between market participants, as at the measurement date, under current market conditions.
In the case of level 2 inputs, the valuation is based on prices taken from official listings of instruments which are similar in terms of risk profile.

In particular, the level 2 valuation measurements reproduce prices of financial instruments not quoted on active markets and do not contain discretional parameters for which values may not be inferred from quotations of financial instruments present on active markets or fixed at levels capable of reproducing quotations on active markets.

The level 2 primarily includes bond and shares of Bond funds without official quotations expressed by an active market and for which the Net Asset Value (NAV) provided by the Fund Administrator is considered as the fund's fair value. This value may be analysed based on the financial instruments underlying the funds with the purpose to assign the fair value hierarchy level resulting from an individual valuation process aimed at verifying specific risks (counterparty risk, illiquidity risk).

In addition to this, the company, with the external asset manager, periodically makes an assessment regarding the marketability of each bond to confirm the assigned level and the fair value measurement. The assessment distinguishes three different categories:

i. Bonds that can be sold within one day without an expected meaningful impact on price
ii. Bonds that can be sold within one day with an expected price impact of approximately 0.25%
iii. Illiquid bonds, which require more than one day to be liquidated

In case the bond is included in iii., it's fair value is reclassified to level 2 of the fair value hierarchy.

Level 3 includes equity investments for which there is no quoted market price in an active market and there is insufficient financial information in order to determine fair value, they are measured at cost as an estimate of fair value, as permitted by IFRS 9.

During H1 2018 there were no significant transfers between Levels 1 and 2 or between Level 2 and 3 in the fair value hierarchy and the changes were due to a change in the market where the bonds are quoted.

c Assets and liabilities not measured at fair value on recurring basis

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

	30-Jun-18		31-Dec-17	
EUR 1,000	Carrying amount	Fair value	Carrying amount	Fair value
Other non-current receivables (*)	2,106	2,106	1,873	1,873
Trade receivables	16,200	16,200	13,190	13,190
Other receivables and other assets(*)	291	291	56	56
Cash and cash equivalents	84,343	84,343	144,944	144,944
Total Assets	**102,940**	**102,940**	**160,063**	**160,063**
Financial lease liabilities	(2,810)	(2,810)	(3,022)	(3,022)
Subsidized loans	(1,454)	(1,539)	(1,454)	(1,537)
Trade payables	(9,574)	(9,574)	(11,328)	(11,328)
Other current liabilities(*)	–	–	(266)	(266)
Total Liabilities	**(13,838)**	**(13,923)**	**(16,070)**	**(16,153)**
Unrecognised (loss) gain		(85)		(83)

* only financial assets/liabilities

For financial instruments represented by Trade receivables, Other receivables and other assets, Trade payables and Other current liabilities, for which the present value of future cash flows is also taking into account the credit risk of the counterparties, does not differ significantly from carrying value, we assume that the carrying value is a reasonable approximation of the fair value.
The carrying amount of Cash and cash equivalents, which consist primarily of bank current accounts and time deposits, approximates fair value.

For Financial lease liabilities and Unsecured bank loans the carrying amount approximates the fair value calculated based on the present value of future principal and interest cash flows, discounted at the interest market rate at the reporting date.

Subsidized loans are included in Level 2 of the fair-value hierarchy and has been estimated with discounted cash flows models. The main inputs used are year-end market interest rates.

24 Subsequent events

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

Dublin, Ireland, 25 July 2018

The Board of Directors

Mauro Ajani
Alessandro Della Chà
Dieter Enkelmann
Hans Christoph Tanner
Maria Grazia Roncarolo
Kevin Donovan
Eimear Cowhey

Information for investors

Capital structure

EUR 1,000	30–Jun–18
Equity attributable to owners of the Company	456,368
Share capital	3,910
Reserves	460,247
Profit (loss) for the period	(7,789))
Number of registered shares	15,037,483
Nominal value per share (in EUR)	0.26

Major shareholders	No. of shares	% of share capital
Cosmo Holding S.a.r.l.	5,571,209	37.05%
Heinrich Herz AG / Logistable Group	1,109,259	7.38%
dievini Hopp BioTech Holding GmbH & Co. KG	786,361	5.23%

Share price data

CHF	Price	Date
First trading day close	22.30	12.03.2007
H1 2018 lowest	103.60	24.05.2018
H1 2018 highest	150.70	03.01.2018
H1 2018 last trading day	112.00	29.06.2018
Market capitalization (in CHF million)	1,684.20	29.06.2018

Share earnings

EUR	30–Jun–18
Basic (loss) per share	(0.518)

Stock exchange information

Listing	SIX Swiss Exchange, Main Board
Security ID	COPN
ISIN	NL0011832936
Swiss security number (Valor)	2862650
Number of shares	15,037,483

Research coverage

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Calendar

Key reporting dates

Annual Report – March 2019

Upcoming conferences

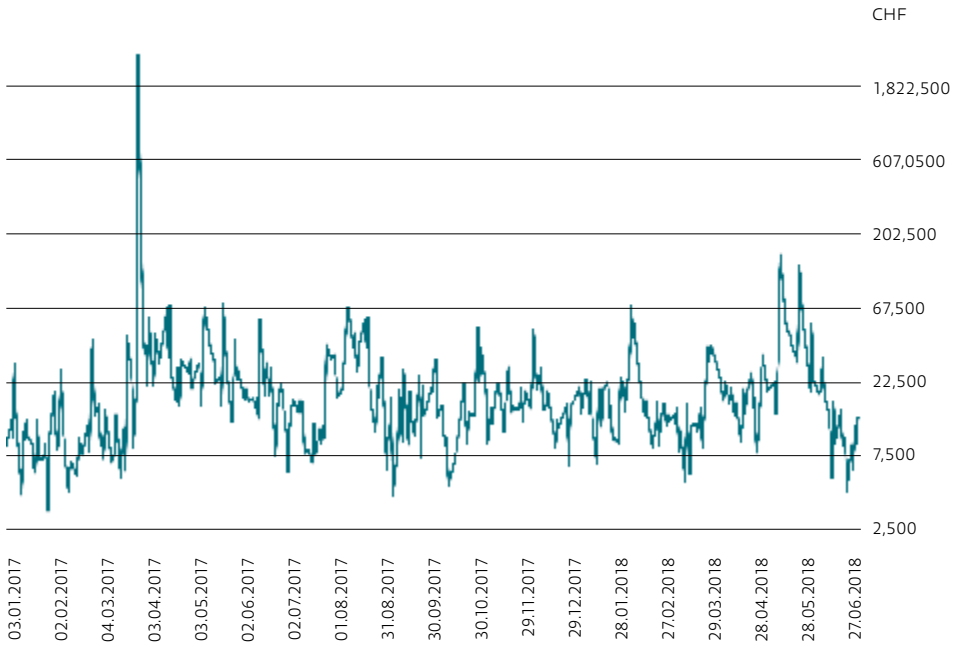
Investora

Stettbach, 20–21 September 2018

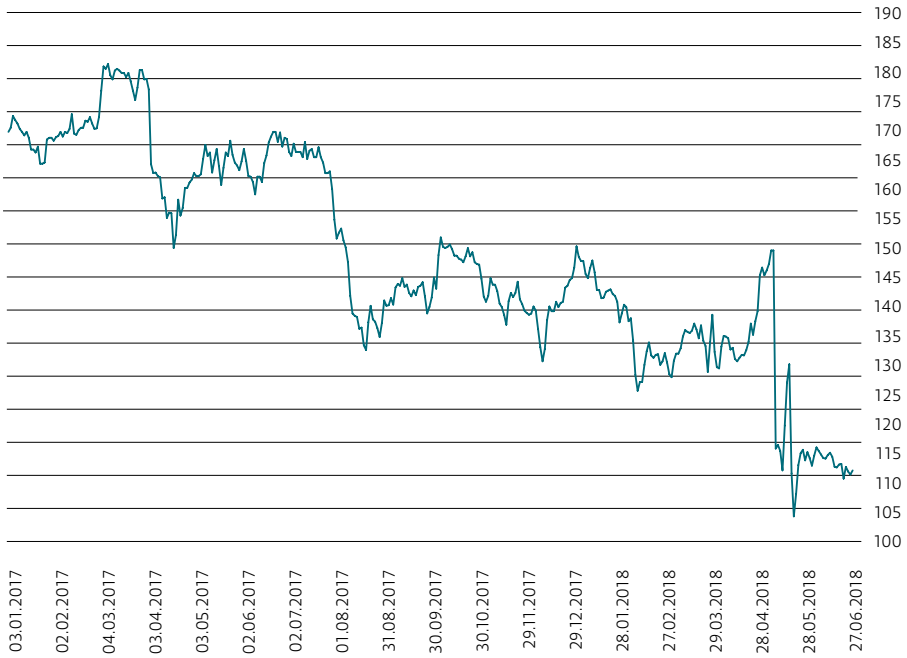
Jefferies' 2018 Global Healthcare Conference

London, November 2018

Trading volumes



Share price



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