



**Interim Report
January to June 2010**

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2010 Interim Financial Results with Significant Reduction in Net Loss and Strong Increase in Product Sales

In the first half year of 2010, Catena® achieved net sales of CHF 1.7 million (plus 270%; first half year 2009: CHF 0.5 million). Net cash burn (CHF 13.8 million) and net loss (CHF 14.2 million) were both significantly lower in the first six months of 2010 compared to the same period in 2009 (CHF 21.6 million and CHF 23.4 million respectively) and in line with expectations. As of June 30, 2010, Santhera had cash and cash equivalents of CHF 39.5 million. The Company expects to be profitable in the second half year 2010 considering the upfront payment of EUR 13.0 million (CHF 16.9 million) from the agreement with Ipsen for the rights to fipamezole. Based on its current financial planning, Santhera is funded well into 2013.

Major events of 2010 to date include

- Revenues from sales of Catena® in Canada and through the Named Patient Program (NPP) have already reached level of prior full year after six months in 2010
- Positive results from RHODOS study with Catena® in Leber's Hereditary Optic Neuropathy (LHON) open regulatory path for potential filings in 2011 for marketing approval
- Pivotal MICONOS study with Catena®/Sovrima® in Friedreich's Ataxia was disappointing
- Fipamezole in Dyskinesia in Parkinson's Disease partnered to Ipsen for development and commercialization outside North America and Japan

Solid cash position and financed well into 2013

As of June 30, 2010, Santhera had cash and cash equivalents of CHF 39.5. Net change in and cash equivalents in the first half year of 2010 was CHF 13.8 million compared to CHF 21.6 million in the same reporting period 2009. The significant reduction in cash burn reflects the Company's clear focus of activities and strict cost controls. Total equity at mid-year amounted to CHF 67.1 million compared to CHF 83.5 million as of December 31, 2009. Santhera continues to allocate funds primarily to the development programs with Catena®/Sovrima® as well as marketing and business development activities.

The value of Santhera's intangible assets fell by CHF 3.1 million to CHF 30.7 million compared to CHF 33.8 million at year-end 2009, primarily due to currency exchange-related valuation losses of the Euro-denominated Catena®/Sovrima® asset.

Santhera's share capital was increased by the exercise of 6,023 employee stock options. As of June 30, 2010, the share capital of Santhera Pharmaceuticals Holding AG consisted of 3,660,242 registered shares with a nominal value of CHF 1 each. Santhera remains fully equity financed.

Significantly increased sales, focused spending and reduced operating expenses

In the first six months of 2010, Catena® generated net sales of CHF 1.7 million compared to CHF 0.5 million in the corresponding period in 2009. The bulk of the revenues (CHF 1.6 million) originate from product sales in Canada while the remainder comes from NPP sales in Europe and elsewhere. Gross profit amounted to CHF 1.5 million (first half of 2009: CHF 0.4 million).

Operating expenses in the first half of 2010 were reduced by 37% to CHF 15.7 million (first half of 2009: CHF 24.9 million). This substantial decrease resulted primarily from cost reductions in Research and Development (R&D) in connection with the restructuring of the early drug discovery activities announced in July 2009 and the phase out of two large clinical studies. Total R&D amounted to CHF 7.9 million, representing 51% (first half of 2009: CHF 16.9 million and 68%) of total operating expenses. Marketing and Sales (M&S) slightly increased to CHF 2.2 million or 14% of total operating expenses (first half of 2009: CHF 2.0 million or 8%) in line with expanded activities for Catena® in Canada and in Europe. General and administrative expenses (G&A) decreased to CHF 5.6 million, representing 35% of total operating expenses (first half of 2009: CHF 6.0 million or 24%). G&A includes expenses for corporate finance, business development activities as well as infrastructure and all management expenses which are not reallocated in general. Other operating income/expenses amounted to CHF 0.5 million (first half of 2009: CHF -0.03 million) mainly from a research grant. For the first half of 2010, Santhera reports a net loss of CHF 14.2 million, which is significantly lower than the net loss of CHF 23.4 million reported for the first half of 2009.

Focus continues on core activities, cash runway secured well into 2013

After the close of books for the 2010 Interim Report, Santhera signed a license agreement with Ipsen for the development and commercialization of fipamezole outside the US, Canada and Japan for an upfront payment of EUR 13.0 million. For the second half of 2010, Santhera anticipates to be profitable. Net cash burn for the full year is expected to be well below the 2009 level. According to its current financial planning, Santhera is funded well into 2013.

Preparation for regulatory filings of Catena® in LHON will continue over the next months and expects to file for marketing approvals in the first half of 2011. In parallel to the regulatory work, Santhera will present the positive results from the RHODOS study at upcoming scientific and medical conferences. Enrollment of the first group of 40 patients into the pivotal DELOS study in Duchenne Muscular Dystrophy is expected to be completed in a few weeks' time. The proof-of-concept Phase IIa MELTIMI study in MELAS syndrome is expected to be completed with top-line data available before the end of the year.

Update on Products and Pipeline: Focus on key value-drivers

Product sales – Catena®

Product sales of Catena® in Canada and under the NPP continued to grow with revenues for the first half of 2010 equal to the annual sales in 2009. In Canada, the drug has been prescribed to 153 Friedrich's Ataxia patients (of an expected population of approximately 300 individuals); 99 of them have secured reimbursement from their insurance carriers. Sales on named-patient basis continued to meet considerable interest in Europe and elsewhere.

Catena® in Leber's Hereditary Optic Neuropathy (LHON) – RHODOS Phase II/III study

The RHODOS data reported in June 2010 showed that in LHON vision could be preserved or even improved in patients receiving Catena® compared to those receiving placebo. For example, a higher proportion of patients receiving Catena® who were almost completely blind recovered sufficiently to read at least 5 letters on a standard eye chart versus placebo. The data also indicated that the drug has the potential to protect patients at highest risk for vision loss from further deterioration in their visual acuity. The positive visual acuity outcomes were supported by improvements in color contrast sensitivity with Catena® treatment compared to placebo. In the absence of any available treatment for this rare and devastating disease, Santhera is discussing strategies to make Catena® available to LHON patients as soon as possible. Filings for marketing approval are anticipated for the first half of 2011.

Catena®/Sovrima® in Duchenne Muscular Dystrophy – DELOS Phase III study

Six centers in Europe and one in the United States are open for recruitment of patients into this 12-month placebo-controlled study. DELOS employs a group-sequential design and currently only patients not comedicated with glucocorticoid are being enrolled. It is anticipated that recruitment of this first group of patients will be completed within the next few weeks. A first interim analysis will be conducted when patients in this group have been treated for six months and is expected in the first half of 2011. An interim analysis of DELOS was encouraged by both the European Medicines Agency (EMA) and the US Food and Drug Administration (FDA). Both regulatory authorities indicated that a single pivotal study providing robust efficacy data could suffice for approval. Recently, Santhera was granted patent protection in Europe until 2026.

Catena®/Sovrima® in Friedreich's Ataxia – MICONOS Phase III study

The MICONOS results announced in May 2010 represent a major setback for this development program. Santhera is awaiting further data from two ongoing extension studies which will provide long-term follow-up data on the use of the drug in Friedreich's Ataxia patients. The Company believes that the results of the completed studies conducted to date and the experience of treating physicians and patients underscore the benefit individual patients receive from Catena®/Sovrima®. Still under investigation are the reasons for the failure of MICONOS to demonstrate conclusively the efficacy of the drug. It is already clear that the unexpected variability in disease progression as measured by the available neurological rating scales and the limited size and duration of the trial played an important role. In Canada, Santhera and Health Canada are exploring possibilities to allow patients continued access to Catena® under the existing NOC/c.

Catena® in MELAS syndrome – MELTIMI Phase IIa study

Santhera is collaborating with the Columbia University of New York City in this Phase II proof-of-concept study. The trial investigates the efficacy of two doses of Catena® versus placebo in reducing the levels of a disease-relevant biomarker over a treatment period of 28 days. Recruitment is almost completed and Santhera expects to report top-line results in the second half of 2010.

Fipamezole in Dyskinesia in Parkinson's Disease – Phase III development

On September 2, 2010, Santhera and Ipsen signed a license agreement under which Ipsen acquired the rights to develop and commercialize fipamezole outside North America and Japan. Santhera receives an upfront payment of EUR 13.0 million and is entitled to up to EUR 128.0 million in development and sales milestones plus royalties on Ipsen's future product sales. Santhera retains full rights in Japan.

Meanwhile, preparation for the Phase III development at Biovail, Santhera's partner in the United States and Canada, is progressing. Initiation of the first pivotal study with fipamezole is currently planned for 2011. Biovail has entered a definitive merger agreement with Valeant and a pipeline review is intended to be undertaken.

Omigapil in Congenital Muscular Dystrophy – Phase II/III development

With a grant from the patient organization Association française contre les myopathies, Santhera completed the nonclinical development required for omigapil in support of a clinical study. In collaboration with international experts, in the forthcoming months Santhera will develop a clinical trial protocol which will be discussed with the EMA and FDA during protocol assistance meetings early next year.

Interim Consolidated Financial Statements (Unaudited)

Consolidated Balance Sheet

	In CHF thousands	Notes	June 30, 2010 (unaudited)	December 31, 2009 (audited)
Assets				
Tangible assets			2,860	3,009
Intangible assets		5	30,697	33,762
Deferred tax assets			18	43
Financial assets long-term			10	10
Noncurrent assets		10	33,585	36,824
Prepaid expenses and accrued income			172	239
Inventories		6	3,131	3,277
Trade and other receivables			1,048	1,041
Cash and cash equivalents		7	39,477	53,320
Current assets			43,828	57,877
Total assets			77,413	94,701
<hr/>				
	In CHF thousands	Notes	June 30, 2010 (unaudited)	December 31, 2009 (audited)
Equity and liabilities				
Share capital		8	3,660	3,654
Capital reserves and share premium			271,408	270,467
Retained earnings			-203,175	-189,011
Treasury shares			-177	0
Other components of equity			-4,568	-1,598
Total equity			67,148	83,512
Long-term finance lease liabilities		9	2,258	2,273
Pension liabilities			407	381
Total noncurrent liabilities			2,665	2,654
Trade and other payables			1,426	3,610
Short-term financial lease liabilities		9	31	31
Accrued expenses			5,034	4,336
Short-term provisions			1,109	558
Total current liabilities			7,600	8,535
Total liabilities			10,265	11,189
Total equity and liabilities			77,413	94,701

Consolidated Income Statement (Unaudited)

For the half year ended June 30, in CHF thousands	Notes	2010	2009
Net sales	10	1,711	463
Cost of goods sold		-229	-98
Gross profit		1,482	365
Other operating income	11	552	0
Research and development	12,13	-7,947	-16,876
Marketing and sales	12,13	-2,151	-1,971
General and administrative	12,13	-5,553	-6,016
Other operating expenses	12,13	-52	-30
Operating expenses	12,13	-15,703	-24,893
Operating result		-13,669	-24,528
Financial income		2,458	2,126
Financial expenses		-2,870	-971
Result before taxes		-14,081	-23,373
Income taxes		-82	-34
Net loss		-14,163	-23,407
Basic and diluted loss per share (in CHF)		-3.87	-6.65

Consolidated Statement of Comprehensive Income (Unaudited)

For the half year ended June 30, in CHF thousands	Notes	2010	2009
Net loss		-14,163	-23,407
Currency translation differences		-2,970	650
Other comprehensive income/loss		-2,970	650
Total comprehensive loss		-17,133	-22,757

Consolidated Statement of Cash Flows (Unaudited)

For the half year ended June 30, in CHF thousands	Notes	2010	2009
Result before taxes		-14,081	-23,373
Depreciation of tangible assets		198	268
Reversal of depreciation of tangible assets		-151	0
Amortisation of intangible assets		225	99
Expenses for share options	12,13	941	824
Net change in value of derivatives		0	-256
Change in pension liabilities		26	79
Change in short-term provisions		561	0
Change in deferred tax assets		27	0
Tax expenses		-82	-33
Change in net working capital		-1,890	1,550
Total financial result (excl. net change in fair value of derivatives)		413	-899
Interest received		52	192
Interest paid		-66	0
Cash flow from operating activities		-13,827	-21,549
Investments in tangible assets		-52	-99
Disposal of tangible assets		151	0
Cash flow from investing activities		99	-99
Capital increases	8	6	7
Change in long-term debt finance lease		-16	0
Cash flow from financing activities		-10	7
Effects of exchange rate changes on cash and cash equivalents		-105	77
Net increase/(decrease) in cash and cash equivalents		-13,843	-21,564
Cash and cash equivalents at January 1		53,320	75,006
Cash and cash equivalents at June 30		39,477	53,442

Consolidated Statement of Changes in Equity (Unaudited)

In CHF thousands	Notes	Share capital	Capital reserves & share premium	Retained earnings	Treasury shares	Translation differences	Total
Balance at January 1, 2009		3,514	265,590	-163,088	0	-1,542	104,474
Currency translation differences		0	0	0	0	650	650
Net loss		0	0	-23,407	0	0	-23,407
Total recognized income and expenses for the period		0	0	-23,407	0	650	-22,757
Expenses for share options	12,13	0	824	0	0	0	824
Capital increase from options exercise		9	0	0	0	0	9
Balance at June 30, 2009		3,523	266,414	-186,495	0	-892	82,550
Balance at January 1, 2010		3,654	270,467	-189,011	0	-1,598	83,512
Currency translation differences		0	0	0	0	-2,970	-2,970
Net loss		0	0	-14,163	0	0	-14,163
Total recognized income and expenses for the period		0	0	-14,163	0	-2,970	-17,133
Expenses for share options	12,13	0	941	0	0	0	941
Capital increase from options exercise	8	6	0	0	0	0	6
Transferred treasury shares ¹		0	0	0	-177	0	-177
Balance at June 30, 2010		3,660	271,408	-203,174	-177	-4,568	67,149

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

Notes to the Unaudited Consolidated Financial Statements

1 General Information

Santhera Pharmaceuticals Holding AG (the **Company** together with its subsidiaries **Santhera** or **Group**) is a specialty pharmaceutical company focused on the development and commercialization of small-molecule pharmaceutical products for the treatment of diseases of the central nerve system, such as neuromuscular diseases and movement disorders and in particular orphan indications in the field. Santhera's vision is to become a global market leader in the treatment of such 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 stock corporation and the parent company of the Group. Its purpose is to acquire, dispose and manage investments. The Company has its registered offices at Hammerstrasse 49 in 4410 Liestal, Switzerland.

The consolidated interim financial statements were approved for publication by the Board of Directors (**Board**) on September 2, 2010.

2 Summary of Significant Accounting Policies

The accounting policies used in the preparation of the interim financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended December 31, 2009, except for the adoption of new standards and interpretations as of January 1, 2010, as noted below.

Basis of preparation

These consolidated interim financial statements were prepared in accordance with IAS 34 Interim Financial Reporting and should be read in conjunction with the annual financial statements for the year ended December 31, 2009.

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.

Changes in accounting policies

Various standards and interpretations of the International Financial Reporting Standards (IFRS) have been revised or were introduced with effective date January 1, 2010. The following standards did have an effect on accounting policies but not on reported amounts or disclosures in these financial statements:

- IFRS 3 Business Combinations: revised. Effective for annual periods beginning on or after July 1, 2009. In accordance with the relevant transitional provisions, IFRS 3 (2008) has to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2010. The main impacts of the adoption of IFRS 3 (2008) Business Combinations will be:
 - to allow a choice on a transaction-by-transaction basis for the measurement of noncontrolling interests (previously referred to as "minority" interests) either at fair value or at the noncontrolling interests' share of the fair value of the identifiable net assets of the acquiree. If the group decides to measure at fair value, then consequently, the goodwill recognized in respect of that acquisition reflects the impact of the difference between the fair value of the noncontrolling interests and their share of the fair value of the identifiable net assets of the acquiree;
 - to change the recognition and subsequent accounting requirements for contingent consideration and
 - to require that acquisition-related costs be accounted for separately from the business combination, generally leading to those costs being recognized as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

- IAS 27 Consolidated and Separate Financial Statements: revised. Effective for annual periods beginning on or after July 1, 2009. The revisions to IAS 27 principally affect the accounting for transactions or events that result in a change in the Group's interests in its subsidiaries.

The adoption of the following standards and interpretations did neither have an effect on the disclosure in these financial statements nor on currently relevant accounting policies:

- Effective for annual periods beginning on or after July 1, 2009:
 - IAS 28 (as revised in 2008) Investments in Associates
 - IAS 39 Financial Instruments: Recognition and Measurement
 - Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures Regarding Reclassifications of Financial Assets
 - IFRIC 17 Distribution of Noncash Assets to Owners

- Effective for annual periods beginning on or after January 1, 2010:
 - Amendments to IFRS 8 Operating Segments
 - Amendments to IAS 7 Statement of Cash Flows
 - IAS 36 Impairment of Assets
 - IAS 39 Financial Instruments: Recognition and Measurement
 - IFRS 2 Share-based Payment
 - IFRS 5 Noncurrent Assets Held for Sale and Discontinued Operations
 - IAS 1 Presentation of Financial Statements
 - IAS 17 Leases

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

- IFRS 9 Financial Instruments. Effective for annual periods beginning on or after January 1, 2013. The standard focuses on classification and measurement of financial assets.
- IFRIC 14/IAS 19 The Limit on a Defined Benefit Asset. Minimum Funding Requirements and Their Interaction. Effective for annual periods beginning on or after January 1, 2011.

3 Seasonality

The operating result is not subject to significant seasonal variations during the financial year.

4 Exchange Rates of Principal Currencies

	Income statements in CHF (average rates)		Balance sheet in CHF (rates as of period end)	
	Six months ended June 30, 2010	Six months ended June 30, 2009	June 30, 2010	December 31, 2009
1 euro (EUR)	1.4379	1.5061	1.3247	1.4877
1 US dollar (USD)	1.0829	1.1293	1.0852	1.0380
1 Canadian dollar (CAD)	1.0473	0.9381	1.0355	0.9894

5 Intangible Assets

The decrease of CHF 3.1 million (recorded in other comprehensive income/loss) in intangible assets (CHF 30.7 million as per June 30, 2010) primarily results from exchange rate differences on the major intangible asset Catena®/Sovrima® (INN: idebenone) in various indications, an asset which, from the merger in 2004, is to a large extent denominated in EUR. Catena®/Sovrima® is currently being investigated in five indications. In Canada, the product is approved under conditions for the treatment of Friedrich's Ataxia (**FA**) under Santhera's brand name Catena®. Positive results from a Phase II study in Leber's Hereditary Optic Neuropathy (**LHON**) were

published in June 2010. Furthermore, the drug is currently being developed in a Phase III pivotal study for the treatment of Duchenne Muscular Dystrophy (**DMD**) as well as in proof-of-concept studies in two additional indications, MELAS syndrome and Primary Progressive Multiple Sclerosis (**PPMS**).

Impairment testing of intangible assets

Intangible assets are tested for impairment annually (as per December 31) and in case, circumstances indicate and could raise reasons to believe that the carrying value might be impaired. Santhera's impairment test for intangible assets is based on value-in-use calculations using a risk-adjusted Net-Present-Value model which is a customary model used in the pharmaceutical industry for the valuation of intangible assets.

The negative outcome of the Phase III study MICONOS with Catena®/Sovrima® for the treatment of FA on one hand and the positive data of the Phase II study RHODOS in LHON on the other hand required an impairment testing performed as at June 30, 2010. Furthermore, IFRS requires the consideration of the relationship between market capitalization and book values, among other factors, when reviewing for indicators of impairment. As at June 30, 2010, the market capitalization of Santhera was below the book value of its equity, therefore indicating a potential impairment of intangible assets in accordance with IFRS.

Comparing the key assumptions for the tests as at December 31, 2009, to June 30, 2010, they were changed as follows:

- a) Due to the positive Phase II results, probability of reaching market in the indication LHON was increased;
- b) the probability of cash flows from FA subject to regulatory approval in Europe and the US are now deemed rather unlikely. Cash flows from the Canadian market were considered unchanged (intangible asset with finite useful life);
- c) potential cash flows in the indication DMD were appropriately reflected applying respective probability rates for an asset in Phase III clinical development, and
- d) potential cash flows from MELAS syndrome and PPMS were not necessary to be considered.

As long as Catena®/Sovrima® could be developed and has the potential of regulatory approval in one of the above-mentioned indications, no impairment would be deemed necessary. Based on this impairment testing, the calculated recoverable amount of the asset did not result in the requirement for recognizing impairment.

6 Inventories

This position consists mainly of the value of active pharmaceutical ingredient which is kept by Santhera as stock for market supply and development as well as general inventory risk management purposes (security stock) for Catena®.

7 Cash and Cash Equivalents

	in CHF thousands	June 30, 2010	December 31, 2009
Cash at banks and on hand			
In CHF		21,045	20,498
In EUR		6,008	8,692
In USD		3,684	5,966
In CAD		1,077	519
Short-term money market deposits			
In CHF		0	0
In EUR		1,152	8,926
In USD		6,511	8,719
In CAD		0	0
Total at period end		39,477	53,320

In accordance with Santhera's treasury management policies, cash and cash equivalents in foreign currencies are to a large extent being kept in line with planned expenses over the relevant planning horizon.

8 Share Capital

During the reporting period ended June 30, 2010, 6,023 Shares were issued from the conditional share capital upon the exercise of stock options under the Employee Stock Option Plan 2004 (**ESOP 2004**) and the Executive Incentive Plan (**EIP**).

As a result, the issued nominal share capital amounted to CHF 3,660,242, divided into 3,660,242 Shares as of June 30, 2010.

On the occasion of the Annual Shareholders' Meeting on April 26, 2010, the shareholders approved to adjust the capital structure as follows:

Authorized share capital

The authorized share capital of the Company was increased from CHF 323,945 to CHF 1,800,000. The Board is authorized to increase the share capital at any time until April 26, 2012, up to this amount through the issuance of up to 1,800,000 Shares.

Conditional share capital

The conditional share capital was adapted (i) and increased (ii) as follows:

- (i) The requirement of a minimum exercise price of CHF 90.00 for options convertible into 175,000 Shares was removed. The share capital can therefore be increased through the exercise of stock options by an amount of up to CHF 644,492 through the issuance of up to 644,492 Shares, whereby the exercise price of each option shall – at the full discretion of the Board – either equal (a) the weighted average share price during the three months preceding the grant or (b) the closing price of the share at the grant date (for information on options outstanding see note 14 “Stock Option Plans”).

- (ii) In connection with bonds or similar financial instruments the conditional capital was increased from CHF 490,182 to CHF 600,000. The Board can therefore issue up to 600,000 additional Shares.

9 Long- and Short-term Finance Lease Liabilities

In September 2009, the Santhera organization in Switzerland moved to a new rental building. Some installations were built in following Santhera’s specifications and financed through a finance lease liability in accordance with IAS 17. The total financial lease liability amounted to CHF 2.3 million as at June 30, 2010, split into a long- and short-term portion (long-term CHF 2.26 million, short-term CHF 31,395). At December 31, 2009, the total financial lease liability amounted to CHF 2.3 million (long-term CHF 2.27 million, short-term CHF 30,509).

10 Segment and Geographic Information

Segment information

Santhera operates in one business segment, namely development and commercialization of small-molecule pharmaceutical products for the treatment of severe neuromuscular diseases. The Board, the Executive Management and the Management Team, being the chief operating decision makers, assess the reporting data and allocate resources as one segment on an aggregated consolidated level according operating expenses by function. Santhera generates revenue from sales of Catena® for the treatment of FA. Geographic revenue information is based on location of the customer.

Geographical information

	in CHF thousands	June 30, 2010	June 30, 2009
Net sales:			
North America		1,608	463
Europe		103	0
Total		1,711	463
Noncurrent assets:			
Switzerland and EU		33,542	31,985
North America		15	21
Total		33,557	32,006

11 Other Operating Income

The Association française contre les myopathies, Paris, France, reimbursed development expenses for a project with the compound omigapil in the indication Congenital Muscular Dystrophy in the amount CHF 0.42 million. A further CHF 0.13 million was received in connection with other scientific programs as well as through income from the sale of assets.

12 Operating Expenses by Function

	in CHF thousands	Six months ended June 30, 2010	Six months ended June 30, 2009
Research (preclinical)		-1,018	-4,337
Development		-6,929	-12,539
Total research and development expenses		-7,947	-16,876
<i>Of which noncash-relevant expenses for share-based payments</i>		-262	-271
Marketing and sales		-2,151	-1,971
<i>Of which noncash-relevant expenses for share-based payments</i>		-167	-166
Business development and licensing		-763	-1,138
Finance and administration		-4,790	-4,878
Total general and administrative expenses		-5,553	-6,016
<i>Of which noncash-relevant expenses for share-based payments</i>		-512	-387
Other operating expenses		-52	-30
Total operating expenses		-15,703	-24,893

13 Operating Expenses by Nature

	in CHF thousands	Six months ended June 30, 2010	Six months ended June 30, 2009
External research and development expenses		-4,994	-12,506
Patent and license expenses		-372	-343
Marketing expenses		-532	-775
Employee expenses		-7,683	-8,447
<i>Of which noncash-relevant expenses for share-based payments</i>		<i>-941</i>	<i>-824</i>
General and administrative expenses		-1,835	-2,463
Depreciation and amortization		-235	-329
Other operating expenses		-52	-30
Total operating expenses		-15,703	-24,893

14 Stock Option Plans

Santhera has established Employee Stock Option Plans (**ESOP**), the ESOP 2004, the ESOP 2008, the ESOP 2010 and the 2006 Executive Incentive Plan (**EIP**), to align the long-term interests of the Board, the Executive Management, employees and consultants, including members of the Scientific Advisory Board. Options granted under these stock option plans are equity settled. New grants are only possible currently under the ESOP 2010.

In the reporting period ended June 30, 2010, a total of 19,400 options with exercise prices between CHF 24.45 and CHF 27.85 were granted. This compares to 68,075 options granted in the period ending June 30, 2009, at exercise prices between CHF 41.00 and CHF 46.00.

The fair value of stock options is determined at each grant date by using the Hull-White option pricing model. For the calculation of the fair value of stock options granted during the reporting period in 2010, the same range of valuation parameters as disclosed in the financial statements as of December 31, 2009, was applied. The noncash-relevant expenses for all unvested stock options in the reporting period 2010 amounts to CHF 0.9 million compared to CHF 0.8 million in the same period in 2009.

Options Outstanding

	Number of options	Six months ended June 30, 2010	Six months ended June 30, 2009
At January 1		416,663	352,271
Granted ¹		19,400	68,075
Forfeited		-20,125	-4,675
Exercised		-6,023	-8,816
Expired		0	0
At June 30		409,915	406,855

¹ The weighted average fair value of the stock options granted during the reporting period in 2010 was CHF 13.51 (CHF 23.84 in 2009)

See note 8 "Share Capital" for information about conditional capital for the stock option plans.

15 Contingent Liabilities*Contracts for clinical development*

Santhera has entered into contracts for clinical development with, e.g. clinical research organizations and clinics. Santhera compensates these service providers for their services usually on a monthly basis. It has the right to terminate such agreements at any time at its sole discretion. In case of early termination, Santhera has to pay for all cost which is incurred by the respective counterparty. The expected payments for these contracts are as follows:

	in CHF thousands	June 30, 2010	June 30, 2009
Within 1 year		3,348	5,715
1 year through 5 years		1,639	900
After 5 years		0	0
Total at period end		4,987	6,615

16 Related-party Transactions

During the reporting period 2010 a total of 12,000 options were granted to members of the Board. In the same period in 2009 a total of 31,000 options were granted to members of the Executive Management and the Board (see note 14 "Stock Option Plans").

17 Subsequent Events

On September 2, 2010, Santhera Pharmaceuticals (Schweiz) AG and Ipsen Biopharm Limited, Wrexham, United Kingdom (**Ipsen**), entered into a collaboration and license agreement to develop and commercialize fipamezole outside the United States, Canada and Japan. Santhera receives an upfront payment of EUR 13.0 million and payments for development, regulatory and sales milestones of up to EUR 128.0 million. Additionally, Santhera is entitled to royalty payments on Ipsen's future net sales.

Report on Review of Interim Condensed Consolidated Financial Statements

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Santhera Pharmaceuticals Holding AG, Liestal, and its subsidiaries (the "Group") as of June 30, 2010, comprising of the interim consolidated balance sheet as of June 30, 2010, and the related interim consolidated income statement, interim consolidated statement of comprehensive income, interim consolidated statement of cash flows and interim consolidated statement of changes in equity for the six-month period then ended and explanatory notes. The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Basel, September 2, 2010

Ernst & Young AG

Jürg Zürcher
Licensed audit expert
(Auditor in charge)

David Haldimann
Licensed audit expert

Forward-looking Statements

This Interim Report expressly or implicitly contains certain forward-looking statements concerning Santhera Pharmaceuticals Holding AG and its business. Such statements involve certain known and unknown risks, uncertainties and other factors, which could cause the actual results, financial condition, performance or achievements of Santhera Pharmaceuticals Holding AG to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. There can be no guarantee that any of the development projects described will succeed or that any new products or indications will be brought to market. Similarly, there can be no guarantee that Santhera Pharmaceuticals Holding AG or any future product or indication will achieve any particular level of revenue. In particular, management's expectations could be affected by, among other things, uncertainties involved in the development of new pharmaceutical products, including unexpected clinical trial results; unexpected regulatory actions or delays or government regulation generally; the Company's ability to obtain or maintain patent or other proprietary intellectual property protection; competition in general; government, industry, and general public pricing and other political pressures. Santhera Pharmaceuticals Holding AG is providing the information in this Interim Report as of the date of the publication, and does not undertake any obligation to update any forward-looking statements contained herein as a result of new information, future events or otherwise.

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