



# Half Year Financial Report 2011



## **2011 HALF YEAR FINANCIAL REPORT SUMMARY**

<b>I – CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</b>	<b>3</b>
<b>II – ACTIVITY REPORT</b>	<b>33</b>
<b>III – INFORMATION ON RELATED PARTIES</b>	<b>51</b>
<b>IV – RISKS FACTORS</b>	<b>52</b>
<b>V – STATUTORY AUDITOR’S REVIEW REPORT ON THE 2011 HALF YEARLY CONSOLIDATED FINANCIAL STATEMENTS</b>	<b>54</b>
<b>VI – ATTESTATION OF THE PERSON RESPONSIBLE FOR THE HALF YEAR FINANCIAL REPORT</b>	<b>55</b>



## I – CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### Condensed consolidated income statement

(in thousands of euros)

	Notes	30 June 2011	30 June 2010
Sales of goods	5.2.2	583,095	553,936
Other revenues	5.2.3	36,301	31,743
<b>Revenue</b>	<b>5.2.1</b>	<b>619,396</b>	<b>585,679</b>
Cost of goods sold		(120,875)	(122,585)
Research and development expenses		(105,784)	(99,102)
Selling expenses		(205,558)	(203,867)
General and administrative expenses		(42,628)	(43,561)
Other operating income and expenses	7	7,512	(4,717)
Amortisation of intangible assets <sup>(1)</sup>	8	(3,149)	(6,014)
Restructuring costs	9	(28,150)	(897)
Impairment losses		-	-
<b>Operating income</b>	<b>5.1</b>	<b>120,764</b>	<b>104,936</b>
Investment income		1,915	989
Financing costs		(873)	(976)
<b>Net financing costs</b>	<b>10.1</b>	<b>1,042</b>	<b>13</b>
Other financial income and expenses	10.2	168	(3,767)
Income taxes	11	(26,187)	(20,686)
Share of profit/loss from associated companies	16	(4,113)	(5,143)
<b>Net profit from continuing operations</b>		<b>91,674</b>	<b>75,353</b>
Net profit from discontinued operations		181	231
<b>Consolidated net profit</b>		<b>91,855</b>	<b>75,584</b>
– attributable to shareholders of Ipsen		91,660	75,525
– attributable to minority interests		195	59
Basic earnings per share, continuing operations (in euros)	20.3	1.09	0.89
Diluted earnings per share, continuing operations (in euros)	20.3	1.09	0.89
Basic earnings per share, discontinued operations (in euros)	20.3	-	0.01
Diluted earnings per share, discontinued operations (in euros)	20.3	-	0.01
Basic earnings per share (in euros)	20.3	1.09	0.90
Diluted earnings per share (in euros)	20.3	1.09	0.90

<sup>(1)</sup> Excluding software

The accompanying notes form an integral part of these condensed consolidated financial statements.

## Condensed comprehensive income statement

(in thousands of euros)

	30 June 2011	30 June 2010
<b>Consolidated net profit</b>	<b>91,855</b>	<b>75,584</b>
<b>Other comprehensive income</b>		
Foreign exchange differences, net of taxes	(32,056) <sup>(**)</sup>	76,594 <sup>(*)</sup> <sup>(**)</sup>
Revaluation of financial instruments derived from hedging, net of taxes	-	-
Actuarial gains and losses on defined benefit plans, net of taxes	-	-
Share of gains and losses recorded directly to equity of associate companies, net of taxes	-	-
Other items, net of taxes	53 <sup>(**)</sup>	(499) <sup>(**)</sup>
<b>Total of other comprehensive income, net of taxes</b>	<b>(32,003)</b>	<b>76,095</b>
<b>Comprehensive income</b>	<b>59,852</b>	<b>151,679</b>
– attributable to shareholders of Ipsen	59,683	151,526
– attributable to minority interests	169	153

<sup>(\*)</sup> Effect of changes to the dollar and the pound sterling over the period, particularly on opening shareholders' equity and the Goodwill expressed at the closing rate.

<sup>(\*\*)</sup> The items above are not subject to deferred taxes.

The accompanying notes form an integral part of these condensed consolidated financial statements.

## Condensed consolidated balance sheets before allocation of net profit

(in thousands of euros)

	Notes	30 June 2011	31 December 2010
<b>ASSETS</b>			
Goodwill	12	290,707	299,105
Other intangible assets	13	182,681	166,538
Property, plant & equipment	14	275,215	282,287
Equity investments	15	12,856	7,159
Investments in associated companies	16	49,362	57,882
Non-current financial assets	17	2,126	2,172
Other non-current assets	17	80,496	81,643
Deferred tax assets	11.3	157,494	141,630
<b>Total non-current assets</b>		<b>1,050,937</b>	<b>1,038,416</b>
Inventories	18.1	116,135	112,149
Trade receivables	18.1	280,015	241,890
Current tax assets	18.1	5,857	44,655
Other current assets	18.2.1	62,358	62,917
Current financial assets	18.2.1	592	49
Cash and cash equivalents	19	159,583	178,118
<b>Total current assets</b>		<b>624,540</b>	<b>639,778</b>
Assets of discontinued operations		-	-
<b>TOTAL ASSETS</b>		<b>1,675,478</b>	<b>1,678,194</b>

<b>EQUITY &amp; LIABILITIES</b>			
Share capital	20.1	84,223	84,196
Additional paid-in capital and consolidated reserves		926,793	894,419
Net profit for the period		91,660	95,271
Foreign exchange differences		(29,904)	3,304
<b>Equity - attributable to shareholders of Ipsen</b>	20.2	<b>1,072,772</b>	<b>1,077,190</b>
- attributable to minority interests		2,209	2,040
<b>Total shareholders' equity</b>		<b>1,074,981</b>	<b>1,079,230</b>
Retirement benefit obligation		18,244	16,135
Long-term provisions	21	22,090	23,549
Bank loans	22	-	-
Other financial liabilities	22	17,104	15,275
Deferred tax liabilities	11.3	11,069	11,955
Other non-current liabilities	18.2.2	183,610	198,998
<b>Total non-current liabilities</b>		<b>252,117</b>	<b>265,912</b>
Short-term provisions	21	29,417	3,665
Bank loans	22	4,000	4,000
Financial liabilities	22	1,938	3,518
Trade payables	18.1	130,443	140,671
Current tax liabilities	18.1	25,842	6,565
Other current liabilities	18.2.2	151,695	173,764
Bank overdrafts	19	4,543	190
<b>Total current liabilities</b>		<b>347,878</b>	<b>332,373</b>
Liabilities of discontinued operations		502	679
<b>TOTAL EQUITY &amp; LIABILITIES</b>		<b>1,675,478</b>	<b>1,678,194</b>

The accompanying notes form an integral part of these condensed consolidated financial statements.

## Condensed consolidated statement of cash flows

<i>(in thousands of euros)</i>	Notes	30 June 2011	30 June 2010
<b>Consolidated net profit</b>		<b>91,855</b>	<b>75,584</b>
Net loss from discontinued operations		(181)	(231)
Share of profit/loss from associated companies	16	4,113	5,143
<b>Net profit from continuing operations before share from associated companies</b>		<b>95,787</b>	<b>80,496</b>
<b>Non-cash and non-operating items:</b>			
– Depreciation, amortisation, provisions and impairment losses		49,638	19,776
– Change in fair value of derivative financial derivatives		(1,415)	1,028
– Net gains or losses on disposals of non-current assets		321	61
– Share of government grants released to profit and loss		(45)	(46)
– Foreign exchange differences		2,141	189
– Change in deferred taxes	11.3	(24,820)	(7,298)
– Share-based payment expense		1,955	4,214
– Gain/loss on sales of treasury shares		36	(207)
– Other non-cash items		204	412
<b>Cash flow from operating activities before changes in working capital</b>		<b>123,802</b>	<b>98,625</b>
– (Increase)/decrease in inventories	18.1	(5,013)	(815)
– (Increase)/decrease in trade receivables	18.1	(39,312)	(37,818)
– Increase/(decrease) in trade payables	18.1	(9,054)	(5,143)
– Net change in income tax liability	18.1	58,171	52,660
– Net change in other operating assets and liabilities	18.1	(31,283)	27,233
<b>Change in working capital related to operating activities</b>	18.1	<b>(26,491)</b>	<b>36,117</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		<b>97,311</b>	<b>134,742</b>
Acquisitions of property, plant & equipment	14	(14,717)	(14,634)
Acquisitions of intangible assets	13	(29,445)	(10,904)
Proceeds from disposal of intangible assets and property, plant & equipment		91	212
Acquisition of shares in non-consolidated companies	15	(5,650)	(380)
Acquisitions of shares in associated companies	16	-	(57,648)
Convertible note subscriptions	17	(818)	(35,506)
Payments to post-employment benefit plans		(1,241)	(1,044)
Other cash flow related to investment activities	17	166	1,886
Deposits paid	17	(97)	1,080
Change in working capital related to investing activities	18.1	3,622	(7,347)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(48,089)</b>	<b>(124,285)</b>
Repayment of long-term borrowings	22	(178)	(179)
Capital increase by Ipsen		89	1,072
Treasury shares		22	(1,984)
Dividends paid by Ipsen	20.4	(66,519)	(62,273)
Dividends paid by subsidiaries to minority interests		-	(151)
Change in working capital related to financing activities	18.1	(552)	111
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		<b>(67,138)</b>	<b>(63,404)</b>
Impact of businesses to be sold or discontinued		3	(42)
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>(17,913)</b>	<b>(52,989)</b>
<b>Opening cash and cash equivalents</b>	19	<b>177,928</b>	<b>205,401</b>
Impact of exchange rate fluctuations		(4,975)	11,691
<b>Closing cash and cash equivalents</b>	19	<b>155,040</b>	<b>164,103</b>

The accompanying notes form an integral part of these condensed consolidated financial statements.



## Condensed consolidated statement of changes in equity from 1 January to 30 June 2011

*(in thousands of euros)*

	Share capital	Share premiums	Consolidated reserves	Treasury shares	Net profit for the period	Foreign exchange differences	Total Group equity	Minority interests	Total equity
<b>Balance at 1 January 2011</b>	<b>84,196</b>	<b>711,026</b>	<b>224,463</b>	<b>(41,070)</b>	<b>95,271</b>	<b>3,304</b>	<b>1,077,190</b>	<b>2,040</b>	<b>1,079,230</b>
Consolidated net profit	-	-	-	-	91,660	-	91,660	195	91,855
Other comprehensive income <sup>(1)</sup>	-	-	53	-	-	(32,030)	(31,977)	(26)	(32,003)
<b>Consolidated net profit and other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>53</b>	<b>-</b>	<b>91,660</b>	<b>(32,030)</b>	<b>59,683</b>	<b>169</b>	<b>59,852</b>
Allocation of net profit from the prior period	-	-	96,449	-	(95,271)	(1,178)	-	-	-
Capital increase	27	85	(23)	-	-	-	89	-	89
Share-based payments	-	-	1,953	-	-	-	1,953	-	1,953
Own share purchases and disposals	-	-	(954)	1,012	-	-	58	-	58
Dividends	-	-	(66,519)	-	-	-	(66,519)	-	(66,519)
Other changes	-	-	(108)	426	-	-	318	-	318
<b>Balance at 30 June 2011</b>	<b>84,223</b>	<b>711,111</b>	<b>255,314<sup>(2)</sup></b>	<b>(39,632)</b>	<b>91,660</b>	<b>(29,904)</b>	<b>1,072,772</b>	<b>2,209</b>	<b>1,074,981</b>

<sup>(1)</sup> Detailed in the note "Condensed comprehensive income statement".

<sup>(2)</sup> Including the impact of the restructuring programme in the reserves.

Legal restructuring programme in 2005	3,995
Recognition in 2006 of deferred tax assets in respect of one of the items accounted for under the restructuring programme	15,205
Impact in 2007 of the change in tax rate on deferred taxes previously recorded	(2,106)
<b>Impact of the restructuring programme in the reserves</b>	<b>17,094</b>

The accompanying notes form an integral part of these condensed consolidated financial statements.

## Condensed consolidated statement of changes in equity from 1 January to 30 June 2010

*(in thousands of euros)*

	Share capital	Share premiums	Consolidated reserves	Treasury shares	Net profit for the period	Foreign exchange differences	Total Group equity	Minority interests	Total equity
<b>Balance at 1 January 2010</b>	<b>84,128</b>	<b>710,002</b>	<b>114,677</b>	<b>(40,230)</b>	<b>156,584</b>	<b>(42,537)</b>	<b>982,624</b>	<b>1,724</b>	<b>984,348</b>
Consolidated net profit	-	-	-	-	75,525	-	75,525	59	75,584
Other comprehensive income <sup>(1)</sup>	-	-	(499)	-	-	76,500	76,001	94	76,095
<b>Consolidated net profit and other comprehensive income</b>	<b>-</b>	<b>-</b>	<b>(499)</b>	<b>-</b>	<b>75,525</b>	<b>76,500</b>	<b>151,526</b>	<b>153</b>	<b>151,679</b>
Allocation of net profit from the prior period	-	-	161,503	-	(156,584)	(4,919)	-	-	-
Capital increase	48	1,024	-	-	-	-	1,072	-	1,072
Share-based payments	-	-	4,224	-	-	-	4,224	-	4,224
Own share purchases and disposals	-	-	(207)	(1,984)	-	-	(2,191)	-	(2,191)
Dividends	-	-	(62,273)	-	-	-	(62,273)	(151)	(62,424)
Other changes	-	-	(4)	-	-	-	(4)	(1)	(5)
<b>Balance at 30 June 2010</b>	<b>84,176</b>	<b>711,026</b>	<b>217,421<sup>(2)</sup></b>	<b>(42,214)</b>	<b>75,525</b>	<b>29,044</b>	<b>1,074,978</b>	<b>1,725</b>	<b>1,076,703</b>

<sup>(1)</sup> Detailed in the note "Condensed comprehensive income statement".

<sup>(2)</sup> Including the impact of the restructuring programme in the reserves.

Legal restructuring programme in 2005	3,995
Recognition in 2006 of deferred tax assets in respect of one of the items accounted for under the restructuring programme	15,205
Impact in 2007 of the change in tax rate on deferred taxes previously recorded	(2,106)
<b>Impact of the restructuring programme in the reserves</b>	<b>17,094</b>

The accompanying notes form an integral part of these condensed consolidated financial statements.

# NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## Table of contents

Note 1. Significant events and transactions during the period and having an impact on the condensed consolidated financial statements at 30 June 2011.....	11
1.1. Partnerships.....	11
1.2. Administrative measures.....	11
1.3. Changes within Ipsen's Executive Committee .....	12
1.4. Group strategy review.....	12
1.4.1. Research and Development .....	12
1.4.2. Development of the Group's geographical presence .....	12
1.4.3. Strategy for primary care.....	13
Note 2. Changes in consolidation scope .....	13
2.1. Liquidation of a subsidiary .....	13
Note 3. Principles and accounting methods and declaration of conformity.....	13
3.1. Accounting principles and declaration of conformity .....	13
3.2. Other standards and interpretations which became applicable on 1 January 2011 .....	13
Note 4. Seasonal effects .....	14
Note 5. Operating segments.....	14
5.1. Operating income by operating segment .....	14
5.2. Revenue .....	14
5.2.1. Revenue by operating segment .....	14
5.2.2. Sales of goods by operating segment.....	15
5.2.3. Other revenues .....	15
5.3. Balance sheet items by operating segment (based on location of assets).....	15
5.4. Other information .....	16
Note 6. Employees .....	16
Note 7. Other operating income and expenses .....	17
Note 8. Amortisation of intangible assets (excluding software) .....	17
Note 9. Restructuring costs .....	17
Note 10. Financial income/(expense) .....	17
10.1. Net financing costs .....	17
10.2. Other financial income and expenses .....	18
Note 11. Income taxes.....	18
11.1. Breakdown of the tax expense.....	18
11.2. Effective tax rate .....	18
11.3. Deferred tax assets and liabilities .....	18
Note 12. Goodwill .....	19
12.1. Net goodwill carried in the balance sheet .....	19
12.2. Impairment of goodwill.....	20
Note 13. Other intangible assets .....	20
Note 14. Property, plant & equipment.....	21
Note 15. Equity investments.....	22
Note 16. Investments in associated companies.....	22
Note 17. Other non-current assets .....	23
Note 18. Working capital items .....	25
18.1. Movements .....	25
18.2. Breakdown.....	26
18.2.1. Other current assets and current financial assets .....	26
18.2.2. Other current and non-current liabilities .....	27
Note 19. Net cash and cash equivalents .....	27
Note 20. Consolidated equity .....	27
20.1. Share capital .....	27
20.2. Equity attributable to Ipsen shareholders.....	27
20.3. Earnings per share .....	29
20.4. Dividends paid .....	29
Note 21. Provisions .....	30
Note 22. Bank loans and financial liabilities.....	31
Note 23. Derivative financial instruments .....	32
Note 24. Information on related parties .....	32
Note 25. Commitments and contingent liabilities .....	32
Note 26. Post closing events .....	32

## **Note 1. Significant events and transactions during the period and having an impact on the condensed consolidated financial statements at 30 June 2011**

### **1.1. Partnerships**

#### **1.1.1 Active Biotech AB**

**On 18 April 2011** – The Group and Active Biotech announced the signature of a partnership agreement to co-develop and commercialise Tasquinimod “TASQ”. A phase III clinical trial in men with metastatic castrate-resistant prostate cancer has recently been initiated by Active Biotech and patient recruitment is ongoing.

Under the terms of the contract, Active Biotech grants to Ipsen exclusive rights to commercialise TASQ worldwide, except for North America, South America and Japan, where Active Biotech retains all commercial and marketing rights. Both companies will co-develop TASQ for the treatment of castrate-resistant prostate cancer, with the possibility to develop TASQ in other cancer indications.

Active Biotech is responsible for conducting and financing the Phase III pivotal clinical trial and will receive up to €200 million consisting of an upfront payment of €25 million and additional payments contingent upon the achievement of clinical, regulatory and commercial milestones.

In addition, Ipsen will pay Active Biotech double-digit progressive royalties on its net sales and will conduct and fund a European supportive study in prostate cancer patients out of its R&D budget. Eventual costs to develop TASQ in future other cancer indications will be shared.

In accordance with the Group's accounting principles and methods, the upfront payment of €25 million has been recorded as “other intangible assets” under “intellectual property”. Furthermore, given that this right to a proprietary oncology drug in an advanced stage of development has not yet received a marketing authorisation, it has not been amortised in the accounts as at 30 June 2011.

#### **1.1.2 Vitalogink**

**On 28 April 2011** – The Paris Court of Appeal invalidated the Paris Commercial Court decision of 24 January 2008 relating to the commercialisation of Vitalogink, and in favour of the arguments put forward by the Group. The Court ordered Mylan to pay Ipsen €17 million in compensation for losses incurred.

**On 7 July 2011** - Mylan announced that it has submitted an appeal against this decision to the Supreme Court.

This non-recurring income is recognised in the accounts as at 30 June 2011 under other operating income and expenses. The Group and its advisors consider the risk that the decision announced by the Paris Court of Appeal is called into question by the Supreme Court to be low.

### **1.2. Administrative measures**

European governments continued introducing various measures targeting the reduction of public health expenses.

In a context of financial and economic crisis, the governments of many countries in which the Group operates continue to introduce new measures to reduce public health expenses, some of which have affected Group sales and profitability in the first half 2011. In addition, certain measures introduced in 2010 have continued to affect the Group's accounts year-on-year.

After introducing an 8% tax on drug sales, Romania has announced a reform wherein the new tax would be based on the growth in sales of the entire portfolio of reimbursed products (a portion paid by the State) since 2009.

In 2010, the Czech Republic announced its intention to limit the reimbursement level of different therapeutic classes to the lowest levels of the same therapeutic classes in Europe, which could lead to price reductions in the order of 20% (voted measure, implementation pending); the setting-up of reverse electronic calls for bids and the reinforcement of reimbursement rules for innovative products are also on the agenda.

In early 2011, Ireland announced an austerity plan, including measures relating to public health expenses.

Since June 2010 Spain imposed a tax of 7.5% on drug sales in addition to the 30% decrease in prices for product for which a generic or a biosimilar product is marketed in at least one other European country.

In 2011, Portugal has introduced an electronic system encouraging the prescription of the cheapest product (including generics).

In late 2010 Belgium increased the price reduction percentage applicable to certain products from 12% to 15% for products which have been on the market for more than 12 years, and from 15% to 19% for products which have been on the market for more than 15 years.

The Baltic States have introduced price/volume agreements based on the growth of the State budget, in November 2010 for Lithuania and beginning of 2011 for Latvia.

### 1.3. Changes within Ipsen's Executive Committee

**On 2 May 2011** – Ipsen announced the departures of Frédéric Babin, Executive Vice-President Human Resources, and Stéphane Thiroloix, Executive Vice-President-Corporate Development.

**On 11 May 2011** – Ipsen announced the appointment of Etienne de Blois as Executive Vice-President Human Resources, member of the Group's Executive Committee.

**On 27 May 2011** – Ipsen announced the departure of Claire Giraut, Executive Vice-President, Chief Financial Officer, as of 1 September 2011.

**On 9 June 2011** – Ipsen announced the appointment of Pierre Boulud as Executive Vice-President, Strategy, Business Development and Market Access, member of the Group's Executive Committee.

Non-recurring expenses linked with the changes within the Executive Committee are recorded under "Other operating expenses" for a total amount of €3.2 million.

### 1.4. Group strategy review

A strategic review was initiated in late 2010 in order to define the Group's future areas of development. In this context, on 9 June 2011 the Group announced the implementation of some reorganisation and restructuring programmes:

#### 1.4.1. Research and Development

Focus R&D on peptide and toxin technological platforms with:

- Concentration of R&D efforts on differentiated core platforms, peptides and toxins, resulting in the discontinuation of internal studies which are not related to botulinum toxin or peptides. The Group is however maintaining the OBI-1 development platform in the United States.

In this context, on 6 June 2011, Ipsen announced its decision to discontinue development of Irosustat (BN 83495) in monotherapy and to assess the alternative development of Irosustat (BN 83495) in combination with other hormonal therapies. This decision had no impact on the financial statements as at 30 June 2011.

Studies on the IGF-1 Combo growth hormone and all IGF-1 study programmes are no longer a priority and the Group is exploring all options in order to maximise the value of its assets while maintaining its obligations with regard to its patients and partners. This significant lower development and commercialisation outlook expectations for IGF-1 led the Group to record a non-recurring impairment loss of €71.7 million relating to this intangible asset in its consolidated financial statements as at 31 December 2010. No additional impairment was recorded for this intangible asset in the consolidated financial statements as at 30 June 2011.

- The closure of the Research and Development centre located in Barcelona, and the transfer of some of its activities to other sites.  
Following the official announcement of the closure of this site, the Group recorded non-recurring restructuring costs for an amount of €18.4 million under "restructuring costs" in its accounts as at 30 June 2011, mainly including compensation-related personnel expenses for the early termination of employment contracts. The proposed closure of the site is outside the scope of IFRS 5 as the R&D centre in Barcelona does not constitute a separate major line of business or geographical area of operations within the Ipsen Group.

#### 1.4.2. Development of the Group's geographical presence

Ipsen has an extensive commercial reach with drugs being marketed in 115 countries, either directly or through partners. The Group wishes to develop its geographical presence:

- on the American market, by targeting resources and investments to actively promote the growth of Dysport® and Somatuline® Depot in their current and future indications, by aligning US operations with the global organisation and by relocating commercial operations to the East Coast of the United States.  
Following the official announcement of the transfer of the San Francisco site to the East Coast, the Group recorded non-recurring costs linked with this restructuring for an amount of €8.7 million under "restructuring costs" in its accounts as at 30 June 2011, mainly including personnel-related compensation expenses for the early termination of employment contracts;
- in pharmerging countries, by investing to accelerate pharmerging market penetration with both speciality and primary care portfolios.

### 1.4.3. Strategy for primary care

- Growth international primary care activities, managed directly by the regions and the countries
- Active search for a partner for the primary care commercial operations in France
- Active search for an acquirer to maintain and develop the activity of the industrial site in Dreux (France), specialised in the packaging of oral formulations in dry forms and solutions.

These announcements had no impact on the financial statements as at 30 June 2011.

## **Note 2. Changes in consolidation scope**

### 2.1. Liquidation of a subsidiary

In the context of the Group's aim to streamline its legal, administrative and regulatory structure, the Group has decided to liquidate the Danish subsidiary Ipsen Scandinavia A/S, a company which has been dormant since December 2007.

This internal legal restructuring did not have a significant impact on the Group consolidated financial statements as at 30 June 2011.

## **Note 3. Principles and accounting methods and declaration of conformity**

### **Preliminary remarks:**

The Group's condensed consolidated financial statements are expressed in thousands of euros, unless indicated otherwise.

The reporting date for the condensed consolidated financial statements is 30 June. The individual financial statements of consolidated subsidiaries are prepared at the same reporting date i.e. 30 June, and cover the same period.

The condensed consolidated financial statements were approved on 26 August 2011 by the Board of Directors.

### 3.1. Accounting principles and declaration of conformity

In compliance with Regulation 1606/2002 adopted on 19 July 2002 by the European Parliament and the European Council, the Group's consolidated financial statements for the year ending 31 December 2010 have been prepared in accordance with *International Financial Reporting Standards* (IFRS) as endorsed by the European Union on the date of preparation and mandatory on that date.

The IFRS as it was adopted by the European Union differs in certain aspects with the IFRS published by the IASB. Nevertheless, the Group ensured that the financial information for the presented periods would not have been substantially different if it had applied IFRS as it was published by the IASB.

International Accounting Standards include *International Financial Reporting Standards* (IFRS), *International Accounting Standards* (IAS), as well as the interpretations issued by the *Standing Interpretations Committee* (SIC), and the *International Financial Reporting Interpretations Committee* (IFRIC).

The condensed consolidated financial statements at 30 June 2011 have been prepared in accordance with IAS 34 – Interim Financial Reporting, as endorsed by the European Union, which requires the disclosure of selected explanatory notes only.

The condensed financial statements do not include all disclosures required for annual financial statements and should therefore be read in conjunction with the consolidated financial statements for year ended 31 December 2010.

All the texts adopted by the European Union are available on the European Commission's website: [http://ec.europa.eu/internal\\_market/accounting/ias\\_fr.htm](http://ec.europa.eu/internal_market/accounting/ias_fr.htm).

### **IFRS applied as at 30 June 2011:**

The condensed consolidated financial statements have been prepared according to the Group's accounting principles and methods which were used for the 2010 financial statements (described in note 3 of consolidated financial statements as at 31 December 2010).

### 3.2. Other standards and interpretations which became applicable on 1 January 2011

The other amendments of standards and interpretations which became applicable on 1 January 2011 were not required to be applied by the Group or did not have a significant impact on the condensed consolidated financial statements on 30 June 2011. They are:

- ▶ IAS 24 revised – Related party disclosures,
- ▶ Amendments to IAS 32 – Classification of rights issues,
- ▶ Amendment to IFRS 1 – Exemptions regarding information to be provided under IFRS 7,
- ▶ Amendment to IFRIC 14 – Prepayments of a minimum funding requirement,
- ▶ Amendment to IFRIC 19 – Extinguishing financial liabilities with equity instruments,
- ▶ The other amendments to the annual standards improvement process published in July 2010.

The Group did not opt for the early adoption of standards and interpretations that were not mandatory as of January 1, 2011.

#### Note 4. Seasonal effects

The Group's business is not subject to any significant seasonal effects on sales.

#### Note 5. Operating segments

Internal reporting provided to the Executive Committee corresponds to the Group's managerial organisation based on the geographical regions within which the Group operates. Accordingly, operating segments as defined by IFRS 8 correspond to the long-term groupings of countries.

The operating segments existing at 30 June 2011 are as follows:

- ▶ Major Western European countries: France, Italy, Spain, the United Kingdom and Germany;
- ▶ Rest of Europe: all other countries in Western Europe, together with Eastern Europe;
- ▶ North America: mainly the United States and Canada;
- ▶ Rest of the world: all countries not included in any of the above three operating segments.

##### 5.1. Operating income by operating segment

<i>(in thousands of euros)</i>	30 June 2011		30 June 2010	
	Amounts	% share	Amounts	% share
Major Western European countries	138,414	58%	112,079	53%
Rest of Europe	48,572	20%	58,043	27%
North America	(7,053)	(3)%	(10,329)	(5)%
Rest of the world	58,435	25%	53,717	25%
<b>Total allocated</b>	<b>238,368</b>	<b>100%</b>	<b>213,510</b>	<b>100%</b>
Unallocated	(117,604)		(108,574)	
<b>“Operating income” from condensed consolidated income statement</b>	<b>120,764</b>		<b>104,936</b>	

Non-allocated operating income amounted to €(117.6) million in the first half 2011, to be compared with €(108.6) million recorded in the first half 2010. It mainly included the Group's central research and developments costs for €(118.2) million in 2011 and €(116.8) million in 2010 and, to a lesser extent, unallocated general and administrative expenses as well as the other operating income and expenses corresponding mainly to the non-recurring expenses linked with the preparation and the implementation of the strategy announced on 9 June 2011 and the changes within the Executive Committee.

##### 5.2. Revenue

###### 5.2.1. Revenue by operating segment

<i>(in thousands of euros)</i>	30 June 2011		30 June 2010	
	Amounts	% share	Amounts	% share
Major Western European countries	286,106	47%	292,218	51%
Rest of Europe	147,035	24%	130,893	23%
North America	41,589	7%	34,801	6%
Rest of the world	133,361	22%	114,628	20%
<b>Total allocated</b>	<b>608,091</b>	<b>100%</b>	<b>572,540</b>	<b>100%</b>
Unallocated	11,305		13,139	
<b>“Revenue” from condensed consolidated income statement</b>	<b>619,396</b>		<b>585,679</b>	

Within “Revenue”, sales of goods, co-promotion income and a portion of “other revenues” have been allocated. However, certain “other revenues” have not been allocated, since it does not lend itself to this type of segmentation. This is the case for milestone payments linked with the OBI-1 agreement with Inspiration Biopharmaceuticals Inc. (€1.3 million; 2010: €1.1 million), or even the re-billing of research and development costs and more specifically those recognised in relation with the agreements signed with Inspiration Biopharmaceuticals Inc. (€9.5 million; 2010: €6.8 million).



### 5.2.2. Sales of goods by operating segment

<i>(in thousands of euros)</i>	30 June 2011		30 June 2010	
	Amounts	% share	Amounts	% share
Major Western European countries	273,689	47%	283,385	51%
Rest of Europe	144,427	25%	128,873	23%
North America	33,079	6%	27,490	5%
Rest of the world	131,900	22%	114,188	21%
<b>“Sale of goods” from condensed consolidated income statement</b>	<b>583,095</b>	<b>100%</b>	<b>553,936</b>	<b>100%</b>

### 5.2.3. Other revenues

<i>(in thousands of euros)</i>	30 June 2011	30 June 2010
Royalties received	4,209	2,147
Milestone payments – Licenses	14,084	16,935
Rebilled research and development expenses	9,755	7,578
Co-promotion income	8,253	5,083
<b>“Other revenues” from condensed consolidated income statement</b>	<b>36,301</b>	<b>31,743</b>

- Royalties received amounted to €4.2 million in the first half 2011, up by €2.1 million compared with June 2010 due to the increase in royalties paid by Medecis, Galderma and Menarini.
- Milestone payments relating to licensing agreements amounted to €14.1 million, mainly from partnerships with Medecis, Galderma, Recordati, Menarini and Inspiration Biopharmaceuticals Inc., down €2.9 million compared with June 2010. This decrease was mainly related to the termination in 2011 of milestone payments relating to Taspoglutide, after the restitution of product rights to the Group in February 2011.
- Other revenues amounted to €18 million in the first half 2011 compared with €12.7 million a year earlier. This item includes rebilling expenses of industrial development for OBI-1 as part of the agreements signed with Inspiration Biopharmaceuticals Inc., together with revenues relating to the Group's co-promotion and co-marketing agreements in France.

### 5.3. Balance sheet items by operating segment (based on location of assets)

<i>(in thousands of euros)</i>	30 June 2011					
	Major Western European countries	Rest of Europe	North America	Rest of the world	Eliminations	Total
Goodwill <sup>(1)</sup>	143,819	18,708	101,673	26,507	-	290,707
Property, plant & equipment	196,654	47,220	22,609	8,732	-	275,215
Inventories	19,697	40,966	6,871	48,601	-	116,135
Trade receivables	311,189	39,776	10,969	32,374	(114,293)	280,015
<b>Total segment assets</b>	<b>671,359</b>	<b>146,670</b>	<b>142,122</b>	<b>116,215</b>	<b>(114,293)</b>	<b>962,072</b>
Trade payables	136,951	38,809	5,979	62,997	(114,293)	130,443
<b>Total segment liabilities</b>	<b>136,951</b>	<b>38,809</b>	<b>5,979</b>	<b>62,997</b>	<b>(114,293)</b>	<b>130,443</b>

<sup>(1)</sup>Note 12

<i>(in thousands of euros)</i>	30 June 2010					
	Major Western European countries	Rest of Europe	North America	Rest of the world	Eliminations	Total
Goodwill <sup>(*)</sup>	143,819	18,708	117,502	26,512	-	306,541
Property, plant & equipment	190,546	40,927	22,353	10,360	-	264,186
Inventories	64,833	20,150	7,897	15,203	-	108,083
Trade receivables	244,002	40,118	8,740	21,468	(49,063)	265,265
<b>Total segment assets</b>	<b>643,200</b>	<b>119,903</b>	<b>156,492</b>	<b>73,543</b>	<b>(49,063)</b>	<b>944,075</b>
Trade payables	123,910	18,314	4,327	22,680	(49,063)	120,168
<b>Total segment liabilities</b>	<b>123,910</b>	<b>18,314</b>	<b>4,327</b>	<b>22,680</b>	<b>(49,063)</b>	<b>120,168</b>

<sup>(\*)</sup>Note 12

#### 5.4. Other information

<i>(in thousands of euros)</i>	30 June 2011					
	Major Western European countries	Rest of Europe	North America	Rest of the world	Unallocated	Total
Capital expenditures	(9,146)	(2,300)	(2,944)	(328)	(29,445)	<b>(44,163)</b>
Net depreciation, amortisation and provisions (excluding financial and current assets)	9,728	21,276	10,548	2,975	5,285	<b>49,812</b>
Share-based payment expenses with no impact on cash flow	-	-	-	-	1,954	<b>1,954</b>

<i>(in thousands of euros)</i>	30 June 2010					
	Major Western European countries	Rest of Europe	North America	Rest of the world	Unallocated	Total
Capital expenditures	(10,544)	(1,865)	(1,638)	(587)	(10,904)	<b>(25,538)</b>
Net depreciation, amortisation and provisions (excluding financial and current assets)	13,000	1,826	1,531	914	6,014	<b>23,285</b>
Share-based payment expenses with no impact on cash flow	-	-	-	-	4,214	<b>4,214</b>

#### Note 6. Employees

Employee expenses which are included in the cost of goods sold, selling, general and administrative expenses and research and development expenses include the following items:

<i>(in thousands of euros)</i>	30 June 2011	30 June 2010
Wages and salaries	(128,022)	(124,393)
Employer's social security contributions and payroll taxes	(46,157)	(45,990)
<b>Sub-total</b>	<b>(174,179)</b>	<b>(170,383)</b>
<b>Employee benefit expenses</b>	<b>(2,591)</b>	<b>(2,760)</b>
Half-year accounting expenses associated to share-based payments	(1,865)	(4,107)
Social security contributions on share-based payments	(89)	(107)
<b>Share-based payment expenses sub-total</b>	<b>(1,954)</b>	<b>(4,214)</b>
Employee profit-sharing	(5,273)	(7,294)
<b>Total</b>	<b>(183,997)</b>	<b>(184,651)</b>

At 30 June 2011, the average rate of employer's social security contributions and payroll taxes was 36.1% of gross payroll (37% at 30 June 2010).

At 30 June, employee benefit expenses are recognised on the basis of the estimations made at the beginning of the period, after taking into account the impacts linked with the changes within the Executive Committee (see note 1.3).

The changes in share-based payments expenses are due to:

- the reversal of expenses previously recognised concerning the February 2009 plan whose conditions for final granting were not met;
- the expiration in December 2010 of the December 2006 plan;
- the expiration in January 2011 of the January 2009 plan for French beneficiaries.

On 30 June 2011, the Board of Directors granted:

- to the Chairman and Chief Executive: 121,180 stock options and 4,490 bonus shares,
- to the members of the Executive Committee: 68,523 stock options and 22,841 bonus shares,
- to beneficiaries of its American subsidiaries: 16,005 stock options and 15,755 bonus shares and,
- to certain beneficiaries of other Group subsidiaries: 112,820 bonus shares.

These attributions are subject to length of service criteria. In addition, the attributions to the Chairman and Chief Executive and the members of the Executive Committee are contingent upon qualitative and quantitative performance criteria based on the changes in sales and the achievement of strategic objectives defined by the Board of Directors.

The stock options granted to beneficiaries of American subsidiaries are exercisable after a period of 2 years from the date of issue. There is a 2-year vesting period for the bonus shares granted to beneficiaries of American subsidiaries, and the shares are issued to the beneficiaries at the end of an additional 2-year period.

For the bonus shares, with regard to beneficiaries who are French tax residents, the vesting period is 2 years with a 2-year lock-up period; with regard to beneficiaries who are foreign tax residents in France, except for the USA, the vesting period is 4 years.

## Note 7. Other operating income and expenses

Other operating income and expenses balance recorded in the first half 2011 represented a €7.5 million income. The other operating income for a total amount of €20.0 million is mainly composed of a non-recurring income of €17.2 million following the enforceable court judgement relating to the trade dispute between the Group and Mylan (see note 1.1.2). The other operating expenses for a total amount of €12.5 million are mainly comprising non-recurring costs linked with the implementation of the new strategy announced on 9 June 2011 and the changes within the Executive Committee (see note 1.3). In the first half 2010, the other operating income and expenses balance represented a €4.7 million expense, mainly composed of a €5.2 million expense particularly comprising costs related to the headquarters and non recurring fees.

## Note 8. Amortisation of intangible assets (excluding software)

This item includes amortisation of intangible assets other than software.

In the first half 2011, amortisation charges of intangible assets represented an expense of €3.1 million, compared with an expense of €6 million the previous year. This decrease is a result of the change to the amortisation plan following the impairment loss recorded at 31 December 2010 on the IGF-1 license.

## Note 9. Restructuring costs

In the first half 2011, the Group recorded €28.1 million in non-recurring restructuring costs as part of the strategy announced on 9 June 2011, mainly corresponding to the closure of the Barcelona Research and Development centre for a total of €18.4 million (see note 1.4.1) and the transfer of the Group's North American subsidiary to the East Coast for a total of €8.7 million (see note 1.4.2). In 2010, the Group recorded €0.9 million of non-recurring restructuring costs.

## Note 10. Financial income/(expense)

### 10.1. Net financing costs

<i>(in thousands of euros)</i>	30 June 2011	30 June 2010
Proceeds from sales of short-term investments	837	520
Financial income on rate option	-	-
<b>Total income from financial assets held for trading</b>	<b>837</b>	<b>520</b>
Other financial income	1,078	469
<b>Total income from loans and receivables</b>	<b>1,078</b>	<b>469</b>
<b>Investment income</b>	<b>1,915</b>	<b>989</b>
Interest on debt	(320)	(478)
Interest on employee profit sharing fund	(216)	(347)
<b>Total expenses on financial liabilities measured at amortised cost</b>	<b>(536)</b>	<b>(825)</b>
Financial expenses on exchange rate hedging instruments	(337)	(151)
<b>Total expenses on financial assets held for trading</b>	<b>(337)</b>	<b>(151)</b>
<b>Financing costs</b>	<b>(873)</b>	<b>(976)</b>
<b>Net financing cost</b>	<b>1,042</b>	<b>13</b>

The costs of net financial debt represented an income of €1.0 million mainly including the interests recorded on the two convertible bonds issued by Inspiration Biopharmaceuticals Inc. and subscribed by the Group.

## 10.2. Other financial income and expenses

<i>(in thousands of euros)</i>	30 June 2011	30 June 2010
Other exchange differences	1,041	(2,302)
<b>Income and expenses on financial assets and liabilities at fair value</b>	<b>1,041</b>	<b>(2,302)</b>
Impairment of investments in non-consolidated companies	(28)	(526)
Impairment of other financial assets	(73)	-
<b>Income and expenses on available-for-sale financial assets</b>	<b>(101)</b>	<b>(526)</b>
Financial income on employee benefits	614	1,079
Financial expenses on employee benefits	(1,384)	(1,623)
Other financial income and expenses	(2)	(395)
<b>Total other financial income and expenses</b>	<b>168</b>	<b>(3,767)</b>

The other financial income and expenses amounted to €0.2 million at 30 June 2011 against an expense of €3.8 million in 2010. This change was mainly due to foreign exchange movements. Moreover, in 2010, the Group had recorded impairment losses on some of its assets for sale.

## Note 11. Income taxes

### 11.1. Breakdown of the tax expense

<i>(in thousands of euros)</i>	30 June 2011	30 June 2010
Current tax	(51,007)	(27,983)
Deferred tax	24,820	7,297
<b>Income taxes</b>	<b>(26,187)</b>	<b>(20,686)</b>

### 11.2. Effective tax rate

<i>(in thousands of euros)</i>	30 June 2011	30 June 2010
Net profit from continuing operations	91,674	75,353
Share of profit/loss from associated companies (note 16)	(4,113)	(5,143)
<b>Profit from continuing operations before the share in results of associated companies</b>	<b>95,787</b>	<b>80,496</b>
Income taxes	(26,187)	(20,686)
<b>Pre-tax profit from continuing operations before the share in results of associated companies</b>	<b>121,974</b>	<b>101,182</b>
<b>Effective tax rate</b>	<b>21.5%</b>	<b>20.4%</b>

At 30 June 2011, the effective tax rate was 21.5% of net profit from continuing operations before share of profit/loss from associated company, compared to an effective tax rate of 20.4% at 30 June 2010. This increase in effective tax rate was mainly due to the dilution of the positive impact of the research tax credit, related to a higher taxable profit compared with 30 June 2010. Adjusted by non-recurring operating and tax items, the Group's effective tax rate amounted to 22.9% at 30 June 2011, compared to 20.1% at 30 June 2010..

### 11.3. Deferred tax assets and liabilities

- Movements during the first half 2011

<i>(in thousands of euros)</i>	31 December 2010	Movements during the period					30 June 2011
		Exchange differences	Changes in consolidation scope	Deferred taxes recorded directly to equity	Condensed consolidated income statement Income / Expense	Other movements	
Deferred tax assets	141,630	(8,353)	-	-	24,217		157,494
Deferred tax liabilities	(11,955)	379	-	-	603	(96)	(11,069)
<b>Net assets/(liabilities)</b>	<b>129,675</b>	<b>(7,974)</b>	<b>-</b>	<b>-</b>	<b>24,820</b>	<b>(96)</b>	<b>146,425</b>

A significant portion of the Group's deferred tax assets/liabilities are related to the American subsidiary, Tercica Inc., based on the subsidiary's tax loss carryforwards and temporary differences as well as those concerning the intangible asset recognised for the license in relation to the allocation of the goodwill of Tercica Inc. The review of the deferred tax assets conducted by the Group at 30 June 2011 did not indicate an additional risk that certain tax loss carryforwards would expire within the time frame of their potential use.

- Movements during the first half 2010

<i>(in thousands of euros)</i>	31 December 2009	Movements during the period					30 June 2010
		Exchange differences	Changes in consolidation scope	Deferred taxes recorded directly to equity	Condensed consolidat ed income statement Income / Expense	Other movements	
Deferred tax assets	120,953	13,607	-	-	8,709	-	143,269
Deferred tax liabilities	(7,093)	(557)	-	-	(1,411)	-	(9,061)
<b>Net assets/(liabilities)</b>	<b>113,860</b>	<b>13,050</b>	<b>-</b>	<b>-</b>	<b>7,298</b>	<b>-</b>	<b>134,208</b>

At 30 June 2010 the Group reviewed its deferred tax assets and noted that there was a risk that certain loss carryforwards would expire within the time frame of their potential use. In this regard, a deferred tax expense was recorded as such at 30 June 2010 for \$3.7 million (i.e. €2.8 million). A large portion of the Group's deferred taxes originate from losses of its North American subsidiaries results and were generated either prior to or since their acquisition and therefore, their foreseeable use is sensitive to the sales and income forecast assumptions.

## Note 12. Goodwill

### 12.1. Net goodwill carried in the balance sheet

- Movements during the first half 2011

<i>(in thousands of euros)</i>	31 December 2010	Movements during the period				30 June 2011
		Increases	Decreases	Changes in consolidation scope	Exchange differences	
Gross goodwill	307,710	-	-	-	(8,788)	298,922
Impairment losses	(8,605)	-	-	-	390	(8,215)
<b>Net goodwill</b>	<b>299,105</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(8,398)</b>	<b>290,707</b>

Gross goodwill shown on the balance sheet at 30 June 2011 resulted from:

- €135.3 million arising on the Group's structuring between 1998 and 2004 as a result of the Group's acquisition of SCRAS and its subsidiaries and €53.5 million arising on the acquisition of BB et Cie;
- €8.2 million arising on the acquisition of Sterix Ltd in 2004, which was fully impaired at the time of the business combination;
- €0.2 million arising on the acquisition of Beaufour Ipsen Farmaceutica LTA in 2007;
- €3.5 million arising on the acquisition of Vernalis Inc. on 1 July 2008 and €159.2 million arising on the acquisition of Tercica Inc. on 16 October 2008, transactions which generated residual goodwill in the amount of €101.7 million.

- Movements during the first half 2010

<i>(in thousands of euros)</i>	31 December 2009	Movements during the period				30 June 2010
		Increases	Decreases	Changes in consolidation scope	Exchange differences	
Gross goodwill	298,403	-	-	-	17,019	315,422
Impairment losses	(8,167)	-	-	-	(714)	(8,881)
<b>Net goodwill</b>	<b>290,236</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,305</b>	<b>306,541</b>

## 12.2. Impairment of Goodwill

For the purposes of impairment tests, goodwill is allocated to the cash-generating units defined by the Group. The cash-generating units identified for the allocation and performance of impairment tests related to Goodwill correspond to the operating segments.

Thus, Goodwill related to the Group's structuring between 1998 and 2004 was allocated to the "Major Western European countries", "Rest of Europe" and "Rest of the world" operating segments in proportion to the revenue generated as of the effective historical date of the business combination (1999), and Goodwill related to the acquisition of Vernalis Inc. and Tercica Inc. in the second half 2008 was allocated to the "North America" operating segment.

The recoverable value of the respective cash-generating units corresponds to the value in use based on the discounting of the related estimated future cash flows. These cash flows are based on short-term and medium-term estimates (such as forecasts, annual budget, and four-year strategic plan) as well as more long-term estimates by geographic area established by the Group's operating entities.

At 30 June 2011, 31 December 2010, 30 June 2010 and 31 December 2009, no impairment loss related to Goodwill was recorded.

The impairment loss previously recorded concerned only the goodwill arising on the acquisition of Sterix Ltd.

Given the new strategic directions presented on 9 June 2011, the Group has updated the business plans based on the information available in order to take that into account. Based on these items, no impairment loss was recorded at 30 June 2011.

## Note 13. Other intangible assets

- Movements in this item during the first half 2011

<i>(in thousands of euros)</i>	31 December 2010	Movements during the period					30 June 2011
		Increases	Decreases	Change in consolidation scope	Exchange differences	Other movements	
Intellectual property	345,179	26,221	(701)	-	(16,138)	7,019	361,580
Intangible assets in progress	2,267	485	(15)	-	-	(1,098)	1,639
Advance payments	5,086	2,739	-	-	-	(1,392)	6,433
<b>Gross assets</b>	<b>352,532</b>	<b>29,445</b>	<b>(716)</b>	<b>-</b>	<b>(16,138)</b>	<b>4,529</b>	<b>369,652</b>
Amortisation	(73,297)	(6,497)	220	-	2,866	(4,498)	(81,206)
Impairment losses	(112,698)	(5)	22	-	6,915	-	(105,765)
<b>Amortisation and impairment losses</b>	<b>(185,995)</b>	<b>(6,502)</b>	<b>242</b>	<b>-</b>	<b>9,781</b>	<b>(4,498)</b>	<b>(186,971)</b>
<b>Net assets</b>	<b>166,538</b>	<b>22,943</b>	<b>(474)</b>	<b>-</b>	<b>(6,357)</b>	<b>31</b>	<b>182,681</b>

Movements in "Intellectual property" are mainly due to the recognition of the upfront payment of €25 million to Active Biotech as part of the partnership to co-develop and commercialise Tasquinimod "TASQ" (see note 1.1.1).

Movements in "Advance payments" and "Intangible assets in progress" mainly include capital expenditure related to the renewal of the Group's information systems.

"Amortisation" includes the addition during the period for the intangible asset related to the IGF-1 license recognised in the final allocation of Tercica Inc.'s Goodwill in the amount of €1.6 million.

Given the new strategic directions presented on 9 June 2011, the Group has updated the business plans based on the information available in order to take that into account. Based on these items, no impairment loss was recorded at 30 June 2011.

- Movements in this item during the first half 2010

<i>(in thousands of euros)</i>	31 December 2009	Movements during the period					30 June 2010
		Increases	Decreases	Changes in consolidation scope	Exchange differences	Other movements	
Intellectual property	291,716	7,841	(1,988)	-	29,505	4,561	331,635
Intangible assets in progress	4,638	1,070	(56)	-	-	(1,501)	4,151
Advance payments	7,699	1,993	-	-	-	(2,851)	6,841
<b>Gross assets</b>	<b>304,053</b>	<b>10,904</b>	<b>(2,044)</b>	<b>-</b>	<b>29,505</b>	<b>209</b>	<b>342,627</b>
Amortisation	(53,807)	(8,839)	7	-	(4,472)	7	(67,104)
Impairment losses	(13,279)	-	1,892	-	(63)	-	(11,450)
<b>Amortisation and impairment losses</b>	<b>(67,086)</b>	<b>(8,839)</b>	<b>1,899</b>	<b>-</b>	<b>(4,535)</b>	<b>7</b>	<b>(78,554)</b>
<b>Net assets</b>	<b>236,967</b>	<b>2,065</b>	<b>(145)</b>	<b>-</b>	<b>24,970</b>	<b>216</b>	<b>264,071</b>

Movements in "Intellectual property" reflect payments made under the Group's partnerships, with Debiopharm (Decapeptyl ® 6-month formulation).

Movements in "Advance payments" and "Intangible assets in progress" mainly include upgrading capital expenditure related to the Group's information systems.

"Amortisation" includes the addition during the period for the intangible asset related to the IGF-1 license recognised in the final allocation of Tercica Inc.'s Goodwill in the amount of €4.6 million.

#### Note 14. Property, plant & equipment

- Movements during the first half 2011

<i>(in thousands of euros)</i>	31 December 2010	Movements during the period					30 June 2011
		Increases	Decreases	Changes in consolidation scope	Exchange differences	Other movements	
Land	16,771	-	-	-	(200)	-	16,571
Buildings	177,230	808	(96)	-	(2,200)	4,332	180,074
Plant & equipment	228,767	2,399	(613)	-	(3,681)	3,418	230,290
Other assets	102,843	1,429	(4,020)	-	(1,147)	2,342	101,447
Assets in progress	86,606	9,708	(1)	-	(2,742)	(10,216)	83,355
Advance payments	798	373	-	-	-	(81)	1,090
<b>Gross assets</b>	<b>613,015</b>	<b>14,717</b>	<b>(4,730)</b>	<b>-</b>	<b>(9,970)</b>	<b>(205)</b>	<b>612,827</b>
Amortisation	(330,728)	(15,214)	4,626	-	3,704	-	(337,612)
Impairment losses	-	-	-	-	-	-	-
<b>Amortisation and impairment losses</b>	<b>(330,728)</b>	<b>(15,214)</b>	<b>4,626</b>	<b>-</b>	<b>3,704</b>	<b>-</b>	<b>(337,612)</b>
<b>Net assets</b>	<b>282,287</b>	<b>(497)</b>	<b>(104)</b>	<b>-</b>	<b>(6,266)</b>	<b>(205)</b>	<b>275,215</b>

- Movements during the first half 2010

<i>(in thousands of euros)</i>	31 December 2009	Movements during the period					30 June 2010
		Increases	Decreases	Changes in consolidation scope	Exchange differences	Other movements	
Land	16,462	-	-	-	386	5	16,853
Buildings	165,123	509	(52)	-	4,814	1,172	171,566
Plant & equipment	206,395	1,190	(2,603)	-	8,778	2,388	216,148
Other assets	95,953	1,760	(1,091)	-	2,361	1,701	100,684
Assets in progress	66,738	9,780	(72)	-	4,675	(5,456)	75,665
Advance payments	1,806	1,395	-	-	15	153	3,369
<b>Gross assets</b>	<b>552,477</b>	<b>14,634</b>	<b>(3,818)</b>	<b>-</b>	<b>21,029</b>	<b>(37)</b>	<b>584,285</b>
Amortisation	(300,659)	(14,008)	3,690	-	(9,083)	2	(320,058)
Impairment losses	(40)	-	-	-	-	(1)	(41)
<b>Amortisation and impairment losses</b>	<b>(300,699)</b>	<b>(14,008)</b>	<b>3,690</b>	<b>-</b>	<b>(9,083)</b>	<b>1</b>	<b>(320,099)</b>
<b>Net assets</b>	<b>251,778</b>	<b>626</b>	<b>(128)</b>	<b>-</b>	<b>11,946</b>	<b>(36)</b>	<b>264,186</b>

#### Note 15. Equity investments

The movement recorded in equity investments corresponds to the recognition on the balance sheet of the Group's irrevocable commitment to call for capital from the Innobio and Biodiscovery venture capital funds.

#### Note 16. Investments in associated companies

At 30 June 2011, investments in associated companies solely concerning the investment by the Group of 22.1% in share capital of Inspiration Biopharmaceuticals Inc..

The information provided below is based on data provided by Inspiration Biopharmaceuticals Inc. in its financial statements established in accordance with IFRS (for amounts taken at 100%).

<i>(in thousands of dollars)</i>	30 June 2011			
	Assets	Liabilities	Sales	Net income for the period
Inspiration Biopharmaceuticals Inc.	126,264	118,391	-	(26,142)
<b>Total</b>	<b>126,264</b>	<b>118,391</b>	<b>-</b>	<b>(26,142)</b>

<i>(in thousands of dollars)</i>	30 June 2010 <sup>(1)</sup>			
	Assets	Liabilities	Sales	Net income for the period
Inspiration Biopharmaceuticals Inc.	108,851	66,819	-	(32,517)
<b>Total</b>	<b>108,851</b>	<b>66,819</b>	<b>-</b>	<b>(32,517)</b>

<sup>(1)</sup> Since the transaction date.



**Note 17. Other non-current assets**

- Movements during the first half 2011

<i>(in thousands of euros)</i>	31 December 2010	Movements during the period								30 June 2011
		Cash flows related to investing activities	Cash flows related to financing activities	Change in plan assets	Reclassificat ion of derivatives	Fair value changes in profit and loss	Discounting	Exchange differences	Other movements	
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	
Conversion option of the convertible bonds	-	-	-	-	-	-	-	-	-	-
Warrants	-	-	-	-	-	-	-	-	-	-
<b>Derivative instruments recorded at fair value</b>	-	-	-	-	-	-	-	-	-	-
Net assets of post-employment benefit plans	2,172	-	-	(44)	-	-	-	(2)	-	2,126
<b>Non-current financial assets (financial assets at fair value)</b>	<b>2,172</b>	-	-	<b>(44)</b>	-	-	-	<b>(2)</b>	-	<b>2,126</b>
Convertible bonds <sup>(1)</sup>	74,184	2	-		-	(1,821)	-	-		72,365
Liquidity agreement	1,229	55	-		-	-	-	-	22	1,306
Loans – non-consolidated companies	152	-	-		-	-	-	-	(75)	77
Other financial assets <sup>(2)</sup>	2,108	574	-		-	-	-	(5)	(24)	2,653
Deposits	3,970	97	-		-	-	34	(6)	-	4,095
<b>Other non-current assets (loans, receivables and other) <sup>(3)</sup></b>	<b>81,643</b>	<b>728</b>	-	-	-	<b>(1,821)</b>	<b>34</b>	<b>(11)</b>	<b>(77)</b>	<b>80,496</b>

<sup>(1)</sup> Movements in this item are due to the revaluation to the closing rate of the convertible bonds issued by Inspiration Biopharmaceuticals Inc. to Ipsen.

<sup>(2)</sup> Movements in this item are mainly due to the accrued interests on the above-mentioned convertible bonds.

<sup>(3)</sup> Decreases in the item "loans and receivables" were immaterial and therefore not reported. The fair value of "loans and receivables" corresponds to the value reported in the balance sheet (value at the transaction date and then tested for impairment on each reporting date).

- Movements during the first half 2010

(in thousands of euros)	31 December 2009	Movements during the period								30 June 2010
		Cash flows related to investing activities	Cash flows related to financing activities	Change in plan assets	Reclassification of derivatives	Fair value changes in profit and loss	Discounting	Exchange differences	Other movements	
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	
Net assets of post-employment benefit plans	3,384	-	-	(417)	-	-	-	17	-	2,984
<b>Non-current financial assets (financial assets at fair value)</b>	<b>3,384</b>	<b>-</b>	<b>-</b>	<b>(417)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>17</b>	<b>-</b>	<b>2,984</b>
Convertible bonds <sup>(1)</sup>	2,000	35,506	-		-	-	-	-	-	37,506
Liquidity agreement <sup>(2)</sup>	2,898	(2,300)	-		-	-	-	-	-	598
Loans – non-consolidated companies	151	-	-		-	-	-	1	(70)	82
Other financial assets	8,329	414	-		-	-	33	68	(8,209)	635
Deposits	4,400	(1,080)	-		-	-	-	14	550	3,884
<b>Other non-current assets (loans, receivables and other) <sup>(3)</sup></b>	<b>17,778</b>	<b>32,540</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33</b>	<b>83</b>	<b>(7,729)</b>	<b>42,705</b>
<b>Total other non-current assets</b>	<b>21,162</b>	<b>32,540</b>	<b>-</b>	<b>(417)</b>	<b>-</b>	<b>-</b>	<b>33</b>	<b>100</b>	<b>(7,729)</b>	<b>45,689</b>

<sup>(1)</sup> Movements in this item are mainly due to the recognition of the convertible bonds issued by Inspiration Biopharmaceuticals Inc. to Ipsen for exclusive rights to the OBI-1 sub-license.

<sup>(2)</sup> Movements in this item are related to the liquidity agreement with Natexis Bleichroder, subsidiary of Natixis.

<sup>(3)</sup> Decreases in the item "loans and receivables" were immaterial and therefore not reported. The fair value of "loans and receivables" corresponds to the value reported in the balance sheet (value at the transaction date and then tested for impairment on each reporting date).

**Note 18. Working capital items**

18.1. Movements

- Movements during the first half 2011

<i>(in thousands of euros)</i>	31 December 2010	Movements during the period							30 June 2011
		Change in w/cap related to operating activities	Change in w/cap related to investing activities	Change in w/cap related to financing activities	Changes in consolidation scope	Exchange differences	Fair value changes in profit and loss	Other movements	
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	
Inventories	112,149	5,013	-	-	-	(1,020)	-	(7)	116,135
Trade receivables	241,890	39,312	-	-	-	(1,193)	-	6	280,015
Current tax assets	44,655	(34,394)	-	-	-	(187)	-	(4,217)	5,857
Other current assets	62,917	5,514	(5,056)	1	-	(1,046)	-	28	62,358
<b>Loans and receivables <sup>(1)</sup></b>	<b>461,611</b>	<b>15,445</b>	<b>(5,056)</b>	<b>1</b>	<b>-</b>	<b>(3,446)</b>	<b>-</b>	<b>(4,190)</b>	<b>464,365</b>
Current financial assets	49	-	-	-	-	1	542	-	592
<b>Financial assets held for trading <sup>(2)</sup></b>	<b>49</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>542</b>	<b>-</b>	<b>592</b>
Trade payables	(140,671)	9,054	-	-	-	811	-	363	(130,443)
Current tax liabilities	(6,565)	(23,777)	-	-	-	146	-	4,354	(25,842)
Other current liabilities	(173,764)	29,384	1,434	412	-	3,038	-	(12,199)	(151,695)
Other non-current liabilities	(198,998)	(3,615)	-	-	-	5,388	-	13,615	(183,610)
Interest on other financial liabilities <sup>(3)</sup>	(612)	-	-	139	-	-	-	150	(323)
<b>Financial liabilities measured at amortised cost <sup>(4)</sup></b>	<b>(520,610)</b>	<b>11,046</b>	<b>1,434</b>	<b>551</b>	<b>-</b>	<b>9,383</b>	<b>-</b>	<b>6,283</b>	<b>(491,913)</b>
<b>Total</b>	<b>(58,950)</b>	<b>26,491</b>	<b>(3,622)</b>	<b>552</b>	<b>-</b>	<b>5,937</b>	<b>542</b>	<b>2,093</b>	<b>(26,956)</b>

<sup>(1)</sup> Impairment of "loans and receivables" are not reported due to their immaterial nature. The fair value of "loans and receivables" corresponds to the value reported in the balance sheet (value at the transaction date and then tested for impairment on each reporting date).

<sup>(2)</sup> Fair value of financial assets held for trading corresponds to their market value.

<sup>(3)</sup> Interests on other financial liabilities are included in the balance sheet under financial liabilities.

<sup>(4)</sup> The carrying amount of financial liabilities measured at amortised cost is deemed to be a reasonable estimation of fair value.

The changes in other non-current liabilities are due in part to the recording of "deferred income" of the payments received. Within the framework of the partnership agreements with Medicis, Recordati, Galderma, Roche, Menarini and Inspiration Biopharmaceuticals Inc., the milestone payments received by the Group for these contracts are recognised on a straight line basis over the life of the contracts. The portion unrecognised as income is recorded as "other non-current liabilities" if realised after 12 months and in "other current liabilities" if realised within one year.

The Group was led to recognise additional impairment losses on certain Greek, Spanish, Italian and Portuguese public hospitals accounts receivables for a total amount of €1.3 million for the first half 2011, mainly due to significant delays in payment.

- Movements during the first half 2010

(in thousands of euros)	31 December 2009	Movements during the period							30 June 2010
		Change in w/cap related to operating activities	Change in w/cap related to investing activities	Change in w/cap related to financing activities	Changes in consolidation scope	Exchange differences	Fair value changes in profit and loss	Other movements	
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	
Inventories	102,970	815	-	-	-	4,298	-	-	108,083
Trade receivables	223,105	37,818	-	-	-	4,248	-	94	265,265
Current tax assets	55,966	(47,680)	-	-	-	61	-	-	8,347
Other current assets	50,575	10,800	(2,861)	(3)	-	1,910	-	1,125	61,546
<b>Loans and receivables<sup>(1)</sup></b>	<b>432,616</b>	<b>1,753</b>	<b>(2,861)</b>	<b>(3)</b>	<b>-</b>	<b>10,517</b>	<b>-</b>	<b>1,219</b>	<b>443,241</b>
Current financial assets	1,162	-	-	-	-	2	(1,076)	-	88
<b>Financial assets held for trading<sup>(2)</sup></b>	<b>1,162</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>(1,076)</b>	<b>-</b>	<b>88</b>
Trade payables	(122,647)	5,143	-	-	-	(2,031)	-	(633)	(120,168)
Current tax liabilities	(4,030)	(4,980)	-	-	-	(583)	-	490	(9,103)
Other current liabilities	(157,338)	13,356	10,208	(320)	-	(5,773)	-	(15,381)	(155,248)
Other non-current liabilities	(211,771)	(51,389)	-	-	-	(11,036)	-	17,645	(256,551)
Interest on other financial liabilities <sup>(3)</sup>	(667)	-	-	212	-	-	-	126	(329)
<b>Financial liabilities measured at amortised cost<sup>(4)</sup></b>	<b>(496,453)</b>	<b>(37,870)</b>	<b>10,208</b>	<b>(108)</b>	<b>-</b>	<b>(19,423)</b>	<b>-</b>	<b>2,247</b>	<b>(541,399)</b>
<b>Total</b>	<b>(62,675)</b>	<b>(36,117)</b>	<b>7,347</b>	<b>(111)</b>	<b>-</b>	<b>(8,904)</b>	<b>(1,076)</b>	<b>3,466</b>	<b>(98,070)</b>

(1) Impairment losses on "Loans and receivables" are not reported due to their immaterial nature. The fair value of "loans and receivables" corresponds to the value reported in the balance sheet (value at the transaction date and then tested for impairment on each reporting date).

(2) Fair value of financial assets held for trading corresponds to their market value.

(3) Interests on other financial liabilities are included in the balance sheet under financial liabilities.

(4) The carrying amount of financial liabilities measured at amortised cost is deemed to be a reasonable estimation of fair value.

The changes in other non-current liabilities are due in part to the recording of "deferred income" of the payments received within the framework of the partnership agreements with Medicis, Recordati, Galderma, Roche, Menarini and Inspiration Biopharmaceuticals Inc.. The income generated by these contracts is recognised on a straight line basis over the life of the contracts. The portion unrecognised as income is recorded as "other non-current liabilities" if realised after 12 months and in "other current liabilities" for the part realised within one year.

## 18.2. Breakdown

### 18.2.1. Other current assets and current financial assets

(in thousands of euros)	30 June 2011	31 December 2010
Advance payments to suppliers	9,597	8,506
Receivables related to the sale of non-current assets	11	5,067
VAT recoverable	17,341	21,293
Other assets	17,205	13,431
Prepayments	18,204	14,620
<b>Total current assets (loans and receivables)<sup>(1)</sup></b>	<b>62,358</b>	<b>62,917</b>
Derivative financial instruments	592	49
<b>Total current financial assets (financial assets held for trading)<sup>(2)</sup></b>	<b>592</b>	<b>49</b>

(1) Impairment of "loans and receivables" was immaterial and therefore not reported. The fair value of "loans and receivables" corresponds to the value reported in the balance sheet (value at the transaction date and then tested for impairment on each reporting date).

(2) The Fair value of financial assets held for trading corresponds to their market value.

## 18.2.2. Other current and non-current liabilities

<i>(in thousands of euros)</i>	<b>30 June 2011</b>	<b>31 December 2010</b>
VAT payable	11,138	10,853
Other current tax liabilities	5,975	7,895
Employment-related liabilities	68,095	85,849
Amounts due to non-current asset suppliers	14,231	15,950
Other liabilities	24,101	25,221
Deferred income	28,155	27,996
<b>Total other current liabilities (financial liabilities measured at amortised cost)</b>	<b>151,695</b>	<b>173,764</b>
Non-current deferred income	183,610	198,998
<b>Total other current liabilities (financial liabilities measured at amortised cost)<sup>(1)</sup></b>	<b>183,610</b>	<b>198,998</b>

<sup>(1)</sup> The carrying amount of financial liabilities measured at amortised cost is deemed to be a reasonable estimation of fair value.

The movements in "other non-current liabilities" are presented in note 18.1.

## Note 19. Net cash and cash equivalents

<i>(in thousands of euros)</i>	<b>30 June 2011</b>	<b>31 December 2010</b>
<b>Financial assets held for trading:</b>		
– French SICAV / Euro money market UCITS	113,848	127,256
– Certificates of deposit (with a maturity date of less than 3 months)	-	-
<b>Loans and receivables:</b>		
– Interest-bearing deposits	3,494	412
<b>Cash in hand</b>	<b>42,241</b>	<b>50,450</b>
<b>Cash and cash equivalents – assets</b>	<b>159,583</b>	<b>178,118</b>
<b>Bank overdrafts – liabilities</b>	<b>(4,543)</b>	<b>(190)</b>
<b>Closing net cash and cash equivalents</b>	<b>155,040</b>	<b>177,928</b>

The short-term investments include investments in monetary mutual funds (mostly money market UCITS or similar funds) which are carried at fair value (market value).

The short-term investments held at 30 June 2011 are immediately realisable, subject to 24 hours' notice maximum.

No interest-bearing deposits held at 30 June 2011 matured later than the end of July 2011.

## Note 20. Consolidated equity

### 20.1. Share capital

At 30 June 2011, Ipsen's share capital was set at €84,223,073 divided into 84,223,073 shares each with a nominal value of €1, including 57,344,850 shares with double voting rights, compared with a share capital of €84,196,213 at 31 December 2010 divided into 84,196,213 shares each with a nominal value of €1, with 57,352,046 shares with double voting rights.

This change follows:

- the exercise of 4,000 options between 1 January and 30 June 2011 as part of the 14 November 2005 stock purchase plan for which the vesting date is 6 December 2009;
- the final allocation of 22,860 bonus shares as part of the 22 January 2009 plan.

### 20.2. Equity attributable to Ipsen shareholders

The following is a breakdown of the various components of consolidated equity including retained earnings per period:

<i>(in thousands of euros)</i>	<b>30 June 2011</b>	<b>31 December 2010</b>
Ipsen share capital	84,223	84,196
Share premium	29,809	29,809
Issue premium	681,303	681,219

Ipsen statutory reserve	44,686	44,686
Other Ipsen reserves	153,191	153,214
Other consolidated reserves and retained earnings	79,560	84,066
<b>Total</b>	<b>1,072,772</b>	<b>1,077,190</b>

### 20.3. Earnings per share

Basic earnings per share is calculated on the weighted average number of shares outstanding during the period.

None of the stock option plans were dilutive at 30 June 2011 and 31 December 2010. All stock option plans were accretive at 30 June 2011, but could be potentially dilutive in case of future appreciation of the market price of Ipsen.

The bonus share plans of 2007, 2008, 2009 and 2010 which are free of performance conditions are included in the weighted average number of shares for basic earnings per share, and are therefore included in diluted earnings.

There were no share transactions occurred after 30 June 2011 that would have significantly modified the number of shares used in computing earnings per share and diluted earnings per share.

The indicated adjustment corresponds to the retroactive effect at 1 January 2010 of the achievement of performance conditions and/or to the end of the vesting period during 2010, of the stock option plan of 14 November 2005 and the bonus share plans of 10 November 2009 (French resident beneficiaries) and of 31 March 2010 (French resident beneficiaries).

	30 June 2011	30 June 2010 (adjusted)	30 June 2010
Number of ordinary shares at 31 December 2010 and 2009	84,196,213	84,127,760	84,127,760
Treasury shares (weighted average number)	33,836	(23,749)	(23,749)
Impact of bonus shares – 29 September 2008 plan – Foreign tax residents beneficiaries - without performance conditions	11,450	11,450	14,500
Impact of bonus shares – 29 September 2008 plan – French tax residents beneficiaries - without performance conditions	-	18,600	18,600
Impact of bonus shares – 22 January 2009 plan – French tax residents beneficiaries - without performance conditions	22,860	22,860	54,870
Impact of bonus shares – 22 January 2009 plan – Foreign tax residents beneficiaries - without performance conditions	38,850	38,850	44,670
Impact of bonus shares – 30 March 2009 plan – Foreign tax residents beneficiaries - without performance conditions	15,640	15,640	24,730
Impact of bonus shares – 10 November 2009 plan – French tax residents beneficiaries - change of chairman	11,000	-	-
Impact of bonus shares – 10 November 2009 plan – French tax residents beneficiaries - without performance conditions	2,500	2,500	2,500
Impact of bonus shares – 31 March 2010 plan – French tax residents beneficiaries - without performance conditions	45,790	45,790	46,920
Impact of bonus shares – 31 March 2010 plan – Foreign tax residents beneficiaries - without performance conditions	26,060	26,060	29,110
Impact of bonus shares – 31 March 2010 plan – French tax residents beneficiaries – change of chairman	4,490	-	-
Impact of options exercised during the financial year 2010 – Stock option plan of 14 November 2005	-	48,323	48,323
Impact of options exercised during the first half 2011 – Stock option plan of 14 November 2005	4,000	-	-
Adjustment	-	260,534	-
<b>Weighted average number of shares outstanding at 30 June 2011 and 30 June 2010 used to determine the basic earnings per share</b>	<b>84,412,689</b>	<b>84,594,618</b>	<b>84,388,234</b>
Dilutive effect of stock options	-	-	-
<b>Weighted average number of shares outstanding at 30 June 2011 and 30 June 2010 used to determine diluted earnings per share</b>	<b>84,412,689</b>	<b>84,594,618</b>	<b>84,388,234</b>

### 20.4. Dividends paid

At 30 June 2011, a dividend of €0.80 per share was paid to shareholders compared to €0.75 per share at 30 June 2010.

## Note 21. Provisions

- Movements during the first half 2011

(in thousands of euros)	31 December 2010	Movements during the period						30 June 2011
		Changes in consolidation scope	Charges	Reversals		Exchange differences	Other movements	
				Applied	Released			
Business and operating risks	1,389	-	254	(355)	-	-	-	1,287
Legal risks	19,613	-	2,048	(1,930)	(960)	(5)	-	18,766
Restructuring	124	-	27,116	(79)	-	(126)	-	27,035
Other	6,088	-	-	(11)	(1,651)	(8)	-	4,418
<b>Total provisions<sup>(1)</sup></b>	<b>27,214</b>	<b>-</b>	<b>29,418</b>	<b>(2,375)</b>	<b>(2,611)</b>	<b>(139)</b>	<b>-</b>	<b>51,507</b>
– of which current	3,665	-	27,691	(2,015)	(154)	(128)	358	29,417
– of which non-current	23,549	-	1,727	(360)	(2,457)	(11)	(358)	22,090

<sup>(1)</sup> All increases / reversals of provisions are included in the operating income.

At 30 June 2011, provisions can be broken down as follows:

- **Legal risks**

These provisions include:

- €13.4 million for the risk of tax reassessment in the Group's various subsidiaries and additional taxes that the Group may be required to pay;
- €2.3 million for costs that the Group may incur related to corporate litigation;
- €3.1 million for various other legal risks.

- **Restructuring costs**

These provisions corresponding to restructuring costs as part of the strategic review implemented by the Group in 2011: the closure of the Barcelona Research and Development site for a total of €18.4 million (see note 1.4.1) and the transfer of the American site from the West Coast to the East Coast for a total of €8.7 million (see note 1.4.2).

- **Other**

Under the grouping of all sites on the new Paris headquarters in Boulogne-Billancourt in 2008, a provision of €4.1 million was accounted for covering the difference in rents for the areas not used by the Group between the estimated market price based on the sublease actually signed and the amounts owed by the Group under its lease contract.

- Movements during the first half 2010

(in thousands of euros)	31 December 2009	Movements during the period						30 June 2010
		Changes in consolidation scope	Charges	Reversals		Exchange differences	Other movements	
				Applied	Released			
Business and operating risks	9,598	-	-	(171)	(55)	1,372	-	10,744
Legal risks	24,421	-	2,243	(6,593)	(1,958)	22	-	18,135
Restructuring	293	-	-	(119)	-	38	-	212
Other	5,734	-	455	(82)	-	23	-	6,130
<b>Total provisions<sup>(1)</sup></b>	<b>40,046</b>	<b>-</b>	<b>2,698</b>	<b>(6,965)</b>	<b>(2,013)</b>	<b>1,455</b>	<b>-</b>	<b>35,221</b>
– of which current	2,621	-	670	(1,478)	-	44	(408)	1,449
– of which non-current	37,425	-	2,028	(5,487)	(2,013)	1,411	408	33,772

<sup>(1)</sup> All increases / reversals of provisions are included in the operating income.



At 30 June 2010, provisions can be broken down as follows:

- **Business and operating risks**  
These provisions relate to a contingent liability recognised in the context of the definitive allocation of Goodwill related to the takeover of Tercica Inc. for €10 million as well as the business risks for amounts which the Group may incur to resolve various commercial disputes with a limited individual impact.
- **Legal risks**  
These provisions include:
  - €14.1 million for the risk of tax reassessment in the Group's various subsidiaries and additional taxes that the Group may be required to pay;
  - €1.7 million for costs that the Group may incur related to corporate litigation;
  - €2.3 million for various other legal risks.
- **Restructuring costs**  
These provisions correspond to restructuring costs related to the Group's 2008 North American acquisitions.
- **Other**  
A provision of €5.8 million was recognised to cover the differences in rents for the space not used by the Group between the market price estimated on the basis of the sub-lease granted by the Group and the amount due by the Group under its own lease for its new head office in Boulogne-Billancourt.

## Note 22. Bank loans and financial liabilities

- Movements in bank loans and financial liabilities between 31 December 2010 and 30 June 2011 are as follows:

(in thousands of euros)	31 December 2010	Additions	Repayments	Net change in short-term borrowings	Net change in interest	Change in fair value	Movements	Change in consolidation scope	Exchange differences	30 June 2011
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	
Credit lines and bank loans	-	-	-	-	-	-	-	-	-	-
Other financial liabilities	15,275	-	-	-	(144)	-	1,973	-	-	17,104
<b>Non-current financial liabilities (measured at amortised cost) <sup>(1)</sup></b>	<b>15,275</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(144)</b>	<b>-</b>	<b>1,973</b>	<b>-</b>	<b>-</b>	<b>17,104</b>
Credit lines and bank loans	4,000	-	-	-	-	-	-	-	-	4,000
Other financial liabilities	2,632	-	(178)	-	2	-	(531)	-	-	1,925
<b>Current financial liabilities (measured at amortised cost) <sup>(1)</sup></b>	<b>6,632</b>	<b>-</b>	<b>(178)</b>	<b>-</b>	<b>2</b>	<b>-</b>	<b>(531)</b>	<b>-</b>	<b>-</b>	<b>5,925</b>
Derivative financial instruments	886	-	-	-	-	(873)	-	-	-	13
<b>Current financial liabilities (measured at fair value) <sup>(2)</sup></b>	<b>886</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(873)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13</b>
<b>Current financial liabilities</b>	<b>7,518</b>	<b>-</b>	<b>(178)</b>	<b>-</b>	<b>2</b>	<b>(873)</b>	<b>(531)</b>	<b>-</b>	<b>-</b>	<b>5,938</b>
<b>Total</b>	<b>22,793</b>	<b>-</b>	<b>(178)</b>	<b>-</b>	<b>(142)</b>	<b>(873)</b>	<b>1,442</b>	<b>-</b>	<b>-</b>	<b>23,042</b>

<sup>(1)</sup> The amount reported as financial liabilities as valued at amortised cost is considered to be a reasonable estimation of fair value.

<sup>(2)</sup> Fair value corresponds to the market value.

In June 2008, Ipsen contracted a syndicated bank loan for €300 million for a term of 5 years. This multi-currency and multi-borrower credit line requires an Ipsen guarantee for any usage by its subsidiaries. Its purpose is to finance the Group's US acquisitions and the Group's business in general. It can be used in the form of short-term drawdowns from 1 to 12 months at the borrower's initiative, to adapt the Group's borrowings to its cash profile. Total drawdowns must at all times remain below the following maximum limits, which decrease over time:

04/06/2011	€187.5 million
04/06/2012	€150.0 million
04/06/2013	-

In addition to the customary contractual clauses, these credit lines require the Group to comply with various financial covenants on a consolidated basis at each reporting date. The covenants include a maximum ratio of net debt to equity and a maximum ratio of net debt to EBITDA. According to the loan agreements, the maximum ratios are as follows:

- Net debt to equity: 1
- Net debt to EBITDA: 3

In the event of default, the banks have the right to demand early repayment of the credit lines.

- Movements in financial liabilities between 31 December 2009 and 30 June 2010 are as follows:

<i>(in thousands of euros)</i>	31 December 2009	Additions	Repayments	Net change in short-term borrowings	Net change in interest	Change in fair value	Movements	Change in consolidation scope	Exchange differences	30 June 2010
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	
Credit lines and bank loans	-	-	-	-	-	-	-	-	-	-
Other financial liabilities	12,190	-	-	-	(196)	-	3,724	-	-	15,718
<b>Non-current financial liabilities (measured at amortised cost) <sup>(1)</sup></b>	<b>12,190</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(196)</b>	<b>-</b>	<b>3,724</b>	<b>-</b>	<b>-</b>	<b>15,718</b>
Credit lines and bank loans	4,000	-	-	-	-	-	-	-	-	4,000
Other financial liabilities	3,622	-	(179)	-	(16)	-	(1,150)	-	-	2,277
<b>Current financial liabilities (measured at amortised cost) <sup>(1)</sup></b>	<b>7,622</b>	<b>-</b>	<b>(179)</b>	<b>-</b>	<b>(16)</b>	<b>-</b>	<b>(1,150)</b>	<b>-</b>	<b>-</b>	<b>6,277</b>
Derivative financial instruments	566	-	-	-	-	(46)	-	-	-	520
<b>Current financial liabilities (measured at fair value) <sup>(2)</sup></b>	<b>566</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(46)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>520</b>
<b>Current financial liabilities</b>	<b>8,188</b>	<b>-</b>	<b>(179)</b>	<b>-</b>	<b>(16)</b>	<b>(46)</b>	<b>(1,150)</b>	<b>-</b>	<b>-</b>	<b>6,797</b>
<b>Total</b>	<b>20,378</b>	<b>-</b>	<b>(179)</b>	<b>-</b>	<b>(212)</b>	<b>(46)</b>	<b>2,574</b>	<b>-</b>	<b>-</b>	<b>22,515</b>

<sup>(1)</sup> The amount reported as financial liabilities as valued at amortised cost is considered to be a reasonable estimation of fair value.

<sup>(2)</sup> Fair value corresponds to the market value.

### Note 23. Derivative financial instruments

<i>(in thousands of euros)</i>	30 June 2011		31 December 2010	
	Financial assets	Financial liabilities	Financial assets	Financial liabilities
Market value of interest rate instruments	-	-	-	-
Market value of currency instruments	592	13	49	886
<b>Total</b>	<b>592</b>	<b>13</b>	<b>49</b>	<b>886</b>

### Note 24. Information on related parties

The Group has not concluded any new significant transactions with related parties during the period.

### Note 25. Commitments and contingent liabilities

The operational commitments existing at 31 December 2010 had not changed significantly at 30 June 2011, except for:

- the partnership agreement with Active Biotech AB (see note 1.1.1.) in which the Group is committed to milestone payments up to a cumulative amount of €178 million depending on the success of the clinical development and commercialisation phases of the "TASQ" molecule in uro-oncology;

- a decrease in the other commitments received at €6.7 million.

The financial commitments existing at 31 December 2010 had not changed significantly at 30 June 2011 except for the on-demand guarantee letter for €10 million per claim and per year, issued in 2010 and tacitly renewed for 3 years. A second on-demand guarantee letter for €10 million per claim and per year has also been issued for 2011.

### Note 26. Post closing events

No event has occurred between the closing date and that of the approval of the financial statements by the Board of Directors, which, as it had not been taken into consideration, may lead to the accounts being questioned or require mentioning in the notes to the Group's condensed consolidated accounts.

## II – ACTIVITY REPORT

### Comparison of consolidated sales for the second quarters and first halves 2011 and 2010

#### Sales by geographical area

For the second quarters and first halves 2011 and 2010, the Group sales by geographical region were as follows:

(in million of euros)	2nd quarter			1st half			
	2011	2010	% Change	2011	2010	% Change	% Change at constant currency <sup>1</sup>
France	80.3	85.7	-6.3%	149.5	161.4	-7.4%	-7.4%
United Kingdom	10.3	10.9	-5.4%	21.4	21.0	2.2%	1.6%
Spain	15.4	14.7	5.1%	31.0	30.5	1.7%	1.7%
Germany	14.8	14.0	5.9%	29.6	30.5	-2.9%	-2.9%
Italy	20.9	19.9	5.4%	42.2	40.1	5.3%	5.3%
<b>Major Western European countries</b>	<b>141.7</b>	<b>145.0</b>	<b>-2.3%</b>	<b>273.7</b>	<b>283.4</b>	<b>-3.4%</b>	<b>-3.5%</b>
Eastern Europe	32.9	34.6	-5.0%	77.0	71.6	7.5%	7.5%
Other European countries	34.4	28.6	20.0%	67.4	57.3	17.7%	14.3%
<b>Other European countries</b>	<b>67.3</b>	<b>63.2</b>	<b>6.4%</b>	<b>144.4</b>	<b>128.9</b>	<b>12.1%</b>	<b>10.6%</b>
<b>North America</b>	<b>16.4</b>	<b>17.6</b>	<b>-6.7%</b>	<b>33.1</b>	<b>27.5</b>	<b>20.3%</b>	<b>25.6%</b>
Asia	38.0	33.1	14.7%	65.6	60.8	7.9%	8.3%
Other rest of the world	33.9	28.7	18.0%	66.3	53.4	24.2%	21.2%
<b>Rest of the world</b>	<b>71.9</b>	<b>61.8</b>	<b>16.2%</b>	<b>131.9</b>	<b>114.2</b>	<b>15.5%</b>	<b>14.4%</b>
<b>Group Sales</b>	<b>297.3</b>	<b>287.7</b>	<b>3.3%</b>	<b>583.1</b>	<b>553.9</b>	<b>5.3%</b>	<b>4.9%</b>
<b>of which: total drug sales</b>	<b>289.3</b>	<b>279.8</b>	<b>3.4%</b>	<b>566.6</b>	<b>537.8</b>	<b>5.4%</b>	<b>5.2%</b>
<b>Drug-related sales</b>	<b>8.0</b>	<b>7.9</b>	<b>0.9%</b>	<b>16.5</b>	<b>16.2</b>	<b>2.1%</b>	<b>-3.4%</b>

In the second quarter 2011, sales in **Major Western European countries** amounted to €141.7 million, down 2.3% year-on-year. In the first half 2011, sales in Major Western European countries amounted to €273.7 million, down 3.5% year-on-year excluding foreign exchange impacts<sup>1</sup>. The dynamic growth in sales volumes of specialty care products has been more than offset by the consequences of a tougher competitive environment in the French primary care landscape and administrative measures in Spain and in Germany, which are described below. As a result, sales in major Western European countries represented 46.9% of total Group sales at the end of the first half 2011, compared with 51.2% the previous year.

**France** – In the second quarter 2011, sales reached €80.3 million, down 6.3% year-on-year. During the first half 2011, sales amounted to €149.5 million, down 7.4% year-on-year, penalised by the performance of primary care product sales. As a result the relative weight of France in the Group's consolidated sales has continued to decrease, now representing 25.6% of the Group's total sales compared with 29.1% a year earlier.

**Spain** – In the second quarter 2011, sales reached €15.4 million, up 5.1% year-on-year. During the first half 2011, sales reached €31.0 million, up 1.7% year-on-year, mainly driven by the strong volume growth of Somatuline<sup>®</sup> and the new 6-month Decapeptyl<sup>®</sup> formulation, partially offset by the consequences of the implementation of a new 7.5% tax on sales in force since 1<sup>st</sup> June 2010. Sales of Dysport<sup>®</sup> have continued to slow, following the launch of Azzalure<sup>®</sup> by the Group's partner, Galderma. At the end of the first half 2011, sales in Spain represented 5.3% of the Group's consolidated sales against 5.5% a year earlier.

<sup>1</sup> Variations excluding foreign exchange impacts are computed by restating the first half 2010 with the first half 2011 average exchange rates

**Italy** – In the second quarter 2011, sales reached €20.9 million, up 5.4% year-on-year. In the first half 2011, sales amounted to €42.2 million, up 5.3% year-on-year, driven by the strong performance of Somatuline<sup>®</sup> and NutropinAq<sup>®</sup>. At the end of the first half 2011, Italy represented 7.2% of the Group's consolidated sales, stable year-on-year.

**Germany** – In the second quarter 2011, sales reached €14.8 million, up 5.9% year-on-year. In the first half 2011, sales amounted to €29.6 million, down 2.9% year-on-year. The strong volume growth of Decapeptyl<sup>®</sup> and Somatuline<sup>®</sup> has been more than offset by the increase from 6% to 16% of a mandatory rebate on the Group's sales as of 1<sup>st</sup> August 2010, by the decrease in sales of Dysport<sup>®</sup> following the launch of Azzalure<sup>®</sup> by Galderma, and by the sharp decline in drug-related sales (active ingredients and raw materials). In the first half 2011, sales in Germany represented 5.1% of the Group's consolidated sales compared with 5.5% the previous year.

**United Kingdom** – In the second quarter 2011, sales amounted to €10.3 million, down 5.4% year-on-year, affected by retroactive adjustments in the calculation of the Pharmaceutical Price Regulation Scheme (PPRS). In the first half 2011, sales reached €21.4 million, up 1.6% excluding foreign exchange impacts<sup>1</sup>, mainly due to the strong double-digit growth in volumes of Decapeptyl<sup>®</sup>, Somatuline<sup>®</sup> and NutropinAq<sup>®</sup>, partially offset by the decline in sales of Dysport<sup>®</sup> following the launch of Azzalure<sup>®</sup> by Galderma. In the first half 2011, the United Kingdom represented 3.7% of total Group sales compared with 3.8% in 2010.

In the second quarter 2011, sales generated in **Other European countries** reached €67.3 million, up 6.4% year-on-year despite the large destocking effect in Russia mainly affecting primary care product sales. In the first half 2011, sales reached €144.4 million, up 10.6% excluding foreign exchange impacts<sup>1</sup>. Performance was driven by growth in volumes, especially in Switzerland, where the Group sells Azzalure<sup>®</sup> to its partner Galderma, and in Russia, Austria and Ukraine. In the first half 2011, sales in the region represented 24.8% of the Group's consolidated sales compared with 23.3% the previous year.

In the second quarter 2011, sales generated in **North America** amounted to €16.4 million, down 6.7% year-on-year or up 1.7% excluding foreign exchange impacts<sup>1</sup>, affected by changes in Medicis' stocks of Dysport<sup>®</sup>. In the first half 2011, sales in North America amounted to €33.1 million, up 25.6% excluding foreign exchange impacts<sup>1</sup> mainly due by the large supply of Dysport<sup>®</sup> to Medicis for aesthetic use and by the good market penetration of Somatuline<sup>®</sup> in acromegaly (strong growth of 33.5% excluding foreign exchange impacts<sup>1</sup> year-on-year) and by the increase in the sales of Dysport<sup>®</sup> in the treatment of cervical dystonia. Sales in North America represented 5.7% of the Group's total consolidated sales, compared with 5.0% a year earlier.

In the second quarter, sales generated in the **Rest of the world** reached €71.9 million, up 16.2% year-on-year. In the first half 2011, sales reached €131.9 million, up 15.5% year-on-year or up 14.4% excluding foreign exchange impacts<sup>1</sup>. This performance was mainly driven by strong volume growth in Algeria, Australia, Colombia and China. Sales of Decapeptyl<sup>®</sup> in this latter country were affected by destocking effects relating to the implementation of a new distribution model whereby the Group directly supplies its Chinese subsidiary rather than a third party distributor. In the first half 2011, sales in the rest of the world continued to increase, reaching 22.6% of the Group's consolidated sales compared with 20.6% a year earlier.

<sup>1</sup> Variations excluding foreign exchange impacts are computed by restating the first half 2010 with the first half 2011 average exchange rates

## Sales by therapeutic areas and by products

The following table shows sales by therapeutic areas and by products for the second quarters and first halves 2011 and 2010:

(in million of euros)	2nd quarter			1st half			
	2011	2010	% Change	2011	2010	% Change	% Change at constant currency <sup>1</sup>
<b>Oncology</b>	<b>74.0</b>	<b>72.4</b>	<b>2.2%</b>	<b>139.2</b>	<b>140.8</b>	<b>-1.1%</b>	<b>-1.1%</b>
of which Decapeptyl®	74.0	72.4	2.2%	139.2	140.8	-1.1%	-1.2%
<b>Endocrinology</b>	<b>68.0</b>	<b>62.1</b>	<b>9.5%</b>	<b>133.9</b>	<b>120.1</b>	<b>11.5%</b>	<b>11.5%</b>
of which Somatuline®	48.9	42.8	14.3%	95.0	83.5	13.8%	13.3%
of which Nutropin®	13.1	12.5	4.3%	26.0	23.9	9.1%	8.4%
of which Increlex®	6.1	6.9	-11.1%	12.9	12.7	1.5%	5.6%
<b>Neurology</b>	<b>56.2</b>	<b>49.2</b>	<b>14.4%</b>	<b>107.9</b>	<b>91.3</b>	<b>18.1%</b>	<b>16.9%</b>
of which Dysport®	54.9	47.4	15.7%	105.0	88.2	19.0%	17.4%
of which Apokyn®	1.3	1.7	-22.3%	2.9	3.1	-5.5%	-0.5%
<b>Specialty care</b>	<b>198.2</b>	<b>183.6</b>	<b>7.9%</b>	<b>381.0</b>	<b>352.1</b>	<b>8.2%</b>	<b>7.9%</b>
<b>Gastro-enterology</b>	<b>46.9</b>	<b>45.2</b>	<b>3.8%</b>	<b>99.2</b>	<b>89.0</b>	<b>11.5%</b>	<b>11.6%</b>
of which Smecta®	23.8	25.3	-5.8%	52.0	50.4	3.1%	3.4%
of which Forlax®	10.4	10.7	-2.6%	21.6	20.0	8.4%	8.0%
<b>Cognitive disorders</b>	<b>22.1</b>	<b>25.2</b>	<b>-12.4%</b>	<b>45.2</b>	<b>48.7</b>	<b>-7.3%</b>	<b>-7.3%</b>
of which Tanakan®	22.1	25.2	-12.4%	45.2	48.7	-7.3%	-7.3%
<b>Cardio-vascular</b>	<b>18.3</b>	<b>21.9</b>	<b>-16.4%</b>	<b>33.9</b>	<b>40.0</b>	<b>-15.3%</b>	<b>-15.3%</b>
of which Nisis & Nisisco®	13.5	15.6	-13.9%	24.7	29.4	-16.0%	-16.0%
of which Ginkor®	3.7	5.3	-29.7%	7.1	8.5	-16.0%	-16.0%
<b>Other primary care products</b>	<b>3.8</b>	<b>3.9</b>	<b>-2.6%</b>	<b>7.4</b>	<b>7.9</b>	<b>-7.3%</b>	<b>-7.3%</b>
of which Adrovan®	3.3	3.1	5.9%	5.7	6.3	-8.8%	-8.8%
<b>Primary care</b>	<b>91.1</b>	<b>96.2</b>	<b>-5.3%</b>	<b>185.6</b>	<b>185.6</b>	<b>0.0%</b>	<b>0.1%</b>
<b>Total Drug sales</b>	<b>289.3</b>	<b>279.8</b>	<b>3.4%</b>	<b>566.6</b>	<b>537.8</b>	<b>5.4%</b>	<b>5.2%</b>
<b>Drug-related sales</b>	<b>8.0</b>	<b>7.9</b>	<b>0.9%</b>	<b>16.5</b>	<b>16.2</b>	<b>2.1%</b>	<b>-3.4%</b>
<b>Group Sales</b>	<b>297.3</b>	<b>287.7</b>	<b>3.3%</b>	<b>583.1</b>	<b>553.9</b>	<b>5.3%</b>	<b>4.9%</b>

In the second quarter 2011, sales of **specialty care products** reached €198.2 million, up 7.9% year-on-year. In the first half 2011, sales reached €381.0 million, up 8.2% year-on-year or up 7.9% excluding foreign exchange impacts<sup>1</sup>. Sales in Neurology and Endocrinology increased respectively by 16.9% and 11.5% year-on-year excluding foreign exchange impacts<sup>1</sup>. Sales in Oncology were down 1.1% with a constant exchange rate<sup>1</sup>, illustrating destocking effects within certain wholesalers in France and the technical impacts related to the new distribution model in China. At the end of the first half 2011, the relative weight of specialty care products continued to increase, reaching 65.3% of the Group's total sales, compared with 63.6% a year earlier.

**In oncology** sales of **Decapeptyl®** reached €74.0 million in the second quarter 2011, up 2.2% year-on-year. In the first half 2011, sales reached €139.2 million, down 1.2% excluding foreign exchange impacts<sup>1</sup>. Solid sales in Germany and the United Kingdom were offset by lower sales in China and in France, mainly linked to destocking effects. In the first half 2011, sales in Oncology represented 23.9% of the Group's sales compared with 25.4% the previous year.

<sup>1</sup> Variations excluding foreign exchange impacts are computed by restating the first half 2010 with the first half 2011 average exchange rates

**In endocrinology** sales continued to increase, reaching €68.0 million in the second quarter 2011, up 9.5% year-on-year. In the first half 2011, sales amounted to €133.9 million, up 11.5% excluding foreign exchange impacts<sup>1</sup>, representing 23.0% of the Group's total sales compared with 21.7% a year earlier.

**Somatuline**<sup>®</sup> – In the second quarter 2011, sales reached €48.9 million, up 14.3%. In the first half 2011, Somatuline<sup>®</sup> sales reached €95.0 million, up 13.3% year-on-year excluding foreign exchange impacts<sup>1</sup>, fuelled by strong growth of 26.7% year-on-year in the United States (33.5% excluding foreign exchange impacts<sup>1</sup>) and by strong growth in France, Italy, Spain and Belgium.

**NutropinAq**<sup>®</sup> – In the second quarter 2011, sales reached €13.1 million, up 4.3% year-on-year. In the first half 2011, NutropinAq<sup>®</sup> sales reached €26.0 million, up 8.4% excluding foreign exchange impacts<sup>1</sup>, due to the good performance of Italy and Eastern Europe.

**Increlex**<sup>®</sup> – In the second quarter 2011, sales amounted to €6.1 million, down 11.1% year-on-year, mainly due to the above-mentioned provision for price reduction (PPRS) in the United Kingdom. Increlex<sup>®</sup> sales in the first half 2011 amounted to 12.9 million, up 5.6% excluding foreign exchange impacts<sup>1</sup>, mainly due to growth in the United States.

**In neurology**, sales reached €56.2 million in the second quarter 2011, up 14.4% year-on-year. In the first half 2011, sales reached €107.9 million, up 16.9% excluding foreign exchange impacts<sup>1</sup>. Neurology sales represented 18.5% of the Group's total sales, compared with 16.5% a year earlier.

**Dysport**<sup>®</sup> – In the second quarter 2011, sales reached €54.9 million, up 15.7% year-on-year. In the first half 2011, sales reached €105.0 million, up 17.4% excluding foreign exchange impacts<sup>1</sup> year-on-year, mainly due to the strong growth in supply to the Group's partners, Mediscs and Galderma, slightly offset by the consequences of the launch of Azzalure<sup>®</sup> by Galderma in the Major Western European countries. Growth was also fuelled by the increase in sales in the United States and by the strong performances in Austria, in Russia, in Czech Republic and in South America.

**Apokyn**<sup>®</sup> – In the second quarter 2011, sales reached €1.3 million in the United States, down 22.3% year-on-year. In the first half 2011, sales reached €2.9 million, stable year-on-year excluding foreign exchange impacts<sup>1</sup>.

In the second quarter 2011, **primary care** product sales reached €91.1 million, down 5.3% year-on-year, negatively impacted by a destocking effect in Russia and by the consequences of a tougher competitive environment in France. In the first half 2011, sales amounted to €185.6 million, unchanged year-on-year. Sales growth outside France was offset by the negative effects of the French market situation. In the first half 2011, primary care product sales represented 31.8% of the Group's consolidated sales, compared with 33.5% a year earlier. Primary care product sales in France represented 49.0% of the Group's total primary care product sales compared with 54.0% a year earlier.

**In gastroenterology**, sales reached €46.9 million in the second quarter 2011, up, 3.8% year-on-year, due to strong growth in China. In the first half 2011, sales amounted to €99.2 million, up 11.5% year-on-year.

**Smecta**<sup>®</sup> – In the second quarter 2011, sales reached €23.8 million, down 5.8% year-on-year, mainly affected by the destocking effects in Russia. Smecta<sup>®</sup> sales in the first half 2011 reached €52.0 million, up 3.4% year-on-year excluding foreign exchange impacts<sup>1</sup>, mainly due to a high levels of seasonal pathology in France and a good performance in Ukraine, partially offset by lower sales in Romania. Smecta<sup>®</sup> sales represented 8.9% of total Group sales over the period compared with 9.1% a year earlier.

**Forlax**<sup>®</sup> – In the second quarter 2011, sales reached €10.4 million, down 2.6% year-on-year. In the first half 2011, sales reached €21.6 million, up 8.0% year-on-year excluding foreign exchange impacts<sup>1</sup>. In the first half 2011, France represented 58.0% of total product sales, down compared with 60.1% a year earlier.

**In the treatment of cognitive disorders**, sales of **Tanakan**<sup>®</sup> in the second quarter 2011 reached €22.1 million, down 12.4% year-on-year, mainly affected by the destocking effects in Russia described above and by a tougher competitive environment in France. In the first half 2011, sales reached €45.2 million, down 7.3% year-on-year excluding foreign exchange impacts<sup>1</sup>. The decline in sales in France was partially offset by growth of sales in China. In the first half 2011, 52.0% of Tanakan<sup>®</sup> sales occurred in France compared with 57.4% a year earlier.

**In the cardiovascular field**, in the second quarter 2011, sales reached €18.3 million, down 16.4% year-on-year. In the first half 2011, sales reached €33.9 million, down 15.3% year-on-year, mainly affected by the 11% price reduction of Nisis<sup>®</sup> and Nisisco<sup>®</sup> effective as of September 2010 and to the transfer of prescriptions to Exforge<sup>®</sup>, which is co-promoted by the Group.

<sup>1</sup> Variations excluding foreign exchange impacts are computed by restating the first half 2010 with the first half 2011 average exchange rates



**Other Primary care drugs** sales reached €3.8 million in the second quarter 2011, down 2.6%. In the first half 2011, sales reached €7.4 million, down 7.3% year-on-year, with Adrovan<sup>®</sup> sales contributing to €5.7 million, down 8.8% year-on-year due to a 25% price reduction effective since May 2010 in France.

In the second quarter 2011, **drug-related sales (active ingredients and raw materials)** reached €8.0 million, up 0.9%. In the first half 2011, sales reached €16.5 million, down 3.4% excluding foreign exchange impacts<sup>1</sup>.

### Comparison of consolidated income statement for the first halves 2011 and 2010

	30 June 2011		30 June 2010		Change
	(in million of euros)	% Sales	(in million of euros)	% Sales	
<b>Consolidated sales</b>	<b>583.1</b>	<b>100.0%</b>	<b>553.9</b>	<b>100.0%</b>	<b>5.3%</b>
Other revenues	36.3	6.2%	31.7	5.7%	14.4%
<b>Total revenues</b>	<b>619.4</b>	<b>106.2%</b>	<b>585.7</b>	<b>105.7%</b>	<b>5.8%</b>
Cost of goods sold	(120.9)	-20.7%	(122.6)	-22.1%	-1.4%
Research and development expenses	(105.8)	-18.1%	(99.1)	-17.9%	6.7%
Selling expenses	(205.6)	-35.3%	(203.9)	-36.8%	0.8%
General and administrative expenses	(42.6)	-7.3%	(43.6)	-7.9%	-2.1%
Other operating income and expenses	7.5	1.3%	(4.7)	-0.9%	-
Amortisation of intangible assets	(3.1)	-0.5%	(6.0)	-1.1%	-47.6%
Restructuring costs	(28.1)	-4.8%	(0.9)	-0.2%	-
<b>Operating income</b>	<b>120.8</b>	<b>20.7%</b>	<b>104.9</b>	<b>18.9%</b>	<b>15.1%</b>
<b>Recurring adjusted operating income<sup>(1)</sup></b>	<b>143.9</b>	<b>24.7%</b>	<b>113.2</b>	<b>20.4%</b>	<b>27.1%</b>
Investment income	1.9	0.3%	1.0	0.2%	93.7%
Financing costs	(0.9)	-0.1%	(1.0)	-0.2%	-10.5%
<b>Net financing costs</b>	<b>1.0</b>	<b>0.2%</b>	<b>0.0</b>	<b>0.0%</b>	<b>-</b>
Other financial income and expenses	0.2	0.0%	(3.8)	-0.7%	-
Income taxes	(26.2)	-4.5%	(20.7)	-3.7%	26.6%
Share of profit / loss from associated companies	(4.1)	-0.7%	(5.1)	-0.9%	-
<b>Net profit from continuing operations</b>	<b>91.7</b>	<b>15.7%</b>	<b>75.4</b>	<b>13.6%</b>	<b>21.6%</b>
Net Profit from discontinued operations	0.2	0.0%	0.2	0.0%	-
<b>Consolidated net profit</b>	<b>91.9</b>	<b>15.7%</b>	<b>75.6</b>	<b>13.6%</b>	<b>21.5%</b>
– attributable to shareholders of Ipsen S.A.	91.7		75.5		-
– attributable to minority interests	0.2		0.1		-

<sup>1</sup> See appendix 4.

#### ■ Consolidated sales

The Group's consolidated sales amounted to €583.1 million in the first half 2011, up 5.3% compared with the same period the previous year, or an increase of 4.9% excluding foreign exchange impact<sup>2</sup>.

#### ■ Other revenues

Other revenues amounted to €36.3 million in the first half 2011, up 14.4% year-on-year (€31.7 million at June 2010).

<sup>1</sup> Variations excluding foreign exchange impacts are computed by restating the first half 2010 with the first half 2011 average exchange rates

Other revenues breakdown as follows:

<i>(in million of euros)</i>	30 June 2011	30 June 2010	Change	
			<i>in value</i>	<i>in %</i>
<b>Breakdown by type of revenue</b>				
– Royalties received	4.2	2.1	2.1	96.1%
– Milestone payments – licensing agreements <sup>1</sup>	14.1	16.9	(2.9)	-16.8%
– Other (co-promotion revenues, re-billings)	18.0	12.7	5.3	42.2%
<b>Total</b>	<b>36.3</b>	<b>31.7</b>	<b>4.6</b>	<b>14.4%</b>

- **Royalties received** amounted to €4.2 million in the first half 2011, up €2.1 million compared with June 2010 due to the increase in royalties paid by Medicis, Galderma and Menarini.
- **Milestone payments relating to licensing agreements<sup>1</sup>** amounted to €14.1 million, mainly issued from the partnerships with Medicis, Galderma, Recordati, Menarini and Inspiration Biopharmaceuticals Inc, down €2.9 million compared with June 2010. This decrease was mainly related to the termination in 2011 of milestone payments relating to Taspoglutide, after the restitution of product rights to the Group in February 2011.
- **Other revenues** amounted to €18.0 million in the first half 2011 compared with €12.7 million a year earlier. This item includes rebilling expenses of industrial development for OBI-1 as part of the agreements signed with Inspiration Biopharmaceuticals Inc., together with revenues relating to the Group's co-promotion and co-marketing agreements in France.

#### ■ Cost of goods sold

In the first half 2011, the cost of goods sold amounted to €120.9 million, representing 20.7% of sales, compared with €122.6 million, or 22.1% of sales, for the same period in 2010.

The favourable mix related to the growth in specialty care sales and the Group's productivity efforts offsetted the negative impact of declining volumes in French primary care.

#### ■ Research and development expenses

In the first half 2011, research and development expenses increased by €6.7 million compared with June 2010 and represented €105.8 million or 17.1% of revenues or 18.1% of sales, compared with 16.9% of revenues and 17.9% of sales the previous year. Excluding industrial development expenses relating to OBI-1, invoiced to Inspiration Biopharmaceuticals Inc., research and development expenses represented 16.7% of sales and increased by 5.6% year-on-year, excluding foreign exchange impacts<sup>2</sup>.

The table below provides a comparison of research and development expenses during the first halves 2011 and 2010:

<i>(in million of euros)</i>	30 June 2011	30 June 2010	Change	
			<i>in value</i>	<i>in %</i>
<b>Breakdown by expense type</b>				
– Drug-related research and development <sup>(1)</sup>	(89.7)	(86.1)	(3.6)	4.2%
– Industrial development <sup>(2)</sup>	(13.4)	(10.5)	(2.9)	28.0%
– Strategic development <sup>(3)</sup>	(2.7)	(2.6)	(0.1)	4.8%
<b>Total</b>	<b>(105.8)</b>	<b>(99.1)</b>	<b>(6.7)</b>	<b>6.7%</b>

- (1) Drug-related research & development is aimed at identifying new agents, determining their biological characteristics and developing small-scale manufacturing processes. Pharmaceutical development is the process through which active agents become drugs approved by regulatory authorities and is also used to improve existing drugs and to search new therapeutic indications for them. The expenses relating to patents are also included in this type of expense.
- (2) Industrial development includes chemical, biotechnical and development-process research costs to industrialise small-scale production of agents developed by the research laboratories.
- (3) Strategic development includes costs incurred for research into new product licences and establishing partnership agreements.

<sup>1</sup> Milestone payments relating to licensing agreements primarily represent recognition of payments received over the life of partnership agreements.

<sup>2</sup> Variations excluding foreign exchange impacts are computed by restating the first half 2010 with the first half 2011 average exchange rates



- **Research and development drug-related costs** have increased by 4.2% compared to the prior year (+ 5.1% excluding foreign exchange impacts<sup>4</sup>). The main research and development projects conducted during the first half 2011 focused on Dysport<sup>®</sup> and the phase II clinical study of Irosustat (BN-83495), for which the clinical development program in monotherapy was discontinued on 6 June, 2011.
- **Industrial development expenses** have increased by 28.0% in the first half 2011 year-on-year, mainly resulting from production ramp up of clinical batches of OBI-1 for phase III, which were re invoiced to Inspiration Biopharmaceuticals Inc. and accounted for under “other revenues”.

## ■ Selling, general and administrative expenses

Selling, general and administrative expenses amounted to €248.2 million for the first half 2011, representing 42.6% of sales, near unchanged year-on-year.

The table below provides a comparison of selling, general and administrative expenses during the first halves 2011 and 2010:

<i>(in million of euros)</i>	30 June 2011	30 June 2010	Change	
			In value	In %
<b>Breakdown by expense type</b>				
Royalties paid	(23.5)	(21.7)	(1.8)	8.5%
Other sales and marketing expenses	(182.0)	(182.2)	0.2	-0.1%
<b>Selling expenses</b>	(205.6)	(203.9)	(1.7)	0.8%
<b>General and administrative expenses</b>	(42.6)	(43.6)	0.9	-2.1%
<b>Total</b>	<b>(248.2)</b>	<b>(247.4)</b>	<b>(0.8)</b>	<b>0.3%</b>

<sup>4</sup> Variations excluding foreign exchange impacts are computed by restating the first half 2010 with the first half 2011 average exchange rates.

- **Selling expenses** amounted to €205.6 million, or 35.3% of sales for the first half 2011, slightly up by 0.8% compared with €203.9 million, or 36.8% of sales, for the first half 2010.
  - Royalties paid to third parties on sales of products marketed by the Group amounted to €23.5 million for the first half 2011, up 8.5% year-on-year. This increase is mainly due to the Group reaching a certain contractual threshold with one of the Group's partners.
  - Other selling expenses amounted to €182.0 million, or 31.2% of sales, stable compared to €182.2 million in the first half 2010, or 32.9% of sales, despite impairment losses in the first half 2011 on certain public hospitals accounts receivables in Southern Europe. In the first half 2011, the Group continued to selectively allocate business resources to high growth areas, especially China, Russia and Brazil, in a context of declining primary care drug sales in France.

**General and administrative expenses** in the first half 2011 decreased by 2.1% year-on-year to €42.6 million. This is mainly due to changes in expenses corresponding to the Group's stock option and bonus share plans.

## ■ Other operating income and expenses

Other operating income and expenses balance recorded in the first half 2011 represented a €7.5 million income. The other operating income for a total amount of €20.0 million is mainly composed of a non-recurring income of €17.2 million following the enforceable court judgement relating to the trade dispute between the Group and Mylan. The other operating expenses for a total amount of €12.5 million are mainly comprising non-recurring costs linked with the implementation of the new strategy announced on 9 June 2011 and the changes within the Executive Committee. In the first half 2010, the other operating income and expenses balance represented a €4.7 million expense, mainly composed of a €5.2m expense particularly comprising costs related to the headquarters and non recurring fees.

#### ■ Amortisation of intangible assets

In the first half 2011, amortisation charges of intangible assets represented an expense of €3.1 million, compared with an expense of €6.0 million the previous year. This decrease is a result of the change to the amortisation plan following to the impairment loss recorded at 31 December 2010 on the IGF-1 licence.

#### ■ Restructuring costs

In the first half 2011, the Group recorded €28.1 million in non-recurring restructuring costs as part of the strategy announced on 9 June 2011, mainly corresponding to the closure of the Research and Development at the site in Barcelona for €18.4 million and the transfer of the Group's North American subsidiary to the East Coast for €8.7 million. In 2010, the Group recorded €0.9 million of non-recurring restructuring costs.

#### ■ Impairment losses

The Group did not record any impairment losses during the first halves 2011 and 2010.

#### ■ Operating income

Based on above items, the operating income reported in the first half 2011 amounted to €120.8 million, or 19.5% of revenues and 20.7% of sales, up 15.1% compared to 17.9% of revenues and 18.9% of the Group's sales for the same period in 2010.

The Group's recurring adjusted operating income<sup>1</sup> in the first half 2011 amounts to €143.9 million, or 24.7% of consolidated sales, up 27.1% year-on-year.

### Operating segments: operating income by geographical region

Internal Reporting provided to the Executive Committee corresponds to the Group's managerial organisation based on the geographical regions within which the Group operates. Accordingly, operating segments as defined by IFRS 8, equate to long-term groupings of countries.

The operating segments existing as of June 30, 2011 are as follows:

- "Major Western European countries": France, Italy, Spain, the United Kingdom and Germany;
- "Other European countries": Other Western European countries and Eastern European countries;
- "North America": United States and Canada;
- "Rest of the world": all countries not included in the three preceding operating segments.

<sup>1</sup> See appendix 4.

The table below provides an analysis of sales, revenues and operating income by geographical region for 30 June 2011 and 2010:

	June 2011		June 2010		Change	
		% Sales		% Sales		%
<i>(in million of euros)</i>						
<b>Major Western European countries <sup>(*)</sup></b>						
Sales	273.7	100.0%	283.4	100.0%	(9.7)	-3.4%
Revenues	286.1	104.5%	292.2	103.1%	(6.1)	-2.1%
Operating income	138.4	50.6%	112.1	39.6%	26.3	23.5%
<b>Other European countries</b>						
Sales	144.4	100.0%	128.9	100.0%	15.6	12.1%
Revenues	147.0	101.8%	130.9	101.6%	16.1	12.3%
Operating income	48.6	33.6%	58.0	45.0%	(9.5)	-16.3%
<b>North America</b>						
Sales	33.1	100.0%	27.5	100.0%	5.6	20.3%
Revenues	41.6	125.7%	34.8	126.6%	6.8	19.5%
Operating income	(7.1)	-21.3%	(10.3)	-37.6%	3.3	-31.7%
<b>Rest of the world</b>						
Sales	131.9	100.0%	114.2	100.0%	17.7	15.5%
Revenues	133.4	101.1%	114.6	100.4%	18.7	16.3%
Operating income	58.4	44.3%	53.7	47.0%	4.7	8.8%
<b>Total allocated</b>						
Sales	583.1	100.0%	553.9	100.0%	29.2	5.3%
Revenues	608.1	104.3%	572.5	103.4%	35.6	6.2%
Operating income	238.4	40.9%	213.5	38.5%	24.9	11.6%
<b>Total unallocated</b>						
Revenues	11.3	-	13.1	-	(1.8)	-14.0%
Operating income	(117.6)	-	(108.6)	-	(9.0)	8.3%
<b>Group total</b>						
Sales	583.1	100.0%	553.9	100.0%	29.2	5.3%
Revenues	619.4	106.2%	585.7	105.7%	33.7	5.8%
Operating income	120.8	20.7%	104.9	18.9%	15.8	15.1%

(\*) France, Spain, Italy, Germany and United Kingdom

- In the major Western European countries**, sales for the first half 2011 amounted to €273.7 million, a down 3.5% year-on-year excluding foreign exchange impact<sup>1</sup>. The strong growth of sales volumes of specialty care products has been more than offset by the consequences of the tougher competitive environment in primary care in France and by administrative measures in Spain and Germany. As a result, sales in the major Western European countries represented 46.9% of total Group sales at the end of the first half 2011, compared with 51.2% the previous year. The cost of goods sold is down 8.0% year-on-year, mainly explained by the favourable mix related to the growth in specialty care sales and the Group's productivity efforts which offset the negative impact of declining volumes in primary care in France. Other operating income and expenses comprise a non-recurring income of €17.2 million after the enforceable court judgement relating to the trade dispute between the Group and Mylan. The Group also recorded €18.4 million in non-recurring expenses linked with restructuring as part of the new strategy, corresponding to the closure of the Research and Development site in Barcelona (Spain). Operating income for the first half 2011 thus amounted to €138.4 million, up 23.5% year-on-year, and represents 50.6% of sales for the first half 2011, compared with 39.6% for the same period in 2010.

<sup>1</sup> Variations excluding foreign exchange impacts are computed by restating the first half 2010 with the first half 2011 average exchange rates

- **In Other European countries** (other Western European countries together with Eastern Europe), sales generated for the first half 2011 reached €144.4 million, up 10.6% excluding foreign exchange impact<sup>1</sup>. This performance resulted from growth in volumes, especially in Switzerland, where the Group sells Azzalure<sup>®</sup> to its partner Galderma, and in Russia, Austria and Ukraine. In the first half 2011, sales in the region represented 24.8% of the Group's consolidated sales compared with 23.3% the previous year. In the first halves 2011 and 2010, selling expenses represented respectively 32.0% and 31.3% of sales in Other European countries, up 14.7% year-on-year. This change mainly stems from the increase in sales and the impairment losses on public hospitals accounts receivables in the Southern Europe area in the first half 2011. As a result, operating income for the first half 2011 was down 16.3% at €48.6 million compared with €58.0 million for the same period in 2010. It represents 33.6% of sales in the first half 2011 compared with 45.0% in 2010.
- **In North America**, sales for the first half 2011 amounted to €33.1 million, up 25.6% excluding foreign exchange impact<sup>1</sup>, mainly due to the large supply of Dysport<sup>®</sup> to Medicis for aesthetic use and to the continuous market penetration of Somatuline<sup>®</sup> for in the treatment of acromegaly (a sharp increase of 33.5% year-on-year excluding foreign exchange impact<sup>1</sup>) and of Dysport<sup>®</sup> for the treatment of cervical dystonia. Sales in the North America represented 5.7% of the Group's total consolidated sales, compared with 5.0% a year earlier. Selling expenses decreased by 14.2% year-on-year. In 2010 these expenses had increased dramatically (+12.4% year-on-year) due to the launch of Increlex<sup>®</sup>, Somatuline<sup>®</sup>, Apokyn<sup>®</sup> and Dysport<sup>®</sup>. The Group also recorded €8.7 million of non-recurring expenses linked with the new strategy announced on 9 June 2011, corresponding to the transfer of the North American commercial subsidiary to the East Coast. Operating income for the first half 2011 thus amounted to €(7.1) million compared with €(10.3) million for the same period in 2010, representing (21.3)% and (37.6)% of sales respectively.
- **In the Rest of the world**, where the Group markets most of its products through agents and distributors, with the exception of a few countries where it has a direct presence, sales reached €131.9 million, up 15.5% year-on-year, or an increase of 14.4% with a constant exchange rate<sup>1</sup>. This performance was mainly due to large growth in sales volumes in Algeria, Australia, Colombia and China. Sales of Decapeptyl<sup>®</sup> in this region were affected by destocking effects relating to the implementation of a new distribution model whereby the Group directly supplies its Chinese subsidiary rather than a third party distributor. In the first half 2011, sales in the rest of the world continued to increase reaching 22.6% of the Group's consolidated sales compared with 20.6% a year earlier. Selling expenses in the first half 2011 increased significantly by 30.0% mainly due to the selective allocation of the Group's business resources to high growth areas, especially China and Brazil. As a result, operating income increased by 8.8% year-on-year, reaching €58.4 million in the first half 2011, or 44.3% of sales in the area compared with 47.0% during the same period in 2010.
- **Non-allocated operating income** amounted to €(117.6) million in the first half 2011, to be compared with €(108.6) million recorded in the first half 2010. It mainly included the Group's central research and developments costs for €(118.2) million in 2011 and €(116.8) million in 2010 and, to a lesser extent, unallocated general and administrative expenses as well as the other operating income and expenses corresponding mainly to the non-recurring expenses linked with the preparation and the implementation of the strategy announced on 9 June 2011 and the changes within the Executive Committee.

## ■ Costs of net financial debt and other financial income and expenses

At 30 June 2011, the Group's financial income amounted to €1.2 million compared with (€3.8) million the previous year.

- **The cost of net financial debt** represented an income of €1.0 million mainly including the interests recorded on the two convertible bonds issued by Inspiration Biopharmaceuticals Inc. and subscribed by the Group.
- **Other financial income and expenses** amounted to €0.2 million at 30 June 2011 against an expense of €3.8 million in 2010. This change was mainly due to foreign exchange movements. Moreover, in 2010, the Group had recorded impairment losses on some of its assets for sale.

## ■ Income taxes

At 30 June 2011, the effective tax rate was 21.5% of profit from continuing operations before share of profit/loss from associated companies, compared to an effective tax rate of 20.4% at 30 June 2010. This increase in effective tax rate was mainly due to the dilution of the positive impact of the research tax credit, related to a higher taxable profit compared with 30 June 2010. Adjusted for non-recurring operating and tax items, the Group's effective tax rate amounted to 22.9% at 30 June 2011, compared to 20.1% at 30 June 2010.

## ■ Share of profit / loss from associated companies

In the first half 2011, the Group recorded an expense of €4.1 million, representing its share of 22.1% in the loss of Inspiration Biopharmaceuticals Inc., which continues its clinical development activity on its portfolio of haemophilia products. In the first half 2010, this share represented an expense of €5.1 million.

<sup>1</sup> Variations excluding foreign exchange impacts are computed by restating the first half 2010 with the first half 2011 average exchange rates

### ■ Net profit from continuing operations

Due to the items above, the profit from continuing operations at 30 June 2011 amounted to €91.7 million, up by 21.6% compared with €75.4 million recorded at 30 June 2010. It represented 14.8% of revenues for the period, compared with 12.9% the previous year.

Excluding the share in profit of associated companies, **recurring adjusted profit from continuing operations**<sup>1</sup> attributable to shareholders of Ipsen S.A. amounted to €111.2 million at 30 June 2011 compared with €85.6 million at 30 June 2010, representing a sharp increase of 29.9% year-on-year.

### ■ Profit from discontinued operations

Profit from discontinued operations amounted to €0.2 million over the first six months of 2011, unchanged year-on-year.

### ■ Consolidated net profit

Taking into account the items above, **consolidated net profit** increased by 21.5% to €91.9 million (attributable to shareholders of Ipsen S.A.: €91.7 million) compared with €75.6 million (attributable to shareholders of Ipsen S.A.: €75.5 million) recorded in June 2010. Consolidated net profits represented 14.8% of revenues for the first half 2011 and 12.9% for the first half 2010.

Recurring adjusted consolidated net profit<sup>1</sup> amounted to €107.5 million at 30 June 2011, up significantly by 33.0% compared with €80.8 million recorded for the first half 2010.

### ■ Earnings per share

The Group's diluted earnings per share at 30 June 2011 amounted to €1.09, up 22.5% compared with €0.89 a year earlier.

The recurring adjusted diluted earnings per share<sup>1</sup> attributable to the Group at 30 June 2011 amounted to €1.27, a sharp increase of 32.3% year-on-year.

### ■ Milestone payments received in cash but not yet recognised in the Group income statement

At 30 June 2011, the total of milestone payments received in cash by the Group and not yet recognised as other revenues on the income statement amounted to €206.1 million, down 26.6% compared with €280.6 million recorded the previous year.

The Group only recorded €3.7 million of new deferred revenue for its partnerships, whereas in 2010, the Group recorded €59.6 million of deferred income for its partnerships (€53.1 million of which during the first half of the year), in particular with Menarini and Inspiration Biopharmaceuticals Inc..

These deferred revenues will be recognised in the Group's future income statements as follows:

<i>(in million of euros)</i>	30 June 2011	30 June 2010
<b>Total *</b>	<b>206.1</b>	<b>280.6</b>
<b>These deferred revenues will be recognised over time as follows:</b>		
In the year n	12.9	16.2
In the year n+1	25.6	31.0
In the years n+2 and beyond	167.6	233.4

\* Amounts converted at average exchange rate at 30 June 2011 and 30 June 2010 respectively.

<sup>1</sup> See appendix 4.

## CASH FLOW AND CAPITAL

The consolidated cash flow statement shows that the Group's operating activities in the first half 2011 generated a net cash flow of €97.3 million, a significant decrease compared with €134.7 million generated over the same period in 2010.

### Analysis of the cash flow statement

<i>(in million of euros)</i>	30 June 2011	30 June 2010
– Cash generated from operating activities before changes in working capital requirements	123.8	98.6
– (Increases) / Decreases in working capital requirements for operations	(26.5)	36.1
o Net cash flow from operating activities	97.3	134.7
– Net investments in tangible and intangible assets	(44.1)	(25.3)
– Impact of changes in consolidation scope	(0.0)	(93.2)
– Other cash flow from investments	(4.0)	(5.8)
o Net cash flow from investing activities	(48.1)	(124.3)
o Net cash flow from financing activities	(67.1)	(63.4)
o Net cash flow from discontinued operations	(0.0)	(0.0)
<b>CHANGES IN CASH AND CASH EQUIVALENTS</b>	<b>(17.9)</b>	<b>(53.0)</b>
<b>Opening cash and cash equivalents</b>	<b>177.9</b>	<b>205.4</b>
Impact of foreign exchange variations	(5.0)	11.7
<b>Closing cash and cash equivalents</b>	<b>155.0</b>	<b>164.1</b>

#### ■ Net cash flow from operating activities

Cash flow from operating activities in the first half 2011 amounted to €123.8 million, a sharp increase compared with €98.6 million generated over the same period the previous year.

Working capital requirements for operating activities increased by €26.5 million for the first six months of 2011 against a decrease of €36.1 million over the same period in 2010. This change during the first half 2011 was related to the following:

- Inventories increased by €5.0 million in the first half 2011 resulting from the reconstitution of buffer stocks whereas they had remained unchanged over the same period in 2010.
- Accounts receivables increased by €39.3 million in the first half 2011, compared with an increase of €37.8 million at the end of June 2010 mainly due to the growth in export sales activities.
- Trade payables decreased by €9.1 million in the first half 2011, compared with a decrease of €5.1 million in the first half 2010.
- The change in other assets and liabilities comprised the use of €31.3 million in the first half 2011, against a source of funds of €27.2 million in the first half 2010. During the first half 2011, the Group recorded €3.7 million of deferred incomes from partnerships, compared with €53.1 million of deferred incomes at the end of June 2010. Excluding deferred incomes, other operating assets and liabilities were down by €22.2 million in the first half 2011, given the payment early in 2011 of debts recorded in 2010.
- The change in net tax liability in the first half 2011 represented a source of funds of €58.2 million corresponding, on the one hand, to the reimbursement by the tax authorities of an excess amount of tax paid in France for the 2010 tax year, and, on the other hand, to tax owed over the period, net of prepayments.

#### ■ Net cash flow from investing activities

During the first half 2011, the net cash flow from investing activities represented a net use of funds of €48.1 million compared to a net use of €124.3 million in 2010. It included:

- Investments in tangible and intangible assets net of disposals, amounting to €44.1 million, compared with €25.3 million the previous year. This cash flow mainly includes:
  - Acquisition of property, plant and equipment totalling €14.7 million, compared with €14.6 million in the first half 2010. These investments mainly consisted in items required for the maintenance of the Group's industrial facilities and in capacity investments in the Wrexham factory (UK), in the Milford (US) site and to equip the Group's research and development sites;

- Investments in intangible assets for €29.4 million, compared with €10.9 million in the first half 2010, mainly linked with the partnership with Active Biotech for the rights of Tasquinimod.
- A €7.6 million net cash use for other investment activities, mainly corresponding to the Group's investment in certain "Biotech" venture capital funds.
- A decrease in working capital requirements linked with investment activity, mainly relating to the 2011 proceeds of the sale of Preglem shares, recorded in 2010.
- Net cash flow linked with changes in consolidation scope was nil at 30 June 2011, whereas it amounted to €93.2 million at 30 June 2010, following the Group's transaction with Inspiration Biopharmaceuticals Inc..

#### ■ **Net cash flow from financing activities**

During the first half 2011, the net cash flow used in financing activities amounted to €(67.1) million, compared with a net use of €(63.4) million over the same period in 2010. In the first half 2011, the Group paid €66.5 million in dividends to its shareholders, up 6.8% compared with €62.3 million paid a year earlier.

#### ■ **Net cash flow from discontinued operations**

At 30 June 2011, cash flow from discontinued operations was immaterial.

## APPENDIX 1

### ■ Condensed consolidated income statement

<i>(in million of euros)</i>	<b>30 June 2011</b>	<b>30 June 2010</b>
Sales of goods	583.1	553.9
Other revenues	36.3	31.7
<b>Revenues</b>	<b>619.4</b>	<b>585.7</b>
Cost of goods sold	(120.9)	(122.6)
Research and development expenses	(105.8)	(99.1)
Selling expenses	(205.6)	(203.9)
General and administrative expenses	(42.6)	(43.6)
Other operating income and expenses	7.5	(4.7)
Amortisation of intangible assets	(3.1)	(6.0)
Restructuring costs	(28.1)	(0.9)
Impairment losses		
<b>Operating income</b>	<b>120.8</b>	<b>104.9</b>
Investment income	1.9	1.0
Financing costs	(0.9)	(1.0)
<b>Net financing costs</b>	<b>1.0</b>	<b>0.0</b>
Other financial income and expense	0.2	(3.8)
Income taxes	(26.2)	(20.7)
Share of profit / loss from associated companies	(4.1)	(5.1)
<b>Net profit from continuing operations</b>	<b>91.7</b>	<b>75.4</b>
Net profit from discontinued operations	0.2	0.2
<b>Consolidated net profit</b>	<b>91.9</b>	<b>75.6</b>
– Attributable to shareholders of Ipsen	91.7	75.5
– attributable to minority interests	0.2	0.1
Basic earnings per share, continuing operations <b>(in euros)</b>	1.09	0.89
Diluted earnings per share for continuing operations <b>(in euros)</b>	1.09	0.89
Basic earnings per share from discontinued operations <b>(in euros)</b>	-	0.01
Diluted earnings per share from discontinued operations <b>(in euros)</b>	-	0.01
Basic earnings per share <b>(in euros)</b>	1.09	0.90
Diluted earnings per share <b>(in euros)</b>	1.09	0.90



## APPENDIX 2

### ■ Condensed consolidated balance sheet

<i>(in million of euros)</i>	<b>30 June 2011</b>	<b>31 December 2010</b>
<b>ASSETS</b>		
Goodwill	290.7	299.1
Other intangible assets	182.7	166.5
Property, plant & equipment	275.2	282.3
Equity investments	12.9	7.2
Investments in associated companies	49.4	57.9
Non-current financial assets	2.1	2.2
Other non-current assets	80.5	81.6
Deferred tax assets	157.5	141.6
<b>Total non-current assets</b>	<b>1,050.9</b>	<b>1,038.4</b>
Inventories	116.1	112.1
Trade receivables	280.0	241.9
Current tax assets	5.9	44.7
Other current assets	62.4	62.9
Current financial assets	0.6	0.0
Cash and cash equivalents	159.6	178.1
<b>Total current assets</b>	<b>624.5</b>	<b>639.8</b>
Assets from discontinued operations	-	-
<b>TOTAL ASSETS</b>	<b>1,675.5</b>	<b>1,678.2</b>

<b>EQUITY AND LIABILITIES</b>		
Share capital	84.2	84.2
Additional paid-in capital and consolidated reserves	926.8	894.4
Net profit for the period	91.7	95.3
Exchange differences	(29.9)	3.3
<b>Equity - attributable to shareholders of Ipsen</b>	<b>1,072.8</b>	<b>1,077.2</b>
Attributable to minority interests	2.2	2.0
<b>Total shareholders' equity</b>	<b>1,075.0</b>	<b>1,079.2</b>
Retirement benefit obligation	18.2	16.1
Provisions	22.1	23.5
Short term debt	-	-
Other financial liabilities	17.1	15.3
Deferred tax liabilities	11.1	12.0
Other non-current liabilities	183.6	199.0
<b>Total non-current liabilities</b>	<b>252.1</b>	<b>265.9</b>
Provisions	29.4	3.7
Short term debt	4.0	4.0
Other financial liabilities	1.9	3.5
Accounts payable	130.4	140.7
Current tax liabilities	25.8	6.6
Other current liabilities	151.7	173.8
Bank overdrafts	4.5	0.2
<b>Total current liabilities</b>	<b>347.9</b>	<b>332.4</b>
Liabilities from discontinued operations	0.5	0.7
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>1,675.5</b>	<b>1,678.2</b>

## APPENDIX 3

### ■ Condensed consolidated cash flow statement

<i>(in million of euros)</i>	<b>30 June 2011</b>	<b>30 June 2010</b>
<b>Consolidated net profit</b>	<b>91.9</b>	<b>75.6</b>
Net profit/loss from discontinued operations	(0.2)	(0.2)
Share of profit/loss from associated companies	4.1	5.1
<b>Net profit/loss from continuing operations before share of profit/loss from associated companies</b>	<b>95.8</b>	<b>80.5</b>
<b>Non-cash and non-operating items</b>		
– Amortisation, provisions and impairment losses	49.6	19.8
– Change in fair value of derivative financial instruments	(1.4)	1.0
– Net gains or losses on disposals of non-current assets	0.3	0.1
– Share of government grants released to profit and loss	(0.0)	(0.0)
– Exchange differences	2.1	0.2
– Change in deferred taxes	(24.8)	(7.3)
– Share-based payment expense	2.0	4.2
– Gain/loss on sales of treasury shares	0.0	(0.2)
– Other non-cash items	0.2	0.4
<b>Cash flow from operating activities before changes in working capital requirement</b>	<b>123.8</b>	<b>98.6</b>
– (Increase)/decrease in inventories	(5.0)	(0.8)
– (Increase)/decrease in trade receivables	(39.3)	(37.8)
– Increase/(decrease) in trade payables	(9.1)	(5.1)
– Change in income tax liability	58.2	52.7
– Net change in other operating assets and liabilities	(31.3)	27.2
<b>Change in working capital related to operating activities</b>	<b>(26.5)</b>	<b>36.1</b>
<b>NET CASH FLOW PROVIDED BY OPERATING ACTIVITIES</b>	<b>97.3</b>	<b>134.7</b>
Investment in property, plant & equipment	(14.7)	(14.6)
Investment in intangible assets	(29.4)	(10.9)
Proceeds from disposal of intangible assets and property, plant & equipment	0.1	0.2
Acquisition of shares in non-consolidated companies	(5.7)	(0.4)
Acquisitions of shares in associated companies	-	(57.6)
Convertible bond subscriptions	(0.8)	(35.5)
Payments to post-employment benefit plans	(1.2)	(1.0)
Other cash flow related to investment activities	0.2	1.9
Deposits	(0.1)	1.1
Change in working capital related to investing activities	3.6	(7.3)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(48.1)</b>	<b>(124.3)</b>
Repayment of long-term borrowings	(0.2)	(0.2)
Capital increase by Ipsen	0.1	1.1
Treasury shares	0.0	(2.0)
Dividends paid by Ipsen	(66.5)	(62.3)
Dividends paid by subsidiaries to minority interests	-	(0.2)
Change in working capital related to financing activities	(0.6)	0.1
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(67.1)</b>	<b>(63.4)</b>
<i>Impact of operations due to be sold or discontinued</i>	0.0	(0.0)
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(17.9)</b>	<b>(53.0)</b>
<b>Opening cash and cash equivalents</b>	<b>177.9</b>	<b>205.4</b>
Impact of exchange rate fluctuations	(5.0)	11.7
<b>Closing cash and cash equivalents</b>	<b>155.0</b>	<b>164.1</b>

## APPENDIX 4

### ■ Reconciliation between the income statement at 30 June 2011 and the recurring adjusted income statement at 30 June 2011

	30 June 2011 restated		Effects of acquisitions in North America <sup>(1)</sup>	Expenses linked with the strategy announced on 9 June <sup>(2)</sup>	Other non-recurring items <sup>(3)</sup>	30 June 2011	
		% Sales					% Sales
<i>(in million euros)</i>							
<b>Revenues</b>	<b>619.4</b>	<b>106.2%</b>				<b>619.4</b>	<b>106.2%</b>
Cost of goods sold	(120.9)	-20.7%				(120.9)	-20.7%
Research and development expenses	(105.8)	-18.1%				(105.8)	-18.2%
Selling expenses	(205.6)	-35.3%				(205.6)	-35.3%
General and administrative expenses	(42.6)	-7.3%				(42.6)	-7.3%
Other operating income and expenses	0.9	0.2%		(10.6)	17.2	7.5	1.4%
Amortisation of intangible assets	(1.6)	-0.3%	(1.6)			(3.1)	-0.5%
Restructuring costs	(0.0)	-0.0%		(28.1)		(28.1)	-4.8%
Impairment losses	0.0	-				0.0	-
<b>Operating income</b>	<b>143.9</b>	<b>24.7%</b>	<b>(1.6)</b>	<b>(38.7)</b>	<b>17.2</b>	<b>120.8</b>	<b>20.7%</b>
<b>Financial income/(expense)</b>	<b>1.2</b>	<b>0.2%</b>				<b>1.2</b>	<b>0.2%</b>
Income taxes	(33.7)	-5.8%	0.6	12.8	(5.9)	(26.2)	-4.5%
Share of profit/loss from associated companies	(4.1)	-0.7%				(4.1)	-0.8%
<b>Net profit from continuing operations</b>	<b>107.3</b>	<b>18.4%</b>	<b>(0.9)</b>	<b>(25.9)</b>	<b>11.3</b>	<b>91.7</b>	<b>15.6%</b>
Profit from discontinued operations	0.2	0.0%				0.2	0.0%
<b>Consolidated net profit</b>	<b>107.5</b>	<b>18.4%</b>	<b>(0.9)</b>	<b>(25.9)</b>	<b>11.3</b>	<b>91.9</b>	<b>15.7%</b>
– attributable to shareholders of Ipsen S.A.	107.3					91.7	
– attributable to minority interests	0.2					0.2	
<b>Diluted earnings per share (in euros)</b>	<b>1.27</b>					<b>1.09</b>	

<sup>(1)</sup> Effects of the allocation of goodwill resulting from transactions by the Group in North America.

<sup>(2)</sup> Expenses linked with the strategy announced on 9 June include:

- certain non-recurring fees incurred during the preparation and early implementation of the strategy announced on 9 June 2011,
- non-recurring expenses linked with restructuring, corresponding to the closure of the site in Barcelona and the transfer of the Group's North American commercial subsidiary to the East Coast.
- certain expenses linked with changes within the Group's Executive Committee.

<sup>(3)</sup> Other non-recurring items include the damages received by the Group after the enforceable court decision relating to the trade dispute between the Group and Mylan.

■ Reconciliation between the income statement at 30 June 2010 and the recurring adjusted income statement at 30 June 2010

	30 June 2010 restated		Effects of acquisitions in North America <sup>(1)</sup>	Other non-recurring items <sup>(2)</sup>	30 June 2010	
		% Sales				% Sales
<i>(in million euros)</i>						
<b>Revenues</b>	<b>585.7</b>	<b>105.7%</b>			<b>585.7</b>	<b>105.7%</b>
Cost of goods sold	(122.6)	-22.1%			(122.6)	-22.1%
Research and development expenses	(99.1)	-17.9%			(99.1)	-17.9%
Selling expenses	(203.9)	-36.8%			(203.9)	-36.8%
General and administrative expenses	(43.6)	-7.9%			(43.6)	-7.9%
Other operating income and expenses	(2.0)	-0.4%		(2.7)	(4.7)	-0.9%
Amortisation of intangible assets	(1.4)	-0.3%	(4.6)		(6.0)	-1.1%
Restructuring costs	0.0	-		(0.9)	(0.9)	-0.2%
Impairment losses	0.0	-			0.0	-
<b>Operating income</b>	<b>113.2</b>	<b>20.4%</b>	<b>(4.6)</b>	<b>(3.6)</b>	<b>104.9</b>	<b>18.9%</b>
<b>Financial income/(expense)</b>	<b>(3.8)</b>	<b>-0.7%</b>			<b>(3.8)</b>	<b>-0.7%</b>
Income taxes	(23.7)	-4.3%	1.8	1.2	(20.7)	-3.7%
Share of profit/loss from associated companies	(5.1)	-0.9%			(5.1)	-0.9%
<b>Net profit from continuing operations</b>	<b>80.6</b>	<b>14.5%</b>	<b>(2.8)</b>	<b>(2.4)</b>	<b>75.4</b>	<b>13.6%</b>
Profit from discontinued operations	0.2	0.0%			0.2	0.0%
<b>Consolidated net profit</b>	<b>80.8</b>	<b>14.6%</b>	<b>(2.8)</b>	<b>(2.4)</b>	<b>75.6</b>	<b>13.6%</b>
– attributable to shareholders of Ipsen S.A.	80.7				75.5	
– attributable to minority interests	0.1				0.1	
<b>Diluted earnings per share (in euros)</b>	<b>0.96</b>				<b>0.90</b>	

<sup>(1)</sup> Effects of the allocation of goodwill resulting from transactions by the Group in North America.

<sup>(2)</sup> Other non-recurring items include certain expenses linked with changes in the organisation of certain Group subsidiaries.

### **III – INFORMATION ON RELATED PARTIES**

The Group has not concluded any new significant transactions with related parties during the period.

## IV – RISKS FACTORS

The Group operates in an environment which is undergoing rapid change and exposes its operations to a number of risks, some of which are outside its control. The risks and uncertainties set out below are not exhaustive and the reader is advised to refer to the Group's 2010 Registration Document available on its website ([www.ipsen.com](http://www.ipsen.com)).

- The Group is dependent on the setting of prices for medicines and is vulnerable to the possible reduction of prices of certain of its products by public or private payers or to their possible withdrawal from the list of reimbursable products by the relevant regulatory authorities in the countries where it does business. In general terms, the Group is faced with uncertainty in relation to the prices set for all its products, in so far as medication prices have come under severe pressure over the last few years as a result of various factors, including the tendency for governments and private payers to reduce prices or reimbursement rates for certain drugs marketed by the Group in the countries in which it operates, or even to remove those drugs from lists of reimbursable drugs. For example, the reimbursement rate of Ginkor Fort<sup>®</sup> in France was lowered from 35% to 15%. The product was finally withdrawn from the list of reimbursable drugs on 1 January 2008. At the same time, Ipsen sold its Ginkor Fort<sup>®</sup> marketing licences for France, Monaco and Andorra to the GTF Group with effect from 1 January 2008. Ginkor Fort<sup>®</sup> generated sales of €9.6 million in France in 2010, while in France in 2007, Ginkor Fort<sup>®</sup> generated €34.1 million. The reimbursement rate for drugs with a low or insufficient therapeutic value (*Service Médical Rendu Faible ou Insuffisant*), including Tanakan<sup>®</sup> was lowered to 15% on 1 April 2010. Additionally, on January 15<sup>th</sup> 2011, the French Health Minister announced a set of new rules on drugs with an insufficient therapeutic value (*Service Médical Rendu Insuffisant*) that include Tanakan<sup>®</sup>: "In the absence of specific notice from the Health Minister, the social security will no longer reimburse this class of drugs";
- The Group depends on third parties to develop and market some of its products which generate or may generate substantial royalties for the Group, but these third parties could behave in ways which cause damage to the Group's business. The Group cannot be certain that its partners will fulfill their obligations. It might be unable to obtain any benefit from those agreements. A default by any of the Group's partners could generate lower revenues than expected. Such situations could have a negative impact on the Group's business, financial position or performance.
- Actual results may depart significantly from the objectives given that a new product can appear to be promising at a development stage or after clinical trials but never be launched on the market or be launched on the market but fail to sell notably for regulatory or competitive reasons;
- The Research and Development process typically lasts between eight and twelve years from the date of a discovery to a product being brought to market. This process involves several stages; at each stage, there is a substantial risk that the Group could fail to achieve its objectives and be forced to abandon its efforts in respect of products in which it has invested significant amounts. Thus, in order to develop viable products from a commercial point of view, the Group must demonstrate, by means of pre-clinical and clinical trials, that the molecules in question are effective and are not harmful to humans. The Group cannot be certain that favourable results obtained during pre-clinical trials will subsequently be confirmed during clinical trials, or that the results of clinical trials will be sufficient to demonstrate the safety and efficacy of the product in question such that the required marketing approvals can be obtained;
- The Group must deal with or may have to deal with competition (i) from generic products, particularly in relation to Group products which are not protected by patents, for example, Forlax<sup>®</sup> or Smecta<sup>®</sup> (ii), products which, although they are not strictly identical to the Group's products or which have not demonstrated their bioequivalence, may obtain a marketing authorisation for indications similar to those of the Group's products pursuant to the bibliographic reference regulatory procedure (well established medicinal use) before the patents protecting its products expire. Such a situation could result to the Group losing market share which could affect its current level of growth in sales or profitability;
- Third parties might claim the benefit of intellectual property rights in respect to the Group's inventions. The Group provides the third parties with which it collaborates (including universities and other public or private entities) with information and data in various forms relating to the research, development, manufacturing and marketing of its products;  
Despite the precautions taken by the Group with regard to these entities, in particular of a contractual nature, they (or certain of their members or affiliates) could claim ownership of intellectual property rights arising from the trials carried out by their employees or any other intellectual property right relating to the Group's products or molecules in development;
- The Group's strategy includes acquiring companies or assets which may enable or facilitate access to new markets, research projects or geographical regions or enable it to realise synergies with its existing businesses. Should the growth prospects or earnings potential of such assets as well as valuation assumptions change materially from initial assumptions, the Group might be under the obligation to adjust the values of these assets in its balance sheet, thereby negatively impacting its results and financial situation;
- The marketing of certain products by the Group has been and could be affected by supply shortages and other disruptions. Such difficulties may be of both a regulatory nature (the need to correct certain technical problems in order to bring production sites into compliance with applicable regulations) and a technical nature (difficulties in obtaining supplies of satisfactory quality or difficulties in manufacturing active ingredients or drugs complying with their technical specifications on a sufficiently reliable and uniform basis). This situation may result in inventory shortages and/or in a significant reduction in the sales of one or more products;

- In certain countries exposed to significant public deficits, and where it sells its drugs directly to public hospitals, the Group could experience discount or lengthened payment terms or difficulties in recovering its receivables in full. In Greece notably, which represented in 2010 approximately 1.5% of its consolidated sales, and where payment terms from public hospitals are particularly long, the Group is closely monitoring the current situation. More generally, the Group may also be unable to purchase sufficient credit insurance to protect itself adequately against the risk of payment default from certain customers worldwide. Such situations could negatively impact the Group's activities, financial situation and results;
- In the normal course of business, the Group is or may be involved in legal or administrative proceedings. Financial claims are or may be brought against the Group in connection with some of these proceedings;
- The implementation of the strategy has to be submitted to the relevant staff representation authorities in each country concerned, in compliance with the specific procedures, terms and conditions set forth by each national legislation.

## **V – STATUTORY AUDITOR’S REVIEW REPORT ON THE 2011 HALF YEARLY CONSOLIDATED FINANCIAL STATEMENTS**

Ipsen SA

Registered office : 65 quai Georges Gorse – 92650 Boulogne-Billancourt cedex  
Share capital : €84 223 073

Statutory auditors’ review report on the first half-year financial information for 2011

For the period January 1<sup>st</sup> to June 30, 2011

*This is a free translation into English of the statutory auditors’ review report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction and construed in accordance with French law and professional auditing standards applicable in France.*

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting and in accordance with the requirements of article L.451-1-2 III of the French Monetary and Financial Code (“Code monétaire et financier”), we hereby report to you on:

- the review of the accompanying condensed half-year consolidated financial statements of Ipsen for the period January 1<sup>st</sup> to June 30, 2011,
- the verification of the information contained in the interim management report.

These condensed half-year consolidated financial statements are the responsibility of the Board of directors. Our role is to express a conclusion on these financial statements based on our review.

### **I. Conclusion on the financial statements**

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-year consolidated financial statements are not prepared in accordance with IAS 34 - standard of the IFRSs as adopted by the European Union applicable to interim financial reporting.

### **II. Specific verification**

We have also verified the information presented in the interim management report commenting the condensed half-year consolidated financial statements subject to our review. We have no matters to report as to its fair presentation and consistency with the condensed half-year consolidated financial statements.

Paris la Défense and Neuilly-sur-Seine, August 26, 2011

The Statutory auditors

KPMG Audit  
*Departement of KPMG SA*

Deloitte & Associates

Philippe Grandclerc  
*Partner*

Fabien Brovedani  
*Partner*



## **VI – ATTESTATION OF THE PERSON RESPONSIBLE FOR THE 2011 HALF YEAR FINANCIAL INFORMATION**

I hereby declare that, to the best of my knowledge, the financial statements have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and results of the Company and all the other companies included in the scope of consolidation, and that this half-year financial report gives a fair description of the major developments and their impacts on the Group's first half 2011 accounts and of the main risks and uncertainties for the remaining six months of the year and a fair view of the related parties transactions.

August 26<sup>th</sup>, 2011

Mr. Marc de Garidel  
Chairman and Chief executive officer