2012

Annual Report
January to December 2012

santhera
Pharmaceuticals

Content

Santhera Reports 2012 Financial Figures and Announces Restructuring

The operating result increased to CHF –31.2 million and the net result to CHF –31.4 million both due to non-cash-relevant impairments. With a significantly reduced cash burn of CHF 11.1 million in 2012, the cash position at year-end amounted to CHF 12.3 million. To secure operations, the Company has initiated further financial and operational restructuring measures. The Annual Shareholders' Meeting will be convened on May 13, 2013 to decide on the future direction of Santhera.

CHF 12.3 million cash reserves at year-end 2012 reflect significant reduction in cash burn

As of December 31, 2012, Santhera had cash and cash equivalents of CHF 12.3 million (2011: CHF 23.4 million). Net change in cash for 2012 versus 2011 was CHF 11.1 million (2011: CHF –20.3 million). In 2012, the net cash burn was decreased to below the one-million-threshold per month (CHF 0.9 million compared to CHF 1.7 million in 2011). Total equity at year-end 2012 amounted to CHF 11.7 million (2011: CHF 43.0 million).

Revenues from product sales

In 2012, Catena® generated net sales of CHF 3.5 million, a modest increase of 8.4% over 2011 (CHF 3.3 million). As in previous years, the majority of sales originated from Canada for the indication Friedreich's Ataxia and the remainder from sales under the Named Patient Program in Europe and other territories. Operating expenses accumulated to CHF 34.7 million (2011: CHF 30.5 million). The operating result increased to CHF –31.2 million (2011: CHF –27.2 million) mainly due to result of impairments on intangibles and the write-down of inventories of CHF 22.2 million. These non-cash-relevant items were allocated to research and development (R&D). As a result, expenses in R&D increased to CHF 28.7 million (2011: CHF 18.1 million). Marketing and sales expenses further decreased to CHF 1.8 million (2011: CHF 2.1 million) while expenses for general and administrative were more than halved to CHF 4.1 million (2011: CHF 10.2 million which included restructuring costs). For 2012, Santhera reports a net loss of CHF 31.4 million (2011: CHF 27.8 million).

On February 27, 2013, Santhera had announced its voluntary withdrawal of Catena® from the Canadian market effective April 30, 2013. This decision followed review of additional data from clinical trials in patients with Friedreich's Ataxia, and subsequent consultation with Health Canada.

Outlook

Santhera's current funding is not sufficient to support the going concern assumption and the Company depends on further financing to ensure the continuation of its operations through the fourth quarter of 2013 and to execute its strategy as outlined below.

Having filed a Marketing Authorization Application (MAA) with the European Medicines Agency's (EMA) Committee for Medicinal Products for Human Use (CHMP) in Leber's Hereditary Optic Neuropathy (LHON) in 2011, Santhera received a negative opinion on its MAA in January 2013 and withdrew its application for strategic reasons in March 2013. Santhera plans to file a new application based on emerging clinical evidence further evaluating the efficacy of Raxone® in the treatment of LHON. Santhera expects to submit a new MAA towards the end of this year.

The ability to file a revised MAA and to continue business operations until the CHMP reaches a decision on this new filing is contingent on the availability of sufficient financial resources. As a consequence, Santhera has implemented restructuring measures to further reduce its workforce, operational costs and its financial liabilities in connection with the lease of its premises and other obligations.

In addition, Management has initiated measures to secure additional financing by exploring possibilities of a merger, sale or licensing of its assets. Santhera has received expression of interest (non-binding Letters of Intent) from third parties for financial support. Nevertheless, shareholders should note that whilst the Management and Board of Directors continue to apply best efforts to evaluate available options and take the steps described, there can be no guarantee that any transaction can be realized or that such transaction would generate sufficient funds to finance further operations.

The access to additional funds is decisive for Santhera and its ability to continue operations and the absence of such a transaction would make it impossible to continue as a going concern. Under such circumstances, Santhera would have to discontinue its business operations and could no longer apply the going concern assumption in preparing its financial statements for 2013.

The Board believes in the Company's chances in securing additional financing with the possibilities for a merger, sale or licensing of its assets before the end of the third quarter 2013 with the objective to be able to meet all of its obligations for a further 12 months. Hence, the consolidated financial statements for 2012 have been prepared on a going concern basis.

Consolidated Financial Statements

Content

Consolidated Balance Sheet

As of December 31, in CHF thousands	Notes	**2012**	2011
Assets			
Tangible assets	5	81	171
Intangible assets	6	4,714	24,856
Financial assets long-term	10	362	361
Deferred tax assets	13	0	139
Noncurrent assets		**5,157**	25,527
Prepaid expenses and accrued income		179	117
Inventories	8	27	2,391
Trade and other receivables	9	639	593
Cash and cash equivalents	11	12,283	23,406
Current assets		**13,128**	26,507
Total assets		**18,285**	52,034
Equity and liabilities			
Share capital	12	3,677	3,673
Capital reserves and share premium		274,441	274,012
Retained earnings		–259,553	–228,104
Treasury shares	12	–177	–177
Other components of equity		–6,658	–6,420
Total equity		**11,730**	42,984
Long-term finance lease liabilities	10	2,171	2,207
Pension liabilities	25	1,456	1,185
Total noncurrent liabilities		**3,627**	3,392
Trade and other payables	14	674	876
Short-term finance lease liabilities	10	36	34
Accrued expenses	15	2,218	4,514
Short-term provisions	16	0	234
Total current liabilities		**2,928**	5,658
Total liabilities		**6,555**	9,050
Total equity and liabilities		**18,285**	52,034

Consolidated Income Statement

For the year ended December 30, in CHF thousands	Notes	2012	2011
Net sales	20, 21	3,538	3,265
Revenue		**3,538**	3,265
Cost of goods sold	21	–349	–338
Gross profit		**3,189**	2,927
Other operating income	22	357	377
Research and development	23, 24	–28,724	–18,125
Marketing and sales	23, 24	–1,841	–2,076
General and administrative	23, 24	–4,080	–10,513
Other operating expenses	23, 24	–56	–103
Operating expenses	**23, 24**	**–34,701**	–30,517
Operating result		**–31,155**	–27,213
Financial income	26	422	3,347
Financial expenses	26	–558	–3,665
Result before taxes		**–31,291**	–27,531
Income taxes	28	–157	–307
Net result		**–31,448**	–27,838
Basic and diluted loss per share (in CHF)		**–8.55**	–7.60

Consolidated Statement of Comprehensive Income

For the year ended December 31, in CHF thousands	Notes	2012	2011
Net result		**–31,448**	–27,838
Currency translation differences	27	–239	–515
Other comprehensive result		**–239**	–515
Total comprehensive result		**–31,687**	–28,353

Consolidated Cash Flow Statement

For the year ended December 31, in CHF thousands	Notes	2012	2011
Result before taxes		**–31,291**	–27,531
Depreciation of tangible assets	5	107	1,177
Amortisation and impairment of intangible assets	6	19,965	3,740
Expenses for share options	19, 23, 24	429	1,697
Change in pension liabilities	25	271	–357
Change in long-term provisions	16	0	–99
Change in short-term provisions	16	–234	–246
Change in deferred tax assets	13	139	255
Taxes paid		–18	–52
Change in net working capital		–468	1,237
Total financial result	26	136	318
Interest received	26	50	97
Interest paid	26	–125	–130
Cash flow from operating activities		**–11,039**	–19,894
Investments in tangible assets	5	–18	–89
Disposal of tangible assets	5	0	24
Investments in intangible assets	10	–14	0
Change in other financial assets	10	–1	–1
Cash flow from investing activities		**–33**	–66
Capital increases	12	4	13
Amortization of finance lease	10	–36	–34
Cash flow from financing activities		**–32**	–21
Effects of exchange rate changes on cash and cash equivalents		–19	–295
Net increase / (decrease) in cash and cash equivalents		**–11,123**	–20,276
Cash and cash equivalents at January 1		23,406	43,682
Cash and cash equivalents at December 31		**12,283**	23,406

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, 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**
Balance at January 1, 2012		**3,673**	**274,012**	**−228,104**	**−177**	**−6,420**	**42,984**
Net result		0	0	−31,448	0	0	−31,448
Currency translation differences	27	0	0	0	0	−239	−239
Total comprehensive result for the period		**0**	**0**	**−31,448**	**0**	**−239**	**−31,687**
Share-based payment transactions	19	0	429	0	0	0	429
Capital increase from options exercise	12	4	0	0	0	0	4
Balance at December 31, 2012		**3,677**	**274,441**	**−259,552**	**−177**	**−6,659**	**11,730**

Notes to the Consolidated Financial Statements

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 April 15, 2013. They are subject to approval by the Annual Shareholders' Meeting on May 13, 2013.

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.

Material uncertainties and ability to continue operations

Santhera's current funding is not sufficient to support the going concern assumption and the Company depends on further financing to ensure the continuation of its operations through the fourth quarter of 2013 and to execute its strategy as outlined below.

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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, 2012, or before. The following standards did neither have an effect on accounting policies nor on reported amounts or disclosures in these financial statements:

IAS 12	Amendment – Deferred Tax: Recovery of Underlying Assets
IFRS 7	Amendment – Disclosures: Transfers of Financial Assets

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

Various	Annual Improvements to IFRS. Effective for annual periods beginning on or after January 1, 2013.
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. Upon application of IAS 19 (Revised) retrospectively as at January 1, 2012, Santhera will recognize accumulated actuarial losses against opening equity and any movements therein immediately in other comprehensive income. As of December 31, 2012, Santhera has unrecognized actuarial losses of TCHF 663. The pension fund liability under IAS 19R would be TCHF 1,820 instead of TCHF 1,456 with the effect going to be the cumulative effect on the equity. The impact on the P&L is an amortization charge of TCHF 6 and the impact to OCI is an actuarial gain of TCHF 134.
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-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 10, 11, 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance. 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 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).

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.

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 non-current 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 scheme

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 (**ESOP**), 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 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 upfront 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:

- Going concern assumption (see note 2 *"Material uncertainties and ability to continue operations"*)
- 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"*)
- Measurement and impairment testing of inventory (see note 8 *"Inventories"*)
- Assessment of contingent liabilities (see note 18 *"Commitments and Contingent Liabilities"*)
- 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	
	2012	2011	**2012**	2011
1 euro (**EUR**)	**1.2053**	1.2330	1.2075	1.2167
1 US dollar (**USD**)	**0.9378**	0.8866	0.9136	0.9396
1 Canadian dollar (**CAD**)	**0.9381**	0.8961	0.9166	0.9212

5 Tangible Assets

In CHF thousands	Laboratory and other equipment	IT hard-ware	Leasehold improvements – finance lease	Leasehold improvements	**2012**
Cost					
At January 1	1,277	631	2,314	540	**4,762**
Additions	0	18	0	0	**18**
Disposals	−944	−20	0	0	**−964**
At December 31	**333**	**629**	**2,314**	**540**	**3,816**
Accumulated depreciation and impairment losses					
At January 1	1,218	546	2,314	513	**4,591**
Additions	32	67	0	8	**107**
Disposals	−944	−20	0	0	**−964**
Exchange differences	0	1	0	0	**1**
At December 31	**306**	**594**	**2314**	**521**	**3,735**
Net book value	**27**	**35**	**0**	**19**	**81**

In CHF thousands	Laboratory and other equipment	IT hard-ware	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**

An impairment loss of CHF 0.9 million was recorded related to *"Laboratory and other equipment"* and *"Leasehold improvements – finance lease"* as they were taken out of use as a consequence of the restructuring in 2011.

The insurance value (including fire) of tangible assets amounted to CHF 3.0 million as of December 31, 2012 (December 31, 2011: CHF 3.0 million).

6 Intangible Assets

In CHF thousands	Catena®/ Sovrima®	Capitalized development costs Catena®/ Sovrima®	Fipamezole	IT software/ patents	**2012**
Cost					
At January 1	21,713	3,764	3,918	460	**29,855**
Additions	0	0	0	14	**14**
Disposals	–569	–102	0	–181	**–852**
Exchange differences	–163	0	0	0	**–163**
At December 31	**20,981**	**3,662**	**3,918**	**293**	**28,854**
Accumulated amortization and impairment losses					
At January 1	597	31	3,918	453	**4,999**
Additions	55	10	0	9	**74**
Impairment	16,878	3,013	0	0	**19,891**
Disposals	–569	–102	0	–181	**–852**
Exchange differences	19	0	0	0	**28**
At December 31	**16,989**	**2,952**	**3,918**	**281**	**24,140**
Net book value	**3,992**	**720**	**0**	**12**	**4,714**

As a result of the annual impairment test an impairment loss of CHF 19.9 million was recorded in 2012 within R&D costs on *"Catena®/Sovrima®"* and *"Capitalized development costs Catena®/Sovrima®"* as the carrying amounts of these intangibles exceeded their recoverable amounts (see note 7 *"Impairment Testing of 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	3764	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**

In 2011 an impairment of CHF 3.3 million on *"fipamezole"* was necessary since no partnering of the program was possible and, for the foreseeable future, Santhera does not plan further financial commitments for the program.

7 Impairment Testing of Intangible Assets

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

An entity should also consider the relationship between market capitalization and book values, among other factors, when reviewing for indicators of impairment. As of December 31, 2012 and 2011, the market capitalization of Santhera was below the book value of its equity, therefore indicating a potential impairment of intangible assets.

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

Catena®/Sovrima® and the capitalized development costs Catena®/Sovrima® amounting to a net book value of CHF 4.7 million at year-end 2012 are the primary intangible assets of Santhera and form the basis of the Catena®/Sovrima® development projects (2011: CHF 24.8 million). Movements are mainly related to impairments in the amount of CHF 19.9 million and to a minor portion to regular amortization and FX valuations of CHF 0.1 million.

In July 2008, a first product approval was achieved through a Notice of Compliance with Conditions (**NOC/c**) in Canada by Health Canada (**HC**) for the treatment of symptoms of FA. Therefore the intangible asset was split into two parts, based on the future expected revenues in each of the regions: i) the Canadian asset (classified as an intangible asset with finite useful life), which has been fully impaired in 2012, (2011: CHF 0.4 million carrying amount) as the company has been asked to withdraw the product from the Canadian market (see note 32 *"Events after the Reporting Date"*), and ii) the asset outside Canada which remains classified as an intangible asset not yet available for use with a carrying amount of CHF 4.7 million at year-end 2012 (2011: CHF 24.8 million). Since July 2011, a MAA for idebenone in LHON is under regulatory review by the EMA.

Since Santhera's remaining main intangible asset outside Canada does not generate cash flows on a stand-alone basis, the 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.

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.

Based on the strategic focus on LHON since the restructuring in mid 2011 the impairment test for 2012 has focused entirely on the cash flows to be derived from LHON in Europe due to the following reasons: The overall probability of receiving an approval is limited to the indication LHON in Europe in the near future. No more studies are planned for the indication FA. In February 2013, Santhera announced that it will discontinue sales of Catena® in Canada for the treatment of FA under the NOC/c by April 30, 2013; therefore no cash inflows are included in the impairment test anymore. The Phase III study in the indication Duchenne Muscular Dystrophy (**DMD**) is on track but even though the interim analysis, scheduled for the first half of 2013, were to be positive, additional value could only be generated if significant further funding were to become available for the next 2-3 years in order to finalize the study. As the Company needs financing for the overall going concern, free cash for DMD is less probable than for the indication LHON and therefore DMD was excluded from the impairment test.

The key assumptions for the tests were as follows:

	2012	2011
Discount rate (WACC)	**15%**	15%
Market growth rate (terminal value)	**0%**	0%
Probability of reaching market[1]	**> 50%**	5 to 70%
Period of projected cash flows	**5 years**	5 years

1 2012: only LHON in Europe (2011: several projects with varying degrees of probability)

The impairment test of the recoverable amount of the intangible assets performed as explained above resulted in an impairment of the carrying value of "Catena®/Sovrima®" of CHF 16.5 million and "Capitalized development costs Catena®/Sovrima®" in the amount of CHF 3.0 million.

The recoverable amount of the intangible assets with finite useful life in Canada was also calculated on an rNPV basis with a cumulative probability of 0% of keeping the product on the Canadian market and an impairment loss of CHF 0.4 million was recognized.

Sensitivity to changes in assumptions

A material uncertainty remains as to whether a final and successful market registration can be achieved for LHON. A risk of future adjustments to the carrying amount of the Catena®/Sovrima® projects remains should the company fail to obtain such registrations (see note 2 *"Material uncertainties and ability to continue operations"*).

8 Inventories

In CHF thousands	2012	2011
Finished goods	**27**	98
Half-finished goods	**0**	0
Active pharmaceutical ingredients (API)	**0**	2,293
Total at December 31	**27**	2,391

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/ commercialization and inventory risk management purposes (security stock). Under the given uncertainties following the negative outcome of Santhera's MAA (see note 2 *"Summary of Significant Accounting Policies"*) an allowance was booked on API through R&D expenses, half-finished goods and finished goods in the amount of CHF 2.3 million (no allowance in 2011). However a small amount of finished goods remains (CHF 0.03 million) since they are expected to be sold under the NOC/c in Canada in early 2013. During 2012, an amount of CHF 0.1 million was used for clinical trial activities and expensed as development expenses (CHF 0.6 million during 2011) and CHF 0.2 million as cost of goods (2011: CHF 0.04 million).

9 Trade and Other Receivables

In CHF thousands	2012	2011
Trade receivables	**518**	459
Other receivables (nonfinancial)	**121**	134
Total at December 31	**639**	593

Trade receivables result from sales in Canada and the 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, 2012, and 2011.

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

In September 2009, Santhera moved into a new rental building in Switzerland. Some installations were built-to Santhera's specifications and these parts can only be used by Santhera without major modifications. The lease contract therefore qualifies as a finance lease in accordance with IAS 17. This total financial lease liability amounted to CHF 2.2 million as of December 31, 2012 (CHF 2.2 million as per December 31, 2011), split into a short- (TCHF 36) and long-term (CHF 2.17 million) portion (2011: short-term TCHF 34, long-term CHF 2.21 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 362 (2011: TCHF 361).

11 Cash and Cash Equivalents

In CHF thousands	**2012**	2011
Cash at banks and on hand		
In CHF	**4,836**	9,461
In EUR	**2,148**	4,487
In USD	**336**	2,093
In CAD	**1,463**	931
Short-term money market deposits		
In CHF	**3,500**	4,001
In EUR	**0**	2,433
In USD	**0**	0
Total at December 31	**12,283**	23,406

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 one month at money market rates. The fair value of the entirety of these positions at year-end amounted to CHF 12.3 million (2011: CHF 23.4 million).

12 Share Capital

Ordinary share capital

As of January 1, 2011, 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 CHF 3,673,463, divided into 3,673,463 Shares at a nominal value of CHF 1 each.

During 2012, 4,075 Shares were issued from conditional capital upon the exercise of stock options under the EIP. As a result, as of December 31, 2012, the share capital amounted to 3,677,538, divided into 3,677,538 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 authorities is expected in 2013.

Authorized share capital

At the Annual Shareholder's Meeting held on April 23, 2012, the shareholders approved an extension of the authorized share capital of the Company. The Board is authorized to increase the share capital at any time until April 22, 2014 through the issuance of up to 1,800,000 Shares with a nominal value of CHF 1 each. 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 23, 2012, the shareholders approved a maximum increase of the share capital by an aggregate amount of CHF 700,000 through the issuance of a maximum of 700,000 Shares with a nominal value of CHF 1 each. 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.

As of December 31, 2012, the Company had a conditional share capital, pursuant to the above provisions, whereby the share capital may be increased by

(i) a maximum amount of CHF 695,925 through the issuance of up to 695,925 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	2012	2011
Temporary differences on inventory	**0**	139
Deferred tax assets recognized	**0**	139
Temporary differences on intangible assets	**941**	3,168
Tax loss carryforwards	**–941**	–3,168
Deferred tax liabilities recognized	**0**	0
Tax loss carryforwards	**347,385**	182,063
Of which recorded	**–4,703**	–21,117
Of which unrecorded	**342,682**	160,946
Expiring		
One year	**34,134**	3,632
Two years	**21,958**	34,134
Three years	**47,276**	21,958
Four years	**9,738**	47,276
Five years	**5,832**	9,739
More than five years	**196,805**	33,449
Without expiration	**26,939**	10,758
Total unrecorded tax loss carryforwards	**342,682**	160,946

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	2012	2011
Trade payables	**654**	823
Other payables (nonfinancial)	**20**	53
Total at December 31	**674**	876

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

15 Accrued Expenses

In CHF thousands	2012	2011
R&D programs	**1,143**	2,171
Liabilities to employees and severance payments[1]	**188**	1,194
Accrued sales expenses	**304**	378
Other[2]	**583**	771
Total at December 31	**2,218**	4,514

1 In 2011 including CHF 1.0 million for severance payments as a consequence of a restructuring

2 In 2012 including CHF 0.3 million for an onerous contract in connection with the facilities in Switzerland (CHF 0.4 in 2011)

16 Short- and Long-term Provisions

Short-term

In CHF thousands	Restructuring expenses	Various items	2012	2011
At January 1	**194**	**40**	**234**	480
Utilization	**0**	**0**	**0**	–359
Reversal	**–194**	**–40**	**–234**	–121
Additions	**0**	**0**	**0**	234
Total at December 31	**0**	**0**	**0**	**234**

There were no new provisions in 2012. Amounts added in 2011 result primarily from provisions as a consequence of the restructuring (personnel related expenses) in Switzerland.

Long-term

In CHF thousands	2012	2011
At January 1	**0**	99
Utilization	**0**	0
Reversal / Re-class to accrued expenses	**0**	-99
Additions	**0**	0
Exchange differences	**0**	0
Total at December 31	**0**	0

No long-term provisions were provided in 2012 (CHF 0 during 2011).

17 Contingent Assets

Licensing agreements 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 upfront 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.

18 Commitments and Contingent Liabilities

Commitments

Commitment for operating lease: equipment/vehicle

As per December 31, 2012, there are no lease contracts for equipment/vehicles anymore at Santhera. The future minimum lease payments under non-cancelable operating leases amounted to TCHF 14 at December 31, 2011.

Commitment for operating lease: buildings

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

In CHF thousands	2012	2011
Within 1 year	**320**	553
1 year through 5 years	**60**	117
After 5 years	**0**	0
Total at December 31	**380**	670

In 2012, CHF 0.3 million for an onerous contract in connection with the facilities in Switzerland are provided for in accrued expenses (CHF 0.4 million in 2011)

Commitment for finance lease

In CHF thousands	2012 Minimum payments	2012 Present value of payments	2011 Minimum payments	2011 Present value of payments
Within 1 year	**162**	**153**	162	153
1 year through 5 years	**648**	**534**	648	534
After 5 years	**3,509**	**1,520**	3,671	1,554
Total minimum lease payments	**4,319**	**2,207**	4,481	2,241
Less amounts representing financing charges	**–2,112**	**0**	–2,240	0
Total at December 31	**2,207**	**2,207**	2,241	2,241

In case Santhera terminates the rental contract in Liestal, Switzerland, after the fixed period ending March 31, 2013, an amount of up to CHF 2.0 million will become payable for leasehold improvements. This amount is gradually reduced to CHF 1.0 million within seven 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 upfront 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 Dystrophy (**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 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 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 during 2013.

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	**2012**	2011
Within 1 year	**751**	2,982
1 year through 5 years	**415**	1,584
After 5 years	**0**	0
Total at December 31	**1,166**	4,566

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 ten years as from the grant date, all unexercised stock options shall expire without value. 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"*). 4,075 options under the EIP were exercised in 2012 (2011: 13.025 options). The remaining number of options outstanding from the EIP is 55,335 as of December 31, 2012 (2011: 59,410 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 Swiss Exchange 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.

End of May and beginning of June 2012, a plan modification was offered to the employees. The offer enabled the option holder to have options which were granted before January 1, 2012, to be modified according to the terms under the ESOP 2010, effective on July 1, 2012. As a consequence, a number of 145,014 options (ESOP 2004 28,239 options; ESOP 2008 47,300 options; ESOP 2010 69,475 options) have been amended accordingly. Terms and conditions of the ESOP remain the same except for the vesting period which has been reduced to one year. The intention of this modification was to create a retention incentive for employees. For accounting purposes this transaction has been treated as a modification and the remaining costs in relation to the originally granted options will be expensed with acceleration within one year from July 1, 2012 (TCHF 145). The incremental fair value of the modified grant will be expensed over the same period of time (TCHF 133).

As of December 31, 2012, an amount of 270,577 (130,210 end of 2011) stock options are available for future grants.

Options outstanding, exercised, forfeited or expired under ESOP 2004, ESOP 2008 and ESOP 2010

As of December 31, 2012, 0 stock options under the ESOP 2004 were exercised (2011: 0), 0 stock options were forfeited (2011: 117), 34,313 stock options expired (2011: 890); under ESOP 2008, 0 stock options were exercised (2011: 0), 675 stock options were forfeited (2011: 11,025), and 56,425 stock options expired (2011: 0); under ESOP 2010, 0 stock options were exercised (2011: 0) 11,150 stock options were forfeited (2011: 14,275), and 46,325 stock options expired (2011: 0). The number of stock options outstanding from the ESOP 2004, ESOP 2008 and ESOP 2010 is 337,013 as per December 31, 2012 (2011: 435,851).

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 Swiss Exchange 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.

End of May and beginning of June 2012, a plan modification was offered to the members of the Board. The offer enabled the option holder to have options which were granted before January 1, 2012, to be modified according to the terms under the BSOP, effective on July 1, 2012. As a consequence, a number of 3'000 options have been amended accordingly. Terms and conditions of the BSOP remain the same. The intention of this modification is to create a retention incentive for the members of the Board. For accounting purposes this transaction has been treated as a modification and the remaining costs in relation to the originally granted options will be expensed with acceleration within one year from July 1, 2012 (TCHF 15). The incremental fair value of the modified grant will be expensed over the same period of time (TCHF 24).

Options outstanding, exercised, forfeited or expired under BSOP 2011

As of December 31, 2012, 0 stock options under the BSOP 2011 were exercised (2011: 0), 0 stock options were forfeited (2011: 0), 2,500 stock options expired (2011: 0). The number of stock options outstanding from the BSOP 2011 is 33,000 as per December 31, 2012 (2011: 5,800).

Fair value calculations for stock options granted under ESOP 2010 and BSOP 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:

	2012	2011
Market price of stock	**CHF 3.63 to 5.35**	CHF 4.65 to 9.15
Exercise prices	**CHF 3.90 to 4.77**	CHF 5.60 to 7.15
Expected volatility[1]	**65%**	60%
CHF risk-free interest rate	**0.60 to 0.85 % p.a.**	1.00 to 1.93 % 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 1.53 (2011: CHF 3.89).

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. Stock options under BSOP 2011 vest with 100% after one year. In 2012 the modification of 148,014 options included a vesting period of one year for ESOP 2010 and BSOP.

Number of stock options outstanding and exercisable

Number of options	**2012**	2011
Outstanding at January 1	**501,061**	521,843
Granted[1]	**79,750**	18,550
Exercised[)]	**–4,075**	–13,025
Forfeited	**–11,825**	–25,417
Expired	**–139,563**	–890
Outstanding at December 31	**425,348**	501,061
Exercisable at December 31	**203,609**	376,978

1 In 2012, 148,014 options have been modified

2 The average closing share price of the trading days when options were exercised during the reporting period 2012 was CHF 4.59 (2011: CHF 6.88).

The value of stock options granted is recognized as personnel expenses over their vesting period. In 2012, stock option grants resulted in personnel expenses of TCHF 429 (TCHF 185 related to R&D, TCHF 55 related to Marketing & Sales (M&S) and TCHF 189 to General & Administration (G&A)) and in 2011, such grants resulted in personnel expenses of TCHF 1,697 (TCHF 330 related to R&D, TCHF 225 related to M&S and TCHF 1,142 to G&A).

Out of the above mentioned TCHF 429, TCHF 3 were expensed in 2012 for accelerated vesting in course of the option plan modification from May/June 2012. In 2011 there were TCHF 432, out of TCHF 1,697, used for accelerated vesting in course of the restructuring.

Terms of options outstanding at December 31

Exercise price range for options (CHF)	**Number outstanding**	**Weighted average remaining contractual life (years)**	**2012 Number exercisable**	Number outstanding	Weighted average remaining contractual life (years)	2011 Number exercisable
1.00	57,945	3.73	57,945	62,020	4.75	62,020
from 3.85 to 10.35	244,364	8.65	23,000	133,150	6.19	45,725
from 24.45 to 30.10	19,500	1.59	19,125	105,675	4.92	75,017
from 44.45 to 46.00	0	0	0	31,975	3.25	28,975
from 59.44 to 68.30	85,236	2.58	85,236	146,338	2.92	146,338
from 72.70 to 114.50	18,303	1.99	18,303	21,903	5.69	18,903
Total	**425,348**	**6.15**	**203,609**	**501,061**	**4.58**	**376,978**

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 neurodegenerative and neuromuscular 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	**2012**	2011
North America	**3,186**	2,938
EU	**352**	327
Total	**3,538**	3,265

Non-current assets (excluding financial instruments and deferred taxes)

in CHF thousands	**2012**	2011
EU (Germany)	**3,992**	21,114
Switzerland	**803**	3,911
North America	**0**	2
Total	**4,795**	25,027

In 2012, net sales of Catena® amounted to CHF 3.2 million in Canada and to CHF 0.35 million in the EU through the NPP (2011: CHF 3.0 million and CHF 0.3 million, respectively).

21 Gross Profit Breakdown

in CHF thousands	2012	2011
Net sales	**3,538**	3,265
Revenue	**3,538**	3,265
Cost of goods sold (COGS)	**−349**	−338
Of which amortization of intangibles	**−63**	−65
Gross profit	**3,189**	2,927

22 Other Operating Income

This position consists primarily of reimbursements from a scientific program and income from disposal of assets.

23 Operating Expenses by Function

in CHF thousands	2012	2011
Research (preclinical)	**0**	−2,517
Development	**−28,724**	−15,608
R&D expenses	**−28,724**	−18,125
Of which non-cash-relevant expenses for share-based payments	**−185**	−330
Of which non-cash-relevant expenses for pension fund	**−139**	168
Of which non-cash-relevant expenses relating to impairment intangibles	**−19,891**	−3,325
Of which non-cash-relevant expenses relating to inventory allowances	**−2,387**	0
M&S expenses	**−1,841**	−2,076
Of which non-cash-relevant expenses for share-based payments	**−55**	−225
Of which non-cash-relevant expenses for pension fund	**−21**	14
Business development and licensing	**0**	−633
Finance, management and administration	**−4,080**	−9,580

G&A expenses	**–4,080**	–10,213
Of which non-cash-relevant expenses for share-based payments	**–189**	–1,142
Of which non-cash-relevant expenses for pension fund	**–111**	175
Other operating expenses	**–56**	–103
Total operating expenses	**–34,701**	–30,517

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

Impairment of intangible assets is recognized in R&D expenses.

Allowances on inventory are recognized in R&D expenses.

24 Operating Expenses by Nature

in CHF thousands	2012	2011
External R&D expenses	**–5,700**	–9,081
Patent and license expenses	**–388**	–534
Marketing expenses	**–929**	–551
Employee expenses	**–5,663**	–11,813
Of which non-cash-relevant expenses for share-based payments	**–429**	–1,697
Of which non-cash-relevant adjustments of pension fund	**–271**	357
G&A expenses	**–1,388**	–2,884
Depreciation, amortization and impairment	**–20,009**	–4,852
Lease expenses	**–568**	–699
Other operating expenses	**–56**	–103
Total operating expenses	**–34,701**	–30,517

25 Employee Expenses and Benefits

Employee expenses

in CHF thousands	2012	2011
Wages and salaries	**–4,342**	–8,942
Social security and other personnel-related expenses[1]	**–892**	–1,174
Of which non-cash-relevant adjustments of pension fund	**–271**	357
Share-based-payments	**–429**	–1,697
Total employee costs	**–5,663**	–11,813

Average number of full-time equivalents[2]	**24.9**	43.0
Full-time equivalents at year-end	**23.1**	33.0
Total headcount at year-end	**26**	35

1 Thereof TCHF 17 was expensed for defined contribution plans in North America in 2012 (2011: TCHF 41).

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 2012, no termination benefits were expensed. In 2011, termination benefits from restructuring of TCHF 594 were paid in cash and TCHF 1,191 were expensed in 2011, but were paid in 2012. In 2011 TCHF 432 were expensed for accelerated vesting of employee stock options.

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	**2012**	2011
Present value of obligation, January 1	**7,410**	9,384
Current employer service cost	**659**	676
Interest cost	**185**	169
Employee contributions	**176**	317
Benefits paid/transfer payments	**–869**	0
Past service cost	**0**	0
Insurance premiums	**–121**	–174
Plan settlement	**0**	–1,766
Plan curtailment	**0**	–840
Actuarial (gain) loss on obligation	**–94**	–356
Present value of obligation, December 31	**7,346**	7,410

Changes in plan assets

in CHF thousands	2012	2011
Fair value of assets, January 1	**5,421**	6,361
Expected return on assets	**143**	124
Employer contributions	**436**	573
Employee contributions	**176**	317
Benefits paid/transfer payments	**–869**	0
Insurance premiums	**–121**	–174
Plan settlement	**0**	–1,766
Actuarial gain (loss) on assets	**41**	–14
Fair value of assets, December 31	**5,227**	5,421

Amounts recognized in the income statement

in CHF thousands	2012	2011
Current employer service cost	**659**	676
Interest cost	**185**	169
Expected return on plan assets	**–143**	–124
Amortization of net (gain) loss inclusive paragraph 58A	**6**	53
Settlement and curtailment (gain) loss recognized	**0**	–557
Company's net periodic pension cost	**707**	217

Amounts recognized in the balance sheet

as of December 31, in CHF thousands	2012	2011
Present value of defined benefit obligations	**7,346**	7,410
Fair value of plan assets	**–5,227**	–5,421
Present value of net obligation (asset)	**2,119**	1,989
Net unrecognized actuarial (loss) gain	**–663**	–804
Pension liability (asset) recognized in the balance sheet	**1,456**	1,185

History of experience adjustments

as of December 31, in CHF thousands	**2012**	2011	2010	2009	2008
Present value of defined benefit obligations	**7,346**	7,410	9,384	6,673	8,815
Fair value of plan assets	**−5,227**	−5,421	−6,361	−6,070	−8,266
Deficit / (surplus)	**2,119**	1,989	3,023	603	549
Experience adjustments on plan liabilities (gain (+); loss (−))	**838**	135	−507	186	−270
Experience adjustments on plan assets (gain (+); loss (−))	**41**	−14	81	−56	−71
Actual return on assets	**184**	110	287	282	214

The expected contributions for fiscal year 2013 amount to approximately TCHF 336 (2012: TCHF 523).

Plan assets

As of December 31, in %	**2012 Allocation**	2011 Allocation
Equity securities	**0.8**	2.3
Debt securities	**64.2**	75.3
Real estate	**17.4**	17.4
Other[1]	**17.6**	5.0
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 2.0% as per December 31, 2012 (2011: 2.5%). 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 %	**2012**	2011
Discount rate	**2.0**	2.5
Expected return on plan assets	**2.0**	2.5
Expected future salary increases	**1.5**	1.5
Expected future pension increases	**0.0**	0.0
Expected long-term credited interest rate	**2.0**	2.5

26 Financial Income / Expenses

Financial income

in CHF thousands	2012	2011
Interests on cash and cash equivalents	**50**	97
Realized and unrealized foreign exchange gains	**372**	3,250
Total	**422**	3,347

Financial expenses

in CHF thousands	2012	2011
Interest expenses	**0**	–11
Interest expenses for finance lease	**–125**	–119
Realized and unrealized foreign exchange losses	**–433**	–3,535
Total	**–558**	–3,665

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 0.2 million in 2012 is primarily related to the valuation of intangible assets denominated in EUR (in 2011: CHF 0.5 million).

28 Income Taxes

in CHF thousands	2012	2011
Current income tax expense	**–18**	–52
Deferred tax income/(expense)	**–139**	–255
Total	**–157**	–307

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

in CHF thousands	2012	2011
Result before taxes	**–31,291**	–27,531
Tax income of applicable tax rate of 20.0% (previous year: 15.0%)[1]	**6,258**	4,130
Effect of tax rate change	**0**	76
Value adjustments on investments and intercompany loans	**33,314**	0
Unrecognized deferred taxes on tax loss carryforwards	**–39,729**	–4,513
Effective tax income/(expense)	**–157**	–307
Effective tax rate	**0.5%**	1.1%

1 The tax rate of 20% 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 carry forwards against taxable profit is limited to seven years. According to currently applicable German tax law, tax loss carry forwards 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.

	2012	2011
Net result attributable to equity holders (in CHF)	**−31,448,093**	−27,837,704
Weighted average number of shares issued and outstanding	**3,676,874**	3,665,222
Basic and diluted result per share (in CHF)	**−8.55**	−7.60

For the years ended December 31, 2012 and 2011, 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	2012	2011
Short-term benefits: wages and salaries/Board compensation	**445**	1,542
Post-employment benefits (pension fund contributions)	**58**	249
Other long-term benefits	**0**	0
Termination benefits[1]	**0**	1,175
Share-based payment expenses (accelerated vesting from restructuring)[2]	**0**	335
Share-based payment expenses (fair value according to IFRS 2)[2]	**350**	606

1 Termination benefits were expensed and partly paid out in 2011. TCHF 691 were paid out in 2012 but expensed in 2011.

2 Fair values consist of option grants and modifications of existing grants from 2012 and 2011, 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	2012	2011
Wages and salaries, inclusive variable compensation	**323**	1,298
Termination benefits[1]	**0**	1,175
Stock option grants (number)[2]	**15,000**	0

1 Termination benefits were expensed and partly paid out in 2011. TCHF 240 were paid out in 2012 but expensed in 2011.

2 In 2012, 41,144 options have been modified.

In 2012, the highest and only remuneration for the Executive Management was paid to Thomas Meier, Chief Executive Officer (CEO). He received a gross compensation of TCHF 323 and 15,000 stock options (41,144 stock options were modified). In 2011, the highest remuneration among the Executive Management was paid to Klaus Schollmeier, Chief Executive Officer until September 30, 2011. He received a gross compensation (including termination benefits, partly payable in 2012) of TCHF 1'068 and no stock options.

Board of Directors compensation

in CHF thousands	2012	2011
Compensation fix	**122**	244
Termination benefits[1]	**0**	0
Stock options (number)[2]	**10,000**	5,500

1 Termination benefits were expensed and partly paid out in 2011. TCHF 451 were paid out in 2012 but expensed in 2011 and under Executive Management compensation (see *"Executive Management compensation" above*).

2 In 2012, 23,000 options have been granted as modification of options – besides the 10,000.

In 2012, the highest compensation to a member of the Board was paid to Timothy Rink. He received a gross compensation of TCHF 45 and 1,000 stock options (9,000 stock options were modified). In 2011, 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.

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 113,595 as of December 31, 2012 (2011: 137,118 stock options). By the end of 2012 the members of the Board held 2,960 Shares (2011: 2,960 Shares).

The total number of stock options held by the Executive Management amounted to 80,039 as of December 31, 2012 (2011: 65,039 stock options). As per December 31, 2012, the members of the Executive Management held 14,613 Shares (2011: 14,613 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:

per December 31	**2012 Total number of Shares**	**2012 Total number of stock options**	2011 Total number of Shares	2011 Total number of stock options
Board				
Klaus Schollmeier, Chairman	**930**	**87,595**	930	114,118
Jürg Ambühl	**800**	**6,000**	800	5,000
Martin Gertsch	**1,230**	**10,000**	1,230	9,000
Timothy Rink	**0**	**10,000**	0	9,000
Executive Management				
Thomas Meier, Chief Executive Officer	**14,613**	**80,039**	14,613	65,039

In 2012, no stock options were exercised by the Executive Management (2011: 13,025 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
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
2012	8,000	6.34
2012	1,000	4.53
2012	1,000	4.27
2012	23,000[1]	4.27

1 These options represent those which were modified in 2012 – not newly granted (see note 19 *"Stock Option Plans"*).

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
2009	16,000	44.45
2009	40,000	28.20
2010	61,000	9.45
2011	0	0
2012	15,000	4.53
2012	41,144[1]	4.27

1 These options represent those which were modified in 2012 – not newly granted (see note 19 *"Stock Option Plans"*).

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 on pages 63 to 65.

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 semi-annual 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 semi-annual basis (in 2012 and 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 of the Board 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.

Cash and cash equivalents held in USD, EUR and CAD are expected to cover estimated purchases in those currencies until end of 2012 No derivative currency contracts are outstanding as of December 31, 2012 and 2011.

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		
2012	+10%	29
	−5%	−14
2011	+5%	79
	−25%	−397
EUR positions		
2012	+5%	99
	−5%	−99
2011	+10%	664
	−15%	−996
CAD positions		
2012	+10%	175
	−5%	−88
2011	+10%	177
	−20%	−354

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.

	Increase/decrease in basis points	Effect on result before taxes in CHF thousands
2012		
CHF	+50	42
CHF	−50	−42
USD	+50	2
USD	−50	−2
EUR	+50	11
EUR	−50	−11
CAD	+50	7
CAD	−50	−7
2011		
CHF	+50	67
CHF	−50	−67
USD	+50	10
USD	−50	−10
EUR	+50	35
EUR	−50	−35
CAD	+50	5
CAD	−50	−5

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, 2012 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	2,218	0	0	0	2,218	2,218
Financial liabilities	0	41	121	648	3,509	4,319	2,207
Trade payables	0	654	0	0	0	654	654
Total	**0**	**2,913**	**121**	**648**	**3,509**	**7,191**	**5,079**

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**

Categories of financial instruments

Year ended December 31, 2012 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	362	362	0	0	0
Financial assets short-term	0	0	0	0	0
Trade receivables	518	518	0	0	0
Other receivables	8	8	0	0	0
Cash and cash equivalents	12,283	12,283	0	0	0
Total	**13,171**	**13,171**	**0**	**0**	**0**
Liabilities					
Long- and short-term debt	0	0	0	0	0
Financial liabilities long-term	2,171	0	0	2,171	0
Trade payables	654	0	0	654	0
Financial liabilities short-term	36	0	0	36	0
Total	**2,861**	**0**	**0**	**2,861**	**0**

1 Fair-value-through-profit-and-loss

Year ended December 31, 2011 in CHF thousands	Book value	Loans and receivables	Financial assets at FVtPL1	Other liabilities at amortized cost	Financial liabilities at FVtPL1
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

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 funds generated through product sales and revenue from licensing enabled the group to be adequately financed. However, further financing is needed for the Group to continue as a going concern (see note 2 *"Summary of Significant Accounting Policies"*)

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

32 Events after the Reporting Date

On January 18, 2013, Santhera announced that it has received a negative opinion on its MAA for Raxone® as a potential therapy for LHON. The EMA's CHMP has notified Santhera that a narrow majority of CHMP members deemed Raxone® not approvable at this time. Santhera believes that the clinical benefit of Raxone® in patients in whom the medical need for treatment was most urgent had not been fully considered and therefore has decided to request a re-examination of the opinion.

On February 27, 2013, Santhera announced that it will discontinue sales of Catena® in Canada for the treatment of FA under the NOC/c by April 30, 2013. Catena® had been conditionally authorized in Canada in July 2008 on the basis that it demonstrated promising evidence of clinical effectiveness for the treatment of patients with FA. One of the conditions of authorization was to provide confirmatory evidence of this effectiveness in further clinical studies. However, the data from the program of studies conducted were not considered by HC to provide such confirmation, and following consultation between Santhera and HC, Santhera has agreed to voluntarily withdraw Catena® from the Canadian market.

On March 22, 2013, Santhera announced that it withdrew, for strategic reasons, the MAA in Europe for Raxone® as a potential therapy for LHON. Santhera now plans to file a new application based on emerging clinical evidence supporting the efficacy of Raxone® in the treatment of LHON. This strategy is expected to increase the probability of a successful MAA outcome and is contingent on the availability of sufficient financial resources or on the outcome of ongoing licensing and merger or acquisition discussions.

On April 15, 2013, Santhera's Board of Directors decided to restructure the Company's operations, including the discontinuation of the marketing activities in North America and the reduction of its headcount. Additionally Santhera achieved a settlement with its landlord in order to resolve the short- and long-term finance lease liabilities (see note 10 *"Financial Assets and Liabilities – Short- and Long-term*"). The liabilities of CHF 2.2 million could be eliminated with a one-time payment of CHF 0.9 million and based on the fact that a new tenant could be found.

As a consequence of the negative opinion in January 2013, the withdrawal of the MAA for Raxone® in March 2013 and the tight financial situation of the Group, Management could most likely consider selling the intangible asset ("Catena®/Sovrima®" and "Capitalized development costs Catena®/Sovrima®" see note 7 "*Impairment Testing of Intangible Assets*") which is as of the reporting date classified as an intangible asset not yet available for use. The decisions of the Board of Directors may impact the impairment tests to be performed in 2013.

Report of the Statutory Auditor on the Consolidated Financial Statements

Basel, April 15, 2013

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 6 to 52) for the year ended December 31, 2012.

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, 2012 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 2 to the financial statements, which indicates the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern as well as note 7 to the financial statements, which describes a material uncertainty regarding the valuation of the intangible assets. Our opinion is not qualified in respect of these matters.

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 AG

Jürg Zürcher	David Haldimann
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

Statutory Financial Statements

Content

Balance Sheet

As of December 31, in CHF thousands	2012	2011
Assets		
Investments in Group companies	0	151
Loans to Group companies	642	153,377
Noncurrent assets	642	153,528
Treasury shares	0	39
Prepaid expenses and accrued income	0	32
Other receivables from Group companies	8	39
Other receivables from third parties	31	42
Cash and cash equivalents	8,995	21,420
Current assets	9,034	21,572
Total assets	9,676	175,100

Equity and liabilities		
Share capital	3,677	3,673
Capital reserves and share premium	1,832	1,832
Reserves for treasury shares	177	177
Free reserves	15,492	3,383
Reserves from capital contributions	151,046	163,155
Accumulated result	–162,769	1,532
Results carried forward	1,531	–2,262
Net result for the period	–164,300	3,794
Total equity	9,455	173,752
Trade accounts payable from third parties	22	42
Other accounts payable from Group companies	0	0
Other accounts payable from third parties	49	129
Accrued expenses	150	983
Short-term provisions	0	194
Total current liabilities	221	1,348
Total liabilities	221	1,348
Total equity and liabilities	9,676	175,100

Income Statement

For the year ended December 30, in CHF thousands	2012	2011
Revenue from Group companies	1,053	3,907
Total operating income	1,053	3,907
Other operating income	1	2
General and administrative expenses	–1,138	–2,499
Employee costs	–374	–3,165
Depreciation and amortization	0	–21
Allowances on investments and loans to Group companies	–166,568	–12
Total operating expenses	–166,080	–5,697
Operating result	–167,026	–1,788
Financial income	5,445	13,179
Financial expenses	–2,719	–7,597
Financial result	2,726	5,582
Result before taxes	–164,300	3,794
Taxes expenses	0	0
Net result	–164,300	–3,794

Notes to the Statutory Financial Statements

Introduction

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

Material uncertainties and ability to continue operations

Santhera's current funding is not sufficient to support the going concern assumption and the Company depends on further financing to ensure the continuation of its operations through the fourth quarter of 2013 and to execute its strategy as outlined below.

Having filed a Marketing Authorization Application (**MAA**) with the European Medicines Agency's (**EMA**) Committee for Medicinal Products for Human Use (**CHMP**) in Leber's Hereditary Optic Neuropathy (**LHON**) in 2011, Santhera received a negative opinion on its MAA in January 2013 and withdrew its intent to apply for re-examination for strategic reasons in March 2013. Santhera plans to file a new application based on emerging clinical evidence further evaluating the efficacy of Raxone® in the treatment of LHON.

The ability to file a revised MAA and to continue business operations until the CHMP reaches a decision on this new filing is contingent on the availability of sufficient financial resources. As a consequence, the Company has implemented restructuring measures to further reduce its workforce operational costs and its financial liabilities in connection with the lease of its premises and other obligations.

In addition, Management has initiated measures to secure additional financing by exploring possibilities of a merger, sale or licensing of its assets. Santhera has received expression of interest (non-binding Letters of Intent) from third parties for financial support of the Company. Nevertheless, shareholders should note that whilst the Management and Board of Directors continue to apply best efforts to evaluate available options and take the steps described, there can be no guarantee that any transaction can be realized or that such transaction would generate sufficient funds to finance further operations.

The access to additional funds is decisive for Santhera and its ability to continue operations and the absence of such a transaction would make it impossible for the Company to continue as a going concern. Under such circumstances, the Company would have to discontinue its business operations and could no longer apply the going concern assumption in preparing its financial statements for 2013.

The Board of Directors believes in the Company's chances in securing additional financing with the possibilities for a merger, sale or licensing of its assets before the end of the third quarter 2013 with the objective to be able to meet all of its obligations for a further 12 months. Hence, the financial statements have been prepared on a going concern basis.

Investments/Subsidiaries

	Share capital at December 31	2012	2011
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 2012, the share capital was increased by a total amount of CHF 4,075 to an amount of CHF 3,677,538 as of December 31, 2012 (2011: CHF 3,673,463), 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 22, 2014, 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, 2012, 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 695,925 by issuing a maximum of up to 695,925 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, 2012, the number of shares remained the same at 8,028, whereas the value was adjusted to CHF 0 in order to reflect the uncertainties of future the share price development.

Reserves from capital contributions

In March 2013, Santhera has been informed by the federal tax authorities that out of reported CHF 163,155,475 only CHF 151,045,795 have been accepted as capital contribution reserves. The Company has reclassified the difference to free reserves in order to reflect this decision.

Loans to Group Companies

Loans to group companies in the amount of CHF 166.4 million were fully impaired to CHF 0. These loans (end of 2011: CHF 152.7 million) were subordinated loans to the Company's subsidiary Santhera Pharmaceuticals (Schweiz) AG and were primarily related to the Group's research and development activities. The recoverability of these loans is not ensured anymore. 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, the successful Marketing Authorization Application with the European Medicines Agency and sufficient financing for future successful market launches of products in development.

The remaining amount of loans to group companies (CHF 0.6 million) represents a loan to the Company's subsidiary Santhera Pharmaceuticals (Canada), Inc., which is used for financing the local stock of Catena®. This loan is not subordinated and considered recoverable.

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 an annual 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 and 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, 2012, amounts to TCHF 250 (2011: 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, 2012, the loans amounted to EUR 6.1 million (2011: EUR 6.0 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 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 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, Montreal, 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, which was terminated effective as of January 18, 2011.

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	**2012 Shares**	**2012 %**	2011 Shares	2011 %
Ares Life Sciences, Switzerland	**545,777**	**14.9**	545,777	14.9
NGN Capital, Germany and US	**317,319**	**8.6**	317,419	8.6
Baker Brothers Life Sciences, US	**249,390**	**6.8**	190,792	5.2
Varuma, Switzerland	**146,932**	**4.0**	146,932	4.0
Heidelberg Innovation Fonds, Germany	**125,985**	**3.4**	125,985	3.4
Excalibur Biosciences / Merlin Biosciences, UK	**n/a**	**< 3.0**	211,744	5.8

Significant shareholders can also be directly searched at the website of SIX Swiss Exchange under the following link: http://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 2012

In CHF	Cash compensation fix	Car leasing	Termination compensation	Social security	Stock options[2]	Compensation total
Klaus Schollmeier, Chairman[1]	0	6,125	450,750	101,292	18,270	576,437
Jürg Ambühl	32,000	0	0	2,624	7,640	42,264
Martin Gertsch	45,000	0	0	3,690	11,590	60,280
Timothy Rink	45,103	0	0	2,010	11,820	58,933
Total	122,103	6,125	450,750	109,616	49,320	737,914

1 Klaus Schollmeier received no compensation for him being Chairman of the Board in 2012. All his compensations were paid for his function as former Chief Executive Officer and as a consequence represent termination compensation. 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" on pages 33 to 36 in the consolidated financial statements. For information about the Company's compensation procedures, consult the Corporate Governance Report on pages 80 and 82.

Option grants were made to all Board members in 2012; three of them participated also in the modification of options in June 2012. Besides the above disclosed, no other payments, allowances or loans were made to the members of the Board in 2012. Stock option grants to members of the Board of Directors are subject to the Compensation Policy for members of the Board as well as the Board Stock Option Plan.

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

In CHF	Cash compensation fix	Social security	Stock options[2]	Compensation total
Klaus Schollmeier, Chairman[1]	see below	see below	see below	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 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 theo-

retical 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" on pages 33 to 36 in the consolidated financial statements. For information about the Company's compensation procedures, consult the Corporate Governance Report on pages 63 to 65.

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 of Directors are subject to the Compensation Policy for members of the Board as well as the Board Stock Option Plan.

Disclosure of compensation of members of the Executive Management for the year 2012

In CHF	Cash compensation fix	Cash compensation variable	Termination compensation	Social security	Stock options[2]	Total	Number of stock options granted
Thomas Meier, Chief Executive Officer	323,187	65,800	0	70,923	79,763	539,673	15,000[3]
Former member of the Executive Management[1]	0	0	240,394	46,170	0	286,564	0
Total	**323,187**	**65,800**	**240,394**	**117,093**	**79,763**	**826,237**	**15,000**

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 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" on pages 33 to 36 in the consolidated financial statements. For information about the Company's compensation procedures, consult the Corporate Governance Report on pages 63 to 65.

2 Contains all termination compensation expenses from the restructuring 2011 of which parts are paid out in 2011 and other will be paid out in 2012.

3 In addition to these 15,000 options, 41,144 existing options were modified in 2012 (see note 19 *"Stock Option Plans" in the consolidated financial statements*).

Compensation to Mr Schollmeier, being Chairman of the Board since October 1, 2011, is disclosed on the above table *"Disclosure of compensation of members of the Board for the year 2012"*.

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

In CHF	Cash compensation fix	Cash compensation variable	Car leasing	Social security	Stock options[2]	Termination compensation[3]	Total	Number of stock options granted
Klaus Schollmeier, Chief Executive Officer[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" on pages 33 to 36 in the consolidated financial statements. For information about the Company's compensation procedures, consult the Corporate Governance Report on pages 63 to 65.

3 Contains all termination compensation expenses from the restructuring 2011 of which parts are paid out in 2011 and other will be paid out in 2012.

Disclosure of Shares and stock options held by members of the Board and Executive Management (and their respective related party) as of December 31, 2012

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	930	80,595	7,000	87,595
Jürg Ambühl	800	1,000	5,000	6,000
Martin Gertsch	1,230	0	10,000	10,000
Timothy Rink	0	0	10,000	10,000
Executive Management				
Thomas Meier, CEO	14,613	23,895	56,144	80,039

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 2012.

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	see below	see below	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.

Events after the Reporting Date

In February 2013 the Company granted an additional subordinated loan to its subsidiary Santhera Pharmaceuticals (Schweiz) AG in the amount of CHF 4.8 million. It was immediately impaired to CHF 0 (see note *"Loans to Group Companies"* above).

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	**2012**	2011
Result carried forward	1,531,228	–2,262,463
Net result of the year	–164,299,838	3,793,691
Accumulated result	**–162,768,610**	1,531,228
Offsetting with free reserves from capital contribution	151,045,795	0
Offsetting with free reserves	11,722,815	0
Result to be carried forward	**0**	1,531,228

Report of the Statutory Auditor on the Financial Statements

Basel, April 15, 2013

As statutory auditor, we have audited the financial statements of Santhera Pharmaceuticals Holding AG, which comprise the balance sheet, income statement and notes (pages 56 to 66) for the year ended December 31, 2012.

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, 2012 comply with Swiss law and the company's articles of incorporation.

Emphasis of Matter

We draw attention to "Material uncertainties and ability to continue operations" to the financial statements which indicates the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as going concern. If the Company were unable to continue as a going concern, its financial statements would need to be prepared on a liquidation basis. 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 recommend that the financial statements submitted to you be approved.

We draw your attention to the fact that half of the share capital and the legal reserves is no longer covered (article 725 paragraph 1 CO). As set out in the proposal of the Board of Directors, a set-off with the capital contribution reserves is proposed to the Annual General Meeting of Shareholders.

The preparation of the financial statements on a liquidation basis could result in additional losses which could exceed the amount of the existing equity. In this respect, we draw your attention to the provisions of article 725 of the Swiss Code of Obligations.

Ernst & Young AG

Jürg Zürcher	David Haldimann
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

Corporate Governance

Content

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 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, the Company's officers and the 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 14.3 million (December 31, 2012)
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 on page 59.

Santhera operates through its wholly owned subsidiaries, Santhera Pharmaceuticals (Schweiz) AG, Liestal, Switzerland (research and development [**R&D**] of pharmaceutical drugs, administrative functions); 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 and M&S 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 on page 62.

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, 2012, 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 % of ordinary capital	Amount in CHF[2]	As % of ordinary capital	Expiry	Section in Articles
Ordinary capital	3,673,463	100.0	3,677,538	100.0		3
Authorized capital	1,800,000	49.0	1,800,000	48.9	April 22, 2014	3a
Conditional capital for warrants/option rights granted in connection with debt instruments[1]	600,000	16.3	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)]	700,000	19.1	627,196	17.1		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 Shares which were issued from the Company's *"Conditional Capital for ESOP"*. These 4,075 Shares, while conveying shareholders' rights, have only been registered in the commercial register on April 11, 2013. With regard to the disclosure of participations in accordance with article 20 of the Swiss Stock Exchange Act, the entry in the commercial register is relevant.

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 on pages 33 to 36.

Changes in share capital (DCG 2.3)

For changes in capital that occurred in 2010 and 2011, see the Company's Annual Report 2011 which can be downloaded from www.santhera.com/reports. For changes that took place in 2012, see notes *"Share Capital"*, *"Authorized Share Capital"*, *"Conditional Share Capital"* to the statutory financial statements of the Company on pages 59 and 60.

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

As of December 31, 2012, 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 on pages 63 to 65 and note 19 *"Stock Option Plans"* to the consolidated financial statements on pages 33 to 36.

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	Audit Committee
Klaus Schollmeier	1957	DE	2007	2013	●	
Jürg Ambühl	1949	CH	2009	2014	⊙	⊙
Martin Gertsch	1965	CH	2006	2013	○	●
Timothy Rink	1946	UK	2004	2015	⊙	

● = 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, he 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. Mr Schollmeier holds a PhD in biology from the University of Dusseldorf, Germany, and in 1991, he became an adjunct research associate professor at the Boston University Medical School, US.

Jürg Ambühl

Jürg Ambühl is a seasoned marketing specialist with a long track record in the pharmaceutical industry. From 2003 to 2007, he 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 chief executive officer of Metagen Pharmaceuticals, a Berlin-based oncology spin-off of Schering. 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, Mr 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. He is member of the board of directors of Euromedic International BV. Mr Ambühl holds a PhD in chemistry from the Swiss Federal Institute of Technology (ETH), Zurich, Switzerland and an MBA from the INSEAD, Fontainebleau, France.

Martin Gertsch

Martin Gertsch is chief financial officer (**CFO**) of Acino Holding AG and an experienced board member.. He currently serves as chairman of the audit committee on the board of Evolva Holding. Formerly, he was vice-president, head of finance EMEA at DePuySynthes and 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 chief financial officer of Straumann, which he had joined in 1997 as head of group controlling and reporting. Between 1986 and 1997, Mr Gertsch was an audit engagement manager at PricewaterhouseCoopers, Basel, Switzerland. Mr Gertsch 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.

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 chief executive officer 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.

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 on pages 43 to 46.

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 2013, one until 2014 and another one until 2015). 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, who also acts as the secretary of the Board, 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.

The Board committees (DCG 3.4.2)

The Board has one standing Board committee, the Audit Committee (**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 risk management (**RM**) and the assessment of the semi annual 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 financial, market and operational risks and their influence on the position of the Company, and it in particular monitored cash situation and burn rate and their effect on the going concern status.

Compensation related tasks of the Board

After the dissolution of the NCC in 2011, the entire Board makes all decisions in compensation- and nomination-related matters. It approves the Company's stock option plans and 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 2012 and decided on a general salary increase of 1%. The Board determined that based on the overall Company performance, a bonus amounting to 70% of the target bonus for each employee would be paid. In order to be able to retain its employees, the Board also approved an option replacement scheme. 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.

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 2012

In 2012, the Board held four meetings in person which on average lasted more than three and a half hours. In addition, the Board held two teleconferences which on average lasted about three quarters of an hour. In two instances, the Board resolved by circular. In addition to other less formal contacts, the CEO briefed the Board on three occasions on regulatory developments. In the review period, the AC met four times. In average, each meeting lasted more than two 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 (semi-annually) and the Board (annually). The risk management report describes the risk management process (identification, analysis, governance and reporting), 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 2012, among the key risks identified were the financial situation of the Company, the regulatory risk in the EU in connection with the LHON Marketing Approval Application (**MAA**) and the retention of key personnel.

For the second half of 2012, the AC decided that no risk management report would have to be prepared as the Company's the 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 Board. 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 consists of the CEO only.
During the Board and Board Committee meetings the CEO reports to the Board as well as whenever required on an ad hoc basis. Members of the Executive Management would be 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 *"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	Chief Executive Officer

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. Mr Meier was the founder 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, Mr 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, Mr 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 1-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 1-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 1-time stock options, 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 on pages 33 to 36. 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 and the year before, with the exception however that for 2012, Klaus Schollmeier has waived his Board fees of CHF 96,000 he would have been entitled to receive in accordance with the policy as described below.

In the year under review, the "*Non-executive Board member Compensation Policy*" provided for compensation of the nonexecutive Board members as follows:

	Fixed annual compensation (in CHF)	Initial 1-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).

The Board decided that it would revisit its compensation in early 2013.

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; there is no shareholding program in place. 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 2012 by the Board. 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 Chief Scientific Officer; the increase of his base salary compared to 2011 amounted to 1%. As indicated above, the Board decided to pay a bonus for 2012.

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 contracts 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 the 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 on pages 63 to 65 and note 30 *"Related Party Transactions"* to the consolidated financial statements on pages 43 to 46.

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 Employee Stock Option Plans 2004, 2008 and 2010 (**ESOP**) and the Board Stock Option Plan 2011 (**BSOP**), under which most options to receive Shares have been granted (e.g. with the exception of those under the Executive Incentive Program [**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, 2012, 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 (**E&Y**), 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 E&Y for the twelve-month period ended December 31:

in CHF thousands	2012	2011
Audit services	309	234
Audit-related services	20	281

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 of Santhera 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 E&Y.

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 2012 Annual Report.

Corporate events 2013 (see also www.santhera.com/events):

– Annual Shareholders' Meeting: Monday, May 13, 2013 in Liestal

– Interim Report for the first half of 2013: Friday, August 30, 2013

Forward-Looking Statements

This Interim Report expressly or implicitly contains certain forward-looking statements concerning Santhera Pharmaceuticals Holding AG and its business. Such statements involve certain known and unknown risks, uncertainties and other factors, which could cause the actual results, financial condition, performance or achievements of Santhera Pharmaceuticals Holding AG to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. There can be no guarantee that any of the 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 Pharmaceuticals Holding AG 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 unexpected clinical trial results; unexpected regulatory actions or delays or government regulation generally; the Company's ability 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 Pharmaceuticals Holding AG is providing the information in this Interim 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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