2011

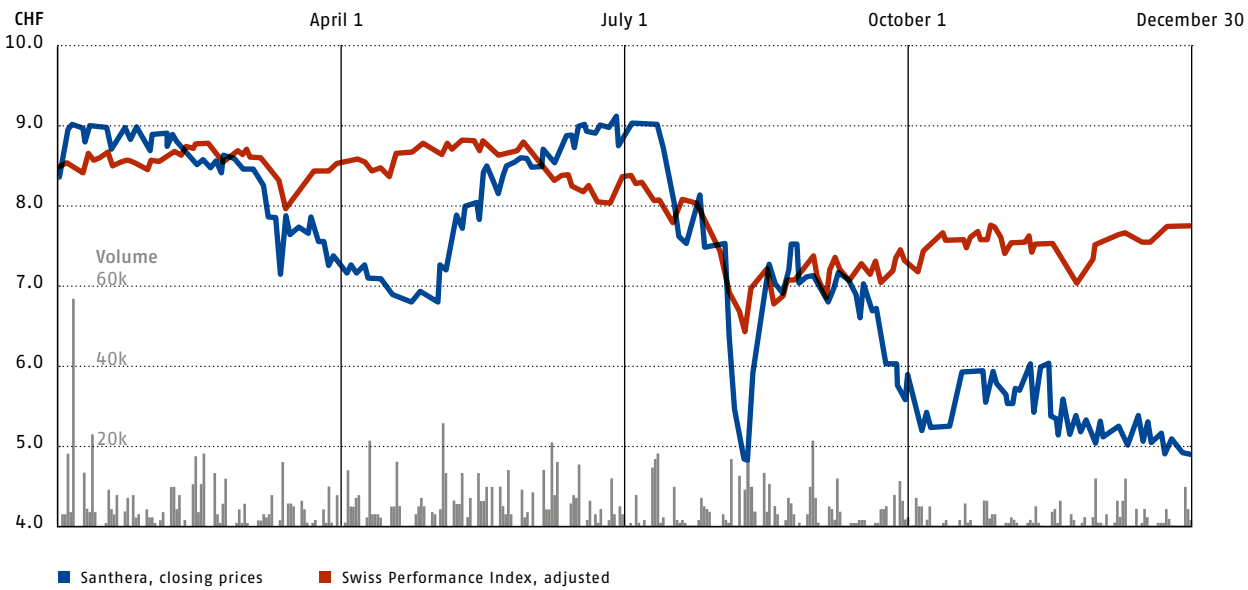
Annual Report

santhera
Pharmaceuticals

Financial Key Figures

IFRS, consolidated, in CHF thousands	2011	2010
Cash and cash equivalents	**23,406**	**43,682**
Net change in cash and cash equivalents	**–20,276**	**–9,638**
Net sales	**3,265**	**3,496**
Operating expenses	**30,517**	**29,694**
whereof Research & Development	18,125	15,690
Operating result	**–27,213**	**–8,711**
Net result	**–27,838**	**–11,256**

Share Price Development in 2011



Share Trading Information

Listing	SIX Swiss Exchange
Ticker symbol / Security ID	SANN / 002714864
ISIN	CH0027148649
Ticker symbols Thomson Reuters / Bloomberg	SANN.S / SANN:SW
Number of issued and outstanding shares at year end (nominal value CHF 1.00)	3,673,463
Free float	100 %
Share price high / low	CHF 9.10 / 4.78
Share price at year-end	CHF 4.85
Market capitalization at year-end	CHF 17.8 million
Average trading volume (shares / day)	5,082

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2 Letter to the Shareholders

Dear Shareholders,

In 2011 Santhera made significant progress with key projects and took necessary precaution to safeguard the Company's cash reserves. In Europe, we completed the regulatory dossier and applied for marketing authorization for idebenone (Catena®) as potentially first treatment of Leber's Hereditary Optic Neuropathy (LHON). In Canada, we generated stable product revenues while sales in other countries continued to grow. Furthermore, we successfully completed a restructuring that focuses the Company on the key value-drivers and significantly reduces the cash burn.

The filing of the marketing authorization application in Europe certainly marks last year's highlight. LHON is a devastating disease which causes blindness in a matter of a few weeks or months. The submission is based on the positive results from the RHODOS study that showed a consistent superiority of Catena® over placebo. These data are supported by a number of case reports and independent studies published by clinical experts that confirm the efficacy of idebenone in preserving and improving vision. For the first time, there is the very real possibility of an effective therapy, moving LHON from an incurable form of blindness to a treatable disease.

Securing the financial flexibility in the current financial market environment remains a priority for most biotech companies. The Board and executive management diligently evaluated strategic alternatives to advance the Company. In August, the Board concluded that the current stand-alone setting of Santhera offers the best strategic option to create sustainable values for the Company and its shareholders. As a consequence, the focus of Santhera's activities is on the Catena® franchise while other pipeline assets are postponed or deferred.

In agreement with this strategy, we restructured the Company and, thereby, secured the financing of our current operations into 2013, independent from fund raising or licensing income and clearly beyond the regulatory decision on the marketing authorization application for LHON. We concentrate our resources on clinical development and regulatory affairs as well as a specialized commercial team. Importantly, we were able to retain the talents and expertise needed for the challenges ahead.

Considering the operational changes and the needs of Santhera going forward, the Board also decided on changes in the management of the Company. Klaus Schollmeier became Chairman while Thomas Meier took over as Chief Executive Officer. Simultaneously, Michael Lytton, Hans-Peter Hasler, and Bernd Seizinger, all former Board members, as well as Barbara Heller and Helmut Kess-

Klaus Schollmeier (left)
Thomas Meier (right)

mann, both former executives, tendered their resignation. We thank the executives, Board members and employees who were affected by the restructuring for their valuable contributions for Santhera. They all have been instrumental in defining and implementing our strategy to build a sustainable business in orphan neuromuscular and mitochondrial diseases.

Looking into 2012, we expect a decision from the European Medicines Agency on the marketing authorization application in the second half of the year. If approved, our product would be the first treatment option for this rare neuro-ophthalmologic disease. Importantly, this would be Santhera's second product approval. In parallel to the regulatory process and tightly tied to its progress, we prepare for the product launch in Europe. Another of our priorities in 2012 is to expand the commercialization of Catena®.

In clinical development, we have and will further add study centers to recruit patients into the DELOS Phase III study with Catena® in Duchenne Muscular Dystrophy. In addition, we are currently preparing for a Phase I study with omigapil in children suffering from Congenital Muscular Dystrophy. This program is co funded by the European Union and supported by dedicated patient advocacy groups. The start of the study is anticipated in the second half of 2012. By mid-year, we expect to report top-line results from the MELTIMI Phase II study in MELAS syndrome, which is conducted by the Columbia University of New York City.

Santhera continues to evolve as a specialty pharmaceutical company with a focus on orphan neuromuscular and mitochondrial diseases. Our team of employees dedicates all efforts to bringing innovative products to patients in need and help improving their condition and quality of life. We thank our employees, our business partners and you as our shareholders for the continued interest and support of Santhera.

Klaus Schollmeier
Chairman

Thomas Meier
Chief Executive Officer

Potentially the first approved therapy in Leber's Hereditary Optic Neuropathy

Leber's Hereditary Optic Neuropathy (LHON) is a maternally inherited loss of vision due to dysfunction of retinal ganglion cells followed by atrophy of the optic nerve. The effects are rapid and severe, leading to blindness within a few months from disease onset. Blurring of central vision and color desaturation usually mark the beginning of the symptomatic phase. While symptoms initially develop in one eye, the second eye usually follows in quick succession, leading to bilateral vision loss. LHON typically present in young adults, mostly men, as painless acute or subacute visual failure. Clinical data provide evidence that idebenone (Catena®) can prevent or reverse vision loss and blindness [1]. LHON patients harboring the G11778A or G3460A mutations are the most likely to benefit from treatment. The European Medicines Agency currently is reviewing Santhera's marketing authorization application; a decision is anticipated in the second half of 2012.

[1] Klopstock T., BRAIN. 2011; 134:2677-2686

Catena® in Friedreich's Ataxia available for patients in many countries

Friedreich's Ataxia is a devastating inherited disease associated with progressive neurodegeneration. Coordination difficulties such as unsteady gait, frequent falls or clumsiness usually appear first. Gait ataxia then spreads to the arms and the trunk. Speech is almost always affected, making communication increasingly difficult. Patients typically become wheelchair-bound in their teenage years. Results from a placebo-controlled study followed by an open-label extension indicate a long-term therapeutic benefit to pediatric patients by improving particularly fine motor skills, and speech [2]. Catena® is approved in Canada for symptomatic treatment of Friedreich's Ataxia. The drug is also available in Europe, the USA and other territories under expanded access programs.

[2] Meier T., JOURNAL OF NEUROLOGY. 2012; 259:284–291

Recruiting for Phase III study in Duchenne Muscular Dystrophy

Duchenne Muscular Dystrophy is one of the most common and devastating types of muscular degeneration. The genetically inherited disease affects boys with an onset of symptoms as early as three to five years of age. Patients suffer from progressive weakness and wasting of skeletal muscle tissue. Other complications include skeletal deformation, respiratory distress and cardiac failure. As the disease progresses, sufferers become confined to a wheelchair during their teenage years. Findings from a 1-year randomized controlled study [3] and a 2-year open-label study indicate that Catena® can slow the age-dependent decline in respiratory function associated with the disease. Santhera is currently investigating the drug in a Phase III trial in Europe and the US.

[3] Buyse G., NEUROMUSCULAR DISORDERS. 2011; 21(6):396-405

Investigator-initiated trials with Catena®

The Columbia University of New York City and Santhera are collaborating in a proof-of-concept study to explore the efficacy of Catena® in MELAS syndrome, a devastating multisystem disorder that affects the brain, nervous system, muscles and cognitive abilities. Topline results of the study are anticipated by mid-year 2012.

In 2009, the US National Institute of Neurological Disorders and Stroke started a long-term clinical trial to investigate Catena® as potential treatment of Primary Progressive Multiple Sclerosis. This rare sub-form of multiple sclerosis is characterized by a gradual progression of the neurological disability with no superimposed relapses or remissions.

Omigapil in Congenital Muscular Dystrophies

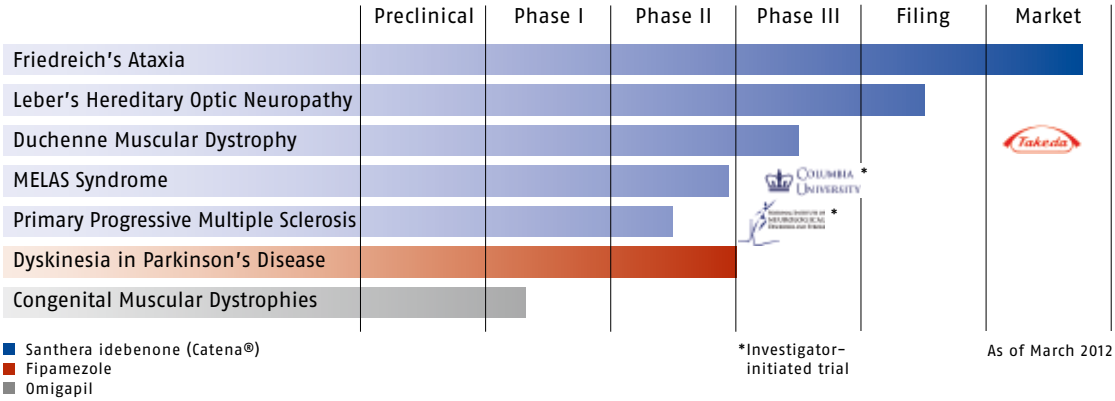
Severe forms of Congenital Muscular Dystrophies can affect newborns or young children with life-threatening progressive muscle weakness. Complications cause immobility at young age and early mortality. Santhera focuses on subtypes caused by collagen-VI or laminin-alpha-2 deficiency associated with mitochondrial dysfunction and muscle cell apoptosis. Nonclinical studies show that omigapil inhibits cell death and reduces body weight loss and skeletal deformation while increasing locomotive activity and protecting from early mortality [4]. A first clinical study, cofunded by the European Union, will be initiated in the second half of 2012.

[4] Erb M., JOURNAL OF PHARMACOLOGY AND EXPERIMENTAL THERAPEUTICS. 2009; 331(3):787–795

Fipamezole in Dyskinesia in Parkinson's Disease

Two Phase II studies demonstrated the efficacy of fipamezole in reducing levadopa-induced Dyskinesia in Parkinson's Disease. The compound also showed potential for the reduction of levodopa "wearing-off" and demonstrated improvement in cognition and activities of daily living [5]. In January 2012, Santhera regained global rights for fipamezole.

[5] LeWitt P., NEUROLOGY. 2012 (in press)



Stable product sales in 2011 and cash reserves of CHF 23.4 million following completion of restructuring

In 2011, Catena® generated net sales of CHF 3.3 million, an increase of 6% in local currencies over the previous year. The absence of partnering income translated into an operating result of CHF –27.2 million and a net result of CHF –27.8 million. With a cash burn of CHF –20.3 million in 2011, the cash position at year-end amounted to CHF 23.4 million, slightly higher than anticipated. Last year, Santhera successfully completed a restructuring and is now focusing on Catena® in several orphan indications. Considering its cash reserves, the Company's current operations are financed into 2013.

The highlight in 2011 was the acceptance of the marketing authorization application for Leber's Hereditary Optic Neuropathy (LHON) by the European Medicines Agency. The regulatory review is ongoing with a decision expected in the second half of 2012. The continued commercial success with Catena® in Canada, Europe and other territories was another main achievement in 2011. The increase of 6% in net sales in local currencies underlines the medical relevance of the product. Finally, the restructuring of the Company announced in August and the reinforcement of the strategic focus on the Catena® franchise was successfully completed.

In 2011, Santhera's financials were influenced by one-time effects such as the costs for the restructuring and the absence of partnering income making year-to-year comparisons are difficult to interpret. Both effects translated into a higher operating loss and, consequently, a higher net loss in 2011 compared to the previous year.

Net change in cash for 2011 was CHF –20.3 million (2010: CHF –9.6 million) whereby in 2011 the net cash burn decreased from a monthly CHF 2.0 million in first half-year to a monthly CHF 1.3 million for the second half as a direct result of the restructuring and reinforced product focus. As of December 31, 2011, Santhera had cash and cash equivalents of CHF 23.4 million (2010: CHF 43.7 million). Total equity at year-end 2011 amounted to CHF 43.0 million (2010: CHF 69.6 million).

In 2011, Catena® generated net sales of CHF 3.3 million, and despite negative currency influences ended almost at the level of 2010 (CHF 3.5 million). In local currencies, sales increased by 6%. The majority of sales (CHF 2.9 million) originated from Canada for the indication Friedreich's Ataxia. Sales under the Named Patient Program in Europe and other territories also continued to grow.

Expenses in research and development increased to CHF 18.1 million (2010: CHF 15.7 million). Marketing and sales expenses further decreased to CHF 2.1 million (2010: CHF 3.5 million) while general and administrative (G&A) expenses remained stable at CHF 10.2 million (2010: CHF 10.4 million). The total operating expenses amounted to CHF 30.5 million (2010: CHF 29.7 million) including restructuring costs of CHF 3.5 million, primarily allocated to G&A and R&D.

The one-time effects mentioned above translated into the operating result of CHF –27.2 million (2010: CHF –8.7 million). For 2011, Santhera reports a net loss of CHF 27.8 million (2010: CHF 11.3 million).

During the last quarter of 2011 Santhera completed the restructuring as announced. As a result, at year end there were 28.5 full-time equivalents employed (2010: 44.7).

Looking ahead

In line with its revised strategy, Santhera continues to focus financial and human resources on the Catena® franchise and its opportunities in orphan neuromuscular and mitochondrial diseases. The Company's main priorities for 2012 are the regulatory approval process for LHON in Europe and, tightly tied to its progress, preparations for a market entry. Based on the latest financial planning and following stringent cost control, Santhera's current programs are financed into 2013.

Santhera's ongoing Phase III study in Duchenne Muscular Dystrophy (DELOS) is adding clinical study sites in the US and in Europe as the intended size of the first cohort of patients, i.e. patients not on glucocorticoid co-medication, has been increased to 80 participants. Top-line results from the MELTIMI Phase IIa study in MELAS syndrome, conducted by the Columbia University of New York City, are anticipated by mid-year 2012.

In the second half of 2012, clinical data in Friedreich's Ataxia are expected from the MICONOS-E two-year open label extension and the PROTI randomized withdrawal studies. The long-term IPPoMS Phase I/II study in Primary Progressive Multiple Sclerosis is advancing as planned at the US National Institute of Neurological Disorders and Stroke. Finally, with support from third-party funding, omigapil is being prepared for a Phase I study in patients with Congenital Muscular Dystrophies.

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Corporate Governance – General Information

The Company's corporate governance principles are laid out in its articles of incorporation (**Articles**), the organizational rules (**Organizational Rules**; *Organisationsreglement)*, the charter of the Audit Committee (**AC**) of the Board of Directors (**Board**), by-laws of the Company's executive management (**Executive Management**) adopted by the Board and a comprehensive set of group directives, including a Code of Conduct and insider trading rules that require a trading preclearance for the Board and the Company's officers and employees, as well as an internal control system (**ICS**), and a risk management process (**RM**).

The information published below conforms to the Directive Corporate Governance (**DCG**) of the SIX Swiss Exchange (**SIX**). In order to avoid redundancies, references are inserted to other parts of the financial report and links to Santhera's website www.santhera.com that provide more detailed information.

Group Structure and Shareholders (DCG 1)

Group structure (DCG 1.1)

Listed company

Name	Santhera Pharmaceuticals Holding AG (**Company**, together with its affiliates, **Santhera**)
Domicile	Hammerstrasse 49, 4410 Liestal, Switzerland
Register number	CH-270.3.012.442-0
Listing	SIX Swiss Exchange
Symbol	SANN
Security ID	2714864
ISIN	CH0027148649
Market capitalization	CHF 17.8 million (December 30, 2011)
Website	www.santhera.com
Commercial register	www.hrabl.ch
Duration of company	Not limited
Subsidiaries	See following section as well as note *"Investments/Subsidiaries"* to the statutory financial statements of the Company.

Santhera operates through its wholly owned subsidiaries, Santhera Pharmaceuticals (Schweiz) AG, Liestal, Switzerland (research and development [**R&D**] of pharmaceutical drugs); Santhera Pharmaceuticals (Canada), Inc., Montréal, Canada (marketing and sales [**M&S**] of pharmaceutical drugs); Santhera Pharmaceuticals (USA), Inc., Charlestown, United States of America (**US**) (M&S of pharmaceutical drugs); Santhera Pharmaceuticals (Deutschland) GmbH, Lörrach, Germany (regulatory and R&D in the EU) and Oy Santhera Pharmaceuticals (Finland) Ltd, Helsinki, Finland (administrative; DCG 1.1.3). None of these subsidiaries is listed on a stock exchange (DCG 1.1.2). Their R&D activities are managed by Santhera Pharmaceuticals (Schweiz) AG and are performed in Switzerland, the EU and the US (DCG 1.1.1).

Significant shareholders (DCG 1.2)

See note *"Significant Shareholders"* to the statutory financial statements of the Company.

Cross-shareholdings (DCG 1.3)

There are no cross-shareholdings.

Capital Structure (DCG 2)

Ordinary, conditional and authorized capital (DCG 2.1/2.2)

The Company has one class of registered shares with a nominal value of CHF 1 each (**Shares**). Pursuant to its Articles, as of December 31, 2011, it had the following ordinary, authorized and conditional share capital:

	Capital as per commercial register		Effective (listed) capital			
Type of capital	Amount in CHF[2]	As percentage of ordinary capital	Amount in CHF[2]	As percentage of ordinary capital	Expiry	Section in Articles
Ordinary capital	3,660,438	100.0	3,673,463	100.0	None	3
Authorized capital	1,800,000	49.2	1,800,000	49.0	April 26, 2012	3a
Conditional capital for warrants/option rights granted in connection with debt instruments[1]	600,000	16.4	600,000	16.3	For conversion rights: 10 years from issue date For options: 7 years from issue date	3b I
Conditional capital for ESOP/BSOP/EIP[1]	644,296	17.6	631,271	17.2	None	3b II

1) ESOP: Employee Stock Option Plans 2004, 2008 and 2010; EIP: Executive Incentive Plan; BSOP: Board Stock Option Plan. For details pertaining to the ESOP and option and/or conversion rights with regard to debt instruments, see section on DCG 2.7.
2) In the reporting period, certain holders of options exercised their rights to receive 13,025 Shares which were issued from the Company's "Conditional Capital for ESOP."

For details with regard to terms and conditions of potential share issues under the Company's authorized and conditional share capital, see sections 3a and 3b of the Company's Articles, which can be downloaded from www.santhera.com/corporate-governance, and the section on DCG 2.7 below.

For details with regard to the Company's BSOP, ESOPs and EIP, see note 19 *"Stock Option Plans"* to the consolidated financial statements.

Changes in share capital (DCG 2.3)

For changes in capital that occurred in 2009 and 2010, see the Company's Annual Report 2010, which can be downloaded from www.santhera.com/reports. For changes that took place in 2011, see notes *"Share Capital," "Authorized Share Capital," "Conditional Share Capital"* to the statutory financial statements of the Company.

Shares, participation and dividend right certificates (DCG 2.4/2.5)

As of December 31, 2011, the Company had one single class of registered shares with a nominal value of CHF 1 each. All Shares were fully paid in and are nonassessable. The Company has not issued any participation certificates or any profit-sharing certificates.

As a consequence of the Swiss Federal Intermediated Securities Act (**FISA**) that entered into force on January 1, 2010, the Company may issue its Shares in the form of uncertificated securities, single certificates or global certificates. The shareholder has no right to demand the printing and delivery of share certificates. However, a registered shareholder may, at any time, request the Company to confirm in writing its shareholding as entered into the share register. The transfer of the Shares is effected via electronic book entry only by the intermediary holding the securities account, usually a bank. The transferability of the Shares is not affected by the changes required by FISA.

Subject to section 5 in its Articles on share register, transfer restrictions and nominees, each Share carries one vote (see section on DCG 2.6) and is entitled to dividends if the shareholders' meeting (**Shareholders' Meeting**) resolves in favor of a dividend payment.

Limitations on transferability and nominee registrations (DCG 2.6)

The Company's Shares are freely transferable, provided that the acquirers declare that they acquired the Shares in their own name and for their own account. There is no percentage limitation (DCG 2.6.1), and accordingly, the Company did not grant any exception (DCG 2.6.2).

The Board may register individual nominees (**Nominees**) with the right to vote in the share register up to 2% of the share capital as set forth in the commercial register. Shares in excess of 2% of the total share capital are entered without voting rights, unless the Nominee discloses the names, addresses and number of Shares of persons for whose account it holds such excess Shares. Nominees are persons who do not explicitly declare to hold Shares for their own account. Groups of persons who are interrelated or otherwise act in concert to circumvent the Nominee provisions are treated as a Nominee (DCG 2.6.3). In the year under review, the Company granted no exception.

The Board delegated the administration of the share register to the Chief Executive Officer (**CEO**) who may cancel registration of shareholders if such registration was based on false information and if the CEO has previously heard such shareholder or Nominee. No statutory privileges of limitations on transferability exist (DCG 2.6.4).

Convertible bonds and warrants/options (DCG 2.7)

Convertible loans

Santhera does not have any convertible or exchangeable bonds or loans outstanding.

Options, warrants

See the statutory financial statements of the Company and note 19 *"Stock Option Plans"* to the consolidated financial statements.

Board of Directors (DCG 3)

Board and committee memberships (DCG 3.1/3.2/3.3.2 and 3.4)

Name	Year of birth	Nationality	First elected	Elected until	Board	AC[1]
Klaus Schollmeier	1957	DE	2007	2012	●	
Martin Gertsch	1965	CH	2006	2013	◉	●
Jürg Ambühl	1949	CH	2009	2014	○	○
Timothy Rink	1946	UK	2004	2012	○	

1) Audit Committee

● = Chairman
◉ = Vice Chairman
○ = Member

Klaus Schollmeier

Klaus Schollmeier was CEO of Santhera until September 30, 2011. Dr Schollmeier joined Graffinity Pharmaceuticals AG (**Graffinity**) as CEO in 2003 and became CEO of the Company when Graffinity and MyoContract AG (**MyoContract**) were combined in 2004. Prior to joining the biotechnology industry in 2003, he served as managing director of the healthcare/biotechnology group at ING-BHF Bank for ING Group Europe. Prior to that, Dr Schollmeier spent 16 years in the pharmaceutical industry at BASF, Knoll and Abbott. His scientific responsibilities included head of oncology/immunology research at BASF's central laboratories in Ludwigshafen, Germany, and – between 1989 and 1993 – senior director of biotechnology at BASF Bioresearch Corporation in Cambridge, US. His business functions included general manager of BASF Pharma Netherlands from 1996 to 1998 and vice president and general manager for Western Europe thereafter. From 1994 to 1995 he led BASF's acquisition and integration of Boots Pharmaceuticals. Dr Schollmeier holds a PhD in biology from the University of Düsseldorf, Germany, and in 1991, he became an adjunct research associate professor at the Boston University Medical School, US.

Martin Gertsch

Martin Gertsch is an experienced chief financial officer (**CFO**) in the life science industry. He is vice-president, Head of Finance EMEA at Synthes and former chief financial and chief operating officer of Delenex Therapeutics and ESBATech, two privately held biotech companies. From 2002 to the beginning of 2006, he was CFO of Straumann, which he had joined in 1997 as head of group controlling and reporting. Between 1986 and 1997, Mr Gertsch was an audit manager at PricewaterhouseCoopers, Basel, Switzerland. He is a Swiss certified fiduciary and Swiss certified public accountant. He has also completed several executive-level development programs at IMD (International Institute for Management Development) in Lausanne, Switzerland.

Jürg Ambühl

Jürg Ambühl is a seasoned marketing specialist with a long track record in the pharmaceutical industry. From 2003 to 2007, Dr Ambühl worked in several senior management positions for the Serono group, lastly as senior executive vice president global marketing. In this capacity, he was responsible for worldwide marketing strategies for all of Serono's products. Prior to that, he served as CEO of Metagen Pharmaceuticals. From 2000 to 2001, Dr Ambühl was president of the regional business Europe/International at Knoll/BASF Pharmaceuticals when the company was sold to Abbott Laboratories. From 1987 to 1999, he held several senior management positions within MSD Sharp & Dohme in Germany, including general manager with business responsibility for the German market. From 1982 to 1987, Dr Ambühl worked for McKinsey and prior to that, from 1978 to 1982, he held several management positions within Eli Lilly's German subsidiary in sales and marketing. Dr Ambühl is member of the board of directors of Euromedic International and member of the advisory board of Pilgrim Software. He holds a PhD in chemistry from the Swiss Federal Institute of Technology (ETH), Zurich, Switzerland, and an MBA from the INSEAD, Fontainebleau, France.

Timothy Rink

Timothy Rink has been a board member of a number of private and public US and UK biotechnology companies (Akubio, Alanex, Astex, BioVex, Ciphergen, CoCensys, Gryphon Sciences, Lorantis, NPS Pharmaceuticals, Sepracor and Solexa). He currently serves on the boards of Kymab and Stevenage Biosciences Catalyst. From 2004 through 2010, he was chairman of the strategy panel of the technology transfer division of the Wellcome Trust. He was chairman and CEO of Aurora Biosciences from 1996 to 1999. Dr Rink served as president and chief technical officer of Amylin Pharmaceuticals from 1990 to 1995, and presently is on Amylin's scientific advisory board. He was

vice president of research at SmithKline Beecham from 1984 to 1989. From 1976 to 1984, he was a lecturer in physiology at the University of Cambridge, where he received his scientific and medical degrees.

Changes in 2011

In connection with the restructuring of the Company as announced on August 29, 2011, the Board decided to reduce the number of its members from seven to four. As a consequence, effective October 1, 2011, Michael Lytton, Hans Peter Hasler and Bernd Seizinger tendered their resignations.

Independence of Board members (DCG 3.1.b and c)

All Board members are nonexecutive and with the exception of Klaus Schollmeier, none has ever been a member of the Executive Management of the Company or any of its subsidiaries.

Business connections between Board members and the Company (DCG 3.1.c)

See note 30 *"Related Party Transactions"* to the consolidated financial statements.

Other activities and vested interests (DCG 3.2)

Other than described above, none of the members of the Board has any position in governing or supervisory bodies of any major organization, institution or foundation under private or public law, permanent management or consultancy function for major interest groups, official function or political mandate.

Elections and terms of office (DCG 3.3)

According to the Company's Articles, the Board consists of no more than eight members. The term of office of a Board member must not exceed three years, whereby a year means the period between two ordinary Shareholders' Meetings. Directors are appointed or removed exclusively by a resolution of the shareholders. For the time of the first election and the remaining term of office for the members of the Board see the table in the section on DCG 3.1/3.2 and 3.4 above. The terms of the Board members are staggered (two Board members are elected until 2012, one until 2013 and another one until 2014). The Board members were elected individually.

Organizational structure/areas of responsibility and information flow (DCG 3.4)

See also the table in the section on DCG 3.1.

Allocation of tasks within the Board (DCG 3.4.1)

In accordance with the Organizational Rules of the Company, the Chairman convenes and presides over the Board meetings. After consultation with the CEO, the members of the finance department and the General Counsel, he decides on agenda items and motions. Other Board members may request that items be placed on the agenda. In case of urgency, the Chairman may approve transactions and measures on behalf of the full Board. He also approves the Company's news releases. In the Chairman's absence, the Vice Chairman represents him. As a consequence of the above mentioned restructuring, both the Financing Strategy & Transactions Committee (**FSTC**) and the Nomination & Compensation Committee (**NCC**) were formally abolished on October 1, 2011. The NCC's tasks were allocated to the full Board, while those of the FSTC are being addressed either by the full Board or on an ad hoc basis.

The Board committees (DCG 3.4.2)
The Board has one standing Board committee, the AC. Its memberships are indicated in the table on page CG-4.

Audit Committee
The AC supports the Board primarily in monitoring the integrity of the financial statements of the Company, assessing the independent audit firm's and its representatives' qualifications and independence, the performance of the Company's internal audit function and independent public accountants, and the compliance of the Company with legal and regulatory requirements. The AC reviews the Company's financial statements, budgets, financial plans and liquidity reports on a quarterly basis. It assesses the Company's ICS and is responsible for the Company's RM and the assessment of the semiannual risk reports of the Executive Management as well as accounting principles and policies and tax structures. It communicates with the Company's external auditors concerning the results of their interim audits, audits of the annual and reviews of the interim financial statements and assesses important or critical accounting topics with the Executive Management and the external auditors.

Upon its reviews, the AC issues a recommendation to the Company's Board regarding the approval of the Company's annual and interim financial statements, its quarterly latest estimates and forecasts for the running and next business year, once yearly its budgets, outlooks as well as its long-term financial plans and its risk report. It also approves the annual budgets for all engagements of the Company's auditors.

In addition, in the year under review, the AC focused on the overall market and operational risks and their influence on the financial position of the Company, in particular, exchange rate risks, several accounting topics, including new accounting rules and regulations.

Compensation-related tasks of the Board
After the dissolution of the NCC, the entire Board makes all decisions in compensation- and nomination-related matters. It approves the Company's stock option plans and stock option grants on a total Company basis and to the CEO on an individual basis. It approves salary increases, bonus payments and option pools granted to senior managers and employees on an aggregate basis. It also approves promotions of employees who are or will become direct reports of a member of the Executive Management. Further, it establishes principles for the selection of candidates for election to the Board and the Executive Management, reviews and proposes candidates for membership on the Company's Board and Executive Management, and reviews the Company's regulations and charter to remain in compliance with SIX requirements and Swiss and international corporate best practice standards.

The Board deliberates over the corporate goals and the amount of incentives to be paid upon achievement of the targets as well as employment packages for senior managers and overall stock option grants to the employees. In the year under review, the Board set the target achievement level with regard to the corporate scorecard for 2011 and decided on a general salary increase of 2%. The Board determined that based on the overall Company performance, no bonuses would be paid for 2011. In order to be able to retain its employees, the Board approved a special option package and an extra bonus payment that is success-based. For additional information, see section on DCG 5.

Board – elections and areas of responsibility (DCG 3.5/3.6)

Core tasks of the Board

The Board is entrusted with the ultimate direction of the Company and supervision of the Executive Management. The Board's nontransferable and inalienable duties include the duty to (i) ultimately manage the Company and issue the necessary directives, (ii) determine the organizational structure of the Company, (iii) organize the accounting system, financial control (including the Company's ICS, RM as well as financial planning), and (iv) appoint, recall and ultimately supervise the persons entrusted with the management and representation of the Company. The nontransferable and inalienable duties also comprise responsibility for preparation of the Annual Report and the Shareholders' Meeting, carrying out shareholders' resolutions, and notification to the judge in case of overindebtedness of the Company. The full Board approves the Company's budget and major contracts if they are not within budget. It also reviews filing strategies before regulatory authorities such as the European Medicines Agency (**EMA**) and the US Food and Drug Administration (**FDA**). It reviews and approves merger and acquisitions (**M&A**) projects including licensing transactions of a material size.

In the reporting period, the Board laid a particular focus on the strategy of the Company. Together with management, it conducted negotiations with several potential partners to form a strategic alliance. It also supported the Company in its partnering efforts related to fipamezole and closely monitored the process that led to the marketing authorization application (**MAA**) for idebenone in LHON. Finally the Board decided to restructure the Company towards the end of last year through a reduction in headcount by 17 employees.

The Board has delegated the execution of the strategies defined by it and the day-to-day management of the Company to the CEO who relies on a management team where the main functional areas of the Company are represented.

Work methods of the Board (DCG 3.5.3)

The adoption of resolutions and elections by the Board require a majority of the votes cast. To validly pass a resolution, more than half of the members of the Board must be present at the meeting. In case of an impasse, the Chairman has a casting vote. Meetings may be held by teleconference.

Meetings in 2011

In 2011, the Board held eight meetings in person which on average lasted almost four hours, the longest having a duration of eight hours and the shortest 25 minutes (constitution of the Board after the Annual Shareholders' Meeting). In addition, the Board held ten teleconferences which on average lasted an hour, the longest having a duration of almost two and a half hours and the shortest 30 minutes. In the reporting period, the AC held three meetings, of which one was by teleconference. While the latter lasted almost an hour, the two others had a duration of more than two and a half hours.

Information and control instruments vis-à-vis the Executive Management (DCG 3.6)

As a rule, the CEO and the Board's Secretary, who is also the Company's General Counsel, participate in all Board meetings and report to the Board on the current course of business and all significant issues and transactions. The two vice presidents of the Company's finance department are present when financial, accounting, reporting, controlling and budgeting topics are discussed. In addition, other members of senior management are invited for certain agenda items covering their area of

expertise, for example, to discuss results and progress of clinical studies, submissions to regulatory authorities, potential new indications and additional fields of activities, in- and out-licensing projects and M&S strategies. As the Board meetings are held at the Company's offices in Liestal, the Board usually also invites employees to hold presentations at the Board meeting to obtain a more profound understanding of the Company's business and processes.

Usually, the CEO, the two vice presidents of the finance department and the General Counsel participate in the AC's meetings. From time to time, the AC also invites the Company's auditors and tax advisors to its meetings. In accordance with Group Directive GD-06 (Risk Policy), management has to submit a comprehensive risk management report to the AC (semiannually) and the Board (annually). The risk management report describes the RM (identification, analysis, governance and reporting) and contains a management summary with key risks, changes to the risk profile during the reporting period, causation, mitigative factors and measures proposed to manage the risks. For 2011, among the key risks identified were the financial situation of the Company, the limited likelihood to partner fipamezole in North America, the regulatory risk in the EU in connection with the LHON MAA and the retention of key personnel.

For the second half of 2011, the AC decided that no risk management report would have to be prepared as the Company's then current risks had been clearly identified by management and that both AC and Board were regularly briefed on these risks and involved in their management.

Extraordinary transactions and issues must be reported by the CEO to the Board immediately. The CEO is in regular contact with the Chairman. Each member of the Board is entitled to request and receive information on all matters of the Company and has access to the Company's and the Company's subsidiaries' property, records and personnel.

Due to its size, Santhera does not have an internal audit function, but parts of this function have been allocated to its finance department and the manager of quality assurance.

Executive Management (DCG 4 and 3.6)

The Executive Management currently consists of the CEO only. In connection with the Company's restructuring, Klaus Schollmeier, the former CEO, became Chairman of the Board, while Barbara Heller, CFO, and Helmut Kessmann, Chief Business Officer, left the Company.

During the Board Committee meetings the CEO reports to the Board as well as whenever required on an ad hoc basis. Any members of the Executive Management are appointed by the Board upon proposal by the CEO with the exception of the CEO himself who is appointed upon proposal by the Chairman of the Board.

The CEO is responsible for implementation of the decisions taken by the Board and its committees. With the support of the management team, he prepares the business strategy and business plan for decision by the Board. In accordance with the Group Directive GD-18 (Competencies & Responsibilities), the CEO approves material contracts, decides on the Company's intellectual property rights and the handling of lawsuits. He also allocates financial, personnel and other resources within Santhera and supervises the members of the management team. The management team has weekly meetings that follow a strict agenda and usually cover the following topics: product revenues, development programs and clinical studies, regulatory strategies, resource allocation,

business development, competitive situation, RM and ICS, corporate affairs including important contracts, supply chain and information on subsidiaries, financing situation and strategies, internal and external financial reporting, financial controlling, public and investor relations, human resources, taxes, legal and compliance.

Members of the Executive Management (DCG 4.1)

Name	Year of birth	Nationality	Position
Thomas Meier	1962	DE	CEO

Thomas Meier
Thomas Meier was appointed CEO of Santhera, effective October 1, 2011, after having served seven years as Chief Scientific Officer (CSO) for the Company. Dr Meier was the founder and former CEO of MyoContract, a Basel-based research company focused on orphan neuromuscular diseases, which he merged in 2004 with Graffinity of Heidelberg, Germany, to form today's Santhera. In 1999, Dr Meier became an independent research group leader and lecturer in the Department of Pharmacology and Neurobiology at the University of Basel, Switzerland, where he established MyoContract as first start-up of the Biozentrum. Mr Meier received his PhD in biology from the University of Basel, Switzerland, in 1992 and subsequently joined the University of Colorado Health Sciences Center, US. He has a distinguished scientific track record in the field of neuromuscular research. Before joining the industry, Dr Meier was awarded the International Research Fellowship Award from the US National Institutes of Health and a long-term fellowship from the Human Frontier Science Foundation. In 2007, he received the BioValley Basel Award for his outstanding contributions to the life sciences in the area.

Other activities and vested interests (DCG 4.2)

The CEO does not have any position in governing or supervisory bodies of any major organization, institution or foundation under private or public law, permanent management or consultancy function for major interest groups, official function or political post.

Management contracts (DCG 4.3)

There are no management contracts between the Company and companies not belonging to Santhera.

Compensation, Shareholdings and Loans (DCG 5)

Content and method of determining compensation and share ownership programs (DCG 5.1)

Board compensation
All members of the Board are compensated by means of a fixed fee payable in cash. In addition, they are granted stock options: initial one-time stock options at the next possible grant date after the time of their first election to the Board (grant dates are at the first day of a calendar quarter), under the condition, however, that at such time, they are independent and do not represent the interests of an investor. Otherwise, they obtain their initial grant as soon as they no longer represent such investor interests. The initial one-time stock options vest as follows: 50% on the second anniversary of the grant date, the next 25% on the third anniversary and the remaining options on the fourth anniversary. In addition to the initial one-time stock options and starting 2011, the nonexecutive members of the Board are entitled to an annual grant of stock options with a vesting period of one year (see below). For more detailed terms of all stock options, see note 19 *"Stock Option Plans"* to the consolidated financial statements. Board members are not entitled to any variable compensation.

The total remuneration of the members of the Board has not changed when compared to last year. It is based upon a benchmark analysis that had been conducted by an independent external consultant who was not awarded additional mandates. The consultant had based its proposals to the NCC on an analysis of peer companies. This peer group analysis included companies from Switzerland, the EU and the US that are listed on a stock exchange and that engage in the research, development and/or commercialization of pharmaceutical products. Most of them had sales of less than CHF 100 million and net losses on average of about CHF 50 million in 2008. Based on the benchmark analysis, for 2010, the consultant had advised the NCC that with regard to the cash component, no changes were necessary but that the option component would need to be improved. The NCC followed the consultant's advice and recommended to the Board (i) to leave the cash part of the Board members' remuneration unchanged, (ii) to implement a Board stock option plan to be effective from 2011 onwards which in addition to the initial one-time stock options would provide for an annual grant of stock options (with a vesting period of one year) and (iii) to make a special grant of stock options to certain members of the Board. This special grant was made in view of the fact that the majority of stock options of certain members of the Board were out of the money, and in order to keep incentives aligned with the corporate goals of the Company as well as with the benchmarks analyzed. These corporate goals are the same as those for Executive Management and the other employees. The Board approved these recommendations. In the reporting period, no changes to the compensation scheme were made.

In the year under review, the *"Nonexecutive Board Member Compensation Policy"* provided for compensation of the nonexecutive Board members as follows:

	Fixed annual compensation (in CHF)	Initial one-time stock options	Annual grant options
Chairman of the Board	96,000	7,000	1,500
Board members	32,000	4,000	1,000

In addition to the above, the Chairman of the Audit Committee is entitled to an additional compensation for his committee work (CHF 13,000). As a consequence of the Company's restructuring, the compensation of the Chairman of the Board deviates from the above mentioned policy. For details, see note *"Compensation to the Board and the Executive Management"* to the statutory financial statements.

CEO compensation

The Board reviews and determines the total remuneration paid to the members of Executive Management (fix and variable elements), i.e. currently, the CEO as he is the only member of Executive Management. For 2010, the fix salaries had been established according to a comparative analysis of base salaries paid within the selected peer group of international companies as described above. The variable elements consist of cash pay and/or – at the full discretion of the Board – stock options. The variable cash element may amount up to 30% of the base salary for the CEO. The incentive payments are one-time rewards for the achievement of the corporate goals which were set at the beginning of 2011 by the Board based on a recommendation made to it by the NCC. The corporate goals reflect the Company's development stage and include, among others, the achievement of strategic goals (such as product sales, partnering activities and cash flow management) and execution of projects mainly in the development area (planning, execution and results of clinical development programs, success of regulatory submissions), the maintenance of RM and corporate governance standards as well as other value creating performance indicators. The stock option element is designed as a long-term incentive to align interests of the CEO with those of the Company, and encourage the CEO to stay with the Company. Generally speaking, when granting

stock options to the CEO, the Board takes into consideration the retention power of granted stock options. The retention power is a value driven by a base salary multiple, the number of granted but yet unvested stock options, their exercise price and an assumed intrinsic value. In the year under review, the CEO continued to receive the salary he had had as CSO; the increase of his base salary compared to 2010 amounted to 1%. As indicated above, the Board decided not to pay a bonus for 2011.

By combining short- and long-term incentive elements, the Board believes that the compensation system is designed in a way that the interests of the CEO are aligned with the interests of the Company and its shareholders. The Company's compensation system does not set any unintended enticements or contain any components that could be counterproductive to the objectives of the compensation system.

The employment contract with the CEO provides for a one year's termination period. In the very specific case of a change of control and related thereto (i) a substantial change of the terms of their employment, or (ii) a dismissal without cause, the said agreements provide for a severance payment of a full year's salary, while no termination period has to be observed. Other than that, and with the exception of those set out in section on DCG 7.2, there are no change of control provisions or other severance arrangements.

For additional information, see note *"Compensations to the Board and the Executive Management"* to the statutory financial statements and note *"Related Party Transactions"* to the consolidated financial statements.

Transparency of compensation for, shareholdings of and loans to issuers domiciled abroad (DCG 5.2)

Not applicable, as the Company is domiciled in Switzerland.

Shareholders' Participation (DCG 6)

Voting rights and representation restrictions (DCG 6.1)

There are no voting rights restrictions, no statutory group clauses and hence no rules on making exceptions. As a consequence, there is neither a procedure nor a condition for their cancellation. A shareholder may be represented by his legal representative, the corporate proxy, the independent proxy, by a depositary or by another shareholder.

Statutory quora (DCG 6.2)

There are no statutory quora which differ from the applicable legal provisions.

Convocation of the Shareholders' Meeting (DCG 6.3)

There are no statutory rules on the convocation of the Shareholders' Meeting that differ from the applicable legal provisions.

Agenda rules (DCG 6.4)

The Board decides on the agenda of the Shareholders' Meeting. Shareholders with voting rights whose combined holdings represent Shares with a nominal value of at least CHF 1 million or 10% of the Company's share capital may, up to 60 days before the date of the meeting, demand that items be included in the agenda. Such a request must be in writing and must specify the items and the motions to be submitted.

Registrations in the share register (DCG 6.5)

Shareholders entered into the share register as shareholders on a specific qualifying day designated by the Board (record date), which is usually less than five business days before the Shareholders' Meeting, are entitled to attend such meeting and to exercise their votes.

Changes of Control and Defense Measures (DCG 7)

Duty to make an offer (DCG 7.1)

There are no statutory rules on "opting up" or "opting out." Should a shareholder reach the threshold of 33⅓% of all the Company's voting rights, then, pursuant to the Swiss Stock Exchange Act, it would be required to submit a public takeover offer for all outstanding Shares.

Clauses on changes of control (DCG 7.2)

The ESOP 2004, 2008 and 2010 and the BSOP 2011, under which most options to receive Shares have been granted (e.g. with the exception of those under the EIP dated November, 2006) contain clauses according to which all options granted under these plans vest immediately upon a sale of more than 50% of the Shares.

The employment contracts with the CEO and another member of senior management contain a change of control provision. Please see section on DCG 5 (Compensation, Shareholdings and Loans).

Other than that, as of December 31, 2011, agreements and plans from which members of the Board and/or the Executive Management or other members of senior management benefit or may benefit contain no clauses on changes of control.

Auditors (DCG 8)

Duration of the mandate and term of office of the lead auditor (DCG 8.1)

Ernst & Young, Basel, assumed the existing auditing engagement for Santhera's predecessor company MyoContract in 2002. The Shareholders' Meeting elects the Company's auditors for a term of office of one year. The auditor in charge is Jürg Zürcher. He assumed his responsibility in 2006.

Auditing fees and additional fees (DCG 8.2/8.3)

The following fees were charged for professional services rendered by Ernst & Young, for the twelve-month period ended December 31:

in CHF thousands	2011	2010
Audit services	234	251
Audit-related services	281	27

Audit services are defined as the standard audit work that needs to be performed each year in order to issue an opinion on the consolidated financial statements and to issue reports on the local statutory financial statements. It also includes services that can only be provided by the Group auditor and includes the verification of the implementation of new or revised accounting policies and from reporting periods 2007 onwards the audit of the Company's ICS and RM. Audit-related services include those other services provided by auditors but not restricted to those that can only be provided by the auditor signing the audit report. They comprise amounts for services in relation to general accounting matters. For reasons of good corporate governance, Santhera contracted the provision of tax and ICS/RM services to a company other than Ernst & Young.

Supervisory and control instruments pertaining to the audit (DCG 8.4)

The Board performs its supervisory and control functions towards the external auditors through the AC. In particular, the AC meets with the auditors at the end of an audit or review to discuss in depth the audit procedures, any findings made and recommendations proposed. The auditor's reports to the Board are also extensively discussed. The primary objective of the AC is to support the Board in monitoring Santhera's financial planning, reporting and auditing, ICS, RM, accounting policies and principles, tax structures and cash flow management.

Information Policy (DCG 9)

Santhera reports to its shareholders, employees, business partners and other public stakeholders in an open, transparent and timely manner. Equal treatment of all stakeholders is the guiding principle behind its partnership-based approach. In doing so, Santhera is able to promote an understanding of its objectives, strategy and business activities, and to ensure an increasing degree of awareness about Santhera. The Company has adopted a comprehensive disclosure policy to protect Santhera's interests and assets, to release material information in a timely and controlled manner, to observe the legal requirements and rules and in particular to also distinguish competencies and responsibilities of corporate and strategic disclosure and those applicable in M&S or R&D.

The most important information tools are the Shareholders' Meetings, the Annual and Interim Reports, news releases, the website www.santhera.com and corporate fact sheets.

Investors and other parties interested in subscribing to the Company's news service may do so by registering themselves on www.santhera.com/subscription.

For contact details, see reverse side of the 2011 Annual Report.

Corporate events 2012 (see also www.santhera.com/events)

– Annual Shareholders' Meeting	Monday, April 23, Basel
– Interim Report for the first half of 2012	Friday, August 31

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Contents

Consolidated Balance Sheet

as of December 31, in CHF thousands	Notes	2011	2010
Assets			
Tangible assets	5	171	1,283
Intangible assets	6	24,856	29,120
Financial assets long-term	10	361	360
Deferred tax assets	13	139	394
Noncurrent assets		**25,527**	**31,157**
Prepaid expenses and accrued income		117	173
Inventories	8	2,391	3,082
Trade and other receivables	9	593	672
Cash and cash equivalents	11	23,406	43,682
Current assets		**26,507**	**47,609**
Total assets		**52,034**	**78,766**

	Notes	2011	2010
Equity and liabilities			
Share capital	12	3,673	3,660
Capital reserves and share premium		274,012	272,315
Retained earnings		−228,104	−200,267
Treasury shares	12	−177	−177
Other components of equity		−6,420	−5,904
Total equity		**42,984**	**69,627**
Long-term finance lease liabilities	10	2,207	2,241
Pension liabilities	25	1,185	1,542
Long-term provisions	16	0	99
Total noncurrent liabilities		**3,392**	**3,882**
Trade and other payables	14	876	996
Short-term finance lease liabilities	10	34	32
Accrued expenses	15	4,514	3,749
Short-term provisions	16	234	480
Total current liabilities		**5,658**	**5,257**
Total liabilities		**9,050**	**9,139**
Total equity and liabilities		**52,034**	**78,766**

Consolidated Income Statement

for the year ended December 31, in CHF thousands	Notes	2011	2010
Net sales	20, 21	3,265	3,496
Revenue from licensing	20	0	17,113
Revenue		**3,265**	**20,609**
Cost of goods sold	21	−338	−378
Gross profit		**2,927**	**20,231**
Other operating income	22	377	752
Research and development	23, 24	−18,125	−15,690
Marketing and sales	23, 24	−2,076	−3,452
General and administrative	23, 24	−10,213	−10,442
Other operating expenses	23, 24	−103	−110
Operating expenses	**23, 24**	**−30,517**	**−29,694**
Operating result		**−27,213**	**−8,711**
Financial income	26	3,347	4,582
Financial expenses	26	−3,665	−7,454
Result before taxes		**−27,531**	**−11,583**
Income taxes	28	−307	327
Net result		**−27,838**	**−11,256**
Basic and diluted result per share (in CHF)		**−7.60**	**−3.08**

Consolidated Statement of Comprehensive Income

for the year ended December 31, in CHF thousands	Notes	2011	2010
Net result		**−27,838**	**−11,256**
Currency translation differences	27	−515	−4,306
Other comprehensive result		**−515**	**−4,306**
Total comprehensive result		**−28,353**	**−15,562**

Consolidated Cash Flows Statement

for the year ended December 31, in CHF thousands	Notes	2011	2010
Result before taxes		−27,531	−11,583
Depreciation of tangible assets	5	1,177	1,784
Reversal of depreciation on tangible assets		0	−151
Amortization and impairment of intangible assets	6	3,740	447
Expenses for share options	19, 23, 24	1,697	1,848
Change in pension liabilities	25	-357	1,161
Change in long-term provisions	16	-99	99
Change in short-term provisions	16	-246	−78
Change in deferred tax assets	13	255	−351
Taxes paid		-52	−23
Change in net working capital		1,237	−2,499
Total financial result	26	318	2,872
Interest received	26	97	109
Interest paid	26	-130	−271
Cash flow from operating activities		**−19,894**	**−6,636**
Investments in tangible assets	5	−89	−86
Disposal of tangible assets	5	24	178
Change in other financial assets	10	−1	−350
Cash flow from investing activities		**−66**	**−258**
Capital increases	12	13	6
Amortization of finance lease	10	−34	−32
Cash flow from financing activities		**−21**	**−26**
Effects of exchange rate changes on cash and cash equivalents		−295	−2,718
Net increase/(decrease) in cash and cash equivalents		**−20,276**	**−9,638**
Cash and cash equivalents at January 1		43,682	53,320
Cash and cash equivalents at December 31		**23,406**	**43,682**

Consolidated Statement of Changes in Equity

in CHF thousands	Notes	Share capital	Capital reserves and share premium	Retained earnings	Treasury shares	Translation differences	Total
Balance at January 1, 2010		**3,654**	**270,467**	**−189,011**	**0**	**−1,598**	**83,512**
Net result		0	0	−11,256	0	0	−11,256
Currency translation differences	27	0	0	0	0	−4,306	−4,306
Total comprehensive result for the period		**0**	**0**	**−11,256**	**0**	**−4,306**	**−15,562**
Share-based payment transactions	19	0	1,848	0	0	0	1,848
Capital increase from option exercise	12	6	0	0	0	0	6
Transferred treasury shares[1)]	12	0	0	0	−177	0	−177
Balance at December 31, 2010		**3,660**	**272,315**	**−200,267**	**−177**	**−5,904**	**69,627**

1) In February 2010 Santhera received from former Juvantia shareholders the equivalent of CHF 176,616 in treasury shares as pledge to cover possible financial claims from Finnish tax authorities.

Balance at January 1, 2011		**3,660**	**272,315**	**−200,267**	**−177**	**−5,904**	**69,627**
Net result		0	0	−27,838	0	0	−27,838
Currency translation differences	27	0	0	0	0	−515	−515
Total comprehensive result for the period		**0**	**0**	**−27,838**	**0**	**−515**	**−28,353**
Share-based payment transactions	19	0	1,697	0	0	0	1,697
Capital increase from option exercise	12	13	0	0	0	0	13
Balance at December 31, 2011		**3,673**	**274,012**	**−228,104**	**−177**	**−6,420**	**42,984**

1 General Information

Santhera Pharmaceuticals Holding AG (the **Company**, together with its subsidiaries **Santhera** or **Group**) is a specialty pharmaceutical company focused on the development and commercialization of products for the treatment of neuromuscular and mitochondrial diseases, an area which includes many orphan and niche indications with no current therapy.

The Company, having its primary listing of its registered shares (**Shares**) on the SIX Swiss Exchange (**SIX**), is a Swiss stock corporation and the parent company of the Group. Its purpose is to acquire, dispose and manage investments. The Company has its registered offices at Hammerstrasse 49 in CH-4410 Liestal, Switzerland.

The consolidated financial statements were approved for publication by the Board of Directors (**Board**) on February 23, 2012. They are subject to approval by the Annual Shareholders' Meeting on April 23, 2012.

2 Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of Santhera have been prepared in accordance with International Financial Reporting Standards (**IFRS**).

The consolidated financial statements are based on the financial statements of the individual Santhera companies prepared for the same reporting period using consistent accounting policies. The consolidated financial statements are prepared using the historical cost convention except for the revaluation to fair value of certain financial assets and financial liabilities.

The presentation currency is Swiss francs (**CHF**). All figures included in these financial statements and notes to the financial statements are rounded to the nearest CHF 1,000 except where otherwise indicated.

Considering Santhera's current cash position and the level of spending according to Company's budgets, the Company anticipates to continue as a going concern well into 2013.

Consolidation

Subsidiaries in which the Company has a direct or indirect controlling interest are consolidated. Control is defined as the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Control is normally evidenced when the Company owns, either directly or indirectly, more than 50% of the voting rights or potential voting rights of a company's share capital that are currently exercisable.

The consolidated financial statements of Santhera include the accounts of Santhera Pharmaceuticals Holding AG, Liestal, Switzerland, and its wholly owned subsidiaries Santhera Pharmaceuticals (Schweiz) AG, Liestal, Switzerland; Santhera Pharmaceuticals (USA), Inc., Charlestown, United States of America (**US**); Santhera Pharmaceuticals (Canada), Inc., Montréal, Canada; Santhera Pharmaceuticals (Deutschland) GmbH, Lörrach, Germany; and Oy Santhera Pharmaceuticals (Finland) Ltd, Helsinki, Finland.

The acquisition method is used to account for the acquisition of subsidiaries by the Company. The consideration transferred is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any noncontrolling interest. The excess of the consideration transferred over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

The consolidation commences from the date on which control is transferred to the Company, and subsidiaries are no longer consolidated from the date that control ceases. Intercompany balances and transactions between Group companies are eliminated. Intercompany transactions solely result from providing services, financing and selling goods to other Group companies.

The Group had no business combinations in the periods reported.

Changes in accounting policies

The accounting policies which were adopted are consistent with those of the previous year, except for those described below.

Various standards and interpretations of the IFRS have been revised or were introduced with effective date January 1, 2011, or before. The following standards did neither have an effect on accounting policies nor on reported amounts or disclosures in these financial statements:

Various	2010 Improvements to IFRSs
IAS 24	Amendment – Related Party Disclosures
IAS 32	Amendment – Classification of Rights Issues
IFRIC 14	Amendment – Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

The Group will apply the following rules for the first time as of the date stated in the respective standard. Currently being evaluated are the following relevant standards and interpretations:

IAS 1	Amendment – Presentation of Items of Other Comprehensive Income. Effective for annual periods beginning on or after July 1, 2012.
IAS 19 (Revised)	Employee Benefits. Effective for annual periods beginning on or after January 1, 2013. As of December 31, 2011, Santhera discloses net unrealized losses of TCHF 804. Applying IAS 19 (Revised), Santhera's equity might be reduced by an equivalent amount.
IAS 12	Amendment – Deferred Tax: Recovery of Underlying Assets. Effective for annual periods beginning on or after January 1, 2012.
IAS 27 (Revised)	Separate Financial Statements. Effective for annual periods beginning on or after January 1, 2013.
IAS 28 (Revised)	Investments in Associates and Joint Ventures. Effective for annual periods beginning on or after January 1, 2013.
IAS 32	Amendment – Offsetting Financial Assets and Financial Liabilities. Effective for annual periods beginning on or after January 1, 2014.

IFRS 7	Amendment – Disclosures: Transfers of Financial Assets. Effective for annual periods beginning on or after July 1, 2011.
IFRS 7	Amendment – Disclosures-Offsetting Financial Assets and Financial Liabilities. Effective for annual periods beginning on or after January 1, 2013.
IFRS 9	Financial Instruments (issued in 2009 and 2010). Effective for annual periods beginning on or after January 1, 2015.
IFRS 10	Consolidated Financial Statements. Effective for annual periods beginning on or after January 1, 2013.
IFRS 11	Joint Arrangements. Effective for annual periods beginning on or after January 1, 2013
IFRS 12	Disclosure of Interests in Other Entities. Effective for annual periods beginning on or after January 1, 2013.
IFRS 13	Fair Value Measurement. Effective for annual periods beginning on or after January 1, 2013.
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine. Effective for annual periods beginning on or after January 1, 2013.

Future changes in IFRS: IFRS are undergoing a process of revision with a view to increasing harmonization of accounting rules internationally. Proposals to issue new or revised standards, as yet unpublished, may change existing standards, and may therefore affect the accounting policies applied by Santhera in future periods. Transition rules for these potential future changes may require the Group to apply them retrospectively to periods before the date of adoption of the new standards.

Segment reporting

Santhera has one operating segment, namely the development and commercialization of products for the treatment of neuromuscular and mitochondrial diseases. The Board, the Executive Management and senior managers, being the Chief Operating Decision Makers (**CODM**), assess the reporting data and allocate resources as one segment on an aggregated consolidated level according to operating expenses by function. Santhera generates revenue from sales of Catena® for the treatment of Friedreich's Ataxia (**FA**) and licensing. Geographic revenue information is based on location of the customer or licensee.

Foreign currency translations

The consolidated financial statements are presented in CHF. The functional currency of each Santhera company is the currency of the primary economic environment in which the local entity operates. Transactions in foreign currencies are accounted for at the rates prevailing at the dates of the transaction. Translation differences from financial transactions are included in the financial result.

Gains and losses resulting from the translation of foreign currency transactions and from the adjustment of foreign currency monetary assets and liabilities at the reporting date are recognized in the income statement.

Assets and liabilities of foreign entities are translated into CHF using the balance-sheet exchange rates at year-end. Income and expenses are translated into CHF at average exchange rates. The exchange differences arising on the retranslation are accounted for in other comprehensive income/equity.

Intangible assets

Patents, licenses, trademarks and other intangible assets are capitalized as intangible assets when it is probable that future economic benefits will be generated. Such assets are in general amortized on a straight-line basis over their useful lives. Estimated useful life is the lower of legal duration and economic useful life. The estimated useful life of the intangible assets is regularly reviewed and if necessary the future amortization charge is accelerated. For pharmaceutical products, the estimated useful life normally corresponds to the remaining lifetime of their patent or orphan drug protection (up to 20 years).

Goodwill

Currently no goodwill is capitalized.

Trademarks and licenses

Currently no trademarks or licenses are capitalized.

Patents

Patents not yet available for use are not amortized, but tested for impairment annually. Once useful life can be determined, amortization starts on a straight-line basis (2 to 20 years).

IT software

Acquired IT software licenses are capitalized on the basis of the costs incurred to acquire and implement the specific software. These costs are amortized on a straight-line basis over their estimated useful lives (2 to 5 years).

Tangible assets

Tangible assets are stated at cost less accumulated depreciation and any impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset or the shorter lease term, as follows:

	Useful life
Equipment	4 to 10 years
Equipment for clinical studies	1 to 2 years
IT hardware	2 to 5 years

Impairment of assets

Assets include intangible assets not yet available for use, intangible assets with finite useful lives and tangible assets. In general and in accordance with the terms of IFRS, assets not in use are capitalized at cost in the balance sheet and reviewed for impairment at least annually. This impairment test is performed at the same time every year or upon any reporting date if deemed necessary. A change to finite useful life is accounted for as a change in an accounting estimate for the respective asset. Testing for indicators of impairment is done at the end of each reporting period.

Borrowing costs

Borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset are capitalized. All other borrowing costs are recognized as an expense in the period in which they are incurred.

Trade and other receivables

Receivables which generally have 30 days payment terms are stated at their nominal value less an allowance for any uncollectible amount if required. An allowance for doubtful debts is made when collection of the full amount is no longer probable.

Inventories

Inventories are stated at the lower of cost and net realizable value using the weighted average cost formula.

Financial assets

Generally, Santhera classifies its financial assets in the following categories:

Financial assets at fair value through profit and loss

This category has two subcategories: financial assets held for trading and those designated at fair value through profit or loss upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the reporting date. Valuation is at fair value through profit and loss. Financial assets at fair value through profit or loss are subsequently carried at fair value. Realized and unrealized gains and losses arising from changes in the fair value are included in the income statement in the period in which they arise.

Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when Santhera provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities longer than 12 months after the balance-sheet date. These are classified as noncurrent assets. Loans and receivables are measured at amortized cost using the effective interest method.

Purchases and sales of financial assets are recognized on their trade date. This is the date on which Santhera commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are de-recognized when the rights to receive cash flows from the financial assets have expired or have been transferred and Santhera has transferred substantially all risks and rewards of ownership.

Leases

Leases of assets under which Santhera essentially assumes all the rewards and risks of ownership are classified as finance leases. Finance leases are capitalized as assets and liabilities at the commencement of the lease at the fair value of the leased item or, if lower, at the present value of the minimum lease payments. The assets acquired under these contracts are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases of assets under which the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases, and payments made are charged to the income statement on a straight-line basis.

Cash and cash equivalents

This item includes cash on hand and at banks, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of new common shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Financial liabilities

Santhera classifies its financial liabilities into two categories:

Financial liabilities at fair value through profit and loss

This category includes derivatives with negative replacement values. They are initially recognized at their fair value. Any subsequent change in fair value is recognized in the income statement in the period they occur.

Other liabilities measured at amortized costs

This category principally covers debt instruments and trade and other payables. They are initially recognized at fair value and subsequently measured at amortized costs using the effective interest method. Any difference between the net proceeds received and the principal value due on redemption is amortized over the duration of the debt instrument and is recognized as part of interest expense in the income statement.

Income taxes

The income tax charge is based on profit for the year and includes deferred taxes. Deferred taxes are calculated using the liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on enacted or substantially enacted tax rates as of the balance-sheet date.

The amount of deferred tax liabilities and deferred tax assets reflects the tax consequences on the balance-sheet date of the Company's expectation of recovery or settlement of such carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are not discounted and are classified as noncurrent assets (liabilities) in the balance sheet. They are offset against each other if they relate to the same taxable entity and tax authority.

Deferred tax assets are recognized when it is probable that sufficient taxable profits will be available against which the deferred tax assets can be utilized. At each balance-sheet date, the Company reassesses unrecognized deferred tax assets and the carrying amount of deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Company conversely reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or the entire deferred tax asset to be utilized. Deferred tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Employee benefits

Post-retirement benefits

Santhera operates both defined benefit and defined contribution pension schemes.

a) Defined benefit schemes

Payments under this scheme are made directly to the pension fund for the account of each insured person. Typically, on retirement, an employee will receive an amount of the accumulated defined benefit obligation depending on several factors such as the total individual amount paid in, age and implied life expectancy. The compensation will be in the form of a lifelong pension or a lump sum payment. The scheme also covers disability as a consequence from illness and death-in-service. In certain situations, a liability arises whereby periodic payments to the fund can be either increased or exceptional payments become due.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance-sheet date less the fair value of plan assets, taking into consideration the adjustments for unrecognized actuarial gains or losses and past service costs.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses, arising from experience adjustments or from changes in actuarial assumptions, in excess of the corridor which is the larger of either a) 10% of the value of plan assets or b) 10% of the defined benefit obligation, are charged or credited to personnel expenses over the employees' expected average remaining service period.

b) Defined contribution schemes
Defined contribution schemes are also funded through direct payments for the account of each insured person. Upon retirement, an employee will receive an amount of the accumulated contributions in the form of a lifelong pension or a lump sum payment. No further obligations arise from these schemes other than the fixed periodic contributions to the plan.

Share-based compensation
Santhera has established five stock option plans, the Employee Stock Option Plan 2004 (**ESOP 2004**), the Executive Incentive Plan (**EIP**), the Employee Stock Option Plan 2008 (**ESOP 2008**), the Employee Stock Option Plan 2010 (**ESOP 2010**) and the Board Stock Option Plan 2011 (**BSOP 2011**) to align the long-term interests of the members of the Board, the Executive Management, employees and selected consultants (including scientific advisors) who are eligible to participate in the ESOP 2004, 2008 2010 and BSOP 2011 (only Board members). The EIP was only eligible to members of the Executive Management following the Company's listing on the SIX in November 2006. Options granted under all plans are equity-settled. The fair value of granted employee stock options is recognized as personnel expenses and accounted for over the relevant vesting periods of each grant in accordance with IFRS 2. Stock option plan modifications can be made and the expenses are at least recognized such, as if no terms were modified; modifications which increase the fair value of options are expensed additionally. If not agreed otherwise terminations of employment by the employer are treated as forfeiture and any previously accumulated share-based payment expenses for unvested awards are reversed.

Provisions
Provisions are recognized when Santhera has a present obligation (legal or constructive) as a result of a past event, where it is more probable than not that a cash outflow will be required to settle the obligation and where a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future outflows.

Revenue recognition
Revenue comprises the fair value of the sale of goods and services, net of value-added tax, rebates, discounts, returns and after eliminating intercompany sales. Revenue is recognized when title, risks and rewards of the products are transferred to customers.

Revenue from out-licensing
Out-licensing agreements are concluded with third parties, where the counterparty has to pay license fees. In situations where no further performance commitment exists, revenues are recognized on the earlier of when payments are received or collection is assured. Where continuous involvement for a certain period is required in the form of technology transfer or technical support, revenues are recognized over the period in question.

Revenue associated with up-front payments or performance milestones
Such revenue is recognized based on conclusion of new contracts or achievement of milestones, as defined in the respective agreements.

Revenue from royalties
Royalty payments are recognized on an accrual basis in accordance with the respective agreements.

Interest income
Interest income is recognized on a pro rata temporis basis using the effective interest method.

Research and development/intangible assets

Research and development (**R&D**) expenses are charged to the income statement as incurred. Development expenses are capitalized as intangible assets when it is probable that future economic benefits will flow to Santhera. Such intangible assets are amortized on a straight-line basis over the period of the expected benefit when the asset becomes available for use, and are reviewed for impairment at each balance-sheet date. Assets not available for use are tested annually.

3 Critical Accounting Estimates, Assumptions and Judgments

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying Santhera's accounting policies. Santhera makes estimates and assumptions concerning the future. The resulting accounting will not necessarily equal the related actual outcome. The following areas involve assumptions and estimates that can have a significant impact on the consolidated financial statements:

- Measurement and impairment testing of tangible assets (see note 5 *"Tangible assets"*)
- Measurement and impairment testing of intangible assets (see note 7 *"Impairment Testing of Intangible Assets"*)
- Personnel expenses from share-based payments in accordance with IFRS 2, i.e. estimates regarding the valuation of employee stock options (see note 19 *"Stock Option Plans"*) when granted or modified
- Actuarial valuations in the context with defined benefit pension plans where various assumptions on e.g. discount rates, expected return on assets and mortality rates, etc. bear significant uncertainties due to the long-term nature of the plans (see note 25 *"Employee Expenses and Benefits"*)

4 Exchange Rates of Principal Currencies

	Income statement in CHF average rates		Balance sheet in CHF year-end rates	
	2011	2010	2011	2010
1 euro (**EUR**)	1.2330	1.3833	1.2167	1.2468
1 US dollar (**USD**)	0.8866	1.0433	0.9396	0.9408
1 Canadian dollar (**CAD**)	0.8961	1.0126	0.9212	0.9409

5 Tangible Assets

in CHF thousands	Laboratory and other equipment	IT hardware	Leasehold improvements finance lease	Leasehold improvements	2011
Cost					
At January 1	1,457	629	2,314	540	4,940
Additions	87	2	0	0	89
Disposals	-267	0	0	0	-267
At December 31	**1,277**	**631**	**2,314**	**540**	**4,762**
Accumulated depreciation and impairment losses					
At January 1	1,190	453	1,509	505	3,657
Additions	111	91	28	8	238
Impairment	160	2	777	0	939
Disposals	-243	0	0	0	-243
At December 31	**1,218**	**546**	**2,314**	**513**	**4,591**
Net book value	**59**	**85**	**0**	**27**	**171**

On the occasion of the periodic asset test if the carrying amount exceeds the recoverable amount, the impairment of CHF 0.9 million in 2011 on "Laboratory and other equipment" and "Leasehold improvements – finance lease" was necessary as they are currently not in use as a consequence of the restructuring (see note 32 *"Effects from Restructuring"*).

in CHF thousands	Laboratory and other equipment	IT hardware	Leasehold improvements finance lease[1]	Leasehold improvements	2010
Cost					
At January 1	3,151	699	2,314	513	6,677
Additions	37	22	0	27	86
Disposals	-1,731	-89	0	0	-1,820
Exchange differences	0	-3	0	0	-3
At December 31	**1,457**	**629**	**2,314**	**540**	**4,940**
Accumulated depreciation and impairment losses					
At January 1	2,753	414	26	475	3,668
Additions	141	130	77	30	378
Impairment	0	0	1,406	0	1,406
Disposals	-1,704	-89	0	0	-1,793
Exchange differences	0	-2	0	0	-2
At December 31	**1,190**	**453**	**1,509**	**505**	**3,657**
Net book value	**267**	**176**	**805**	**35**	**1,283**

1) Finance lease consists of leasehold improvements of the new facilities in Switzerland.

On the occasion of the periodic testing if the carrying amount exceeds the recoverable amount, the impairment of CHF 1.4 million in 2010 on "Leasehold improvements – finance lease" was necessary as some parts of the assets are currently not in use as a consequence of the past year's restructuring.

The insured value of tangible assets amounted to CHF 3.0 million as of December 31, 2011 (2010: CHF 9.6 million).

6 Intangible Assets

in CHF thousands	Catena®/ Sovrima®	Capitalized development costs Catena®/ Sovrima®	Fipamezole	IT software/ patents	2011
Cost					
At January 1	22,243	3,764	3,918	460	30,385
Exchange differences	-530	0	0	0	-530
At December 31	**21,713**	**3,764**	**3,918**	**460**	**29,855**
Accumulated amortization and impairment losses					
At January 1	542	21	344	358	1,265
Additions	61	10	277	67	415
Impairment	0	0	3,297	28	3,325
Exchange differences	-6	0	0	0	-6
At December 31	**597**	**31**	**3,918**	**453**	**4,999**
Net book value	**21,116**	**3,733**	**0**	**7**	**24,856**

On the occasion of the annual testing if the carrying amount exceeds the recoverable amount, the impairment of CHF 3.3 million in 2011 on "fipamezole" was necessary since no partnering of the program was feasible and, for the time being, Santhera does not foresee further financial commitments for the program.

in CHF thousands	Catena®/ Sovrima®	Capitalized development costs Catena®/ Sovrima®	Fipamezole	IT software/ patents	2010
Cost					
At January 1	26,620	3,764	3,918	388	34,690
Additions	0	0	0	0	0
Disposals	0	0	0	-65	-65
Transfer	-137	0	0	137	0
Exchange differences	-4,240	0	0	0	-4,240
At December 31	**22,243**	**3,764**	**3,918**	**460**	**30,385**
Accumulated amortization and impairment losses					
At January 1	552	12	67	297	928
Additions	68	9	277	93	447
Disposals	0	0	0	-65	-65
Transfer	-33	0	0	33	0
Exchange differences	-45	0	0	0	-45
At December 31	**542**	**21**	**344**	**358**	**1,265**
Net book value	**21,701**	**3,743**	**3,574**	**102**	**29,120**

7 Impairment Testing of Intangible Assets

IAS 36 requires assessing an asset not available for use for impairment on an annual basis by comparing the carrying value to its recoverable amount. The recoverable amount is the higher of the fair value less cost to sell and the value in use.

Catena®/Sovrima® (INN: idebenone) and capitalized development costs

Catena®/Sovrima® and the capitalized development costs amounting to CHF 24.8 million at year-end 2011 are the primary intangible assets of Santhera and form the basis of the Catena®/Sovrima® development projects (2010: CHF 25.5 million). Movements are related to FX valuations mainly. In July 2008, a first product approval was achieved through a Notice of Compliance with Conditions in Canada by Health Canada for the treatment of symptoms of FA. Since July 2011, a market authorization application (**MAA**) for idebenone in Leber's Hereditary Optic Neuropathy (**LHON**) is under regulatory review by the European Medicines Agency (**EMA**). In addition, the compound is in three mid- to late-stage clinical development programs.

The intangible asset was split into two parts in 2008 based on the future expected revenues in each of the regions: the Canadian asset amounts to CHF 0.4 million per year-end 2011 (2010: CHF 0.5 million) and is classified as an intangible asset with finite useful life, while the asset outside Canada remains classified as an intangible asset not yet available for use with a carrying amount of CHF 20.7 million at year-end 2011 (2010: CHF 21.2 million).

Since Santhera's main intangible asset does not generate cash flows on a stand-alone basis with the exception of the proportion allocated to the Canadian market in the current year, the remaining asset was allocated to the Company which is considered to be the smallest identifiable group of assets that generates cash flows that are largely independent.

In line with IAS 36, Santhera applies the method of value in use to calculate the asset's recoverable amount. Management used the risk-adjusted Net Present Value (**rNPV**) model which is a customary model for the valuation of pharmaceutical intangibles. This method will also be applied to assess the Canadian intangible asset for impairment in case of the existence of an indicator of impairment.

IFRS requires the consideration of the relationship between market capitalization and book values, among other factors, when reviewing for indicators of impairment. As of December 31, 2011, the market capitalization of Santhera was below the book value of its equity, therefore indicating a potential impairment of intangible assets in accordance with IFRS. As of December 31, 2011, Santhera performed the annual impairment test confirming the outcome of the testing from December 31, 2010.

Sensitivity to changes in assumptions

The rNPV model considers the net cash flows over the expected lifetime of the products based on the lifetime of the underlying intellectual property or the market exclusivity granted through orphan drug protection. For the purpose of estimating these cash flows, Santhera made estimates about the expected revenues based on estimated market size and patient numbers, expected market penetration rates, product pricing and project- or product-related costs.

For the assessment of the recoverable amount of intangible assets not in use, the valuation is further based on an rNPV taking into consideration the expected cumulative probability of reaching the market. The recoverable amount of the intangible assets with finite useful life was calculated on an rNPV basis only as there is no need for such risk adjustment.

The key assumptions for the tests, as outlined in the table below, were as follows:

	2011	2010
Discount rate (WACC)	15%	15%
Market growth rate (terminal value)	0%	0%
Probability of reaching market	5 to 70%	5 to 63%
Period of projected cash flows	5 years	5 years

a) Based on the filing in Europe, the probability of reaching market in the indication LHON was increased from 63% to 70%.
b) The probability of cash flows from FA subject to regulatory approval in Europe and the US are still deemed as unlikely.
c) Cash flows from the Canadian market were considered unchanged (intangible asset with finite useful life).
d) Potential cash flows in the indication Duchenne Muscular Dystrophy (**DMD**) were appropriately reflected applying respective probability rates for an asset in Phase III clinical development.
e) Potential cash flows from MELAS syndrome and Primary Progressive Multiple Sclerosis were not considered.

The impairment test of the recoverable amount of the intangible assets performed as explained above does not result in the requirement to recognize an impairment of the carrying value of Catena®/Sovrima® and capitalized development costs.

An uncertainty remains as to whether a final and successful market registration could be achieved. Therefore, at the balance-sheet date, a respective risk of causing a future adjustment to the carrying amount of the Catena®/Sovrima® projects remains.

8 Inventories

in CHF thousands	2011	2010
Finished goods	98	112
Half-finished goods	0	70
Active pharmaceutical ingredients	2,293	2,900
Total at December 31	**2,391**	**3,082**

Inventories mainly represent the value of active pharmaceutical ingredients (**API**) for Catena®/Sovrima® which are kept by Santhera as stock for market supply, potential launch and inventory risk management purposes (security stock). For the aforementioned reasons, the API is planned to be sufficient until 2013. The consistency of the material has proven to be very stable and successful retests allow annual prolongation at the end of the minimum shelf life. During 2011, an amount of CHF 0.6 million was used for clinical trial activities and expensed as development expenses (2010: CHF 0.2 million) and CHF 0.04 million as cost of goods (2010: CHF 0.2 million).

9 Trade and Other Receivables

in CHF thousands	2011	2010
Trade receivables	459	283
Other receivables (nonfinancial)	134	389
Total at December 31	**593**	**672**

Trade receivables result from sales in Canada and the European Union (EU) (see note 20 *"Segment and Geographic Information"*). Other receivables consist mainly of amounts due from the government for tax reimbursements (VAT) and other positions (reimbursement of expenses). They are due within 30 to 120 days and bear no interest. No allowance for doubtful debts was recognized on the receivables as management estimates that no allowance is necessary as of December 31, 2011, and 2010.

10 Financial Assets and Liabilities – Short- and Long-term

In September 2009, Santhera moved into a new rental building in Switzerland. Some installations were builtin based on Santhera's specifications and such parts can only be used by Santhera without major modifications. Therefore the lease contract qualifies as a finance lease liability in accordance with IAS 17. This total financial lease liability amounted to CHF 2.2 million as of December 31, 2011 (2010: CHF 2.3 million), split into a short- (TCHF 34) and long-term (CHF 2.2 million) portion (2010: short-term TCHF 32, long-term CHF 2.2 million).

No derivative contracts were in place by the end of the reporting period. Financial assets long-term include cash deposits (with the landlord of the building in Switzerland and the government for customs clearance) in the amount of TCHF 361 (2010: TCHF 360).

11 Cash and Cash Equivalents

in CHF thousands	2011	2010
Cash at banks and on hand		
In CHF	9,461	19,375
In EUR	4,487	6,002
In USD	2,093	1,856
In CAD	931	2,076
Short-term money market deposits		
In CHF	4,001	0
In EUR	2,433	8,728
In USD	0	5,645
Total at December 31	**23,406**	**43,682**

Cash at banks earns interests at floating rates based on bank deposit rates. Some funds are kept as short-term money market deposits with a time horizon of currently up to three months at money market rates. The fair value of the entirety of these positions at year-end amounted to CHF 23.4 million (2010: CHF 43.7 million).

12 Share Capital

Ordinary share capital

As of January 1, 2010, the share capital amounted to CHF 3,654,219, divided into 3,654,219 Shares at a nominal value of CHF 1 each. During 2010, 6,219 Shares were issued from conditional capital upon the exercise of stock options under the ESOP 2004 and the EIP. As a result, as of December 31, 2010, the share capital amounted to CHF 3,660,438, divided into 3,660,438 Shares at a nominal value of CHF 1 each.

During 2011, 13,025 Shares were issued from conditional capital upon the exercise of stock options under the EIP. As a result, as of December 31, 2011, the share capital amounted to 3,673,463, divided into 3,673,463 Shares at a nominal value of CHF 1 each.

Treasury shares

In connection with the liquidation of Juvantia, acquired in 2009, Santhera received 8,028 Shares from former Juvantia shareholders. These treasury shares serve as pledge from the former owners of Juvantia for compensation of a potential tax claim related to pre-acquisition activities of Juvantia. Final tax assessment by the Finnish government is expected by end of 2012.

Authorized share capital

At the Shareholder's Meeting held on April 26, 2010, the Company's shareholders authorized the Board to increase the share capital by a maximum of CHF 1,800,000 through the issuance of 1,800,000 Shares with a nominal value of CHF 1 each any time during a period of two years ending April 26, 2012, in line with the provisions of the Swiss Code of Obligations. An increase in partial amounts is permitted. For each such increase, the Board shall determine the issue price, the type of payment, the date of issuance of new Shares, the conditions for the exercise of pre-emptive rights and the beginning date for dividend entitlement.

Conditional share capital

At the Shareholder's Meeting held on April 26, 2010, the Company's shareholders approved the removal of the requirement of the minimum exercise price of CHF 90 with regard to employee stock options that can be converted into 175,000 Shares. The Shares can be issued through the exercise of option rights which are granted according to respective regulations of the Board. The exercise price of each option to be granted shall, at the full discretion of the Board, either equal (i) the weighted average share price during the three months preceding the grant for employees outside the US and Canada, or (ii) the closing price of the Share at the grant date for employees in the US and Canada.

In addition, the shareholders approved a maximum increase of the share capital by an aggregate amount of CHF 600,000 through the issuance of a maximum of 600,000 Shares with a nominal value of CHF 1 per Share by the exercise of option and/or conversion rights which can be granted in connection with the issuance of bonds, similar obligations or other financial instruments by the Company or another Group company, and/or by the exercise of options which are granted by the Company or another Group company. In the case of the issue of bonds, similar obligations or other financial instruments linked with option and/or conversion rights, and in the case of the issue of option rights, the pre-emptive right of shareholders is excluded.

As of December 31, 2011, the Company had a conditional share capital, pursuant to the above provisions to increase the share capital by:

(i) a maximum additional amount of CHF 631,271 by issuing up to 631,271 additional Shares, under the exclusion of shareholders' pre-emptive rights, for option rights being exercised under the Company's stock option plans (see note 19 *"Stock Option Plans"*), and

(ii) a maximum amount of CHF 600,000 by issuing up to 600,000 Shares, through the exercise of warrants/options and/or notes granted in connection with bonds or similar debt instruments linked with option and/or conversion rights granted by the Company.

13 Deferred Taxes

Net deferred taxes recorded

in CHF thousands	2011	2010
Temporary differences on inventory	139	394
Deferred tax assets recognized	**139**	**394**
Temporary differences on intangible assets	3,168	3,775
Tax loss carryforwards	−3,168	−3,544
Temporary differences on pension liabilities	0	−231
Deferred tax liabilities recognized	**0**	**0**
Tax loss carryforwards	182,063	178,830
Of which recorded	−21,117	−23,627
Of which unrecorded	**160,946**	**155,203**
Expiring		
1 year	3,632	13,074
2 years	34,134	3,632
3 years	21,958	34,134
4 years	47,276	21,958
5 years	9,739	47,297
More than 5 years	33,449	25,595
Without expiration	10,758	9,513
Total unrecorded tax loss carryforwards	**160,946**	**155,203**

Due to the uncertainty surrounding the future results of operations and the uncertainty as to whether Santhera can use the loss carryforwards for tax purposes, deferred tax assets on tax loss carryforwards were only considered to the extent that they offset taxable temporary differences within the same taxable entity. As there are no temporary differences associated with investments in subsidiaries, no deferred tax liability has to be recognized. Furthermore, there are no income tax consequences for Santhera of paying a dividend to its shareholders.

14 Trade and Other Payables

in CHF thousands	2011	2010
Trade payables	823	971
Other payables (nonfinancial)	53	25
Total at December 31	**876**	**996**

All positions are noninterest-bearing and usually settled within 30 to 60 days.

15 Accrued Expenses

in CHF thousands	2011	2010
R&D programs	2,171	2,207
Liabilities to employees and severance payments[1)]	1,194	770
Accrued sales expenses	378	350
Other[2)]	771	422
Total at December 31	**4,514**	**3,749**

1) In 2011, including CHF 1.0 million for severance payments as a consequence of a restructuring
2) In 2011, including CHF 0.4 million for an onerous contract in connection with the facilities in Switzerland

16 Short- and Long-term Provisions

Short-term

in CHF thousands	Restructuring expenses	Various items	Onerous contracts	2011	2010
At January 1	0	87	393	480	558
Utilization	0	-64	393	-359	-397
Reversal	0	-23	0	-121	-150
Additions	194	40	0	234	480
Exchange differences	0	0	0	0	-11
Total at December 31	**194**	**40**	**0**	**234**	**480**

Amounts added in 2011 result primarily from provisions as a consequence of the restructuring (personnel-related expenses) in Switzerland. The position from 2010 contains mainly provisions for an onerous contract in connection with the facilities in Switzerland (see note 32 *"Effects from Restructuring"*).

Long-term

in CHF thousands	Onerous contracts	2011	2010
At January 1	99	99	0
Utilization	0	0	0
Reversal/reclass to accrued expenses	-99	-99	0
Additions	0	0	99
Exchange differences	0	0	0
Total at December 31	**0**	**0**	**99**

No long-term provisions were provided in 2011 (during 2010, long-term provisions were provided for the same onerous contract as mentioned above under short-term provisions).

17 Contingent Assets

Licensing agreement with Takeda for Sovrima® in DMD

In August 2007, Takeda Pharmaceutical Company Ltd, Osaka, Japan (**Takeda**), and Santhera entered into an agreement granting Takeda the European marketing rights to Catena®/Sovrima® in DMD. Under the terms of the licensing agreement, Santhera remains responsible for the clinical development and regulatory approval in the EU and Switzerland. Takeda obtained an exclusive license to market the drug under its brand name Sovrima® in the EU and Switzerland in DMD upon which Santhera received an up-front payment of EUR 2.0 million from Takeda. In September 2009, Santhera received a first milestone payment of EUR 5.0 million upon the randomization of the first patient into the pivotal DELOS Phase III study and is entitled to further milestone payments, each upon the acceptance of the MAA filing by the EMA and transfer of the granted marketing approval to Takeda, totaling EUR 13.0 million. In case of commercialization, Takeda will pay a total of 30% of their net sales in the EU and Switzerland which also include payments for finished goods supplied from Santhera to Takeda.

Licensing agreement with BioLineRx for MC-4R antagonists

In October 2010, Santhera and BioLineRx, Jerusalem, Israel (**BioLine**), entered into an exclusive license agreement covering Santhera's preclinical melanocortin-4 receptor (**MC-4R**) antagonists program. Under the agreement, BioLine acquires all rights to develop, sublicense and commercialize the compound. BioLine will cover all future costs of the program. Santhera will receive 22% to 25% of all BioLine's sublicensing income or royalties on future sales by BioLine.

18 Commitments and Contingent Liabilities

Commitments

Commitment for operating lease: equipment/vehicle

Santhera has a lease contract for one vehicle. The future minimum lease payments under non-cancelable operating leases are as follows:

in CHF thousands	2011	2010
Within 1 year	14	17
1 year through 5 years	0	14
After 5 years	0	0
Total at December 31	**14**	**31**

Commitment for operating lease: buildings

Santhera has lease contracts for its facilities in Liestal (Switzerland), Charlestown (US), and Montréal (Canada).

in CHF thousands	2011	2010
Within 1 year	553	765
1 year through 5 years	117	181
After 5 years	0	0
Total at December 31	**670**	**946**

Commitment for finance lease

in CHF thousands	2011 Minimum payments	2011 Present value of payments	2010 Minimum payments	2010 Present value of payments
Within 1 year	162	153	162	153
1 year through 5 years	648	534	648	534
After 5 years	3,671	1,554	3,833	1,586
Total minimum lease payments	4,481	2,241	4,643	2,273
Less amounts representing financing charges	-2,240	0	-2,370	0
Total at December 31	**2,241**	**2,241**	**2,273**	**2,273**

In case Santhera terminates the rental contract in Liestal, Switzerland, after the fixed period ending March 31, 2012, an amount of up to CHF 2.1 million will become payable for leasehold improvements. This amount is gradually reduced to CHF 1.0 million after 10 years and to CHF 0 after 30 years. In case a subsequent tenant enters into the lease contract under the same terms and conditions, no such payments would become due.

Contingent liabilities

License agreement with Institut National de la Santé et de la Recherche Médicale

Based on a license agreement between Santhera and the Institut National de la Santé et de la Recherche Médicale, Paris, France **(INSERM)**, Santhera has an obligation to make a milestone payment (TEUR 150) after approval of the first New Drug Application for Catena® in FA filed with the US Food and Drug Administration (FDA). In further consideration of the rights and licenses granted, Santhera has an obligation to pay to INSERM a running royalty equal to 3% of net sales, not to exceed TEUR 500 per year and Santhera has to pay 25% of non-royalty sublicense income received in the US and Canada.

Collaboration and license agreement with Takeda

The collaboration and license agreement with Takeda in the indication FA foresees a partial repayment of the initially received up-front payment by Santhera (in 2005) in case Santhera – despite having applied commercially reasonable efforts – does not obtain marketing approval in the EU for Sovrima® in FA in the amount of EUR 1.0 million. Under certain conditions an amount of up to EUR 2.0 million of the royalty income may not be payable by Takeda for Sovrima® in FA.

In August 2009, Takeda and Santhera established a named patient program (**NPP**) in the EU with Catena® through a third-party contractor. Under this agreement, Takeda is entitled to 75% and Santhera to 25% of the gross sales. Outside North America and the EU, Santhera established its own NPP.

Agreement with the University of Leuven

In March 2005, Santhera entered into an agreement with Katholieke Universiteit Leuven, Leuven, Belgium (**K.U. Leuven**), whereby K.U. Leuven assigned to Santhera its worldwide rights to inventions relating to the use of Catena®/Sovrima® to treat various forms of muscular-dystrophy-related disorders including DMD. Based on this agreement, Santhera has filed a patent application in major countries covering the use of Catena®/Sovrima® for the treatment of cardiomyopathy and muscle weakness in DMD.

K.U. Leuven is entitled to a success fee of up to TEUR 400 if and when Santhera commercializes any product in a major market, such as Europe, the US or Japan. In addition, in the event Santhera commercializes the product itself, K.U. Leuven is entitled to 5% royalties on net sales. In the event Santhera grants commercialization rights to a third party, K.U. Leuven will receive 15% of the consideration received by Santhera from such third party, for commercialization excluding payments made by Santhera to fund certain development work at K.U. Leuven. Santhera and K.U. Leuven agreed that K.U. Leuven will receive 15% of any consideration Takeda will make to Santhera at filing for MAA in the EU or at any later stage under their agreement signed in 2007 for marketing rights in DMD.

License agreement with Novartis

On June 30, 2007, Santhera entered into an agreement with Novartis Pharma AG, Basel, Switzerland (**Novartis**), under which it in-licensed omigapil from Novartis. Santhera intends to develop omigapil for the treatment of Congenital Muscular Dystrophies (**CMD**). Additional payments will be due to Novartis a) upon start of a pivotal clinical trial, b) upon regulatory approval in major markets, and c) after reaching certain commercialization milestones. Santhera will also have to pay royalties to Novartis calculated on net sales.

Funding agreement with Association Française contre les Myopathies
In October 2009, Santhera entered into an agreement with Association Française contre les Myopathies (**AFM**), under which Santhera received a funding of EUR 0.7 million to conduct certain preclinical studies in omigapil. In case Santhera launches omigapil in Ullrich CMD, it has to refund the amount of EUR 0.7 million. Two years after such launch, Santhera has to make a final payment of EUR 1.5 million to AFM.

Capital loans from Finnish Funding Agency for Technology and Innovation
In connection with the acquisition of Juvantia in 2009, the title of capital loans from the Finnish Funding Agency for Technology and Innovation, Helsinki, Finland (**Tekes**), were passed on to Santhera. The loans were granted by Tekes in order to develop new medicines for movement disorders in Parkinson's disease (fipamezole). Upon grant of a first marketing authorization for fipamezole in a major country as specified by the contract, EUR 2.4 million plus accrued interests would become due and payable. Another EUR 2.4 million plus accrued interests would become due and payable one year after such first marketing authorization. Should no marketing authorization be granted, no payments will be due to Tekes under these capital loans.

Capital loans from Finnish National Fund for Research and Development
In connection with the acquisition of Juvantia in 2009, the title of capital loans from the Finnish National Fund for Research and Development, Helsinki, Finland (**Sitra**), were passed on to Santhera. The loans were granted by Sitra in order to develop new medicines for movement disorders in Parkinson's disease (fipamezole). Upon grant of a first marketing authorization for fipamezole in a major country as specified by the contract before December 31, 2014, EUR 0.2 million will be due. Another EUR 0.2 million would become due and payable one year after such first marketing authorization. Should no marketing authorization be granted, no payments will be due to Sitra under these capital loans and the respective contingent liabilities would lapse.

Agreement with Orion
In connection with the acquisition of Juvantia in 2009, Santhera was assigned the license agreement with Orion Corporation Orion Pharma, Espoo, Finland (**Orion**), on certain US patent rights on fipamezole. Under this license agreement, Santhera shall pay to Orion 1% on the US net sales and a limited royalty of up to USD 4.4 million based on future development and sales milestones received.

Final tax assessment of Juvantia
In connection with the liquidation of Juvantia and the transfer of intellectual property into Switzerland, the Company faces an uncertain tax position in Finland in the maximum amount of TEUR 250. An initial tax assessment in 2010 confirmed no such tax liability would become due and payable in line with the filed tax declaration. Final tax assessment by the Finnish government is expected by end of 2012.

Contracts for clinical development

Santhera has entered into contracts for clinical development with contract research organizations and clinics. Santhera compensates these parties for services provided on a regular basis. It has the right to terminate the agreements at any time at its sole discretion. In case of early termination, Santhera must pay for all cost incurred by the respective counterparty up to termination. The expected payments for these contracts are as follows:

in CHF thousands	2011	2010
Within 1 year	2,982	5,184
1 year through 5 years	1,584	1,161
After 5 years	0	0
Total at December 31	**4,566**	**6,345**

19 Stock Option Plans

Santhera has established stock option plans to align the long-term interests of the members of the Board, the Executive Management, employees and consultants. Options granted under the stock option plans are equity-settled.

Executive Incentive Plan

In November 2006, under the EIP, the members of the Executive Management were granted stock options to acquire 101,065 Shares, as a management incentive. Each of these stock options entitles its holder to purchase one Share at an exercise price of CHF 1. The vesting period of the options was one year. At the end of the option term, i.e. after a period of 10 years as from the grant date, all unexercised stock options shall expire without value. The plan contains provisions in respect of adjustment or cancellation of stock options upon termination of employment, disloyalty and severe breach of duties, retirement, death, disability and certain corporate transactions. Subject to the provisions of the EIP, vested stock options of employees leaving the Company in good faith do not lapse. The EIP is administered under the responsibility of the Board. No further grants can be made under the EIP.

Options outstanding, exercised or forfeited under the EIP

All options under the EIP were granted to the four members of the Executive Management as of November 8, 2006, and had a vesting period of 12 months (see note 30 *"Related Party Transactions"*). 13,025 options under the EIP were exercised in 2011 (2010: 3,508 options). The remaining number of options outstanding from the EIP is 59,410 as of December 31, 2011 (2010: 72,435 options).

Employee Stock Option Plans

The Company adopted the ESOP 2004, ESOP 2008 and ESOP 2010 to provide incentives to members of the Board, the Executive Management, employees and consultants helping to ensure their commitment to Santhera over the long term. Since January 1, 2010, new grants have been allocated under the ESOP 2010. Option grants are made from time to time at the discretion of the Board or as contractually agreed with senior employees. The ESOP 2004, ESOP 2008 and ESOP 2010 contain customary provisions in respect of the adjustment or cancellation of stock options upon termination of employment, retirement, death, disability and certain corporate transactions. All stock option plans are administered under the responsibility of the Board. Each stock option entitles its holder to purchase one Share of the Company at an exercise price defined to be either a) equal to the volume-weighted average share price in the preceding calendar quarter for Swiss employees, or b) the closing share price on the SIX at each grant date for employees in the US and Canada only. In general, 50% of the stock options shall vest on the second anniversary, 25% on the third

anniversary and the remaining 25% on the fourth anniversary of the grant date. At the end of the option term, i.e. after a period of 10 years as from the grant date, unexercised stock options shall expire without value. Subject to the provisions of the ESOP 2004, vested stock options of employees leaving the Company in good faith do not lapse. Under the ESOP 2008 and ESOP 2010 vested stock options of employees leaving the Company in good faith will expire six months after the termination date of the employment. Unvested stock options of employees leaving the Company are forfeited under all stock option plans.

As of December 31, 2011, an amount of 130,210 stock options (2010: 122,453) are available for future grants.

Options outstanding, exercised, forfeited or expired under ESOP 2004, ESOP 2008 and ESOP 2010
As of December 31, 2011, 0 stock options under the ESOP 2004 were exercised (2010: 2,711), 117 stock options were forfeited (2010: 10,800), and 890 options were expired (2010: 0); under ESOP 2008, 11,025 stock options were forfeited (2010: 16,525), and 0 options were expired (2010: 6,051); under ESOP 2010, 14,275 stock options were forfeited (2010: 475). The number of options outstanding from the ESOP 2004, ESOP 2008 and ESOP 2010 is 435,851 as per December 31, 2011 (2010: 449,408).

Board Stock Option Plan

In January 2011, the Company adopted the BSOP 2011 to provide incentives to members of the Board. Since January 1, 2011, new grants have been allocated under this plan. The allocation of grants is done according to the Board compensation on a current basis. The plan contains the same customary provisions as under the ESOP plans described above. Each stock option entitles its holder to purchase one Share of the Company at an exercise price defined to be either a) equal to the volume-weighted average share price in the preceding calendar quarter for Swiss and EU Board members, or b) the closing share price on the SIX at each grant date for US or Canadian Board members. In general 100% of the stock options shall vest on the first anniversary of the grant date. At the end of the option term, i.e. after a period of 10 years as from the grant date, unexercised stock options shall expire without value. Vested stock options of Board members leaving the Board in good faith will expire six months after the termination date of them being a member of the Board. Unvested stock options of Board members leaving the Board are forfeited.

Options outstanding under BSOP 2011
As of December 31, 2011, the number of options outstanding from the BSOP 2011 is 5,800 (2010: 0).

Fair value calculations for stock options granted under ESOP 2010 and ESOP 2011

The fair value of stock options is determined at each grant date by using the Hull-White option pricing model. The calculation of the option value was performed by applying the following parameters:

	2011	2010
Market price of stock	CHF 4.65 to 9.15	CHF 7.00 to 29.70
Exercise prices	CHF 5.60 to 7.15	CHF 8.30 to 27.85
Expected volatility[1)]	60%	60%
CHF risk-free interest rate	1.00 to 1.93% p.a.	1.37 to 2.01% p.a.
Option term[2)]	10 years	10 years
Expected dividend yield	0%	0%

1) The expected volatility was determined on the basis of the historical volatility of relevant equity indices and implied volatilities of warrants on shares of selected biotech companies. The weighted average fair value of the stock options granted during the reporting period was CHF 3.89 (2010: CHF 6.82).
2) After expiration of the vesting period, the stock options become American style options and may be exercised any time until the end of the option term. The option pricing model takes into consideration certain assumptions about potential early exercises. In 2010, a total of 4,000 options were exceptionally granted with 50% vesting after one year and 50% vesting after two years; another 4,000 options were granted with ⅓ vesting each after one, two and three years. Stock options under BSOP 2011 vest with 100% after one year.

Number of stock options outstanding and exercisable

Number of options	2011	2010
Outstanding at January 1	**521,843**	**416,663**
Granted	18,550	145,250
Exercised[1)]	-13,025	-6,219
Forfeited	-25,417	-27,800
Expired	-890	-6,051
Outstanding at December 31	**501,061**	**521,843**
Exercisable at December 31	**376,978**	**237,491**

1) The average closing share price of the trading days when options were exercised during the reporting period 2011 was CHF 6.88 (2010: CHF 20.03).

The value of stock options granted is recognized as personnel expenses over their vesting period. In 2011, stock option grants resulted in personnel expenses of TCHF 1,697 (CHF 330 related to R&D, TCHF 225 related to Marketing & Sales (**M&S**) and TCHF 1,142 to General & Administration [**G&A**]) and in 2010, such grants resulted in personnel expenses of TCHF 1,848 (TCHF 491 related to R&D, TCHF 318 related to M&S and TCHF 1,039 to G&A).

Out of the above mentioned personnel expenses, TCHF 432 were expensed for accelerated vesting in course of the restructuring in 2011 (see note 32 *"Effects from Restructuring"*). There was no accelerated vesting in 2010.

Terms of options outstanding at December 31, 2011

Exercise price range for options (CHF)	Number outstanding	Weighted average remaining contractual life (years)	2011 Number exercisable	Number outstanding	Weighted average remaining contractual life (years)	2010 Number exercisable
1.00	62,020	4.75	62,020	75,935	5.71	75,935
from 5.26 to 10.35	133,150	6.19	45,725	125,375	9.76	0
from 24.45 to 30.10	105,675	4.92	75,017	120,200	8.66	4,000
from 44.45 to 46.00	31,975	3.25	28,975	31,975	8.07	0
from 59.44 to 68.30	146,338	2.92	146,338	146,338	4.01	142,428
from 72.70 to 114.50	21,903	5.69	18,903	22,020	6.69	15,128
Total	**501,061**	**4.58**	**376,978**	**521,843**	**7.07**	**237,491**

20 Segment and Geographic Information

Segment information

Santhera operates in one operating segment, the discovery, development and commercialization of specialty niche products for the treatment of neuromuscular and mitochondrial diseases. The Board, the Executive Management and senior managers, being the CODM, assess the reporting data and allocate resources as one segment on an aggregated consolidated level according operating expenses by function. Santhera generates revenue from sales of Catena® for the treatment of FA and LHON. Geographic revenue information is based on location of the customer.

Geographic information

Net sales: in CHF thousands	2011	2010
North America	2,938	3,229
EU	327	267
Revenue from licensing:		
EU	0	17,113
Total	**3,265**	**20,609**
Noncurrent assets (excluding financial instruments and deferred taxes):		
EU (Germany)	21,114	21,692
Switzerland	3,911	8,702
North America	2	9
Total	**25,027**	**30,403**

In 2011, net sales of Catena® amounted to CHF 3.0 million in Canada and to CHF 0.3 million in the EU through the NPP (2010: CHF 3.2 million and CHF 0.3 million, respectively). There was no revenue received from licensing in 2011 (2010: up-front payment from Ipsen [CHF 17.1 million or EUR 13.0 million]).

21 Gross Profit Breakdown

in CHF thousands	2011	2010
Net sales	3,265	3,496
Revenue from licensing	0	17,113
Of which up-front and milestone payments	0	17,113
Revenue	**3,265**	**20,609**
Cost of goods sold (**COGS**)	−338	−378
Of which amortization of intangibles	−65	−71
Gross profit	**2,927**	**20,231**

22 Other Operating Income

This position consists primarily of reimbursements for development expenses in CMD from AFM, gains from disposal of assets and income from a scientific program.

23 Operating Expenses by Function

in CHF thousands	2011	2010
Research (preclinical)	-2,517	-3,933
Development	-15,608	-11,757
R&D expenses	**-18,125**	**-15,690**
Of which non-cash-relevant expenses for share-based payments	-330	-491
Of which non-cash-relevant expenses for pension fund	168	-518
M&S expenses	**-2,076**	**-3,452**
Of which non-cash-relevant expenses for share-based payments	-225	-318
Of which non-cash-relevant expenses for pension fund	14	-34
Business development and licensing	-633	-1,654
Finance, management and administration	-9,580	-8,788
G&A expenses	**-10,213**	**-10,442**
Of which non-cash-relevant expenses for share-based payments	-1,142	-1,039
Of which non-cash-relevant expenses for pension fund	175	-609
Other operating expenses	**-103**	**-110**
Total operating expenses	**-30,517**	**-29,694**

Amortization of intangible assets is recognized in COGS, R&D and G&A expenses.

24 Operating Expenses by Nature

in CHF thousands	2011	2010
External R&D expenses	-9,081	-7,504
Patent and license expenses	-534	-629
Marketing expenses	-551	-905
Employee expenses	-11,813	-14,250
Of which non-cash-relevant expenses for share-based payments	-1,697	-1,848
Of which non-cash-relevant adjustments of pension fund	357	-1,161
G&A expenses	-2,884	-3,393
Depreciation, amortization and impairment	-4,852	-2,009
Lease expenses	-699	-894
Other operating expenses	-103	-110
Total operating expenses	**-30,517**	**-29,694**

25 Employee Expenses and Benefits

Employee expenses

in CHF thousands	2011	2010
Wages and salaries	-8,942	-9,696
Social security and other personnel-related expenses[1]	-1,174	-2,706
Of which non-cash-relevant adjustments of pension fund	357	-1,161
Share-based-payments	-1,697	-1,848
Total employee costs	**-11,813**	**-14,250**
Average number of full-time equivalents[2]	**43.0**	**47.5**
Full-time equivalents at year-end	**33.0**	**44.7**
Total headcount at year-end	**35**	**47**

1) Thereof TCHF 41 was expensed for defined contribution plans in North America in 2011 (2010: TCHF 71).
2) For the calculation of full-time equivalents, only employees with part-time and full-time permanent working contracts and no employees working on a temporary or hourly, nonpermanent basis are taken into consideration.

Termination benefits

In 2011, termination benefits from restructuring of TCHF 594 were paid in cash and TCHF 1,191 were expensed in 2011, but are to be paid in cash in 2012. In 2011, TCHF 432 were expensed for accelerated vesting of employee stock options. In 2010, termination benefits in cash of TCHF 4 were paid and there were no expenses for stock options (see note 32 *"Effects from Restructuring"*).

Pension plan

In accordance with the Swiss pension fund law, all employees of Santhera Pharmaceuticals Holding AG and Santhera Pharmaceuticals (Schweiz) AG, both in Liestal, Switzerland, have to be affiliated with a collective independent pension fund. In accordance with IAS 19 these plans qualify for defined benefit plans. The plans provide for retirement benefits as well as benefits in case of disability and death. Contributions to the plans are such that the employee contributes 40% and the employer 60%, respectively. Contributions are computed as percentage of the salary, depending on age.

An independent actuary has performed the respective calculations as required by IAS 19:

Changes in defined benefit obligations

in CHF thousands	2011	2010
Present value of obligation, January 1	**9,384**	**6,673**
Current employer service cost	676	592
Interest cost	169	217
Employee contributions	317	530
Benefits paid/transfer payments	0	−738
Past service cost	0	1,087
Insurance premiums	−174	−318
Plan settlement	−1,766	0
Plan curtailment	−840	0
Actuarial (gain)/loss on obligation	−356	1,341
Present value of obligation, December 31	**7,410**	**9,384**

Changes in plan assets

in CHF thousands	2011	2010
Fair value of assets, January 1	**6,361**	**6,070**
Expected return on assets	124	206
Employer contributions	573	530
Employee contributions	317	530
Benefits paid/transfer payments	0	−738
Insurance premiums	−174	−318
Plan settlement	−1,766	0
Actuarial gain/(loss) on assets	−14	81
Fair value of assets, December 31	**5,421**	**6,361**

Amounts recognized in the income statement

in CHF thousands	2011	2010
Current employer service cost	676	592
Interest cost	169	217
Expected return on plan assets	−124	−206
Amortization of net (gain)/loss inclusive paragraph 58A	53	0
Past service costs	0	1,087
Settlement and curtailment (gain)/loss recognized	−557	0
Company's net periodic pension cost	**217**	**1,690**

Amounts recognized in the balance sheet

as of December 31, in CHF thousands	2011	2010
Present value of defined benefit obligations	7,410	9,384
Fair value of plan assets	−5,421	−6,361
Present value of net obligation (asset)	**1,989**	**3,023**
Net unrecognized actuarial (loss)/gain	−804	−1,482
Pension liability (asset) recognized in the balance sheet	**1,185**	**1,542**

History of experience adjustments

as of December 31, in CHF thousands	2011	2010	2009	2008	2007
Present value of defined benefit obligations	7,410	9,384	6,673	8,815	6,860
Fair value of plan assets	−5,421	−6,361	−6,070	−8,266	−6,521
Deficit/(surplus)	**1,989**	**3,023**	**603**	**549**	**339**
Experience adjustments on plan liabilities (gain [+]; loss [−])	135	−507	186	−270	−155
Experience adjustments on plan assets (gain [+]; loss [−])	−14	81	−56	−71	17
Actual return on assets	110	287	282	214	155

The expected contributions for fiscal year 2012 amount to approximately TCHF 523 (2011: TCHF 699).

Plan assets

as of December 31, in %	2011 Expected allocation	2010 Expected allocation
Equity securities	2.3	19.2
Debt securities	75.3	50.2
Real estate	17.4	9.3
Other[1)]	5.0	21.3
Total[2)]	**100.0**	**100.0**

1) This includes mortgage loans, hedge funds and liquidity.
2) All amounts are insurance assets.

Expected returns on plan assets are based on market expectations and amount to 2.5% as per December 31, 2011 (2010: 3.3%). There are no investments in Shares of Santhera.

The principal actuarial assumptions used to calculate the net liability and net periodic pension cost were as follows:

in %	2011	2010
Discount rate	2.50	2.50
Expected return on plan assets	2.50	3.30
Expected future salary increases	1.50	1.50
Expected future pension increases	0.00	0.00
Expected long-term credited interest rate	2.50	2.50

26 Financial Income / Expenses

Financial income

in CHF thousands	2011	2010
Interests on cash and cash equivalents	97	109
Realized and unrealized foreign exchange gains	3,250	4,473
Total	**3,347**	**4,582**

Financial expenses

in CHF thousands	2011	2010
Interest expenses	−11	−22
Interest expenses for finance lease	−119	−249
Realized and unrealized foreign exchange losses	−3,535	−7,183
Total	**−3,665**	**−7,454**

27 Currency Translation Differences

Currency translation differences derive from currency valuation differences from investments in subsidiaries and their assets and liabilities. The loss of CHF 0.5 million in 2011 is primarily related to the valuation of intangible assets denominated in EUR (2010: CHF 4.3 million).

28 Income Taxes

in CHF thousands	2011	2010
Current income tax expense	−52	−23
Deferred tax income/(expense)	−255	350
Total	**−307**	**327**

The following is a theoretical reconciliation of the income taxes calculated at the Group's expected effective income tax rate:

in CHF thousands	2011	2010
Result before taxes	−27,531	−11,583
Tax income of applicable tax rate of 15.0% (previous year: 15.0%)[1]	4,130	1,737
Effect of tax rate change	76	215
Other reconciling items	244	0
Unrecognized deferred taxes on tax loss carryforwards	−4,143	−2,279
Effective tax income/(expense)	−307	327
Effective tax rate	1.1%	−2.8%

1) The tax rate of 15% represents the Group's expected long-term tax rate based on rates applicable in those jurisdictions where taxable income should be generated in the future.

According to currently applicable Swiss tax law, the period to offset tax loss carryforwards against taxable profit is limited to seven years. According to currently applicable German tax law, tax loss carryforwards can, besides other conditions, be offset against taxable profit for an unlimited period but only to an amount of EUR 1.0 million and in addition for 60% of further amounts beyond this threshold per annum.

29 Earnings per Share

Basic earnings/loss per share is calculated by dividing the net profit/net loss attributable to equity holders by the weighted average number of Shares issued and outstanding during the reporting period, excluding shares held as treasury shares.

	2011	2010
Net result attributable to equity holders (in CHF)	–27,837,704	–11,255,578
Weighted average number of Shares issued and outstanding	3,665,222	3,659,364
Basic and diluted result per Share (in CHF)	**–7.60**	**–3.08**

For the years ended December 31, 2011 and 2010, basic and diluted result per share is based on the weighted average number of Shares issued and outstanding and excludes Shares to be issued upon the future exercise of employee stock options or warrants, as they would be anti-dilutive. In case Santhera shows a profit in the future, options may have a dilutive effect on the net profit per Share and will need to be considered for the purpose of this calculation.

30 Related Party Transactions

Board of Directors and Executive Management compensation

Total compensation of Board of Directors and Executive Management

in CHF thousands	2011	2010
Short-term benefits (wages and salaries/Board compensation)	1,542	1,960
Post-employment benefits (pension fund contributions)	249	112
Other long-term benefits	0	0
Termination benefits	1,175	0
Share-based payment expenses (accelerated vesting from restructuring)[1]	335	0
Share-based payment expenses (fair value according to IFRS 2)[1]	606	808

1) Fair values consist of option grants and modifications of existing grants from 2011 and 2010, respectively, as well as option grants from earlier years whose vesting periods include the reporting periods. Employee stock options are expensed over their vesting periods in accordance with IFRS 2, and the fair values included in above table are derived from the disclosed fair values of issued stock options as accounted for in the consolidated statement of changes in equity.

Executive Management compensation

in CHF thousands	2011	2010
Wages and salaries, inclusive variable compensation	1,298	1,676
Termination benefits	1,175	0
Stock option grants (number)	0	61,000

In 2011, the highest remuneration among the Executive Management was paid to Klaus Schollmeier, Chief Executive Officer (**CEO**) until September 30, 2011. He received a gross compensation (including termination benefits, payable in 2012) of TCHF 1,068 and no stock options (2010: TCHF 511 and 22,000 stock options).

Board of Directors compensation

in CHF thousands	2011	2010
Compensation fix	244	284
Termination benefits	0	0
Stock options (number)	5,500	12,000

In 2011 and 2010, the highest compensation to a member of the Board was paid to Michael Lytton, Chairman until September 30, 2011. In 2011, Mr Lytton received a gross cash compensation of TCHF 72 and 1,500 stock options (2010: TCHF 96 and no stock options).

Transactions with members of the Board and Executive Management

There are no loans outstanding or guarantee commitments granted to members of the Board and Executive Management. Mr Rink renders independent advisory and consulting services to the Company. As remuneration, Mr Rink is entitled to a flat consulting fee of TEUR 20 per year. As per September 30, 2011, this consultancy arrangement was temporarily suspended; it can be terminated by either party upon one month's prior written notice without cause.

Shareholdings of members of the Board and Executive Management

The total number of stock options held by the members of the Board amounted to 137,118 as of December 31, 2011 (2010: 43,000 stock options). By the end of 2011, the members of the Board held 2,960 Shares (2010: 3,030 Shares).

The total number of stock options held by the Executive Management amounted to 65,039 as of December 31, 2011 (2010: 289,609 stock options). As per December 31, 2011, the members of the Executive Management held 14,613 Shares (2010: 16,543 Shares).

The table below sets forth the number of stock options and Shares individually held or controlled by members of the Board and members of the Executive Management:

Name as of December 31	2011 Total number of Shares	2011 Total number of stock options	2010 Total number of Shares	2010 Total number of stock options
Board				
Klaus Schollmeier, Chairman[1]	930	114,118	930	114,118
Jürg Ambühl	800	5,000	800	4,000
Martin Gertsch	1,230	9,000	1,230	8,000
Timothy Rink	0	9,000	0	8,000
Hans Peter Hasler[2]	–	–	0	8,000
Michael Lytton[3]	–	–	0	7,000
Bernd Seizinger[4]	–	–	1,000	8,000
Executive Management				
Thomas Meier, CEO[5]	14,613	65,039	14,613	65,039
Barbara Heller[6]	–	–	1,000	64,678
Helmut Kessmann[7]	–	–	0	45,774
Klaus Schollmeier[8]	see above			

1) Chairman of the Board since October 1, 2011
2) Board member and Vice Chairman until September 30, 2011
3) Board member and Chairman until September 30, 2011
4) Board member until September 30, 2011
5) CEO since October 1, 2011
6) Chief Financial Officer until October 31, 2011
7) Chief Business Officer until October 31, 2011
8) CEO until September 30, 2011

In 2011, 13,025 stock options were exercised by the members of the Executive Management (2010: 3,508 stock options).

The table below shows the total number of options granted to the members of the Board in the three preceding years and the respective exercise prices (including former members of the Board):

Year of grant	Total number of options	Exercise prices in CHF
2008	4,000	68.30
2009	8,000	44.45
2009	7,000	46.00
2010	6,000	24.45
2010	2,000	25.00
2010	4,000	27.85
2011	1,000	9.40
2011	1,000	8.55
2011	1,000	7.90
2011	2,500	7.36

The table below shows the total number of stock options granted to the members of the Executive Management in the three preceding years and their respective exercise prices (including former members of the Executive Management):

Year of grant	Total number of options	Exercise prices in CHF
2008	12,000	77.50
2009	16,000	44.45
2009	40,000	28.20
2010	61,000	9.45
2011	0	0

The detailed disclosures regarding executive remuneration that are required by Swiss law are included in the notes to the financial statements of Santhera Pharmaceuticals Holding AG.

31 Risk Management Objectives and Policies

Santhera Pharmaceuticals Holding AG maintains a Group-wide corporate risk management system consisting of the areas corporate governance, financial internal controls and quality control/quality assurance.

In a semiannual bottom-up process, operational corporate risks are identified and their likelihood and impact assessed (gross risks). Out of a pool of these identified risks, the Company defines corporate key risks. By defining and undertaking appropriate measures these corporate key risks are managed accordingly to either reduce or avoid such risk (net risk). The result of this process is a risk report which is assessed and approved by the Audit Committee (**AC**) generally on a semiannual basis (in 2011 only annually) and by the Board on an annual basis. The corporate key risks are assessed on an ongoing basis by the Executive Management at its regular meetings, additional key risks are being discussed and measures identified if required.

Those risks as identified within the area of accounting and financial reporting as well as related control processes are further covered by the Company's Group-wide internal control system.

Santhera conducts R&D activities primarily in Switzerland, the EU and the US and is exposed to a variety of financial risks, such as, but not limited to, foreign exchange rate risk, credit risk, liquidity risk, cash flow and interest rate risk. Part of Santhera's overall risk management focuses on financial risks and the unpredictability of financial markets seeking to minimize potential adverse effects on the financial performance of the Group. Special guidelines and policies approved by the Board exist for overall risk management, financial internal controls and treasury management and are monitored by the Executive Management and the AC on a regular basis. The risk of foreign exchange rate fluctuations on the expenses is partly managed by entering into foreign exchange derivative contracts. In accordance with the relevant treasury guidelines, Santhera only concludes contracts with selected high-quality financial institutions of good reputation and is not allowed to engage in speculative transactions. In addition, Santhera's treasury guidelines currently limit the Company to engage in money market deposits or similar instruments with a maturity beyond 12 months.

Foreign exchange rate risk

Santhera holds cash amounts in four major currencies CHF, USD, EUR and CAD to cover the majority of future expected expenses. In addition, in order to reduce its foreign exchange rate exposure, Santhera occasionally enters into derivative currency contracts (forwards, options, structured derivatives) to hedge against additional major foreign currency exchange rate fluctuations. Evaluations based on market values were performed regularly. Any fair value changes of such currency positions are recorded accordingly in the income statement. Santhera's primary exposure to financial risk is due to fluctuation of exchange rates between CHF, USD, EUR and CAD.

The future expected purchases in each USD, EUR and CAD should be covered until the end of 2012 by cash and cash equivalents held in these respective currencies. No derivative currency contracts are outstanding as of December 31, 2011 and 2010.

The following table demonstrates the sensitivity to a reasonable possible change in USD, EUR and CAD exchange rate, with all other variables held constant, of the Group's result before taxes. There is no impact on the Group's equity.

	Increase/decrease foreign currency rate	Effect on result before taxes in CHF thousands
USD positions		
2011	+5%	79
	-25%	-397
2010	+25%	1,751
	−5%	−350
EUR positions		
2011	+10%	664
	-15%	-996
2010	+20%	2,884
	−5%	−721
CAD positions		
2011	+10%	177
	-20%	-354
2010	+20%	588
	−5%	−147

Interest rate risk

Santhera earns interest income on cash and cash equivalents and its profit and loss may be influenced by changes in market interest rates. Santhera is either holding its cash on deposit/current accounts or investing cash through money market instruments in line with its treasury guidelines to follow its financial needs over time.

The following table demonstrates the sensitivity to a reasonable change in interest rates, with all other variables held constant, of the Group's result before taxes. There is no impact on the Group's equity.

2011	Increase/decrease in basis points	Effect on result before taxes in CHF thousands
CHF	+50	67
CHF	-50	-67
USD	+50	10
USD	-50	-10
EUR	+50	35
EUR	-50	-35
CAD	+50	5
CAD	-50	-5

2010	Increase/decrease in basis points	Effect on result before taxes in CHF thousands
CHF	+50	97
CHF	−50	−97
USD	+50	74
USD	−50	−74
EUR	+50	38
EUR	−50	−38
CAD	+50	10
CAD	−50	−10

Credit risk

Santhera has a certain concentration of credit risk. Short-term investments are invested as cash on deposit or in low-risk money market funds, i.e. money market accounts with government-backed corporate banks, top-tier categorized banks or S&P A-1 rated money market investment instruments or similar ratings. No investment or contract with any single counterparty, except cash on deposit subject to the criteria above, comprises more than 20% of cash and cash equivalents at the date of investment.

Santhera has policies in place to ensure that sales of products or entered partnerships are made to customers or with partners with an appropriate credit history and a commitment to ethical business practices. The maximum credit risk exposure is limited to the carrying amount of its financial assets including derivatives.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents. Currently, the Company is financed through equity and there is no funding through debt instruments. Santhera's treasury calculates on a rolling basis the needs for aligning the current expenses against the need for optimized financial investments.

Contractual undiscounted cash flows

Year ended December 31, 2011 in CHF thousands	On demand	Less than 3 months	3 to 12 months	1 to 5 years	After 5 years	Total	Book value
Accrued expenses	0	3,604	910	0	0	4,514	4,514
Financial liabilities	0	41	121	648	3,671	4,481	2,241
Trade payables	0	824	0	0	0	824	824
Total	**0**	**4,469**	**1,031**	**648**	**3,671**	**9,819**	**7,579**

Contractual undiscounted cash flows

Year ended December 31, 2010 in CHF thousands	On demand	3 months	ess than 12 months	3 to 1 to 5 years	After 5 years	Total	Book value
Accrued expenses	0	3,138	611	0	0	3,749	3,749
Financial liabilities	0	41	122	648	3,832	4,643	2,274
Trade payables	0	971	0	0	0	971	971
Total	**0**	**4,150**	**733**	**648**	**3,832**	**9,363**	**6,994**

Categories of financial instruments

Year ended December 31, 2011, in CHF thousands	Book value	Loans and receivables	Financial assets at FVtPL[1]	Other liabilities at amortized cost	Financial liabilities at FVtPL[1]
Assets					
Financial assets long-term	361	361	0	0	0
Financial assets short-term	0	0	0	0	0
Trade receivables	459	459	0	0	0
Other receivables	56	56	0	0	0
Cash and cash equivalents	23,406	23,406	0	0	0
Total	**24,282**	**24,282**	**0**	**0**	**0**
Liabilities					
Long- and short-term debt	0	0	0	0	0
Financial liabilities long-term	2,207	0	0	2,207	0
Trade payables	824	0	0	824	0
Financial liabilities short-term	34	0	0	34	0
Total	**3,065**	**0**	**0**	**3,065**	**0**

1) Fair value through profit and loss

Year ended December 31, 2010, in CHF thousands	Book value	Loans and receivables	Financial assets at FVtPL[1]	Other liabilities at amortized cost	Financial liabilities at FVtPL[1]
Assets					
Financial assets long-term	360	360	0	0	0
Financial assets short-term	0	0	0	0	0
Trade receivables	283	283	0	0	0
Other receivables	206	206	0	0	0
Cash and cash equivalents	43,682	43,682	0	0	0
Total	**44,531**	**44,531**	**0**	**0**	**0**

Year ended December 31, 2010, in CHF thousands	Book value	Loans and receivables	Financial assets at FVtPL[1]	Other liabilities at amortized cost	Financial liabilities at FVtPL[1]
Liabilities					
Long- and short-term debt	0	0	0	0	0
Financial liabilities long-term	2,241	0	0	2,241	0
Trade payables	971	0	0	971	0
Financial liabilities short-term	32	0	0	32	0
Total	**3,244**	**0**	**0**	**3,244**	**0**

1) Fair value through profit and loss

The fair values of all financial instruments approximate their carrying amounts.

Capital management

The first priority of Santhera's capital management is to provide adequate cash funds to ensure the financing of successful development and marketing activities so that future profits can be generated by gaining marketing authorization approvals for pharmaceutical products. As a company with currently one product on a smaller market, the capital management continues to be focused on the cash and cash equivalents position and is governed by specific Group treasury guidelines.

The funds raised in various private financing rounds, the initial public offering in 2006, the private placement in 2008 as well as the funds generated through product sales and revenue from licensing ensure that the Group continues as a going concern.

No changes in goals and policies of the treasury management have been made during the past two reporting years.

32 Effects from Restructuring

In August 2011, Santhera announced that it intends to concentrate its financial and human resources on Catena® and the related nonclinical development and regulatory tasks, while nonclinical research and administration were planned to be reduced. As a consequence the headcount was reduced by 17 employees. Total expenses for the restructuring amounted to CHF 3.5 million, of which termination benefits CHF 1.8 million were cash-relevant (in 2011 and 2012) and CHF 1.7 million were non-cash-relevant (impairment of assets, accelerated vesting of options and other).

33 Events after the Balance-Sheet Date

In January 2012, Santhera announced that it regained the worldwide rights to the development and commercialization of fipamezole from Ipsen Biopharm Limited, Wrexham, United Kingdom (**Ipsen**). Under the renegotiated terms, Ipsen returned its rights for territories outside of North America and Japan in exchange for milestone payments and royalties based on future partnering and commercial success of fipamezole. Ipsen retains a call option for worldwide license to the program under certain conditions. Out of this agreement there are no immediate financial effects.

ERNST & YOUNG

Report of the Statutory Auditor on the Consolidated Financial Statements

Basel, February 23, 2012

As statutory auditor, we have audited the consolidated financial statements of Santhera Pharmaceuticals Holding AG, which comprise the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows, consolidated statement of changes in equity and notes (pages F-2 to F-40) for the year ended December 31, 2011.

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

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements for the year ended December 31, 2011, give a true and fair view of the financial position, the results of operations and the cash flows in accordance with IFRS and comply with Swiss law.

Emphasis of matter
We draw attention to note 7 to the financial statements, which describes a material uncertainty regarding the valuation of the related intangible assets. Our opinion is not qualified in respect of this matter.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Ernst & Young Ltd

Jürg Zürcher
Licensed audit expert
(Auditor in charge)

David Haldimann
Licensed audit expert

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Contents

Balance Sheet

as of December 31, in CHF thousands	2011	2010
Assets		
Tangible assets	0	2
Intangible assets	0	20
Investments in Group companies	151	163
Loans to Group companies	153,377	130,377
Noncurrent assets	**153,528**	**130,562**
Treasury shares	39	69
Prepaid expenses and accrued income	32	71
Other receivables from Group companies	39	311
Other receivables from third parties	42	92
Cash and cash equivalents	21,420	39,400
Current assets	**21,572**	**39,943**
Total assets	**175,100**	**170,505**
Equity and liabilities		
Share capital	3,673	3,660
Capital reserves and share premium	1,832	1,832
Reserves for treasury shares	177	177
Free reserves	3,383	166,538
Reserves from capital contribution	163,155	0
Accumulated result	1,532	−2,262
Result carried forward	−2,262	0
Net result for the period	3,794	−2,262
Total equity	**173,752**	**169,945**
Trade accounts payable from third parties	42	34
Other accounts payable from third parties	129	149
Accrued expenses	983	360
Short-term provisions	194	17
Total current liabilities	**1,348**	**560**
Total liabilities	**1,348**	**560**
Total equity and liabilities	**175,100**	**170,505**

Income Statement

for the year ended December 31, in CHF thousands	2011	2010
Revenue from Group companies	3,907	3,777
Total operating income	**3,907**	**3,777**
Other operating income	2	10
General and administrative expenses	–2,499	–2,101
Employee costs	–3,165	–2,234
Depreciation and amortization	–21	–37
Allowance on investments	–12	–1,017
Total operating expenses	**–5,697**	**–5,389**
Operating result	**–1,788**	**–1,602**
Financial income	13,179	12,607
Financial expenses	–7,597	–13,267
Financial result	**5,582**	**–660**
Result before taxes	**3,794**	**–2,262**
Income tax expenses	0	0
Net result	**3,794**	**–2,262**

Introduction

The financial statements of Santhera Pharmaceuticals Holding AG (**Company**) have been prepared in accordance with the requirements of the Swiss Code of Obligations.

Investments/Subsidiaries

	Share capital at December 31	2011	2010
Santhera Pharmaceuticals (Schweiz) AG			
Liestal, Switzerland	CHF	125,000	125,000
Santhera Pharmaceuticals (Deutschland) GmbH			
Lörrach, Germany	EUR	25,000	25,000
Santhera Pharmaceuticals (USA), Inc.			
Charlestown, US	USD	1,000	1,000
Santhera Pharmaceuticals (Canada), Inc.			
Montréal, Canada	CAD	1,000	1,000
Oy Santhera Pharmaceuticals (Finland) Ltd			
Helsinki, Finland	EUR	2,500	2,500

All companies are 100% direct subsidiaries of Santhera Pharmaceuticals Holding AG. Santhera Pharmaceuticals (Schweiz) AG is the primary operational entity while Santhera Pharmaceuticals (Deutschland) GmbH and Oy Santhera Pharmaceuticals (Finland) Ltd are not employing any personnel.

Share Capital

During 2011, the share capital was increased by a total amount of CHF 13,025 to an amount of CHF 3,673,463 as of December 31, 2011 (2010: CHF 3,660,438), through the exercise of employee stock options using conditional share capital.

Authorized Share Capital

The Board of Directors (**Board**) is authorized, at any time until April 26, 2012, to increase the share capital by a maximum amount of CHF 1,800,000 through the issuance of up to 1,800,000 fully paid-in registered shares (**Shares**) with a nominal value of CHF 1 each. An increase in partial amounts shall be permitted. The Board shall determine the issue price, the type of payment, the date of issue of new Shares, the conditions for the exercise of pre-emptive rights and the beginning date for dividend entitlement.

Conditional Share Capital

As of December 31, 2011, the Company had a conditional capital, pursuant to which the share capital of the Company may be increased by:

(i) a maximum amount of CHF 631,271 by issuing a maximum of up to 631,271 Shares, under the exclusion of shareholders' pre-emptive rights, for option rights being exercised under the Employee Stock Option Plan 2004 (**ESOP 2004**), the Executive Incentive Plan (**EIP**), the Employee Stock Option Plan 2008 (**ESOP 2008**), the Employee Stock Option Plan 2010 (**ESOP 2010**) and the Board Stock Option Plan (**BSOP 2011**); and

(ii) a maximum amount of CHF 600,000 by issuing up to 600,000 Shares, through the exercise of warrants/options and/or notes granted in connection with bonds or similar debt instruments linked with option and/or conversion rights granted by the Company.

Treasury Shares

In connection with the liquidation of Oy Juvantia Pharma, Turku, Finland (**Juvantia**), acquired in 2009, Santhera received 8,028 Shares from former Juvantia shareholders. These treasury shares serve as pledge from the former owners of Juvantia for compensation of a potential tax claim related to pre-acquisition activities of Juvantia and were received in February 2010 at CHF 22 each. At December 31, 2011, the number of Shares remained the same at 8,028, whereas the value was adjusted in order to reflect the share price as of year-end.

Recoverability of Subordinated Loans

Subordinated loans to Group companies at December 31, 2011, in the amount of CHF 152.7 million (2010: CHF 129.4 million) consist of intercompany loans to the Company's subsidiary Santhera Pharmaceuticals (Schweiz) AG and are primarily related to the Group's research and development activities. The recoverability of these loans is ensured by the fair value of the Company's subsidiary whose accounts are kept on a going concern basis. The fair value of Santhera Pharmaceuticals (Schweiz) AG and the long-term recoverability of these loans depend on the future market success of the developed products. Even though the development of these products has shown promising progress, a material uncertainty remains as to whether future successful market launches of products in development beyond Catena® in Canada could be achieved. The Company therefore has agreed to subordinate its loans to Santhera Pharmaceuticals (Schweiz) AG.

Risk Assessment

Santhera Pharmaceuticals Holding AG, together with its subsidiaries (**Group**), maintains a Group-wide corporate risk management system consisting of the areas corporate governance, financial internal controls and quality control/quality assurance.

In a semiannual bottom-up process, operational corporate risks are identified and their likelihood and impact assessed (gross risks). Out of a pool of these identified risks, the Company defines corporate key risks. By defining and undertaking appropriate measures, these corporate key risks are managed accordingly to either reduce or avoid such risk (net risk). The result of this process is a risk report which is assessed and approved by the Audit Committee on a semiannual basis and by the Board on an annual basis. The corporate key risks are in addition assessed on an ongoing basis by the Executive Management at its regular meetings, additional key risks are being discussed and measures identified if required.

Those risks as identified within the area of accounting and financial reporting as well as related control processes are further covered by the Company's Group-wide internal control system.

Additional Information

Property insurance value

The property insurance value for buildings and equipment as per December 31, 2011, amounts to TCHF 250 (2010: TCHF 250).

Capital loans from Finnish Funding Agency for Technology and Innovation and capital loans from Finnish National Fund for Research and Development

In July 2009, Santhera exercised its option to acquire Juvantia. Upon closing of the acquisition, the titles of the capital loans granted to Juvantia by the Finnish Funding Agency for Technology and Innovation, Helsinki, Finland (**Tekes**), and the Finnish National Fund for Research and Development SITRA, Helsinki, Finland (**Sitra**), were transferred to Oy Santhera Pharmaceuticals (Finland) Ltd, Helsinki, Finland. As per December 31, 2011, the loans amounted to EUR 6.0 million (2010: EUR 5.9 million) including capitalized interest.

Capital loans from Tekes

The loans from Tekes were granted in order to develop new medicines for movement disorders in Parkinson's disease (fipamezole). Once a first marketing approval for fipamezole in a major country as defined by the contract with Tekes would be granted, EUR 2.4 million plus accrued interests would become due and payable. Another EUR 2.4 million plus accrued interests would become due and payable one year following such first marketing authorization.

Capital loans from Sitra

The loans from Sitra were granted in order to develop new medicines for movement disorders in Parkinson's disease (fipamezole). Once a first marketing approval for fipamezole in a major country as defined by the contract with Sitra would be granted before December 31, 2014, EUR 0.2 million would become due and payable. Another EUR 0.2 million would become due and payable one year following such first marketing authorization.

In case of receiving marketing authorization for fipamezole and, as a consequence, these loans becoming due, the Company guarantees these amounts for repayment towards Tekes and Sitra as described above. Should no marketing authorization be granted, no payments would become due under these capital loans and the respective contingent liabilities would lapse.

Guarantee towards Swiss VAT authorities

The Company is part of the value-added tax group of the Swiss affiliated companies of Santhera Pharmaceuticals and is therefore jointly and severally liable to the Swiss federal tax administration for their value-added tax liabilities.

Guarantee towards Biovail (now Valeant)

In August 2009, Santhera Pharmaceuticals (Schweiz) AG entered into a collaboration and license agreement with Biovail Laboratories International SRL, Montréal, Canada (**Biovail**). In context with this above transaction, Santhera Pharmaceuticals Holding AG guarantees an amount of up to USD 30.0 million towards Biovail for obligations of Santhera Pharmaceuticals (Schweiz) AG under the collaboration and license agreement.

Significant Shareholders (>3%)

Pursuant to information from the Company's share register and disclosures of participations made to it with applicable stock exchange regulation, the following shareholders owned 3% or more of the Company's share capital at December 31:

Shareholder's name	Shares	2011 %	Shares	2010 %
Ares Life Sciences, Switzerland	545,777	14.9	545,777	14.9
NGN Capital, Germany and US	317,419	8.6	349,919	9.6
Excalibur Biosciences/Merlin Biosciences, UK	211,744	5.8	211,828	5.8
Baker Brothers Life Sciences, US	190,792	5.2	n/a	n/a
Varuma, Switzerland	146,932	4.0	146,932	4.0
Heidelberg Innovation Fonds, Germany	125,985	3.4	125,985	3.5
Oxbio Bioscience Partners, US	n/a	< 3.0	146,014	4.0

Significant shareholders can also be directly searched at the website of SIX Swiss Exchange directly under the following link:
www.six-swiss-exchange.com/shares/companies/major_shareholders_en.html?fromDate=19980101

Compensations to the Board and the Executive Management

Disclosure of compensation of members of the Board for the year 2011

in CHF	Cash compen-sation fix	Social security	Stock options[2]	Compen-sation total
Klaus Schollmeier, Chairman[1]	see below			
Jürg Ambühl	32,000	2,621	4,190	38,811
Martin Gertsch	45,000	3,686	4,560	53,246
Timothy Rink	45,103	3,049	3,580	51,732
Hans Peter Hasler[3]	24,000	1,965	0	25,965
Michael Lytton[3]	72,000	5,897	5,610	83,507
Bernd Seizinger[3]	25,546	2,092	3,740	31,378
Total	**243,649**	**19,310**	**21,680**	**284,639**

1) Klaus Schollmeier received no compensation for him being a member of the Board. All his compensations were paid for his function as former Chief Executive Officer (**CEO**) and as a consequence are disclosed as compensation for members of the Executive Management. He is Chairman of the Board since October 1, 2011.
2) Reflects value of share-based payments in accordance with IFRS 2 at grant, i.e. the value of unvested stock options attributable at grant; tax value of such stock options is 0 until stock options would be exercised. Such stock option values are theoretical values and do not reflect income tax values and do also take into consideration certain vesting provisions. During such vesting periods, stock options may lapse subject to certain conditions as defined by the respective stock option plans. For information about the underlying stock option plans, see note 19 *"Stock Option Plans"* to in the consolidated financial statements. For information about the Company's compensation procedures, consult the Corporate Governance Report (CG-10 to CG-12).
3) Member of the Board until September 30, 2011

Option grants to five Board members were made in 2011. Besides the above disclosed, no other payments, allowances or loans were made to the members of the Board in 2011. Stock option grants to members of the Board are subject to the Compensation Policy for members of the Board as well as the BSOP 2011.

Disclosure of compensation of members of the Board for the year 2010

in CHF	Cash compen-sation fix	Social security	Stock options[2]	Compen-sation total
Michael Lytton, Chairman	96,000	7,670	0	103,670
Hans Peter Hasler, Vice Chairman	32,000	2,557	27,320	61,877
Jürg Ambühl	32,000	2,557	55,840	90,397
Martin Gertsch	45,000	3,397	27,320	75,717
Timothy Rink	45,103	3,603	26,500	75,206
Klaus Schollmeier[1]	see below			
Bernd Seizinger	34,061	2,721	26,280	63,062
Total	**284,164**	**22,505**	**163,260**	**469,929**

1) Klaus Schollmeier received no compensation for him being a member of the Board. All his compensations were paid for his function as Chief Executive Officer (**CEO**) and as a consequence are disclosed as compensation of members of the Executive Management.
2) Reflects value of share-based payments in accordance with IFRS 2 at grant, i.e. the value of unvested stock options attributable at grant; tax value of such stock options is 0 until stock options would be exercised. Such stock option values are theoretical values and do not reflect income tax values and do also take into consideration certain vesting provisions. During such vesting periods, stock options may lapse subject to certain conditions as defined by the respective stock option plans. For information about the underlying stock option plans, see note 19 *"Stock Option Plans"* to the consolidated financial statements. For information about the Company's compensation procedures, consult the Corporate Governance Report (CG-10 to CG-12).

Option grants to five Board members were made in 2010. Besides the above disclosed, no other payments, allowances or loans were made to the members of the Board in 2010. Stock option grants to members of the Board are subject to the Compensation Policy for members of the Board as well as, starting 2011, to the provisions of the newly established BSOP 2011.

Disclosure of compensation of members of the Executive Management for the year 2011

in CHF	Cash compen-sation fix	Cash compen-sation variable	Car leasing	Social security	Stock options[2]	Termination compen-sation[3]	Total	Number of stock options granted
Klaus Schollmeier, (**CEO**)[1]	450,750	0	6,861	227,826	0	617,611	1,303,048	0
Other members of the Executive Management	847,782	0	0	247,810	0	557,586	1,653,178	0
Total	**1,298,532**	**0**	**6,861**	**475,636**	**0**	**1,175,197**	**2,956,226**	**0**

1) CEO until September 30, 2011
2) Reflects value of share-based payments in accordance with IFRS 2 at grant, i.e. the value of unvested stock options attributable at grant; tax value of such stock options is 0 until stock options are exercised. Such stock option values are theoretical values and do not reflect income tax values and do also take into consideration certain vesting provisions. For information about the underlying stock option plans, see note 19 *"Stock Option Plans"* to in the consolidated financial statements. For information about the Company's compensation procedures, consult the Corporate Governance Report (CG-10 to CG-12).
3) Contains all termination compensation expenses from the restructuring 2011 of which parts are paid out in 2011 and others will be paid out in 2012.

Disclosure of compensation of members of the Executive Management for the year 2010

in CHF	Cash compen-sation fix	Cash compen-sation variable	Car leasing	Social security	Stock options[1]	Total	Number of stock options granted
Klaus Schollmeier, CEO	446,250	65,000	7,966	76,854	127,820	723,890	22,000
Other members of the Executive Management	944,369	220,000	0	177,639	226,590	1,568,598	39,000
Total	**1,390,619**	**285,000**	**7,966**	**254,493**	**354,410**	**2,292,488**	**61,000**

1) Reflects value of share-based payments in accordance with IFRS 2 at grant, i.e. the value of unvested stock options attributable at grant; tax value of such stock options is 0 until stock options would be exercised. Such stock option values are theoretical values and do not reflect income tax values and do also take into consideration certain vesting provisions. During such vesting periods, stock options may lapse subject to certain conditions as defined by the respective stock option plans. For information about the underlying stock option plans, see note 19 *"Stock Option Plans"* to the consolidated financial statements. For information about the Company's compensation procedures, consult the Corporate Governance Report (CG-10 to CG-12).

Disclosure of Shares and stock options held by members of the Board and Executive Management (and their respective related party) as of December 31, 2011

Name	Number of Shares	Number of vested stock options	Number of unvested stock options	Total number of stock options
Board of Directors				
Klaus Schollmeier, Chairman[1)]	see below			
Jürg Ambühl	800	3,000	2,000	5,000
Martin Gertsch	1,230	6,167	2,833	9,000
Timothy Rink	0	6,500	2,500	9,000
Executive Management				
Thomas Meier, CEO	14,613	46,539	18,500	65,039
Klaus Schollmeier[2)]	930	82,118	32,000	114,118

1) Chairman since October 1, 2011
2) CEO until September 30, 2011

No other payments, allowances or loans were made to either the members of the Board, members of the Executive Management or their related parties in 2011.

Disclosure of Shares and stock options held by members of the Board and Executive Management (and their respective related party) as of December 31, 2010

Name	Number of Shares	Number of vested stock options	Number of unvested stock options	Total number of stock options
Board of Directors				
Michael Lytton, Chairman	0	0	7,000	7,000
Hans Peter Hasler, Vice Chairman	0	5,000	3,000	8,000
Jürg Ambühl	800	0	4,000	4,000
Martin Gertsch	1,230	5,000	3,000	8,000
Timothy Rink	0	5,000	3,000	8,000
Klaus Schollmeier	see below			
Bernd Seizinger	1,000	5,000	3,000	8,000
Executive Management				
Klaus Schollmeier, CEO	930	72,118	42,000	114,118
Barbara Heller, Chief Financial Officer	1,000	39,678	25,000	64,678
Helmut Kessmann, Chief Business Officer	0	21,774	24,000	45,774
Thomas Meier, Chief Scientific Officer	14,613	41,039	24,000	65,039

No other payments, allowances or loans were made to either the members of the Board, members of the Executive Management or their related parties in 2010.

Events after the Balance-Sheet Date

None.

Proposals of the Board of Directors to the Annual Shareholders' Meeting

Proposal of the Board for the Result to be Carried Forward, Subject to the Approval of the Annual Shareholders' Meeting:

in CHF	2011	2010
Result carried forward	-2,262,463	0
Net result of the year	3,793,691	-2,262,463
Accumulated result	**1,531,228**	**-2,262,463**
Result to be carried forward	**1,531,228**	**-2,262,463**

ERNST & YOUNG

Report of the Statutory Auditor on the Financial Statements

Basel, February 23, 2012

As statutory auditor, we have audited the financial statements of Santhera Pharmaceuticals Holding AG, which comprise the balance sheet, income statement and notes (pages F-46 to F-53) for the year ended December 31, 2011.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the Company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements for the year ended December 31, 2011, comply with Swiss law and the Company's articles of incorporation.

Emphasis of matter
We draw attention to the disclosure note "Recoverability of Subordinated Loans" according to which loans to an overindebted subsidiary have been assessed as recoverable by the Management and the Board of Directors based on the business plans and expected future cash flows. Even though the development of the products has shown favorable trend, a material uncertainty remains as to whether the business plans and future cash flows can be achieved. Our opinion is not qualified in respect of this matter.

Report on Other Legal Requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Over-sight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the Company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

Jürg Zürcher
Licensed audit expert
(Auditor in charge)

David Haldimann
Licensed audit expert

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Forward-looking Statements

This Annual Report is not and under no circumstances to be construed as a solicitation, offer or recommendation to buy or sell securities issued by Santhera Pharmaceuticals Holding AG (**Santhera**). Santhera makes no representation (either expressed or implied) that the information and opinions expressed in this Annual Report are accurate, complete or up to date. Santhera disclaims, without limitation, all liability for any loss or damage of any kind, including any direct, indirect or consequential damages, which might be incurred in connection with the information contained in this Annual Report.

This Annual Report expressly or implicitly contains certain forward-looking statements concerning Santhera and its business. Certain of these forward-looking statements can be identified by the use of forward-looking terminology such as "believe", "expect", "may", "are expected to", "will", "will continue", "should", "would be", "seek" or "anticipate" or by discussions of strategy, plans or intentions. Such statements involve certain risks, uncertainties and other factors, which could cause the actual results, financial condition, performance or achievements of Santhera to be materially different from any expected results, performance or achievements expressed or implied by such forward-looking statements. There can be no guarantee that any of the research and/or development projects described will succeed or that any new products or indications will be brought to market. Similarly, there can be no guarantee that Santhera or any future product or indication will achieve any particular level of revenue. In particular, management's expectations could be affected by, among other things, uncertainties involved in the development of new pharmaceutical products, including preclinical and clinical trial results; regulatory actions or delays or government regulation generally; the ability of Santhera to obtain or maintain patent or other proprietary intellectual property protection; competition in general; government, industry and general public pricing and other political pressures. Santhera is providing the information in this Annual Report as of the date of the publication, and does not undertake any obligation to update any forward-looking statements contained herein as a result of new information, future events or otherwise.

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Imprint
Publisher: Santhera Pharmaceuticals Holding AG, Liestal
Design: glutrot GmbH, Berlin, www.glutrot.de
Prepress: typo.d AG, Reinach, www.typod.ch
Press: WBZ, Reinach, www.wbz.ch
Photography: Pino Covino, Basel

About the Wohn- und Bürozentrum für Körperbehinderte (WBZ)
Living an independent life and useful work of quality have been the long-standing paradigms of the WBZ. The institution, founded in 1975, promotes self-responsibility, autonomy and social integration of people with physical disabilities. Unified under a shared roof in Reinach/BL, Switzerland, disabled men and women render professional services in graphic art and printing, information technologies, and fiduciary duties to a wide variety of clients. They also run a creative studio and a restaurant. As part of its commitment to people with impairments, Santhera partnered with WBZ for the production of the 2011 edition of the Annual Report.

Material used
Cover and content: BVS matt, chlorine-free bleached (ECF)

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