

2008

Financial Report
Corporate Governance

Contents

Corporate Governance – General Information	2
Group Structure and Shareholders (DCG 1)	2
Capital Structure (DCG 2)	3
Board of Directors (DCG 3)	4
Executive Management (DCG 4)	10
Compensation, Shareholdings and Loans (DCG 5)	12
Shareholders' Participation (DCG 6)	13
Changes of Control and Defense Measures (DCG 7)	13
Auditors (DCG 8)	14
Information Policy (DCG 9)	14

Corporate Governance – General Information

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

The information published further below conforms to the Corporate Governance Directive (**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 47, 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 136 million (December 30, 2008)
Website	www.santhera.com
Commercial register	www.hrabl.ch
Duration of company	Not limited
Subsidiaries	See note "Investments/Subsidiaries" to the statutory financial statements of the company on page 60 (DCG 1.1.3).

Santhera operates through its wholly owned subsidiaries, Santhera Pharmaceuticals (Schweiz) AG (research and development [**R&D**] of pharmaceutical drugs), Santhera Pharmaceuticals (Canada), Inc. (marketing and sales [**M&S**] of pharmaceuticals) and Santhera Pharmaceuticals (USA), Inc. (M&S of pharmaceuticals). Geographically, its R&D activities are performed in Switzerland, the EU, Asia 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 at December 31, 2008, it had the following ordinary, authorized and conditional share capital:

Type of capital	Registered Capital		Issued but not Registered Capital		Expiry	Section in Articles
	Amount in CHF ²⁾	As percentage of ordinary capital	Amount in CHF ²⁾	As percentage of ordinary capital		
Ordinary capital	3,488,943	100.0	3,513,899	100.0	None	3
Authorized capital	429,918	12.3	429,918	12.2	April 20, 2010	3a
Conditional capital for warrants/option rights granted in connection with debt instruments ¹⁾	500,000	14.3	490,182	13.9	For conversion rights: 10 years from issue date For options: 7 years from issue date	3b I
Conditional capital for ESOP/EIP ¹⁾	700,000	20.1	684,862	19.5	None	3b II

1) ESOP: Employee Stock Option Plans 2004 and 2008; EIP: Executive Incentive 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 24,956 Shares, while conveying shareholders' rights, have been registered in the commercial register on February 26, 2009. 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 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 section on DCG 2.7 below.

For details with regard to the Company's ESOPs and EIP see note 19 "Stock Option Plans" to the consolidated financial statements on pages 39ff.

Changes in share capital (DCG 2.3)

For changes in capital that occurred in 2006 and 2007, see the Company's Annual Report 2007, which can be downloaded from www.santhera.com/reports. For changes that took place in 2008, see notes "Share Capital", "Authorized Share Capital", "Conditional Share Capital" to the statutory financial statements of the Company on pages 60ff.

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

As of December 31, 2008, 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.

The Company is permanently dispensed from the obligation to issue Shares or certificates evidencing Shares in physical form (*aufgehobener Titeldruck*). However, a registered shareholder may, at any time, request the Company to confirm its shareholding in written form.

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 consequently, 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 Financial Officer (**CFO**) who may cancel registration of shareholders if such registration was based on false information and if the CFO 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 57 and note 19 "Stock Option Plans" to the consolidated financial statements on pages 39ff.

Board of Directors (DCG 3)

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

Name	Year of birth	Nationality	First elected	Elected until	Board	AC ¹⁾	FSTC ²⁾	NCC ³⁾
Michael Lytton	1957	US	2004	2009	●		●	●
Hans Peter Hasler	1956	CH	2006	2009	●	○		
Martin Gertsch	1965	CH	2006	2010	○	●		
Rudolf Gyga	1949	CH	2001	2009	○	○		○
Timothy Rink	1946	UK	2004	2009	○		○	
Klaus Schollmeier	1957	DE	2007	2010	○			
Bernd Seizinger	1956	DE	2004	2010	○		○	○

1) Audit Committee

2) Financing Strategy & Transactions Committee

3) Nomination & Compensation Committee

● = Chairman

● = Vice Chairman

○ = Member

Michael Lytton, JD, MSc

On February 23, 2009 Biogen Idec (Nasdaq: BIIB) announced the appointment of Michael Lytton as executive vice president, Business and Corporate Development. From 2001 to 2009, Mr Lytton served as a general partner at Oxford Bioscience Partners. He is also a member of the boards of directors of Claros Diagnostics, Decision Biomarkers, GPC Biotech (FSE: GPC), Molecular Biometrics, Radius Pharmaceuticals, Rib-X Pharmaceuticals and VaxInnate Pharmaceuticals. Mr Lytton is chairman of the research and technology committee of the Immune Disease Institute at Harvard Medical School, Massachusetts, US, where he is vice chairman of the board of trustees. In addition, Mr Lytton serves on the board of directors of Medicines in Need, a nonprofit organization. Prior to joining Oxford Bioscience Partners, Mr Lytton was partner, chairman of the technology group and a member of the executive committee of Palmer & Dodge, a Boston-based law firm. Mr Lytton is a graduate of Princeton University and a recipient of a Fulbright Scholarship for study at the University of London. Mr Lytton received a JD degree from Harvard Law School, Massachusetts, US. Mr Lytton also received an MSc degree in epidemiology and medical statistics from the London School of Hygiene and Tropical Medicine, London, UK.

Hans Peter Hasler

Hans Peter Hasler is chief operating officer of Biogen Idec (Nasdaq: BIIB) and has served in that position since May 2008. Prior to that, Mr Hasler had served as executive vice president, Global Neurology and head of International. He has managed Biogen Idec's international business since 2003, serving as senior vice president, Head of International. Prior to the merger between Biogen and Idec, he served as executive vice president, Commercial Operations of Biogen, which he joined in August 2001. Prior to that, Mr Hasler was at Wyeth, where he had served as senior vice president, head of Global Strategic Marketing, since 1998. He was also a member of the Wyeth executive committee and was chairman of the Commercial Council. From 1993 to 1998, Mr Hasler served in a variety of senior management positions for Wyeth Pharmaceuticals, including managing director of Wyeth Group in Germany, general manager of Wyeth in Switzerland and general manager of Central Eastern Europe. Before joining Wyeth, Mr Hasler served as the head of Pharma Division at Abbott. Hans Peter Hasler holds a federal commercial diploma and a marketing manager certificate, SIB, Zurich. Mr Hasler is also a member of the board of directors of Acino Holding (SIX: ACIN).

Martin Gertsch

Martin Gertsch is chief financial officer of ESBATech, a drug discovery and development company focusing on therapeutic applications of its proprietary antibody fragments. From 2002 to the beginning of 2006, he was chief financial officer of Straumann Group, a Swiss-based global leader in implant dentistry and oral tissue regeneration. He joined Straumann in 1997 as head of group controlling and reporting of Straumann Holding AG. From 1986 to 1997 Mr Gertsch worked as 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.

Rudolf Gygax, PhD

Rudolf Gygax is a venture partner of Nextech Venture. Prior to that, Mr Gygax has been managing director of the Novartis Venture Fund for 12 years since its inception in 1997. Mr Gygax represented the Novartis Venture Fund as a member on the board of directors of several start-up companies (Covagen, the Genetics Company, Synphabase and Biocure). For nearly 20 years prior to joining the Novartis Venture Fund, he held various positions in the management of research and development at Ciba-Geigy (now Novartis) in the field of process safety and high-technology materials research. Mr Gygax has studied physical chemistry at the University of Basel, Switzerland.

Timothy Rink, MA, MD, ScD

Timothy Rink currently serves on the board of directors of Sepracor (Nasdaq: SEPR). He is chairman of the strategy panel (board of directors) of the Technology Transfer Division of the Wellcome Trust. Mr Rink has been a board member of a number of private and public US and UK biotechnology companies (Alanex, Astex, BioVex, CIPHERGEN, CoCensys, Gryphon Sciences, Lorantis, NPS Pharmaceuticals and Solexa). He was chairman and chief executive officer of Aurora Biosciences from 1996 to 1999. Mr Rink served as president and chief technical officer of Amylin Pharmaceuticals from 1990 to 1995 and presently serves as chairman of 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.

Klaus Schollmeier, PhD

Klaus Schollmeier is Chief Executive Officer (**CEO**) of Santhera. Mr Schollmeier joined Graffinity Pharmaceuticals AG (**Graffinity**) as CEO in 2003 and became CEO of the Company when Graffinity and MyoContract AG (**MyoContract**) were combined to form Santhera 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 senior director of biotechnology at BASF Bioresearch Corporation in Cambridge, Massachusetts, US (1989 to 1993). 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, Massachusetts, US.

Bernd Seizinger, Prof, MD, PhD

Bernd Seizinger joined GPC Biotech (FSE: GPC) as president and chief executive officer in 1998 from Genome Therapeutics in Waltham/Boston, Massachusetts, US, where he was executive vice president and chief scientific officer. Previously, Mr Seizinger held the posts of vice president of oncology and vice president of corporate and academic alliances at Bristol-Myers Squibb Pharmaceutical Research Institute in Princeton, New Jersey, US. Mr Seizinger was formerly associate professor of neuroscience at Harvard Medical School, Massachusetts, US, director of the Molecular Neuro-Oncology Laboratory at Massachusetts General Hospital, Massachusetts, US, and held a visiting professorship at the department of Molecular Biology at Princeton University, New Jersey, US. He was awarded his MD from the Ludwig Maximilians University and his PhD from the Max Planck Institute of Psychiatry, both in Munich, Germany. He is the recipient of numerous scientific awards and has authored over 100 publications. Bernd Seizinger is also a member of the board of BioXell (SIX: BXLN).

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

With the exception of Klaus Schollmeier, who is CEO of the Company, all Board members are non-executive and 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 29 "Related Party Transactions" to the consolidated financial statements on pages 46ff.

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 3.4)

According to the Company's Articles, the Board consists of no more than eight members. The term of office of a Board member may 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 (four Board members are elected until 2009 and three until 2010). The Board members were elected individually.

Organizational structure/areas of responsibility and information flow (DCG 3.5)

See also the table in the section on DCG 3.1.

Allocation of tasks within the Board (DCG 3.5.1)

In accordance with the Organizational Rules of the Company, the Chairman convenes and presides over the Board meetings. After consultation with the Executive Management, he decides on agenda items and motions. Other Board members may request that items be placed on the agenda. In case of an 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 3.5.2)

The Board has three standing Board committees, the Audit Committee (**AC**), the Financing Strategy & Transactions Committee (**FSTC**) and the Nomination & Compensation Committee (**NCC**). Committee memberships are indicated in the table on page 4.

Audit Committee

The AC supports the Board in exercising its responsibilities in monitoring the integrity of the financial statements of the Company, the independent public accounting firm's 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 and financial plans. It assesses the Company's ICS and is responsible for the Company's RM and the assessment of the semi-annual risk reports of the Executive Management. It communicates with the Company's external auditors concerning the results of their audits of the annual and interim accounts.

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 as well as its quarterly latest estimates for the running 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 further development of the Company's internal control and risk management systems as this became part of the financial audit in accor-

dance with the amendments to the Swiss Code of Obligations. In particular, the AC reviewed the design of the RM and the ICS, its entity and process level controls and IT general controls (ITGC). It discussed accounting matters with the auditors. The AC also approved Santhera's new disclosure policy.

Financing Strategy & Transactions Committee

The FSTC supports the Board in its responsibilities for the financial management and corporate finance activities of the Company and reviews the financing policies, plans and structure of the Company. The duties of the FSTC include reviewing and making recommendations, when appropriate, to the Board with respect to matters such as financing strategy, adjustments of the Company's capital structure, debt and equity placement programs, proposed licensing transactions, mergers, acquisitions, divestitures and insurance. As such, it usually only has advisory duties.

In the year under review, it was involved in the decision-making process with regard to the Company's financing transaction. In 2008, the FSTC held no formal meetings, but discussed financing proposals in teleconferences as well as via e-mails. Due to the magnitude and importance of the financing transaction with Ares Life Sciences, the Board, however, decided to remain closely involved in the decision-making process itself, rather than delegating tasks to the FSTC.

Nomination & Compensation Committee

The NCC assists the Board in compensation- and nomination-related matters. It provides recommendations on the policies for the compensation of the members of management and other employees. It approves the Company's stock option plans and grants on a total Company basis and to Executive Management on an individual basis, and the compensation of each member of the Executive Management. It also approves salary increases, bonus payments and option pools granted to senior managers and employees on an aggregate basis. It also approves promotions of employees to 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.

Both Board and NCC deliberate 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 NCC set the target achievement level with regard to the 2008 corporate scorecard, approved the general salary increase and total amount of incentive payments as well as the overall grant of stock options, the Company's hiring plan, the Company's overall compensation guidelines and recommended an amendment to the group directive "Compensation of nonexecutive directors". For additional information, see section on DCG 5.

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

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 non-transferable 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 (**EMEA**) and the US Food and Drug Administration (**FDA**). It reviews and approves merger and acquisitions (**M&A**) projects including licensing transactions of a significant magnitude.

In the reporting period, the main tasks of the Board and its committees were focused on the regulatory developments in Canada (approval of Catena® for the treatment of Friedreich's Ataxia by Health Canada under a notice of compliance with conditions), the EU (receipt of negative opinion with regard to SNT-MC17/lidebenone for the treatment of Friedreich's Ataxia, re-examination procedures), the financing transaction with Ares Life Sciences, progress of the main clinical trials, the research strategy and evaluation of certain partnering projects as well as assessment of potential M&A transactions. It also closely monitors the launch activities of the Company's first product, Catena®, and related sales in Canada.

The Board has delegated the day-to-day management of the Company to the Executive Management.

Scientific Advisory Board (SAB)

In addition to the Board, a corporate body required by law, the Company has an SAB. The SAB provides additional research and development expertise relevant to Santhera's business on an ad hoc basis. Members of the SAB meet as necessary with the scientific and development personnel as well as with members of the Executive Management to discuss and advise Santhera's present and long-term R&D activities. Members of the SAB do not advise the Board nor do they have any decision-making power. For curricula of the SAB members, see the Company's website www.santhera.com/sab.

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. Meetings may be held by telephone.

Meetings in 2008

As a consequence of the regulatory developments in the EU and the financing transaction, the Board met considerably more than in 2007. In addition, the Board decided twice via circular resolution in matters that had been prediscussed, were uncontroversial and did thus not merit another meeting.

Corporate body	Number of meetings*	Duration
Board	16	The longest meeting lasted 5 hours and 30 minutes, the shortest 30 minutes. On average, the duration of physically held meetings of the Board was more than 4 hours and those held by teleconferences about an hour.
AC	5	The longest meeting lasted 5 hours, the shortest 3 hours and 15 minutes. On average, the duration of the meetings of the AC was about 4 hours. All meetings were held in person.
FSTC	0	For explanations, see page 8.
NCC	4	The longest meeting lasted 5 hours, the shortest 3 hours and 15 minutes. On average, the duration of the meetings of the NCC was about 4 hours.

* Including meetings held by teleconference.

Information and control instruments vis-à-vis the Executive Management (DCG 3.7)

As a rule, all Executive Management members 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. Usually, other members of senior management are invited for certain agenda items in their area of expertise, for example, to discuss the progress of the clinical studies, submissions to regulatory authorities, the overall research strategy, 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, Board members frequently also take the opportunity to talk to employees before and after the meetings to obtain a more profound understanding of the Company's business and processes. Usually, the CEO and CFO and senior members of the finance department, including the senior managers responsible for accounting/reporting, controlling, financial planning, risk management and treasury, participate in the AC's meetings. From time to time, the AC also invites the Company's auditors and tax advisers to its meetings. The CEO and the Director Human Resources attend the meetings of the NCC. From time to time, the NCC also invites special advisors in the field of compensation and compensation policies to attend its meetings. Usually, all members of Executive Management attend the FSTC meetings.

Extraordinary transactions and issues must be reported by the CEO to the Board immediately. The CEO is in regular contact with the Chairman. Important news in 2008 included the marketing approval with conditions by Health Canada for Catena® for the treatment of Friedreich's Ataxia, the issue and confirmation of a negative opinion by the Committee for Medicinal Products for Human Use of the EMEA for SNT-MC17/idebenone in Friedreich's Ataxia and the financing transaction with Ares Life Science. 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 currently have an internal audit function, but parts of this function have been allocated to the financial controller and a quality assurance manager in the regulatory area.

Executive Management (DCG 4)

The Executive Management, under the responsibility of the CEO and the control of the Board, conducts the operational management of the Company pursuant to the Articles, the Organizational Rules and the by-laws for Executive Management.

During the Board and Board Committee meetings the Executive Management reports to the Board as well as whenever required on an ad hoc basis. The members of the Executive Management are appointed by the Board upon proposal of the CEO.

The Executive Management is responsible for implementation of the decisions taken by the Board and its committees. It prepares the business strategy and business plan for decision by the Board. In accordance with the Group Directive "Competencies & Responsibilities", the Executive Management approves material contracts. It also allocates financial, personnel and other resources within Santhera and supervises senior management. The Executive Management meets biweekly for about four hours and otherwise as often as required. The biweekly meetings follow a strict agenda and usually cover the following topics: compounds, their development stages, the discussion of design and results of clinical studies, regulatory strategy, research strategy and resource alloca-

tion, M&S, in- and out-licensing opportunities, collaborations, potential M&A transactions, competitive situation, RM & ICS, corporate affairs, financing situation and strategies, internal and external financial reporting, financial controlling, public and investor relations, human resources and taxes/legal/compliance.

Members of the Executive Management (DCG 4.1)

Name	Year of birth	Nationality	Position
Klaus Schollmeier	1957	DE	Chief Executive Officer
Barbara Heller	1967	CH	Chief Financial Officer
Thomas Meier	1962	DE	Chief Scientific Officer
Helmut Kessmann	1960	DE	Chief Business Officer

Klaus Schollmeier, PhD

See biographical details on page 6 of this report.

Barbara Heller, MBA (lic oec publ)

Barbara Heller joined Santhera as CFO in 2005. Prior to that, she was at Bank Vontobel, an independent Swiss private banking and investment banking group, as a member of the senior management team. She joined Vontobel in 1997 and held several positions in investment banking/corporate finance. In 1991, she started her professional career in international corporate banking and capital markets at Bank Leu, today a member of the Credit Suisse Group, where she was promoted to head of corporate finance/financial engineering. Ms Heller received a master's degree from the University of Zurich, Switzerland, in 1991 in economics and business administration, with an emphasis on corporate finance and econometrics.

Thomas Meier, PhD

Thomas Meier, Chief Scientific Officer (**CSO**), was founder and former CEO of MyoContract prior to the combination with Graffinity that led to Santhera. In 1999, Mr Meier became an independent research group leader and lecturer in the Department of Pharmacology and Neurobiology at the Biozentrum of the University of Basel, Switzerland, where he established MyoContract. 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 and is author of several papers in the field of neuromuscular research. Mr Meier won the International Research Fellowship Award from the US National Institutes of Health, the BioValley Basel Award 2007 and has received a long-term fellowship from the Human Frontier Science Foundation.

Helmut Kessmann, PhD

Helmut Kessmann, Chief Business Officer (**CBO**), joined Graffinity in 2001 as CBO, and since the combination with MyoContract, he has continued in that role for the Company. In 1996, Mr Kessmann cofounded Discovery Technologies, a biotechnology company in Basel, Switzerland, which was integrated into US-based Discovery Partners International in 1999 and had a successful IPO in 2000 (merged 2006 with Infinity Pharmaceuticals). Prior to that, following a postdoctorate in the US, he held various research management positions at Ciba-Geigy, now Novartis. Mr Kessmann studied biology, philosophy and business administration and completed his doctorate in biochemistry 1988 at the University of Munster, Germany. Helmut Kessmann is a member of the board of directors of Juvantia Pharma, Turku, Finland.

Other activities and vested interests (DCG 4.2)

With the exception of Klaus Schollmeier, who is also a member of the Board of Santhera, none of the Executive Management members 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 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)**

The remuneration of the members of the Board and the total compensation of the members of the Executive Management are established according to a guideline based on a comparative analysis of compensation paid within selected peer companies. Regularly, benchmark studies are conducted by an external consultant, who is awarded no additional mandates, for review and discussion by the NCC. By combining short- and long-term incentive elements, the compensation system is designed in a way that the interests of Executive Management are aligned with the interests of the Company and its shareholders. Compensation is reviewed and fixed annually. 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. Employment contracts with members of the Executive Management do not contain unusually long notice periods or contract durations. There are no agreements on severance in case of change of control in place, with the exception of those set out below in the section on DCG 7.2.

In 2008, the Company has not entered into any agreements on severance pay or end of service agreements. While the corporate goals for the year under review are determined by the Board, their achievement level and the impact of such achievement on the compensation is discussed in, and determined by the NCC.

The nonexecutive members of the Board are compensated by means of a fixed Board fee which is payable in cash. In addition, Board members are granted stock options. There is no variable pay element in the compensation of the nonexecutive members of the Board.

The executive member of the Board as such is not entitled to additional remuneration besides his compensation as CEO of the Company.

The compensation system for the members of Executive Management consists of both fixed and variable elements. The fixed salaries are established according to a comparative analysis of base salaries paid within selected peer groups of international companies. The variable elements consist of cash pay and – at the full discretion of the NCC – stock options. The variable cash element may amount up to 50% of the base salary for the CEO and up to 30% for the other members of the Executive Management. The incentive payment is a one-time reward for the annual performance against the corporate goals which are set at the beginning of the year. The option element is designed as a long-term incentive to stay with the Company.

The corporate goals reflect the Company's development stage and include the achievement of milestones in clinical development (study progress, site initiation, enrollment rates, study data persuasiveness, success of regulatory submissions), in business development, the maintenance of corporate governance standards as well as other value creating performance indicators.

For additional information, see note "Compensations to the Board and the Executive Management" of the statutory financial statements on page 63ff.

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 depository 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 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 in 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 meeting, are entitled to attend the Shareholders' Meeting and to exercise their votes at such meeting.

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 33 $\frac{1}{3}$ % 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 and 2008 (ESOP), under which most options to receive Shares have been granted (e.g. with the exception of those under the EIP) contain clauses according to which all options granted under the ESOP vest immediately upon a sale of more than 50%

of the Shares. Other than that, as of December 31, 2008, 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)

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

Auditing fees and additional fees (DCG 8.2/8.3)

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

	in CHF thousands	2008	2007
Audit services		253	214*
Audit-related services		37	38

* Includes an amount of CHF 25,000 invoiced in 2008 for services rendered in 2007.

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 ICS and RM. Audit-related services include those other services provided by auditors but not restricted to those that can only be provided by the auditor signing the audit report. They comprise amounts for services in relation to general accounting matters. For reasons of good corporate governance, Santhera contracted the provision of tax and ICS/RM services to a company other than Ernst & Young.

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

The Board performs its supervisory and control functions towards the external auditors through the AC. In particular, the AC meets with the auditors at the end of the audit to discuss in depth the audit procedure, any findings made and recommendations proposed. The management letter is also extensively discussed. The primary objective of the AC is to support the Board in monitoring Santhera's ICS, accounting principles, RM, financial reporting and auditing.

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 news releases, the Annual Reports and Interim Reports, the website www.santhera.com, fact sheets, as well as the Shareholders' Meeting and the R&D day.

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 financial report 2008.

Corporate events

- Annual Shareholders' Meeting April 27, 2009
- Interim Report September 4, 2009

Further events are published on the Company's website under www.santhera.com/calendar.

Consolidated Balance Sheet	18
Consolidated Income Statement	19
Consolidated Cash Flow Statement	20
Consolidated Statement of Changes in Equity	21
Notes to the Consolidated Financial Statements	22
1 General Information	22
2 Summary of Significant Accounting Policies	22
3 Critical Accounting Estimates and Assumptions	29
4 Exchange Rates of Principal Currencies	30
5 Tangible Assets	30
6 Intangible Assets	31
7 Impairment Testing of Intangible Assets	31
8 Inventories	33
9 Trade and Other Receivables	33
10 Financial Assets and Liabilities – Short- and Long-term	33
11 Cash and Cash Equivalents	34
12 Share Capital	34
13 Deferred Taxes	36
14 Trade and Other Payables	36
15 Accrued Expenses	36
16 Short-term Provisions	37
17 Contingent Assets	37
18 Commitments and Contingent Liabilities	37
19 Stock Option Plans	39
20 Information by Geographical Area	41
21 Revenue Breakdown	42
22 Other Operating Income	42
23 Operating Expenses by Function	42
24 Operating Expenses by Nature	43
25 Employee Expenses and Benefits	43
26 Financial Income/Expenses	45
27 Income Taxes	45
28 Earnings per Share	46
29 Related Party Transactions	46
30 Risk Management Objectives and Policies	48
31 Events after the Balance-Sheet Date	53
Report of the Group Auditors	54

Consolidated Balance Sheet

	as of December 31, in CHF thousands	Notes	2008	2007
Assets				
Tangible assets		5	1,481	1,363
Intangible assets		6	30,150	33,114
Financial assets long-term		10	10	111
Noncurrent assets			31,641	34,588
Prepaid expenses and accrued income			774	1,235
Inventories		8	4,062	584
Trade and other receivables		9	1,464	1,069
Financial assets short-term		10	0	81
Cash and cash equivalents		11	75,006	106,618
Current assets			81,306	109,587
Total assets			112,947	144,175
		Notes	2008	2007
Equity and liabilities				
Share capital		12	3,514	3,119
Capital reserves and share premium		12	265,590	249,295
Retained earnings		12	-163,088	-118,432
Translation differences		12	-1,542	1,532
Total equity			104,474	135,514
Financial liabilities long-term		10	0	1
Pension liabilities		25	263	271
Total non-current liabilities			263	272
Trade and other payables		14	2,265	3,659
Financial liabilities short-term		10	256	112
Accrued expenses		15	5,539	4,267
Short-term provisions		16	150	351
Total current liabilities			8,210	8,389
Total liabilities			8,473	8,661
Total equity and liabilities			112,947	144,175

Consolidated Income Statement

	for the year ended December 31, in CHF thousands	Notes	2008	2007
Net sales		20, 21	48	0
Other revenue		20, 21	0	9,226
Cost of goods sold		21	-23	0
Gross profit			25	9,226
Other operating income		22	26	2,439
Research and development		23, 24	-31,467	-23,335
Marketing and sales		23, 24	-3,484	-1,170
General and administrative		23, 24	-10,624	-18,151
Other operating expenses		23, 24	-67	-136
Operating expenses		23, 24	-45,642	-42,792
Operating result			-45,591	-31,127
Financial income		26	5,753	4,491
Financial expenses		26	-4,939	-1,918
Result before taxes			-44,777	-28,554
Income taxes		27	121	683
Net loss			-44,656	-27,871
Basic and diluted loss per share (in CHF)			-14.11	-8.99

Consolidated Cash Flow Statement

	for the year ended December 31, in CHF thousands	Notes	2008	2007
Result before taxes			-44,777	-28,554
Depreciation of tangible assets		5	629	755
Amortization of intangible assets		6	137	84
(Gains) and losses from disposals of intangible assets		6, 22	0	-2,337
(Gains) and losses from disposals of tangible assets			0	67
Issuance of share options		19	1,680	10,154
Net change in fair value of derivatives		10	227	29
Change in pension liabilities		25	-8	127
Change in short-term provisions		16	-177	-329
Release of tax accruals		27	121	0
Change in net working capital			-4,461	305
Total financial result			-1,041	-2,573
Interest received		26	2,021	2,417
Interest paid		26	-42	-99
Cash flow from operating activities			-45,691	-19,954
Investments in tangible assets		5	-746	-456
Disposal of tangible assets		5	0	211
Investments in intangible assets		6	-145	-99
Disposal of intangible assets		6, 22	0	2,337
Change in other financial assets		10	98	-20
Cash flow from investing activities			-793	1,973
Capital increases		12	15,010	56
Repayment of debt			0	-1,445
Cash flow from financing activities			15,010	-1,389
Effects of exchange rate changes on cash and cash equivalents			-138	326
Net increase/(decrease) in cash and cash equivalents			-31,612	-19,044
Cash and cash equivalents at January 1			106,618	125,662
Cash and cash equivalents at December 31			75,006	106,618

Consolidated Statement of Changes in Equity

	in CHF thousands	Notes	Share capital	Capital reserves and share premium	Retained earnings	Translation differences	Total
Balance at January 1, 2007			3,099	239,105	-90,561	405	152,048
Currency translation differences			0	0	0	1,127	1,127
Net loss			0	0	-27,871	0	-27,871
Total recognized income and expenses for the period			0	0	-27,871	1,127	-26,744
Issuance of share options		19	0	10,154	0	0	10,154
Capital increase from option exercise		12	20	36	0	0	56
Balance at December 31, 2007			3,119	249,295	-118,432	1,532	135,514
Balance at January 1, 2008			3,119	249,295	-118,432	1,532	135,514
Currency translation differences			0	0	0	-3,074	3,074
Net loss			0	0	-44,656	0	-44,656
Total recognized income and expenses for the period			0	0	-44,656	3,074	-47,730
Issuance of share options		19	0	1,680	0	0	1,680
Capital increase from warrant exercise		12	10	0	0	0	10
Capital increase from option exercise		12	15	9	0	0	24
Capital increase November 2008		12	370	15,543	0	0	15,913
Cost of issuance of share capital			0	-937	0	0	-937
Balance at December 31, 2008			3,514	265,590	-163,088	-1,542	104,474

1 General Information

Santhera Pharmaceuticals Holding AG (the **Company** together with its subsidiaries **Santhera** or **Group**) is a specialty pharmaceutical company focused on the discovery, development and commercialization of small-molecule pharmaceutical products for the treatment of severe neuromuscular diseases, seeking to address the high unmet medical need associated with these diseases. Santhera's vision is to become a global market leader in the treatment of neuromuscular diseases, which frequently qualify for orphan drug status.

The Company, having its primary listing of its registered shares (**Shares**) on the SIX Swiss Exchange is a Swiss stockholding corporation and the parent company of Santhera. Its purpose is to acquire, dispose and manage investments. The Company has its registered office at Hammerstrasse 47 in 4410 Liestal, Switzerland.

These consolidated financial statements were approved by the Board of Directors (**Board**) as of February 26, 2009, and are subject to approval by the shareholders on April 27, 2009.

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.

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, USA, Santhera Pharmaceuticals (Canada), Inc., Montréal, Canada, and Santhera Pharmaceuticals (Deutschland) GmbH, Lörrach, Germany.

The purchase method is used to account for the acquisition of subsidiaries by the Company. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. 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 minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement. The Group had no business combinations in the periods reported.

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 and selling goods to other Group companies.

Changes in accounting policies

Santhera has adopted the following new and amended standards and interpretations in 2008:

IFRIC 11, IFRS 2	Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 14, IAS 19	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interactions
IAS 39, IFRS 7	Financial Instruments: Recognition and Measurements, Financial Instruments: Disclosures

The adoption of these standards and interpretations did not have an effect on the financial position nor on the disclosures.

The following new or revised standards and interpretations will be adopted when becoming effective:

IFRIC 13	Customer Loyalty Programs: Effective for annual periods beginning on or after July 1, 2008. No impacts are expected on the Group's accounts as no customer loyalty programs exist within Santhera.
IFRIC 15	Agreements for the Construction of Real Estate: Effective from January 1, 2009. No impacts are expected on the Group's accounts as Santhera owns no real estate.
IFRIC 16	Hedges of a Net Investment in a Foreign Operation: Effective from October 1, 2008. No impacts are expected on the Group's accounts as Santhera does not apply hedge accounting.
IFRIC 17	Distributions of Non-cash Assets to Owners: Effective from July 1, 2009. No impacts are expected on the Group's accounts as no non-cash assets to owners are distributed.
IFRIC 18	Transfers of Assets from Customers: Effective from July 1, 2009. No impacts are expected on the Group's accounts as no such transfers are foreseen.
IFRS 2	Share-based Payment: amended. Effective from January 1, 2009. No material impacts are expected on the Group's accounts as Santhera's option plans have only service conditions.
IAS 1 (revised)	Presentation of Financial Statements: Effective from January 1, 2009. The revised standard requires that gains and losses recognized outside profit and loss are presented separately from the statement of changes in equity.

IFRS 8	Operating Segments: Replaces IAS 14 and requires an entity to adopt the “management approach” to reporting on the financial performance of its operating segments. Generally, the information to be reported would be what management uses internally for evaluating segment performance and deciding how to allocate resources to operating segments. IFRS 8 applies to the annual financial statements for periods beginning on or after January 1, 2009, with no effect on the Group’s accounts other than a modification of the required disclosures in the notes to the consolidated financial statements.
IAS 23	Borrowing Costs: revised. Effective from January 1, 2009. No impacts are expected on the Group’s accounts as Santhera has no borrowings.
IFRS 3	Business Combinations: revised. Effective for annual periods beginning on or after July 1, 2009. No impacts are expected on the Group’s accounts under the current Group structure.
IAS 27	Consolidated and Separate Financial Statements: revised. Effective for annual periods beginning on or after July 1, 2009. No material impacts are expected on the Group’s accounts under the current setup.
IAS 32 and IAS 1	Financial Instruments and Presentation of Financial Statements: amended. Effective from January 1, 2009. No impacts are expected on the Group’s accounts.
IFRS 1 and IAS 27	First Time Adoption of IFRS and Consolidated and Separate Financial Statements: amended. Effective from January 1, 2009. No impacts are expected on the Group’s accounts.
IAS 39	Financial Instruments: Recognition and Measurement: amended. Effective from July 1, 2009. No material impacts are expected on the Group’s accounts.

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, on financial instruments, provisions, employee benefits, revenue recognition, leases, income taxes and other topics 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 Santhera to apply them retrospectively to periods before the date of adoption of the new standards.

Segment reporting

Santhera has only one business segment, namely the discovery, development and commercialization of small-molecule pharmaceutical products for the treatment of severe neuromuscular diseases. Therefore, Santhera presents segment information by geographical segments only.

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 balance-sheet 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 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).

Research & Development (**R&D**) costs are expensed as incurred except for development costs, which relate to the design and testing of a new product line; they are recognized as an intangible asset in accordance with IAS 38.

Goodwill

Currently no goodwill is capitalized.

Trademarks and licenses

Currently no trademarks or licenses are capitalized.

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 (two to five 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
Laboratory equipment	5 to 8 years
Laboratory fixtures and fittings	5 to 10 years
Equipment	4 to 10 years
Equipment for clinical studies	1 to 2 years
IT hardware	2 to 5 years
Leasehold improvements	3 to 5 years

Impairment of assets

Assets include intangible assets not in 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. A change to finite useful life is accounted for as a change in an accounting estimate for the respective asset; testing for indicators of impairment is done at the end of each reporting period.

Borrowing costs

Borrowing costs are recognized as an expense when incurred.

Trade and other receivables

Receivables which generally have 30 days payment terms are stated at their nominal value less an allowance for any uncollectible amount if required. An estimate 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 twelve months of the balance sheet 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 twelve months after the balance-sheet date. These are classified as noncurrent assets. Loans and receivables are measured at amortized cost using the effective interest method.

Purchases and sales of financial assets are recognized on their trade date. This is the date on which Santhera commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognized 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 in hand and at banks, deposits held at call with banks, 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, which represents the net proceeds received. 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 tax rates enacted or substantially enacted at 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 if 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 defined benefit and defined contribution pension schemes.

a) Defined benefit schemes

Payments under this scheme go directly to the pension fund in the name 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 age, years of service and compensation in the form of a lifelong pension or a lump sum payment. The scheme also covers disability 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 employee expenses over the employees' expected average remaining service period.

b) Defined contribution schemes

Defined contribution schemes are also funded through direct payments to the pension fund in the name of each insured person. On 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 three stock option plans, the Employee Stock Option Plan 2004 (**ESOP 2004**), the Employee Stock Option Plan 2008 (**ESOP 2008**) and the Executive Incentive Plan (**EIP**) to align the long-term interests of the members of the Board, the Executive Management, employees and selected consultants (including scientific advisors) who are all eligible to participate in the ESOP 2004 and 2008. The EIP was only open to members of the Executive Management. Options granted under the ESOP 2004, the ESOP 2008 and the EIP are equity settled. The fair value of granted employee stock options is recognized as personnel expenses and is accounted for over the relevant vesting periods of each grant in accordance with IFRS 2.

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 counter party 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 continuing involvement is required in the form of technology transfer or technical support, revenues are recognized over the involvement period.

Revenue associated with performance milestones

Milestone payments are recognized based on achievement of such milestones, as defined in the relevant 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

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, and are reviewed for impairment at each balance-sheet date.

3 Critical Accounting Estimates and Assumptions

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 a higher degree of judgment or complexity or are areas where assumptions and estimates can have a significant impact on the consolidated financial statements.

- Measurement and impairment testing of intangible assets (*see note 7 "Impairment Testing of Intangible Assets"*).
- Personnel expenses in accordance with IFRS 2, i.e. estimates regarding the valuation of employee stock options (*see note 19 "Stock Option Plans"*).

4 Exchange Rates of Principal Currencies

	Income statement in CHF average rates		Balance sheet in CHF year-end rates	
	2008	2007	2008	2007
1 Euro (EUR)	1.5874	1.6432	1.4888	1.6587
1 US Dollar (USD)	1.0831	1.2004	1.0561	1.1267
1 Canadian Dollar (CAD)	1.0192	–	0.8643	–

5 Tangible Assets

	in CHF thousands	Laboratory and other equipment	IT hardware	Leasehold improve- ments	2008
Cost					
At January 1		3,063	584	486	4,133
Additions		528	206	12	746
Disposals		–99	–43	0	–142
Exchange differences		0	0	0	0
At December 31		3,492	747	498	4,737
Accumulated depreciation and impairment losses					
At January 1		2,430	206	133	2,769
Additions		328	203	98	629
Disposals		–99	–43	0	–142
Exchange differences		0	0	0	0
At December 31		2,659	366	231	3,256
Net book value		833	381	267	1,481
2007					
Cost					
At January 1		4,479	450	1,797	6,726
Additions		188	268	0	456
Disposals		–1,639	–134	–1,339	–3,112
Exchange differences		35	0	27	62
At December 31		3,063	584	485	4,132
Accumulated depreciation and impairment losses					
At January 1		3,266	181	1,348	4,795
Additions		503	155	97	755
Disposals		–1,365	–131	–1,339	–2,835
Exchange differences		26	1	27	54
At December 31		2,430	206	133	2,769
Net book value		633	378	352	1,363

The insured value of tangible assets amounts to CHF 9.6 million as of December 31, 2008 (December 31, 2007: CHF 4.5 million).

6 Intangible Assets

	in CHF thousands	SNT-MC17	Capitalized development costs (SNT-MC17)	IT software/ patents	2008
Cost					
At January 1		29,629	3,764	260	33,653
Additions		0	0	145	145
Disposals		0	0	0	0
Exchange differences		-2,990	0	0	-2,990
At December 31		26,639	3,764	405	30,808
Accumulated amortization and impairment losses					
At January 1		492	0	47	539
Additions		12	2	123	137
Disposals		0	0	0	0
Exchange differences		-18	0	0	-18
At December 31		486	2	170	658
Net book value		26,153	3,762	235	30,150
Cost					
	in CHF thousands	SNT-MC17	Capitalized development costs (SNT-MC17)	IT software/ patents	2007
At January 1		28,765	3,764	433	32,962
Additions		0	0	99	99
Disposals		0	0	-277	-277
Exchange differences		864	0	5	869
At December 31		29,629	3,764	260	33,653
Accumulated amortization and impairment losses					
At January 1		487	0	233	720
Additions		0	0	84	84
Disposals		0	0	-275	-275
Exchange differences		5	0	5	10
At December 31		492	0	47	539
Net book value		29,137	3,764	213	33,114

7 Impairment Testing of Intangible Assets

SNT-MC17 (INN: idebenone) and capitalized development costs

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

SNT-MC17 and the capitalized development costs amounting to CHF 29.9 million are the primary intangible assets of Santhera and form the base of the SNT-MC17 development projects of which

the Friedreich's Ataxia (**FA**) project is close to market approval in the US, Europe and Switzerland. In July 2008, a first product approval was achieved through a Notice of Compliance with Conditions in Canada by Health Canada for the treatment of symptoms of FA. First deliveries of the drug occurred in November 2008.

Due to this event, the intangible asset was split into two parts: the Canadian part amounts to CHF 0.8 million and has been classified as an intangible asset with finite useful life while the rest outside Canada remains classified as an intangible asset not in use, such split being based proportionally on expected revenues in each of the regions.

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

For the reporting periods since the Company's listing on the stock exchange, the recoverable amount of the intangible assets including the Canadian portion was calculated based on the market capitalization of Santhera representing the best basis to estimate the fair value less cost to sell.

The current financial crisis caused highly volatile and partly illiquid stock market environments, resulting in specifically low valuations of non-profitable companies, regardless of their business achievements. As a consequence, management concluded that market capitalizations can no longer be a reasonable basis to measure the recoverable amount of the main portion of the intangible assets.

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

Sensitivity to changes in assumptions

The rNPV model considers the net cash flows over the expected life time of the products based on the life time 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 further is based on a rNPV, taking into consideration the expected cumulated probability of reaching the market. The recoverable amount of the intangible assets with finite useful life was calculated on a rNPV basis only as there is no need for such risk-adjustment.

The key assumptions for the tests were as follows:

Discount rate (WACC)	15%
Market growth rate (terminal value)	0%
Probability of reaching market ¹⁾	90%
Period of projected cash flows	5 years

1) Used for the calculation of the intangible assets not in use only.

The impairment test of the recoverable amount of the intangible assets performed as explained above, does not result in the requirement to recognize impairment of the carrying value of SNT-MC17 and capitalized development costs.

An uncertainty remains as to whether a final and successful market registration could be achieved. Therefore, at the balance-sheet date, a respective risk of causing a future adjustment to the carrying amount of the SNT-MC17 projects remains.

8 Inventories

	in CHF thousands	2008	2007
Finished goods		57	0
Raw material		4,005	584
Total at December 31		4,062	584

Inventories represent the value of mainly active pharmaceutical ingredients which is kept by Santhera as stock for launch and inventory risk management purposes (security stock) for SNT-MC17 in the indication FA only. During 2008, CHF 531,356 was expensed as development expenses for clinical trials (CHF 460,699 during 2007).

9 Trade and Other Receivables

	in CHF thousands	2008	2007
Trade receivables		43	0
Other receivables (financial)		0	0
Other receivables (non financial)		1,421	1,069
Total at December 31		1,464	1,069

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, 2008.

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

Based on expected future expenses in foreign currencies, the Company entered into derivative contracts for the CHF versus the USD, fixing the exchange rate at a maximum of CHF 1.1225 to the USD. The fair value of such contracts amounted to a liability of CHF 256,111 as of December 31, 2008 (December 31, 2007: CHF 29,326). The Group does not apply hedge accounting; therefore changes in fair value of the contracts are accounted for directly through profit and loss as financial income or expenses. Financial assets long-term include cash deposits (with the government for customs clearance and other) of CHF 10,000 (December 31, 2007: CHF 107,687).

11 Cash and Cash Equivalents

	in CHF thousands	2008	2007
Cash at banks and on hand			
In EUR		1,756	12,648
In CHF		11,877	28,856
In USD		5,009	3,974
In CAD		171	0
Short-term money market deposits			
In EUR		14,590	1,095
In CHF		40,000	60,000
In USD		1,603	45
In CAD		0	0
Total at December 31		75,006	106,618

Cash at banks earns interests at floating rates based on monthly bank deposit rates. Funds not immediately needed are kept as short-term money market deposits with a time horizon of currently up to three months at money market rates. The fair value of the entirety of these positions per year-end amounted to CHF 75.0 million (2007: CHF 106.6 million).

12 Share Capital

Ordinary share capital

As of January 1, 2007, the share capital amounted to CHF 3,099,156, representing a total of 3,099,156 Shares. During 2007, 19,705 Shares were issued from conditional capital upon the exercise of stock options under the ESOP 2004 and the EIP. As a result, as of December 31, 2007, the share capital amounted to CHF 3,118,861, divided into 3,118,861 Shares.

In February 2008, 9,818 shares were issued from conditional capital upon the exercise of warrants allocated to the investors of Oy Juvantia Pharma Ltd, Turku, Finland (**Juvantia**) in 2006 upon entering the collaboration agreement with Juvantia. In November 2008, 370,082 Shares were issued from the authorized share capital in a private placement, increasing the share capital by CHF 370,082. During 2008 15,138 Shares were issued from conditional capital upon the exercise of stock options under the ESOP 2004 and the EIP. As a consequence, as of December 31, 2008, the share capital amounted to CHF 3,513,899, divided into 3,513,899 Shares.

Authorized share capital

At its 2008 Shareholders' Meeting, the Company's shareholders approved an authorized share capital authorizing the Board to increase the share capital by a maximum of CHF 800,000 through the issuance of 800,000 Shares with a nominal value of CHF 1 each. Out of this amount, 370,082 Shares at a nominal value of CHF 1.00 each were issued in November 2008 (see paragraph above), reducing the available amount for authorized share capital to CHF 429,918 as of December 31, 2008. The Board is authorized to increase the share capital by up to this amount at any time until April 20, 2010 through the issuance of up to 429,918 registered Shares with a nominal value of CHF 1.00 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.

As per July 12, 2006, Santhera entered into a cooperation agreement with Juvantia, for the clinical development of its product candidate JP-1730 (INN: fipamezole) to generate additional clinical data required for commencement of pivotal clinical trials in dyskinesia in Parkinson's disease (DPD). At the same time Santhera and the Juvantia investors entered into an option agreement that effectively grants Santhera the right to acquire Juvantia. If Santhera exercises the option, it shall either issue 105,973 Shares to the Juvantia investors (the preferential subscription rights of the existing shareholders are excluded) or, if for any reason, such Shares shall not be issued, a cash payment of EUR 9.0 million shall be made to them. Based on the current agreements, the option cannot be exercised before March 1, 2009, and the term of the option ends on December 31, 2009. In case the option is exercised after June 30, 2009, Santhera will have to pay up to EUR 0.6 million to Juvantia shareholders in addition.

Conditional share capital

At its 2008 Shareholders' Meeting, the Company's 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 1.00 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 or (ii) the closing price of the share at the grant date. With respect to options that can be converted into 175,000 shares, the exercise price must in addition be at least CHF 90. The pre-emptive rights of the shareholders are excluded.

In addition, the shareholders approved a maximum increase of the share capital by an aggregate amount of CHF 500,000 through the issuance of a maximum of 500,000 Shares with a par value of CHF 1 per share by the exercise of option and/or conversion rights which are granted in connection with the issue of bonds, similar obligations or other financial instruments by the Company or another group company, and/or by the exercise of options which are granted by the Company or another group company. In the case of the issue of bonds, similar obligations or other financial instruments linked with option and/or conversion rights, and in the case of the issue of option rights, the pre-emptive right of shareholders is excluded.

As of December 31, 2008, the Company had a conditional share capital, pursuant to the above provisions to increase the share capital by:

- (i) an maximum additional amount of CHF 684,862 by issuing up to 684,862 additional Shares, under the exclusion of shareholders' pre-emptive rights, for option rights being exercised under the Company's stock option plans (see note 19 "Stock Option Plans"), whereas 175,000 Shares may not be issued at an exercise price below CHF 90; and
- (ii) a maximum amount of CHF 490,182 by issuing up to 490,182 Shares, through the exercise of warrants and/or notes granted in connection with bonds or similar debt instruments or options granted by the Company.

13 Deferred Taxes

Net deferred taxes recorded

	in CHF thousands	2008	2007
Temporary differences on development costs		3,923	4,371
Tax loss carry forwards		-3,884	-4,330
Temporary differences on pension liabilities		-39	-41
Deferred tax liabilities recognized		0	0
Tax loss carry forwards		172,029	149,693
Of which recorded		-25,890	-28,866
Of which unrecorded		146,139	120,827
Expiring			
One year		3,089	1,065
Two years		4,319	3,089
Three years		18,289	4,319
Four years		3,632	18,289
Five years		34,130	3,632
More than five years		69,446	53,856
Without expiration		13,234	36,577
Total unrecorded tax loss carryforwards		146,139	120,827

Due to the uncertainty surrounding the future results of operations and the uncertainty as to whether Santhera can use the loss carry forwards for tax purposes, deferred tax assets on tax loss carry forwards 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	2008	2007
Trade payables		1,686	3,201
Other payables (financial)		0	0
Other payables (non financial)		579	458
		2,265	3,659

All positions are non interest bearing and usually settled within 30 to 60 days.

15 Accrued Expenses

	in CHF thousands	2008	2007
R&D programs		3,831	2,122
Liabilities to employees and severance payments		1,229	1,489
Accrued interest, stamp duty, VAT, withholding tax		0	150
Remaining restructuring expenses		0	42
Other		479	464
Total at December 31		5,539	4,267

16 Short-term Provisions

	in CHF thousands	Personnel expenses	Various items	2008	2007
At January 1		146	205	351	680
Utilization		0	0	0	-408
Reversal		-137	-40	-177	-100
Additions		0	0	0	164
Exchange differences		-9	-15	-24	15
At December 31		0	150	150	351

This position contains also provisions for probable expenses in connection with potential legal cases.

17 Contingent Assets

Collaboration with Takeda

In 2005, Takeda Pharmaceutical Company Ltd, Osaka, Japan (**Takeda**), and Santhera concluded a license agreement under which Santhera will conduct all clinical development work necessary for regulatory approval of SNT-MC17 in the indication FA and licensed the exclusive marketing rights for the European Union (**EU**) and Switzerland to Takeda. Santhera received an up-front payment of EUR 5.0 million in 2005 and a milestone payment of EUR 3.0 million for achieving the acceptance of the Marketing Authorization Application (**MAA**) by the European Medicines Agency (**EMA**) in August 2007. Santhera is entitled to one further milestone payment over EUR 4.0 million upon the transfer of the granted MAA approval to Takeda. 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.

In August 2007, Santhera and Takeda entered into another agreement granting Takeda the European marketing rights to SNT-MC17 in the indication Duchenne Muscular Dystrophy (**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 SNT-MC17 in the EU and Switzerland in DMD. Santhera in return received an upfront payment of EUR 2.0 million from Takeda and is entitled to further milestone payments, each upon the initiation of a pivotal trial, acceptance of the filing by the EMA and transfer of the granted MAA approval to Takeda, totaling up to EUR 18.0 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

Operating lease commitments

Santhera has lease contracts mainly for equipment used in research and one vehicle. The future minimum lease payments under non-cancelable operating leases are as follows:

	in CHF thousands	2008	2007
Within 1 year		23	170
1 year through 5 years		0	0
After 5 years		0	0
Total at December 31		23	170

Commitment for the lease of buildings

Santhera has lease contracts for its facilities in Liestal, Switzerland, and Charlestown, USA. In 2008, Santhera entered into a new rental agreement for facilities in Liestal, Switzerland, effective as of April 1, 2009 for a minimum rental period of three years. The annual lease payment under this contract amounts to CHF 922,035.

	in CHF thousands	2008	2007
Within 1 year		749	311
1 year through 5 years		2,075	0
After 5 years		0	0
Total at December 31		2,824	311

Contingent liabilities

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

Based on a license agreement between Santhera Pharmaceuticals (Schweiz) AG and the Institut National de la Santé et de la Recherche Médicale, Paris, France (**INSERM**), Santhera has an obligation to make a milestone payment after the first New Drug Application (EUR 150,000) for SNT-MC17 in FA by the US Food and Drug Administration (**FDA**). In further consideration of the rights and licenses granted, Santhera has an obligation to pay INSERM a running royalty equal to 3% of net sales, not to exceed EUR 500,000 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 before-mentioned up-front payment by Santhera in case Santhera does not obtain marketing approval for SNT-MC17 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 SNT-MC17 in FA.

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 SNT-MC17 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 SNT-MC17 for the treatment of cardiomyopathy and muscle weakness in DMD.

K.U. Leuven is entitled to a success fee of up to EUR 400,000 when Santhera commercializes any product in a major market, such as Europe, USA 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 excluding payments received 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**), regarding the in-licensing of the compound TCH346 (now SNT-317, INN: omigapil) from Novartis. Santhera intends to develop SNT-317 for the treatment of Congenital Muscular Dystrophy. 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 Santhera net sales.

Contracts for clinical development

Santhera has entered into contracts for clinical development with Contract Research Organizations (**CRO**). Santhera compensates the CROs for the 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	2008	2007
Within 1 year		9,232	13,832
1 year through 5 years		1,212	3,443
After 5 years		0	0
Total at December 31		10,444	17,275

Rental agreement

If Santhera terminates the new rental contract in Liestal, Switzerland (*see above "Commitment for the lease of buildings"*), after the fixed period of three years (until March 31, 2012), an amount of up to CHF 2.1 million becomes payable for leasehold improvements. This amount is gradually reduced to CHF 1.0 million after ten years and to CHF 0 after 30 years. In case a subsequent tenant enters into the lease contract under the same conditions, no payments will be due.

19 Stock Option Plans

Santhera has established stock option plans to align the long-term interests of the Directors, the Executive Management, employees and consultants, including members of the Scientific Advisory Board (**SAB**). Options granted under the stock option plans are equity settled.

Executive Incentive Plan

Under the EIP, the members of the Executive Management have been 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 1.00. The vesting period of the options is one year. At the end of the option term, i.e. after a period of ten years as from the grant day, all unexercised stock options shall expire without value. The plan contains provisions in respect of adjustment or cancellation of options upon termination of employment, disloyalty, severe breach of duties, retirement, death, disability and certain corporate transactions. The EIP is administered under the responsibility of the Board. No further grants can be made under the EIP.

Options outstanding, vested or exercised 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 twelve months (*see note 29 "Related Party Transactions"*). 3,616 options under the EIP were exercised by December 31, 2008 (4,721 options during 2007). The remaining number of options outstanding from the EIP is 92,728 as of December 31, 2008 (96,344 options as of December 31, 2007).

Employee Stock Option Plans

The Company has adopted the ESOP 2004 and ESOP 2008 to provide incentives to Directors, the Executive Management, employees and consultants (including members of the SAB) and help to ensure their commitment to Santhera over the long-term. Grants of stock options under the ESOP 2004 were terminated by the end of 2007 and new grants can be allocated under the ESOP 2008 since January 1, 2008. Option grants are made from time to time at the discretion of the Board (or as contractually agreed with senior employees) based on proposal by the Nomination & Compensation Committee. The ESOP 2004 and the ESOP 2008 contain customary provisions in respect of the adjustment or cancellation of stock options upon termination of employment, retirement, death, disability, certain corporate transactions, and events or changes in the Company's shareholder base. The ESOP 2008 is 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 or b) for employees in the US and Canada only, the closing share price on the SIX Swiss Exchange at each grant date. 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 and the EIP, vested stock options of employees leaving the company in good faith do not lapse. Vested stock options granted under the ESOP 2008 of employees leaving the company in good faith will expire six months after the termination date of the employment. Unvested stock options of employees leaving the company are forfeited under all stock option plans.

As of December 31, 2008, the number of stock options which can be granted amounts to 332,591, whereof 175,000 stock options if granted could not have an exercise price below CHF 90.

Options outstanding, vested or exercised under ESOP 2004 and ESOP 2008

As of December 31, 2008, 11,522 stock options under the ESOP 2004 were exercised (14,984 during 2007), 1,100 stock options were forfeited (1,682 during 2007). The number of options outstanding from the ESOP 2004 and the ESOP 2008 is 259,543 as per December 31, 2008 (201,165 options were outstanding as per December 31, 2007).

Fair value calculations for stock options granted under ESOP 2004 and ESOP 2008

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:

	2008	2007
Market price of stock	CHF 33.00 – 95.00	CHF 77.00 – 135.00
Exercise prices	CHF 45.35 – 95.70	CHF 1.00 – 114.50
Expected volatility ¹⁾	50%	40.00 – 50.00%
CHF risk-free interest rate	3.30 – 3.42% p.a.	2.65 – 3.50% p.a.
Option term ²⁾	10 years	10 years
Expected dividend yield	0.00%	0.00%

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 25.17 (CHF 67.27 in 2007).

2) After expiration of the vesting period, the options 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.

Options outstanding

	2008 Number of options	2007 Number of options
At January 1	297,509	274,737
Granted	71,000	44,159
Forfeited	-1,100	-1,682
Exercised ¹⁾	-15,138	-19,705
Expired	0	0
At December 31	352,271	297,509

1) The average closing share price of the trading days when options were exercised during the reporting period was CHF 68.34 (CHF 94.62 during 2007).

The options granted are recognized as personnel expenses over their vesting period. In 2008, option grants resulted in personnel expenses of CHF 1,680,028 (CHF 400,858 related to R&D, CHF 261,429 related to Marketing & Sales [M&S] and CHF 1,017,741 to General & Administration [G&A]), and in 2007 such grants resulted in personnel expenses of CHF 10,153,853 (CHF 416,817 related to R&D, CHF 166,910 related to M&S and CHF 9,570,126 to G&A).

Terms of options outstanding at December 31, 2008

Exercise price for options (CHF)	Number outstanding	Weighted-average remaining contractual life (years)	Number exercisable
1.00	116,501	7.53	112,001
45.35	2,200	9.76	0
59.44	133,560	6.06	104,786
60.25	10,690	5.00	10,690
68.30	43,200	9.76	0
72.70	9,000	9.25	0
77.50	12,000	9.25	0
82.58	6,300	7.76	3,150
89.80	1,600	8.01	0
95.70	4,000	9.01	0
101.80	2,900	8.76	0
106.80	10,000	8.25	0
114.50	320	8.50	0
Total	352,271	7.34	230,627

20 Information by Geographical Area

Santhera has only one business segment, namely the discovery, development and commercialization of small-molecule pharmaceutical products for the treatment of severe neuromuscular diseases.

Geographical analysis of net sales and other revenue

	in CHF thousands	2008	2007
EU and Switzerland		224	1,007
North America		48	0
Asia		0	8,219
Inter-segment elimination		-224	0
Total net sales and other revenue		48	9,226

The net sales in 2008 result from first product sales of Catena® in Canada. No income from collaboration and license agreements was generated during 2008. The other revenue in 2007 results from collaboration and license agreements with Takeda regarding SNT-MC17 in DMD in Europe, CHF 3.3 million (EUR 2.0 million) as upfront payment, and regarding SNT-MC17 in FA in Europe, CHF 4.9 million (EUR 3.0 million) as milestone payment. Furthermore, a milestone payment of CHF 1.0 million from a European pharmaceutical company was recognized.

Geographical analysis¹⁾

2008	in CHF thousands	EU and Switzerland	North America	Inter- Segment Elimination	Group
Segment assets		112,795	1,788	-1,636	112,947
Segment liabilities		8,232	1,736	-1,495	8,473
Capital expenditures		867	23	0	890
Net sales with external customers		0	48	0	48
Net sales with other segments		224	0	-224	0
Other operating income		26	0	0	26
Segment expenses		-43,509	-2,268	112	-45,665
<i>thereof depreciation/amortization</i>		-762	-4	0	-766
<i>thereof expenses for share-based payments</i>		-1,579	-101	0	-1,680
Operating result		-43,259	-2,220	-112	-45,591

1) Currently there are neither assets nor capital expenditures in Asia.

In 2007, the Group only operated in one geographical segment which was EU and Switzerland. There were total assets of CHF 144.2 million and capital expenditure of CHF 0.6 million.

21 Revenue Breakdown

	in CHF thousands	2008	2007
Net sales		48	0
Other revenue		0	9,226
<i>Of which upfront and milestone payments</i>		0	9,226
Cost of goods sold (COGS)		-23	0
<i>Of which amortization of intangibles</i>		-13	0
Gross profit		25	9,226

22 Other Operating Income

This position consists of reimbursements for scientific programs in 2008 and in income of CHF 2.4 million, mainly realized as a gain from the sale of non-core intellectual property rights in 2007.

23 Operating Expenses by Function

	in CHF thousands	2008	2007
Research (preclinical)		-8,741	-7,777
Development		-22,726	-15,558
R&D expenses		-31,467	-23,335
<i>Of which noncash-relevant expenses for share-based payments</i>		-401	-417
M&S expenses		-3,484	-1,170
<i>Of which noncash-relevant expenses for share-based payments</i>		-261	-167
Business development and licensing		-1,211	-2,649
Finance and administration		-9,413	-15,502
G&A expenses		-10,624	-18,151
<i>Of which noncash-relevant expenses for share-based payments</i>		-1,018	-9,570
Other operating expenses		-67	-136
Total operating expenses		-45,642	-42,792

Amortization of intangibles is included in COGS, R&D expenses as well as G&A expenses.

24 Operating Expenses by Nature

	in CHF thousands	2008	2007
External R&D expenses		-23,195	-15,526
Patent and license expenses		-434	-491
Marketing expenses		-1,765	-649
Employee expenses		-15,054	-21,409
<i>Of which noncash-relevant expenses for share-based payments</i>		-1,680	-10,154
G&A expenses		-4,036	-3,307
Depreciation and amortization		-752	-839
Lease expenses		-339	-435
Other operating expenses		-67	-136
Total operating expenses		-45,642	-42,792

25 Employee Expenses and Benefits

Employee expenses

	in CHF thousands	2008	2007
Wages and salaries		-11,425	-9,214
Social security and other personnel related expenses ¹⁾		-1,949	-2,041
Share based payments		-1,680	-10,154
Total employee costs		-15,054	-21,409
Average number of full-time equivalents²⁾		74.9	60.9
Full-time equivalents at year-end		80.9	65.0
Total headcount at year-end		90	72

1) Thereof CHF 11,012 were expensed for defined contribution plans in North America in 2008 (CHF 0 in 2007).

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 connection with the restructuring of the activities of Santhera in Germany in the course of 2005, outstanding termination benefits of CHF 0 were paid in 2008 (2007: CHF 8,543).

Pension plan

In accordance with the Swiss pension fund law, all Swiss employees of Santhera Pharmaceuticals Holding AG and Santhera Pharmaceuticals (Schweiz) AG are affiliated with the collective pension foundation "Vita" of Zurich Financial Services. Whereas the risks of death and disability are fully reinsured by the insurance company, the savings plan must be qualified as a defined benefit plan.

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

Changes in defined benefit obligations

	in CHF thousands	2008	2007
Present value of obligation, January 1		6,860	3,968
Current employer service cost		729	604
Interest cost		240	111
Employee contributions		692	450
Benefits paid/transfer payments		568	2,150
Insurance premiums		-421	-290
Actuarial (gain) loss on obligation		147	-133
Present value of obligation, December 31		8,815	6,860

Changes in plan assets

	in CHF thousands	2008	2007
Fair value of assets, January 1		6,521	3,606
Expected return on assets		285	138
Employer contributions		692	450
Employee contributions		692	450
Benefits paid/transfer payments		568	2,150
Insurance premiums		-421	-290
Actuarial gain (loss) on assets		-71	17
Fair value of assets, December 31		8,266	6,521

Amounts recognized in the income statement

	in CHF thousands	2008	2007
Current employer service cost		729	604
Interest cost		240	111
Expected return on plan assets		-285	-138
Recognition of actuarial (gain) loss		0	0
Company's net periodic pension cost		684	577

Amounts recognized in balance sheet

	As of December 31, in CHF thousands	2008	2007
Present value of defined benefit obligations		8,815	6,860
Fair value of plan assets		-8,266	-6,521
Present value of net obligation (asset)		549	339
Net unrecognized actuarial (loss) gain		-286	-68
Pension liability (asset) recognized in the balance sheet		263	271

History of experience adjustments

	As of December 31, in CHF thousands		
	2008	2007	2006
Present value of defined benefit obligations	8,815	6,860	3,968
Fair value of plan assets	-8,266	-6,521	-3,606
Deficit/(surplus)	549	339	362
Experience adjustments on plan liabilities	270	155	139
Experience adjustments on plan assets	71	-17	21
Actual return on assets	214	155	89

The expected contributions for fiscal year 2009 amount to approximately CHF 712,000 (2008: CHF 692,000).

Plan assets

	in %	Dec 31, 2008 Allocation	Dec 31, 2008 Expected return ¹⁾	Dec 31, 2007 Allocation	Dec 31, 2007 Expected return ²⁾
Equity securities		17.8	6.6	15.0	6.9
Debt securities		52.3	2.9	54.0	3.1
Real estate		6.7	4.5	10.0	4.7
Other ²⁾		23.2	4.3	21.0	4.4
Total		100.0	4.0	100.0	4.1

1) Expected returns on plan assets are based on market expectations.

2) This includes mortgage loans, hedge funds and liquidity.

There are no assets invested in shares of Santhera.

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

	in %	2008	2007
Discount rate		3.80	3.50
Expected return on plan assets		4.10	4.10
Expected future salary increases		1.50	1.50
Expected future pension increases		0.25	0.25

26 Financial Income/Expenses

Financial income

	in CHF thousands	2008	2007
Interests on cash and cash equivalents		2,111	2,781
Realized and unrealized FX gains		3,642	1,710
Total		5,753	4,491

Financial expenses

	in CHF thousands	2008	2007
Interest expenses		-42	-99
Realized and unrealized FX losses		-4,670	-1,790
Net loss on derivatives		-227	-29
Total		-4,939	-1,918

27 Income Taxes

	in CHF thousands	2008	2007
Current income tax expense		-28	0
Other tax and release of tax accrual		149	0
Deferred tax income/(expense)		0	683
Total		121	683

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

	in CHF thousands	2008	2007
Result before taxes		-44,777	-28,554
Tax income of applicable tax rate of 15.0% (Prior year: 15.0%) ¹⁾		6,717	4,283
Unrecognized deferred taxes on tax loss carry forwards		6,596	4,966
Effective tax expense/(income)		-121	-683
Effective tax rate		0.3%	-2.4%

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

According to currently applicable Swiss tax law, the period to offset tax loss 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.

28 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.

	2008	2007
Net loss attributable to equity holders (in CHF)	-44,655,983	-27,870,993
Weighted average number of shares issued and outstanding	3,164,825	3,100,588
Basic and diluted loss per share (in CHF)	-14.11	-8.99

For the years ended December 31, 2008 and 2007, basic and diluted loss 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.

29 Related Party Transactions

Board of Directors and Executive Management compensation

Total compensation of Board of Directors and Executive Management

	in CHF thousands	2008	2007
Short-term benefits: wages and salaries/board compensation		1,857	1,875
Post-employment benefits (pension fund contributions)		109	97
Other long-term benefits		0	0
Termination benefits		0	0
Share-based payment expenses (fair value according to IFRS 2) ¹⁾		857	9,527

1) Fair values consist of option grants from 2008 and 2007, 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 comparable to the disclosed fair values of issued stock options as accounted for in the consolidated equity statement.

Executive Management compensation

	2008	2007
Wages and salaries (in CHF thousands)	1,573	1,599
Stock options (number)	12,000	29,339

The highest total remuneration in the year 2008 was paid to Klaus Schollmeier, Chief Executive Officer (CEO). He received a gross monetary compensation of CHF 534,375 and 12,000 stock options under the ESOP 2008. In 2007, he received a gross monetary compensation of CHF 561,875 and no stock options.

The highest total remuneration paid in the year 2007 was paid to Thomas Meier, Chief Scientific Officer (CSO). He received a gross monetary compensation of CHF 356,500 and 18,000 stock options under the ESOP 2004.

Board of Directors compensation

	2008	2007
Compensations (in CHF thousands)	284	276
Termination benefits (in CHF thousands)	0	0
Stock options (number)	4,000	0

In 2008 and 2007, the highest compensation to a member of the Board was paid to Michael Lytton. In 2008, Mr Lytton received a payment of CHF 96,000 and in 2007 he received a payment of CHF 72,000. Mr Lytton did not receive any stock options in the reporting period.

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. There were no conflicts of interests of any member of the Board or the Executive Management in transactions effected by Santhera.

Mr Rink renders independent advisory and consulting services to the Company and also serves as a member of the SAB. As remuneration, Mr Rink is entitled to a flat consulting fee of EUR 20,000 per year. This consultancy arrangement 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 20,774 as of December 31, 2008 (16,774 stock options as of year-end 2007). By the end of 2008, the members of the Board held 1,630 Shares (1,630 Shares as of year-end 2007).

The total number of stock options held by the Executive Management amounted to 207,515 as of December 31, 2008 (205,071 stock options as of year-end 2007). As per December 31, 2008, the members of the Executive Management held 1,230 Shares (0 Shares as of year-end 2007).

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

Name	Total number of shares 2008	Total number of stock options 2008	Total number of stock options 2007
Board of Directors			
Michael Lytton, Chairman	0	0	0
Hans Peter Hasler, Vice Chairman	0	4,000	4,000
Martin Gertsch	1,230	4,000	4,000
Rudolf Gygas	400	4,774	774
Timothy Rink	0	4,000	4,000
Klaus Schollmeier	see below		
Bernd Seizinger	0	4,000	4,000
Executive Management			
Klaus Schollmeier, Chief Executive Officer	930	78,368	66,368
Barbara Heller, Chief Financial Officer	300	45,418	45,418
Helmut Kessmann, Chief Business Officer	0	32,077	35,693
Thomas Meier, Chief Scientific Officer	0	51,652	57,592

In 2008, 9,556 stock options were exercised by two members of the Executive Management (4,721 during 2007).

The tables below show the total number of options granted to the members of the Board in the three preceding years and the respective exercise prices:

Year of grant	Total number of options	Exercise prices in CHF
2006	14,000	59.44
2006	4,000	82.58
2008	4,000	68.30

The tables below show the total number of stock options granted to the members of the Executive Management in the three preceding years and their respective exercise prices:

Year of grant	Total number of options	Exercise prices in CHF
2005	11,339	59.44
2006	101,065	1.00
2007	18,000	1.00
2007	11,339	59.44
2008	12,000	77.50

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.

30 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**) on a semi-annual basis and by the Board on an annual basis. The corporate key risks are in addition assessed by the Executive Management at its regular meetings, additional key risks are being discussed and measures identified if needed on an ongoing basis.

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 foreign exchange rate risk, credit risk, liquidity risk, cash flow and interest rate risk. Part of Santhera's overall risk management focuses on financial risks and the unpredictability of financial markets seeking to minimize potential adverse effects on the financial performance of the Group. Special guidelines and policies approved by the Board exist for overall risk management, financial internal controls and treasury management and are monitored by the Executive Management and the AC on a regular basis. The risk of foreign exchange rate fluctuations on the expenses is partly managed by entering into foreign exchange derivative contracts. In accordance with the relevant treasury guidelines, Santhera only concludes contracts with selected high-quality financial institutions of good reputation and does not 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 twelve months.

Foreign exchange rate risk

Santhera holds cash amounts in all three major currencies to partly cover future expected expenses. In addition, in order to reduce its foreign exchange rate exposure, Santhera entered into currency contracts (forwards, options, structured derivatives) to hedge against additional major foreign currency exchange rate fluctuations. An evaluation based on market values is 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, EUR, USD and CAD.

At December 31, 2008, the Group had hedged most of its foreign currency expenses in USD as budgeted for 2009. Future expected purchases in EUR should be covered till end of 2009 by cash and cash equivalents held in EUR.

The following table demonstrates the sensitivity to a reasonable possible change in USD and EUR exchange rate, with all other variables held constant, of Santhera's result before taxes and Santhera's equity:

	Increase/decrease foreign currency rate	Effect on result before taxes in CHF thousands	Effect on equity in CHF thousands
USD positions			
2008	+15%	1,531	0
	-10%	-1,021	0
2007	+10%	386	0
	-10%	-386	0
EUR positions			
2008	+10%	1,512	0
	-5%	-756	0
2007	+5%	545	0
	-5%	-545	0
CAD positions			
2008	+30%	-82	0
	-5%	14	0
2007	N/A	N/A	N/A
	N/A	N/A	N/A

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 investing cash through money market instruments in line with its treasury guidelines to follow its financial needs over time. The loan in 2007 from tbg Technologiebeteiligungsgesellschaft mbH, Bonn, Germany, was a fixed rate loan and therefore not affected by changes in interest rates.

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
2008		
CHF	+100	519
CHF	-100	-519
EUR	+100	163
EUR	-100	-163

	Increase/decrease in basis points	Effect on result before taxes in CHF thousands
USD	+150	99
USD	-150	-99
2007		
CHF	+50	444
CHF	-50	-444
EUR	+50	69
EUR	-50	-69
USD	+100	40
USD	-100	-40

Credit risk

Santhera has a certain concentration of credit risk. Short-term investments are invested as cash on deposit or in risk free 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 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, 2008 in CHF thousands	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total	Book value
Long- and short-term debt	0	0	0	0	0	0
Trade payables	0	1,686	0	0	1,686	1,686
Subtotal	0	1,686	0	0	1,686	1,686
Foreign currency derivatives						
Cash outflow	0	2,806	2,245	0	5,051	0
Cash inflow	0	-2,640	-2,112	0	-4,752	0
Subtotal	0	166	133	0	299	256
Total	0	1,852	133	0	1,985	1,942

Contractual undiscounted cash flows Year ended December 31, 2007 in CHF thousands	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Total	Book value
Long- and short-term debt	0	0	0	0	0	0
Trade payables	0	3,201	0	0	3,201	3,201
Subtotal	0	3,201	0	0	3,201	3,201
Foreign currency derivatives						
Cash outflow	0	2,370	10,103	5,051	17,524	0
Cash inflow	0	-2,254	-10,140	-5,070	-17,464	0
Subtotal	0	116	-37	-19	60	29
Total	0	3,317	-37	-19	3,261	3,230

Categories of financial instruments

Year ended December 31, 2008 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	0	0	0	0	0
Financial assets short-term	0	0	0	0	0
Trade receivables	43	43	0	0	0
Other receivables	0	0	0	0	0
Cash and cash equivalents	75,006	75,006	0	0	0
Total	75,049	75,049	0	0	0
Liabilities					
Long- and short-term debt	0	0	0	0	0
Financial liabilities long-term	0	0	0	0	0
Trade payables	1,686	0	0	1,686	0
Financial liabilities short-term	256	0	0	0	256
Total	1,942	0	0	1,686	256

1) Fair value through profit and loss

Year ended December 31, 2007 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	111	108	3	0	0
Financial assets short-term	81	0	81	0	0
Other receivables	0	0	0	0	0
Cash and cash equivalents	106,618	106,618	0	0	0
Total	106,810	106,726	84	0	0
Liabilities					
Long- and short-term debt	0	0	0	0	0
Financial liabilities long-term	1	0	0	0	1
Trade payables	3,201	0	0	3,201	0
Financial liabilities short-term	112	0	0	0	112
Total	3,314	0	0	3,201	113

1) Fair value through profit and loss.

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

Capital Management

First priority of Santhera's capital management is to provide adequate cash funds to ensure the financing of successful research, 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 available funds raised in various private financing rounds, the initial public offering in 2006, the private placement in 2008 as well as the funds generated through revenues/milestones ensure that the Group can continue as a going concern.

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

31 Events after the Balance-Sheet Date

None.



Report of the statutory auditor on the consolidated financial statements

Basel, 26 February 2009

As statutory auditor, we have audited the accompanying consolidated financial statements of Santhera Pharmaceuticals Holding AG, which comprise the balance sheet, income statement, cash flow statement, statement of changes in equity and notes, pages 17 to 53 for the year ended 31 December 2008.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation 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 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, 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 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 31 December 2008 give a true and fair view of the balance sheet, income statement, cash flow statement, statement of changes in equity and notes in accordance with IFRS and comply with Swiss law.

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) 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.

Without qualifying our opinion, we refer to note 8, which describes material uncertainties regarding the valuation of the related intangible assets, which is characteristic for a biotech company at this stage of development.

Ernst & Young Ltd

Jürg Zürcher
Licensed audit expert
(Auditor in charge)

Daniel Geiger
Licensed audit expert

Balance Sheet	58
Income Statement	59
Notes to the Statutory Financial Statements	60
Proposals of the Board of Directors to the Annual Shareholders' Meeting	66
Report of the Statutory Auditors	67

	as of December 31, in CHF thousands	
	2008	2007
Assets		
Tangible assets	15	25
Intangible assets	88	121
Investments in Group companies	1,191	1,105
Loans to Group companies	96,345	48,216
Noncurrent assets	97,639	49,467
Prepaid expenses and accrued income	238	540
Other receivables from Group companies	559	11
Other receivables from third parties	469	595
Cash and cash equivalents	71,333	103,797
Current assets	72,599	104,943
Total assets	170,238	154,410
	2008	2007
Equity and liabilities		
Share capital	3,514	3,119
Capital reserves and share premium	17,332	1,780
Free reserves	148,393	146,000
Accumulated profit	26	2,393
– Profit carried forward	0	0
– Net profit for the period	26	2,393
Total equity	169,265	153,292
Trade accounts payable from Group companies	59	22
Trade accounts payable from third parties	313	157
Other accounts payable from third parties	108	203
Accrued expenses	493	736
Total current liabilities	973	1,118
Total liabilities	973	1,118
Total equity and liabilities	170,238	154,410

	for the year ended December 31, in CHF thousands	
	2008	2007
Revenue from Group companies	3,276	9,500
Total operating income	3,276	9,500
Other operating income	0	45
General and administrative expenses	-3,652	-2,788
Employee costs	-2,132	-2,089
Depreciation and amortization	-44	-58
Allowance on investment and intercompany loans	84	-5,990
Other operating expenses	0	-19
Total operating expenses	-5,744	-10,944
Operating result	-2,468	-1,399
Financial income	12,672	4,717
Financial expenses	-10,178	-925
Financial result	2,494	3,792
Result before taxes	26	2,393
Income tax expenses	0	0
Net profit	26	2,393

Introduction

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

Investments/Subsidiaries

	Share capital at December 31	2008	2007
Santhera Pharmaceuticals (Deutschland) GmbH			
Lörrach, Germany	EUR	668,930	668,930
Santhera Pharmaceuticals (Schweiz) AG			
Liestal, Switzerland	CHF	125,000	125,000
Santhera Pharmaceuticals (USA), Inc.			
Charlestown, USA	USD	1,000	0
Santhera Pharmaceuticals (Canada), Inc.			
Montréal, Canada	CAD	1,000	0

All companies are 100% controlled by Santhera Pharmaceuticals Holding AG.

Guarantee

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.

Share Capital

During 2008, the share capital was increased by the total amount of CHF 395,038 to an amount of CHF 3,513,899 as of December 31, 2008 (CHF 3,118,861 as of year-end 2007) through the exercise of employee stock options (using conditional share capital), warrants (using conditional share capital) and a private placement of newly issued shares (using authorized share capital).

Authorized Share Capital

The Board of Directors (**Board**) is authorized, at any time until April 20, 2010, to increase the share capital in an amount not to exceed CHF 429,918 through the issuance of up to 429,918 fully paid-in registered shares (**Shares**) with a nominal value of CHF 1.00 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.

As per July 12, 2006, Santhera entered into a cooperation agreement with Oy Juvantia Pharma Ltd, Turku, Finland (**Juvantia**), for the clinical development of Juvantia's product candidate JP-1730 (INN: fipamezole) to generate additional clinical data required for commencement of pivotal clinical trials. At the same time Santhera and the Juvantia investors entered into an option agreement that effectively grants Santhera the right to purchase Juvantia. If Santhera exercises the option, it shall either issue 105,973 Shares to the Juvantia investors (the preferential subscription rights of the existing shareholders are excluded), or if for any reason such Shares shall not be issued, the Juvantia investors are entitled to a cash payment in the amount of EUR 9.0 million. Based on the current agreements, the option cannot be exercised before March 1, 2009, and the term of the

option to acquire Juvantia ends on December 31, 2009. In case the option is exercised after June 30, 2009, Santhera will have to pay up to EUR 0.6 million to Juvantia shareholders in addition.

Conditional Share Capital

As of December 31, 2008, 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 684,862 by issuing a maximum of up to 684,862 Shares, under the exclusion of shareholders' pre-emptive rights, for option rights being exercised under the Employee Stock Option Plan (**ESOP 2004**), the Executive Incentive Plan (**EIP**) and the Employee Stock Option Plan 2008 (**ESOP 2008**) and
- (ii) a maximum amount of CHF 490,182 by issuing up to 490,182 Shares, through the exercise of warrants and/or notes granted in connection with bonds or similar debt instruments or options granted by the Company.

Risk Assessment

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

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

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.

Treasury Shares

No treasury shares were held during the reporting period.

Additional Information

	in CHF thousands	2008	2007
Lease commitments not recorded in the balance sheet			
– Operational lease		8	13
Property insurance value of buildings and equipment			
– Equipment and furniture		250	250
Liabilities to pension funds/social insurance		5	4
Subordinated loans to Group companies		96,157	48,216

Subordinated loans to Group companies consist of loans to Santhera Pharmaceuticals (Schweiz) AG. As of December 31, 2008, the financial statements of this company disclose an overindebtedness of CHF 92,570,458. The recoverability of the loans from Santhera Pharmaceuticals Holding AG is

ensured by the fair value of its subsidiary, whose accounts are kept on a going-concern basis. The fair value of Santhera Pharmaceuticals (Schweiz) AG depends on the future market success of the developed products. Even though the development of these products has shown very positive progress, an uncertainty remains as to whether a successful market launch of the products in development can be achieved.

The Finnish Funding Agency for Technology and Innovation, Helsinki, Finland (**TeKes**), has originally funded Juvantia with an amount of EUR 4,674,686 for its research and development work with regard to JP-1730. As of December 31, 2008, the loan amounted to EUR 5,663,769 including capitalized interest of 3% p.a. (EUR 5,488,468 as of December 31, 2007). In connection with the potential acquisition of Juvantia by Santhera, TeKes has agreed to restructure those loans. Juvantia will repay TeKes an amount of EUR 500,000 upon the closing of the exercise of the option by Santhera to acquire Juvantia. The remaining amount will be payable in two instalments plus accrued interest of 3% p.a. at each of a) 90 days from receipt of product marketing approval and b) the first anniversary of such marketing approval at the latest. Santhera will have to provide TeKes with a guarantee for such repayments, subject to the closing of the acquisition.

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	2008		2007	
	Shares	%	Shares	%
NGN Capital	385,102	11.0	379,102	12.2
Ares Life Sciences	370,082	10.6	–	–
Merlin Biosciences	239,592	6.9	239,592	7.7
Oxbio Bioscience Partners	220,090	6.3	220,090	7.1
3i Group	200,050	5.7	213,278	6.9
GIMV	156,192	4.5	156,192	5.0
Varuma	146,932	4.2	146,932	4.7
Oppenheimer Funds	134,519	3.9	–	–
Allianz Global Investors/Cominvest Asset Management	130,391	3.7	141,043	4.6
Heidelberg Innovation Fonds	125,985	3.6	128,234	4.1
Carnegie Funds	118,873	3.4	118,873	3.8
Schroders*	109,492	3.1	173,560	5.6
Neomed Innovation	98,445	2.8	98,445	3.2

* As of February 3, 2009, Schroders reduced its holding to below 3%.

Compensations to the Board and the Executive Management

Disclosure of compensation of members of the Board for the year 2008

	in CHF	Cash compen- sation fix	Social security	Stock options ²⁾	Compen- sation total
Board of Directors					
Michael Lytton, Chairman		96,000	7,721	0	103,721
Hans Peter Hasler, Vice Chairman		32,000	2,573	0	34,573
Martin Gertsch		45,000	3,619	0	48,619
Rudolf Gygax		32,000	1,939	73,040	106,979
Timothy Rink		45,103	3,627	0	48,730
Klaus Schollmeier ¹⁾		see below			
Bernd Seizinger		34,061	2,739	0	36,800
Total		284,164	22,217	73,040	379,422

1) Klaus Schollmeier received no compensation for him being a member of the Board. All his compensations were paid for his function as CEO and as a consequence are disclosed as compensation of members of the Executive Management.

2) Reflects value of share-based payments in accordance with IFRS 2 at grant, i.e. the value of unvested stock options attributable at grant; tax value of such stock options is 0 until stock options are exercised. Such stock option values are theoretical values and do not reflect income tax values and do also take into considerations certain vesting provisions. For information about the underlying stock option plans, see note "Stock Option Plans" in the consolidated financial statements. For information about the Company's compensation procedures consult the Corporate Governance Report.

One option grant to one Board member was made in 2008. Besides this, no other payments, allowances or loans were made to the members of the Board in 2008.

Disclosure of compensation of members of the Executive Management for the year 2008

	Cash compen- sation fix CHF	Cash compen- sation variable CHF	Car leasing CHF	Social security CHF	Stock options ¹⁾ CHF	Total CHF	Stock options granted number
CEO	437,500	96,875	7,263	79,480	446,400	1,067,518	12,000
Other members of the Executive Management	921,449	117,000	0	177,935	0	1,216,384	0
Total	1,358,949	213,875	7,263	257,415	446,400	2,283,902	12,000

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 considerations certain vesting provisions. For information about the underlying stock option plans, see note "Stock Option Plans" in the consolidated financial statements. For information about the Company's compensation procedures consult the Corporate Governance Report.

Disclosure of compensation of members of the Board for the year 2007

	in CHF	Cash compen- sation fix	Social security	Compen- sation total
Board of Directors				
Michael Lytton, Chairman		72,000	5,714	77,714
Hans Peter Hasler, Vice Chairman		32,100	2,548	34,648
Martin Gertsch		45,090	3,579	48,669
Rudolf Gygax		24,000	0	24,000
Georg Nebgen		24,000	1,905	25,905
Timothy Rink		45,244	3,591	48,835
Klaus Schollmeier ¹⁾		see below		
Bernd Seizinger		34,167	2,712	36,879
Total		276,601	20,049	296,650

1) Klaus Schollmeier received no additional compensation for him being a member of the Board. All his compensations were paid for his function as CEO and as a consequence are disclosed as compensation of members of the Executive Management.

No option grants, nor any other payments, allowances or loans were made to the members of the Board in 2007.

Disclosure of compensation of members of the Executive Management for the year 2007

	Cash compen- sation fix CHF	Cash compen- sation variable CHF	Car leasing CHF	Social security CHF	Stock options ¹⁾ CHF	Total CHF	Stock options granted number ²⁾
CSO	286,750	69,750	0	57,898	1,620,656	2,035,145	18,000
Other members of the Executive Management	927,950	314,325	7,263	234,729	581,712	2,065,529	11,339
Total	1,214,700	384,075	7,263	292,268	2,202,368	4,100,674	29,339

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 considerations certain vesting provisions. For information about the underlying stock option plans, see note "Stock Option Plans" in the consolidated financial statements. For information about the Company's compensation procedures consult the Corporate Governance Report.

2) 18,000 stock options vest over a period of two years (50% after 12 months, 25% after 18 months and 25% after 24 months after grant date) and 11,339 stock options vest over four years (50% after two years, 25% after three years and 25% after four years after grant date).

Disclosure of Shares and stock options held by members of the Board and Executive Management as of December 31, 2008.

Name	Number of Shares	Number of vested stock options	Number of unvested stock options	Total number of stock options
Board of Directors				
Michael Lytton, Chairman	0	0	0	0
Hans Peter Hasler, Vice Chairman	0	2,000	2,000	4,000
Martin Gertsch	1,230	2,000	2,000	4,000
Rudolf Gygax	400	774	4,000	4,774
Timothy Rink	0	4,000	0	4,000
Klaus Schollmeier	see below			
Bernd Seizinger	0	4,000	0	4,000
Executive Management				
Klaus Schollmeier, Chief Executive Officer	930	66,368	12,000	78,368
Barbara Heller, Chief Financial Officer	300	31,244	14,174	45,418
Helmut Kessmann, Chief Business Officer	0	32,077	0	32,077
Thomas Meier, Chief Scientific Officer	0	47,152	4,500	51,652

No other payments, allowances or loans were made to neither the members of the Board, members of the Executive Management or related parties in 2008.

Disclosure of Shares and stock options held by members of the Board and Executive Management as of December 31, 2007

Name	Number of Shares	Number of vested stock options	Number of unvested stock options	Total number of stock options
Board of Directors				
Michael Lytton, Chairman	0	0	0	0
Hans Peter Hasler, Vice Chairman	0	0	4,000	4,000
Martin Gertsch	1,230	0	4,000	4,000
Rudolf Gyga	400	774	0	774
Georg Nebgen	0	0	0	0
Timothy Rink	0	3,000	1,000	4,000
Klaus Schollmeier	see below			
Bernd Seizinger	0	3,000	1,000	4,000
Executive Management				
Klaus Schollmeier, Chief Executive Officer	0	66,368	0	66,368
Barbara Heller, Chief Financial Officer	0	28,409	17,009	45,418
Helmut Kessmann, Chief Business Officer	0	31,288	4,405	35,693
Thomas Meier, Chief Scientific Officer	0	36,306	21,286	57,592

No other payments, allowances or loans were made to neither the members of the Board, members of the Executive Management or related parties in 2007.

Events after the Balance-Sheet Date

None.

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

Proposal of the Board for the Appropriation of Available Earnings, Subject to the Approval of the Annual Shareholders' Meeting:

	in CHF	2008	2007
Profit carried forward		0	0
Net profit of the year		25,842	2,392,555
Accumulated profit		25,842	2,392,555
Appropriation to free reserves		25,842	2,392,555
Profit to be carried forward		0	0

No further appropriations to the legal reserves are necessary which already amount to the required 20% of the share capital.

Subject to Approval by the Annual Shareholders' Meeting, the Free Reserves Develop as Follows:

	in CHF
Free reserves at December 31, 2008	148,392,555
Appropriation of the profit for the period to free reserves	25,842
Free reserves	148,418,397



Report of the statutory auditor on the financial statements

Basel, 26 February 2009

As statutory auditor, we have audited the accompanying financial statements of Santhera Pharmaceuticals Holding AG, Liestal, which comprise the balance sheet, income statement and notes for the year ended 31 December 2008.

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 31 December 2008 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

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

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

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

Without qualifying our opinion, we refer to the additional information in the notes according to which loans to an over-indebted subsidiary have been assessed as recoverable by the Management and the Board of Directors based on the business plans and expected future cash flows. Even though the development of the products has shown favourable trend, a material uncertainty remains as to whether successful market launch of the products in development will attain the expected results.

Ernst & Young Ltd

Jürg Zürcher
Licensed audit expert
(Auditor in charge)

Daniel Geiger
Licensed audit expert

Forward-looking Statements

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

This Annual Report expressly or implicitly contains certain forward-looking statements concerning Santhera Pharmaceuticals Holding AG and its business. Certain of these forward-looking statements can be identified by the use of forward-looking terminology such as "believe", "expect", "may", "are expected to", "will", "will continue", "should", "would be", "seek" or "anticipate" or by discussions of strategy, plans or intentions. Such statements involve certain 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 expected results, performance or achievements expressed or implied by such forward-looking statements. There can be no guarantee that any of the research and/or development projects described will succeed or that any new products or indications will be brought to market. Similarly, there can be no guarantee that Santhera 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 preclinical and clinical trial results; unexpected regulatory actions or delays or government regulation generally; the ability of Santhera Pharmaceuticals Holding AG 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 Annual Report as of the date of the publication, and does not undertake any obligation to update any forward-looking statements contained herein as a result of new information, future events or otherwise.

Catena® is a trademark of Santhera Pharmaceuticals.

Imprint

Publisher: Santhera Pharmaceuticals Holding AG, Liestal
Concept/Project management: apr AG für Public Relations, Zurich
Design: WBG, Zurich
Prepress and press: Linkgroup, Zurich

Materials used

Jacket: PVC, AXPRINT®, 100% recyclable
Cover: Novatech Satin, chlorine-free bleached (ECF)
Content: PlanoArt, FSC-certified

Santhera Pharmaceuticals Holding AG
Hammerstrasse 47
CH-4410 Liestal
Switzerland
Phone +41 (0)61 906 89 50
Fax +41 (0)61 906 89 51
www.santhera.com

Contacts

Barbara Heller
Chief Financial Officer
Phone +41 (0)61 906 89 54
barbara.heller@santhera.com

Thomas Staffelbach
Head of Public & Investor Relations
Phone +41 (0)61 906 89 47
thomas.staffelbach@santhera.com