santhera Pharmaceuticals

ADVANCING MITOCHONDRIAL MEDICINE

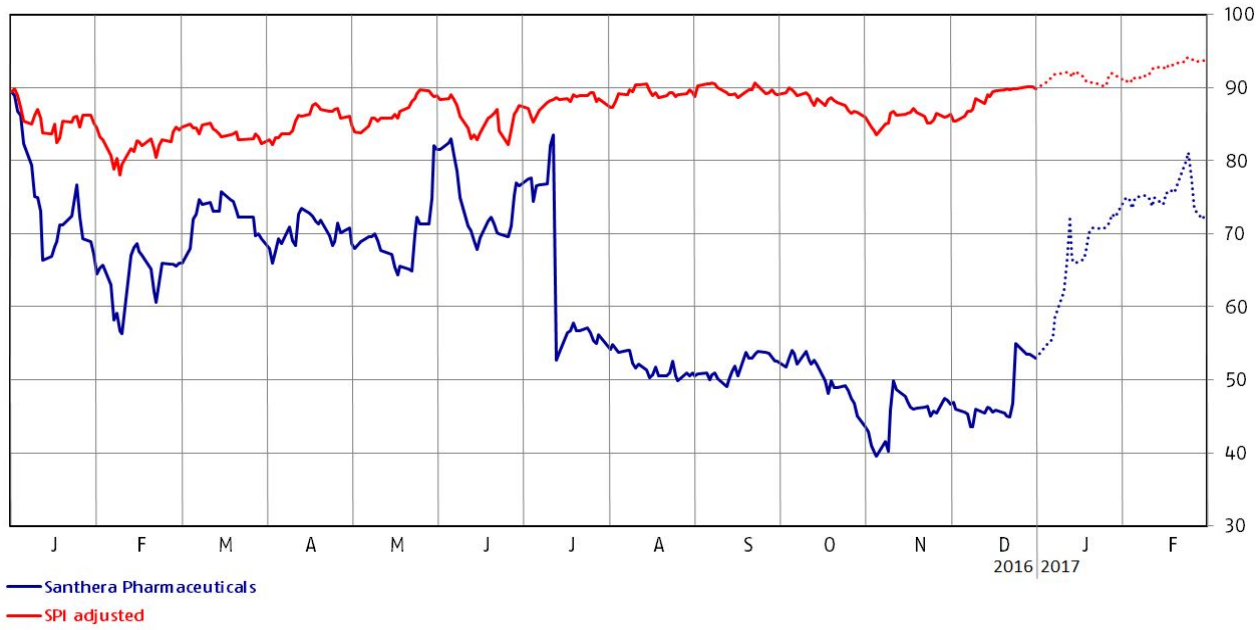
Annual Report 2016

Financial Key Figures

IFRS consolidated, in CHF thousands	**2016**	2015
Net sales	**19,033**	4,321
Operating expenses*	**-48,638**	35
Operating expenses on comparable basis	*-48,638*	*-27,069*
Operating result*	**-33,127**	3,173
Net result*	**-35,415**	5,949
Basic earnings/loss per share (in CHF)	**-5.65**	1.11
Diluted earnings/loss per share (in CHF)	**-5.65**	1.08
Cash and cash equivalents at December 31	**49,815**	76,859
Net change in cash and cash equivalents	**-27,044**	59,424

* In 2015 including reversal impairment on intangible assets and inventory of TCHF 27,104

Share Price Development in 2016



High	CHF 89.45 (January 4, 2016)
Low	CHF 39.50 (November 4, 2016)
Share price performance in 2016	-40.7%
Share price at year-end	CHF 53.00
Market capitalization at year-end	CHF 333 million
Average trading volume	20,236 shares/day

(based on closing share prices)

Contents

Letter to Our Shareholders

Dear Shareholders,

Successful product launch, accelerated sales, regulatory submissions – it's people who stand behind these outstanding achievements. The common denominator of our excellent performance and past year's success is attributable to the focus and engagement of our team. Their know-how, ambition and dedication allowed Santhera to become a leader in mitochondrial medicine. We are grateful for these accomplishments and thank our colleagues for their support and commitment.

In the course of 2016, our organization grew from 59 to 80 employees. Amongst those were two senior experts who became members of our Executive Management Team. In September 2016, Todd Bazemore joined our company as Chief Operating Officer of Santhera Pharmaceuticals (USA), Inc. Effective January 1, 2017, Kristina Sjöblom Nygren, MD, became Chief Medical Officer and Head of Development. In this function, she succeeds retired Nick Coppard, PhD, to whom we are very grateful for his outstanding contribution to the advancement of our product pipeline. For full profiles of the Executive Management Team, please visit our website.

2016 was Santhera's first full year as a commercial company. The European roll-out of Raxone® as the first treatment for Leber's hereditary optic neuropathy (**LHON**) was a milestone achievement. We continue to expand our geographic reach, achieve reimbursement in additional countries in the EU and prepare for the launch of Raxone in Duchenne muscular dystrophy (**DMD**), the second indication, which is currently under regulatory review in the EU and Switzerland.

Through the expansion of our international presence and competencies, we are fortunate to have been able to attract highly skilled professionals across all disciplines, from development and regulatory, to commercial and corporate functions who embrace their daily challenges with high commitment and dedication.

The recent start-up of Santhera Pharmaceuticals (USA), Inc. heightens the awareness for our Company outside of Europe and stands for our intention to ultimately make Raxone available to patients on both sides of the Atlantic.

On the development side, the highlight clearly was the submission of the Marketing Authorization Applications (**MAA**) for Raxone for the treatment of DMD in the EU and Switzerland. The start of the phase III SIDEROS trial underscores our commitment to the DMD community and marks an important milestone in the clinical development of Raxone for all patients with DMD irrespective of their glucocorticoid use status. In the US, Santhera will work closely with the DMD patient community and clinical experts with the intent to engage the FDA in further discussions on an accelerated pathway to approval in glucocorticoid non-using patients, in whom a clinically relevant benefit has already been demonstrated.

All other development programs made good progress as well. The phase II trial (**IPPoMS**) with Raxone in primary progressive multiple sclerosis (**PPMS**) is fully enrolled. The phase I study (**CALLISTO**) with a new liquid formulation of omigapil in pediatric and adolescent patients with congenital muscular dystrophy (**CMD**) is also on track. In August, the Office of Orphan Products Development (**OOPD**) at the FDA granted Santhera a highly prestigious award in support of CALLISTO which underpins the importance of our clinical work. Both trials are being conducted together with the US National Institute of Neurological Disorders and Stroke (**NINDS**). Results are expected later in 2017.

Our commercial success was reflected in the Company's financial performance. Net revenue in 2016 increased more than four-fold year-on-year to CHF 19.0 million driven by strong Raxone sales for the treatment of LHON.

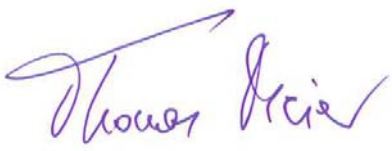
The performance and positive outlook of Santhera were also rewarded by investors who showed very high interest in our placement of CHF 60 million senior unsecured convertible bonds executed in February 2017. The now available funds provide us the financial flexibility to execute our development, regulatory and commercial activities as planned.

Outlook and Guidance

For the Company's forthcoming Annual Shareholders' Meeting on April 4, 2017, the Board proposed Philipp Gutzwiller, Elmar Schnee, Patrick Vink, MD and Thomas Meier, PhD, CEO of Santhera, for election as new members of the Board of Directors. Subject to his election, Thomas Meier will also be appointed Delegate of the Board. With these nominees, the Board will gain additional experienced senior executives to strengthen the strategic expertise in global pharmaceutical business growth. Jürg Ambühl, Board Member of Santhera since 2009, has decided not to stand for re-election. We thank Jürg for his many valuable contributions and his strong commitment to the Company during these decisive years.

Santhera will continue to grow its international business. We expect 2017 net sales of Raxone, in the currently approved indication alone, to reach CHF 21 to 23 million. In addition to our focus on commercialization and reimbursement of Raxone in LHON in Europe, our further priorities in 2017 will be the launch and market entry preparations for Raxone in the second indication DMD and the advancement of the SIDEROS clinical trial.

We would like to close by thanking you, our esteemed Shareholders, for the trust you put in our goals and competencies, and for your continued support.



Martin Gertsch
Chairman

Thomas Meier
Chief Executive Officer

FINANCIAL HIGHLIGHTS

Santhera Delivers Solid 2016 Financial Results

The positive sales development coupled with successful financing ensures that Santhera's development and commercial plans can be implemented as envisioned.

Robust top-line growth driven by increasing Raxone sales

Net revenue from product sales in 2016 reached CHF 19.0 million which is more than four-fold the net sales of the prior year (+340%; 2015: CHF 4.3 million). Net sales for the second half of 2016 of CHF 11.8 million represent an increase of 64% compared to the first half of 2016 (CHF 7.2 million).

Strong top-line growth

Raxone was sold into 15 EU countries, with the majority of sales reached in France and Germany. By end of 2016 full reimbursement for Raxone in LHON was achieved for Germany, Sweden, Norway, and Luxembourg. In several other countries, including France, Raxone availability is currently governed by special reimbursement schemes. The Company expects to reach full reimbursement in additional EU countries in 2017.

Operating and net result reflects higher late stage development and market entry costs

Higher development expenses of CHF 17.7 million (2015: CHF 10.5 million) were attributable to costs associated with regulatory filings and the preparation and initiation of additional clinical trials. The ongoing commercial roll-out of Raxone across Europe, preparations for market entry in the second indication DMD and the build-up of US operations resulted in higher marketing and sales expenses of CHF 21.1 million (2015: CHF 8.4 million) as well as a slight increase of general and administrative expenses to CHF 9.8 million (2015: CHF 8.2 million). In summary, total operating expenses were CHF -48.6 million (2015 comparable: CHF -27.1 million) and the operating result amounted to CHF -33.1 million (2015 comparable: CHF -23.9 million). For the year-on-year comparison, readjusted figures for 2015 are provided to account for the extraordinary reversal of a previous impairment charge of CHF 27.1 million following the approval of Raxone for LHON. For the full-year 2016, Santhera reported a net result of CHF -35.4 million (2015: CHF 5.9 million).

Strong cash position allows for implementation of business strategy as planned

As of December 31, 2016, Santhera had cash and cash equivalents of CHF 49.8 million (2015: CHF 76.9 million). In February 2017, after the balance sheet date, Santhera successfully placed CHF 60 million senior unsecured convertible bonds due 2022, resulting in a cash position by end of February 2017 of CHF 100.8 million. The Company intends to use its financial resources primarily to fund the commercialization of Raxone in the currently approved indication, to prepare the market entry and commercial launch in subsequent indications, for investment into further clinical trials with Raxone and for other corporate purposes.

Financial strength secures development and commercial plans

OPERATIONS HIGHLIGHTS

Santhera Establishes International Operations

2016 was marked by a strong internationalization of Santhera's business activities. By the end of 2016, Santhera sold its lead product Raxone into 15 countries, either through its own subsidiaries or through a distribution partnership.

Santhera's European presence

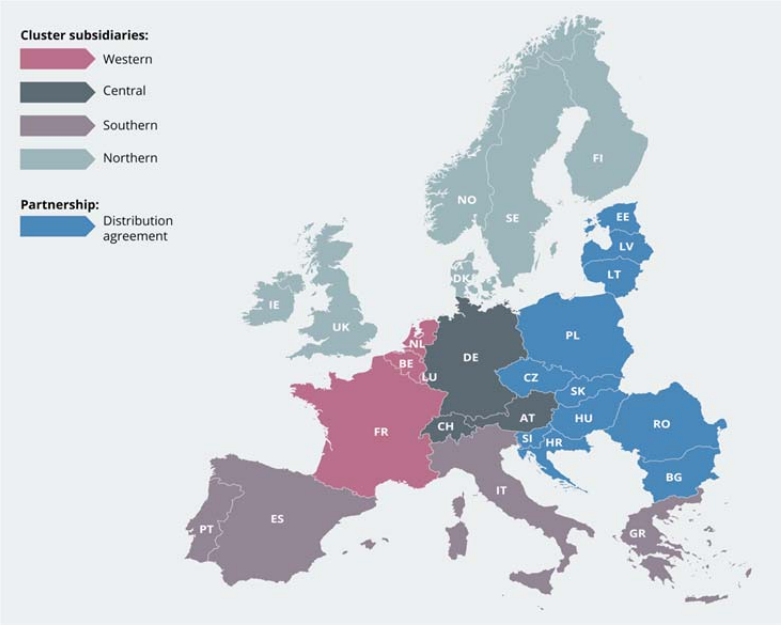
In parallel to the commercial roll-out of Raxone, Santhera expanded its operations across Europe. The presence focusses on four regional country clusters with the following subsidiaries:

SANTHERA (GERMANY) GMBH, Munich, for the Central Europe cluster including Germany, Austria, Switzerland.

SANTHERA (NETHERLANDS) B.V., Nieuwegein/Utrecht, for the Western Europe cluster including France, The Netherlands, Belgium, Luxembourg.

SANTHERA (ITALY) S.R.L., Milano, for the Southern Europe cluster including Italy, Spain, Greece, Portugal.

SANTHERA (UK) LIMITED, London, for the Northern Europe cluster including Denmark, Norway, Iceland, Sweden, Finland, UK, Ireland.



Distribution partnership with Ewopharma for Eastern Europe

Well established links with international distribution partners will allow Santhera to expand its reach and access certain important geographic regions. In January 2016, Santhera signed an agreement with Swiss domiciled Ewopharma, a leading distributor of pharmaceutical products in Central Eastern Europe, to launch Raxone in a number of Eastern European countries (Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia) and the Baltics (Estonia, Latvia and Lithuania).

Santhera established presence in the United States

Santhera established its US-subsidiary Santhera Pharmaceuticals (USA), Inc. in the Boston metropolitan area, one of the main centers of pharma globally with a unique confluence of academia, life science companies, and clinical expertise. The US team currently manages patient advocacy, prepares market access and provides regulatory and medical affairs expertise.

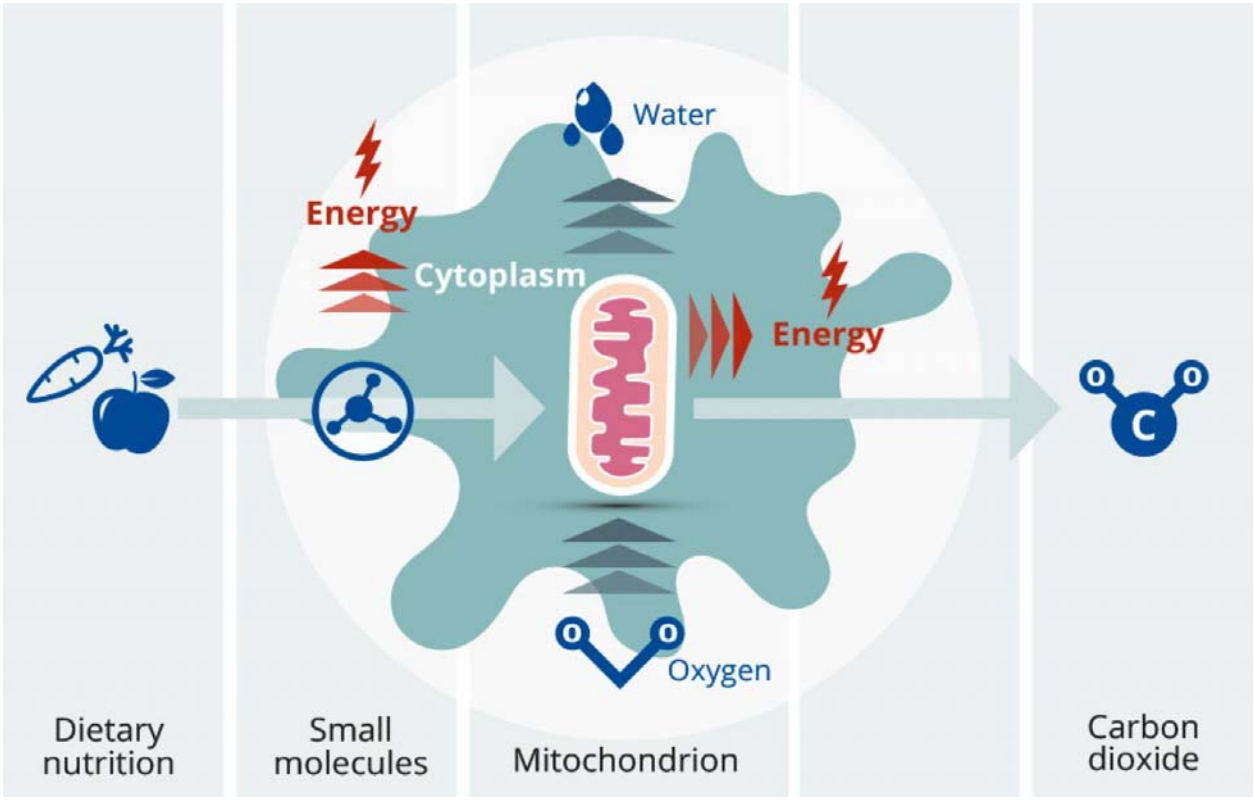
PRODUCTS AND PIPELINE

Advancing Mitochondrial Medicine

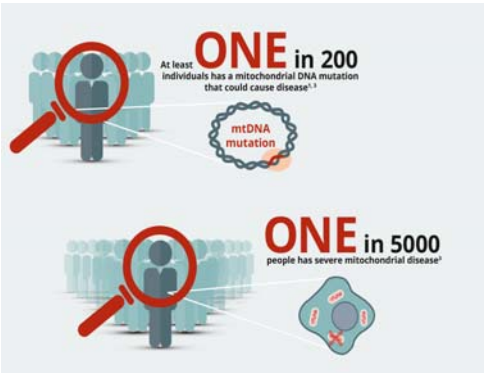
Santhera is passionate about providing treatment options for patients with rare mitochondrial diseases, specifically for neuromuscular and neuro-ophthalmological conditions.

Mitochondria are the body's energy factories

Mitochondria are found within virtually every cell of the body. They are responsible for creating the cellular energy needed by the body to sustain life and support organ function. When mitochondrial function fails, energy production is reduced leading to cell injury and even cell death. If this process is repeated throughout the body, whole organ systems begin to fail resulting in the symptoms typically seen in these diseases.



Mitochondrial diseases, which affect about one in 5'000 people, are often a result of inherited genetic mutations and typically affect organs with high energy requirements, such as the brain, muscles, eye, ear, heart, liver and the gastrointestinal tract.



PRODUCTS AND PIPELINE

Santhera – a leader in mitochondrial medicine

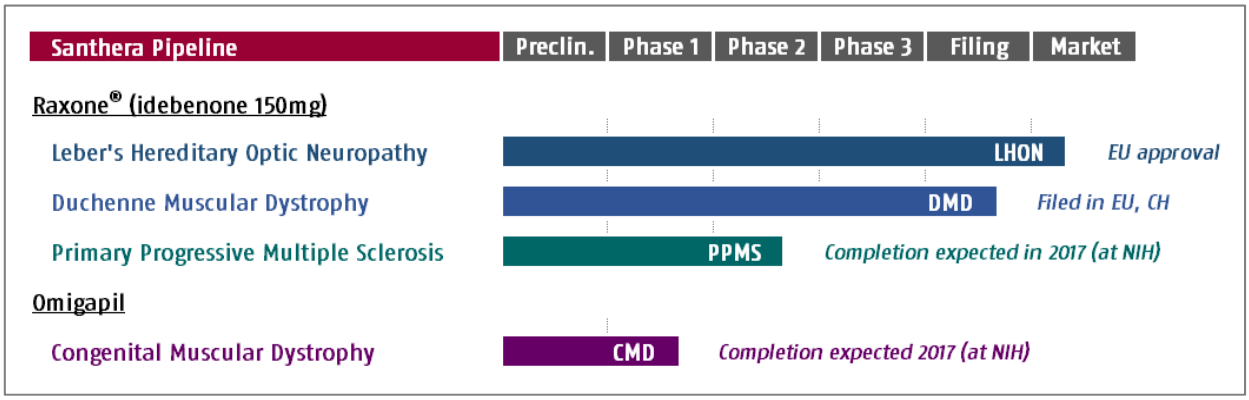
Santhera's research is currently focused on developing treatment options for the following diseases:

- Leber's hereditary optic neuropathy (**LHON**)
- Duchenne muscular dystrophy (**DMD**)
- Primary progressive multiple sclerosis (**PPMS**)
- Congenital muscular dystrophy (**CMD**)

For more than a decade, the Company has been committed to advancing research in this field and is working to offer hope to patients who currently lack treatment options.

Santhera's lead compound Raxone® (**idebenone**) – the first pharmaceutical product authorized for a mitochondrial disorder – was approved in the European Union in September 2015 for the treatment of patients with LHON. Raxone is undergoing regulatory review for DMD and is in development for PPMS.

The second compound in Santhera's pipeline is omigapil for the treatment of congenital muscular dystrophy (**CMD**).



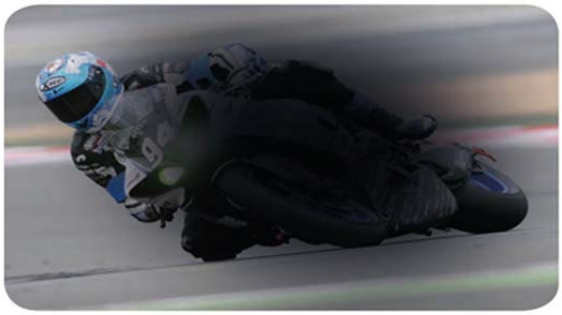
PRODUCTS AND PIPELINE

Raxone® in LHON

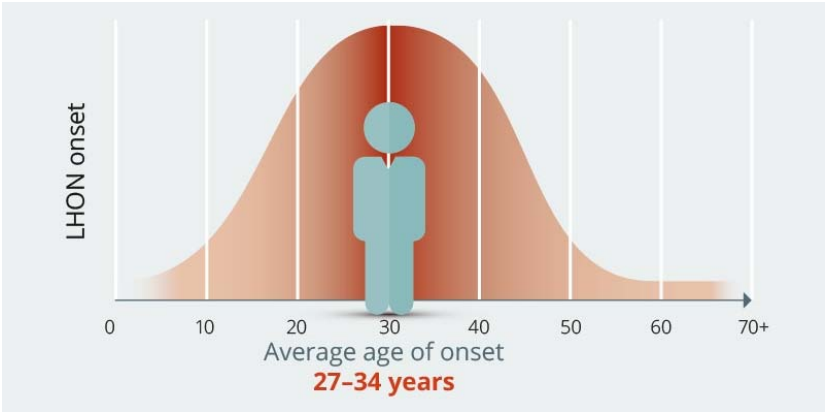
Leber's hereditary optic neuropathy (**LHON**) is a rare eye disease that usually affects young, otherwise healthy, individuals and is more common in men than women.

People with LHON generally lose central vision in both eyes, making it impossible to read, drive or recognize faces. LHON occurs in approximately 2 in every 100,000 people.

Normal vision



LHON vision



Severe loss of central vision occurs in the majority of patients within one year after onset of symptoms. The loss of vision in the first eye is sudden, abrupt, painless and profound. This is typically followed by loss of vision in the other eye 1–3 months later. Approximately 80% of patients reach the status of being legally blind within 1 year of disease onset. Early diagnosis and treatment are important to try to preserve eyesight.

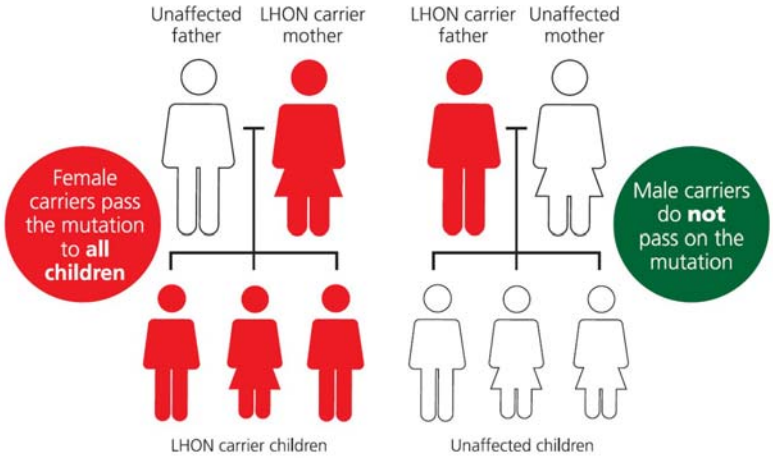
Raxone – first treatment approved for LHON

Raxone is approved in the European Union for the treatment of visual impairment in adolescent and adult patients with LHON. The approval of Raxone for LHON was also the first-ever approved treatment of a mitochondrial disease. Idebenone, the active substance in Raxone, can restore the ability of nerve cells to produce energy which can lead to improvements in lost eyesight.

PRODUCTS AND PIPELINE

What causes LHON?

The majority of patients with LHON have one of three point mutations in their mitochondrial DNA which inhibit energy production in the nerve cells in the eye, the so-called retinal ganglion cells. As a result, these nerve cells lack the necessary energy to transmit the optical input from the eye to the brain and become inactive.



The LHON mutation is only inherited from the mother who acts as a carrier of this genetic defect, transmitting it to all of her children. Carriers do not necessarily develop LHON.

Partnering with patients to increase awareness of LHON:

Fabrizio's journey with LHON

Fabrizio Sottile is a 24 year old paralympic swimmer who was diagnosed with LHON in 2010. He first began noticing changes in his eyesight when he was 17 years old. During swimming pool training, he noticed that the middle left side of the timer clock was a little blurry. He dismissed it because he had suffered from migraines (with aura) previously and thought perhaps this was the problem. As the day progressed, the spot grew so he went to the ophthalmologist for consultation.

As it often happens with patients with LHON, he initially was thought to have multiple sclerosis. Following several tests and after a number of other misdiagnoses over a period of more than 6 months, he was finally diagnosed with LHON.

Fabrizio's journey has been a difficult one, but his fate has not kept him from becoming a medal winner at aquatic championships. Today, Fabrizio works very closely with the Italian patient advocacy group for LHON and with Santhera to raise awareness and understanding of LHON. He is really keen on using his experiences as a patient to help others in a similar situation.

PRODUCTS AND PIPELINE

Raxone® in DMD

Duchenne muscular dystrophy (**DMD**) is one of the most common and devastating types of muscle degeneration and results in rapidly progressive muscle weakness. It is a genetic, degenerative disease that is inherited with an incidence of up to 1 in 3,500 live born males worldwide. DMD is characterized by a loss of the protein dystrophin, leading to progressive muscle weakness and wasting and early morbidity and mortality due to respiratory failure.

Santhera Filed Marketing Authorization Application for Raxone® for DMD in the European Union and Switzerland

In May 2016, Santhera submitted a Marketing Authorization Application (**MAA**) to the European Medicines Agency (**EMA**) for Raxone for the treatment of DMD in patients with respiratory function decline and not taking concomitant glucocorticoids. The new indication was submitted as Type II variation of the Company's existing marketing authorization for Raxone granted in 2015. In October 2016, Santhera also submitted the corresponding MAA to the Swiss Agency for Therapeutic Products (**Swissmedic**).

Additional publications of data from the pivotal phase III DELOS trial

The results of the pivotal double-blind placebo-controlled phase III trial (**DELOS**) were originally published in *The Lancet* [1]. The DELOS Study Group authors concluded that "Idebenone reduced the loss of respiratory function and represents a new treatment option for patients with Duchenne muscular dystrophy." In 2016, additional results from DELOS were published in renowned medical journals.

Raxone slows the loss of respiratory function, a frequent cause of morbidity and early mortality in DMD

Data published in *Neuromuscular Disorders* show that DMD patients treated with Raxone (**idebenone**) have a reduced risk of bronchopulmonary complications including fewer hospitalizations caused by such complications and a reduced need for systemic antibiotic treatment compared to patients receiving placebo. In the discussion of the study results, the authors highlighted that "preservation of lung function and prevention and treatment of chest infections are among the most important aspects of the management of DMD" [2].

A subsequent publication in *Pediatric Pulmonology* highlighted the efficacy of Raxone on inspiratory function in patients with DMD which also is of clinical relevance [3]."

References:
[1] The Lancet, Volume 385, No. 9979, p1748–1757, 2 May 2015
[2] Neuromuscular Disorders 26 (2016) 473–480
[3] Pediatric Pulmonology (epub ahead of print): DOI 10.1002/ppul.23547

PRODUCTS AND PIPELINE

SIDEROS phase III trial started to broaden DMD target patient population

Late in 2016, Santhera started a new randomized, double-blind, placebo-controlled phase III trial (**SIDEROS**) designed to assess the efficacy of Raxone in delaying the loss of respiratory function in DMD patients receiving concomitant glucocorticoid therapy. The trial will be conducted in approximately 60 centers in Europe and in the US. Treatment duration is 18 months and results of the SIDEROS trial are expected in H2 2019. If successful, this study, in combination with the successful phase III DELOS trial in patients not taking concomitant glucocorticoids, will provide data that support use of Raxone in all DMD patients experiencing respiratory decline irrespective of their glucocorticoid use.

Orphan Drug Designation for Raxone for DMD

In September 2016, the Australian Therapeutic Goods Administration (**TGA**) has granted orphan drug designation (**ODD**) to idebenone (**Raxone**) for the treatment of DMD. The product has already received ODD from European, Swiss and US regulatory authorities and Fast Track Designation in the US. Patent protection extends until March 2026 (EU, Japan) and December 2027 (USA).

Raxone designated Promising Innovative Medicine for DMD in UK

In December 2016, the UK's Medicines and Healthcare Products Regulatory Agency (**MHRA**) designated Raxone as Promising Innovative Medicine (**PIM**) and as suitable candidate for entry into Step II of the Early Access to Medicines Scheme (**EAMS**). EAMS aims to give patients with serious conditions access to medicines that do not yet have a marketing authorization when there is a clear unmet medical need.

PRODUCTS AND PIPELINE

Raxone in PPMS

Multiple sclerosis (**MS**) is an inflammatory and neurodegenerative disorder of the central nervous system that causes a wide range of physical symptoms, such as impaired movement, fatigue, numbness, and pins and needles, as well as problems with memory and understanding.

In MS, the outer coating of nerve fibers (called myelin) is damaged, preventing the nerves from functioning properly. The causes of MS are unknown, but research has established that dysfunction of the energy-producing mitochondria in nerve cells could play a major role, particularly in primary progressive multiple sclerosis (**PPMS**).

What is PPMS?

PPMS is a more aggressive of two main subtypes of MS and affects about 10–15% of all patients with MS.

In remittent relapsing MS (**RRMS**), patients experience symptoms intermittently, with a slower accumulation of permanent disability than in PPMS.

In primary progressive MS (**PPMS**) physical disability progressively worsens over time without symptom-free intervals.

Extensive research has led to the successful development and approval of a range of treatments for patients with RRMS. In contrast, there are currently still limited treatment options for patients with PPMS and research is urgently needed to find new effective treatments for this condition.

Raxone in phase II for PPMS

Santhera is collaborating with the National Institute of Neurological Disorders and Stroke (**NINDS**), part of the US National Institutes of Health, in a double-blind, placebo-controlled phase II trial (**IPPoMS**) investigating the safety and therapeutic efficacy of Raxone in PPMS. The trial which combines a one-year observational run-in phase, followed by a two-year placebo-controlled intervention period, is fully enrolled. Completion of the IPPoMS trial in Raxone's third indication PPMS is expected late in 2017. Patients who finish this trial are offered participation in a one-year open label extension study.

IPPoMS completion expected in late 2017

PRODUCTS AND PIPELINE

Omigapil in CMD

Congenital muscular dystrophy (**CMD**) refers to a variety of inherited neuromuscular conditions characterized by different forms of progressive loss of muscle tissue. Severe forms can affect newborns or young children with life-threatening progressive muscle weakness ("floppy infant syndrome"). Complications associated with the disorder such as loss of body weight, skeletal deformations and respiratory distress result in immobility at a young age and early mortality.

No pharmacological therapy is currently available, or in advanced clinical development, to slow down or stop progression of CMD. Treatment options are confined to respiratory support and orthopedic surgery as well as supplementary nutrition to avoid malnutrition.

Omigapil – an investigational product for CMD

Santhera has in-licensed omigapil from Novartis for development and commercialization in CMD, and initiated a clinical development program. Nonclinical studies in a disease-relevant model showed that omigapil inhibits cell death and reduces body weight loss and skeletal deformation, while increasing locomotive activity and protecting from early mortality.

CALLISTO phase I trial nearing completion

Santhera evaluates omigapil in the phase I study (**CALLISTO**) which investigates the safety, tolerability and pharmacokinetic profile of a new liquid formulation of omigapil in pediatric and adolescent patients with CMD. CALLISTO progresses as planned and results are currently planned to be available in H2 2017. The CALLISTO trial is being conducted at the US NIH's National Institute of Neurological Disorders and Stroke (**NINDS**) in Bethesda, Maryland, and is also supported financially by a public-private partnership including two patient organizations, the US-based Cure CMD and the Swiss Foundation for Research on Muscle Diseases, and EndoStem, an EU 7th Framework program.

First investigational drug for CMD, currently in phase I

FDA grants omigapil fast track designation and award

In May 2016, Santhera received Fast Track Designation from the US Food and Drug Administration (**FDA**) for omigapil for the treatment of CMD. Previously, omigapil has already been granted Orphan Drug Designation for CMD in both the EU and the US. In August 2016, the Office of Orphan Products Development (**OOPD**) at the US Food and Drug Administration (**FDA**) granted Santhera a financial award in support of its phase I CALLISTO trial. Orphan Products Grants are intended for clinical studies evaluating the safety and/or effectiveness of products that could either result in, or substantially contribute to, market approval of these products.

Consolidated Financial Statements

Contents

Consolidated Balance Sheet

In CHF thousands	Notes	31.12.2016	31.12.2015
Assets			
Tangible assets	5	517	398
Intangible assets	6	26,549	29,559
Financial assets long-term		270	190
Deferred tax assets	13	1,106	3,061
Noncurrent assets		**28,442**	**33,208**
Prepaid expenses and other assets	8	583	1,513
Inventories	9	7,676	3,441
Trade and other receivables	10	4,276	2,131
Cash and cash equivalents	11	49,815	76,859
Current assets		**62,350**	**83,944**
Total assets		**90,792**	**117,152**
Equity and liabilities			
Share capital	12	6,280	6,263
Capital reserves and share premium		382,322	377,031
Retained earnings		−308,549	−273,133
Employee benefit reserve		−4,734	−2,958
Treasury shares	12	−172	−177
Other components of equity		−796	−779
Total equity		**74,351**	**106,247**
Pension liabilities	21	6,183	3,957
Total noncurrent liabilities		**6,183**	**3,957**
Trade and other payables	14	4,458	3,666
Accrued expenses	15	5,800	3,282
Total current liabilities		**10,258**	**6,948**
Total liabilities		**16,441**	**10,905**
Total equity and liabilities		**90,792**	**117,152**

Consolidated Income Statement

For the year ended December 31, in CHF thousands	Notes	2016	2015
Net sales	18	19,033	4,321
Cost of goods sold		−3,883	−1,371
Of which amortization intangible asset		*−3,039*	*−1,013*
Other operating income	19	361	188
Development	20	−17,675	16,651
Of which Development expenses	*20*	*−17,675*	*−10,453*
Of which reversal impairment on intangible assets and inventory	*20*	*0*	*27,104*
Marketing and sales	20	−21,051	−8,356
General and administrative	20	−9,805	−8,244
Other operating expenses	20	−107	−16
Operating expenses	**20**	**−48,638**	**35**
Operating result		**−33,127**	**3,173**
Financial income	22	928	416
Financial expenses	22	−995	−655
Result before taxes		**−33,194**	**2,934**
Income taxes	23	−2,221	3,015
Net result		**−35,415**	**5,949**
Basic earnings/loss per share (in CHF)	24	−5.65	1.11
Diluted earnings/loss per share (in CHF)	24	−5.65	1.08

Consolidated Statement of Comprehensive Income

For the year ended December 31, in CHF thousands	Notes	2016	2015
Net result		**–35,415**	**5,949**
Items never to be reclassified to net income in subsequent periods:			
Actuarial gains/(losses) on defined benefit plans	21	–1,776	–1,671
Items to be reclassified to net income in subsequent periods:			
Currency translation differences		–18	–16
Other comprehensive result		**–1,794**	**–1,687**
Total comprehensive result		**–37,209**	**4,262**

Consolidated Cash Flow Statement

For the year ended December 31, in CHF thousands	Notes	2016	2015
Result before taxes		**-33,194**	**2,934**
Depreciation of tangible assets	5	168	85
Reversal of impairment on intangible assets	6	0	−26,157
Amortization of intangible assets	6	3,096	1,037
Expenses for equity rights plans	17, 20	4,683	2,040
Change in pension liabilities	21	450	−394
Taxes paid		-266	-46
Change in net working capital		-2,131	-2,119
Total financial result	22	67	239
Interest received	22	5	2
Interest paid	22	-15	-11
Cash flow from operating activities		**−27,137**	**−22,390**
Investments in tangible assets	5	−289	−350
Investments in intangible assets	6	−86	−165
Investments in other financial assets		−84	−104
Cash flow from investing activities		**−459**	**−619**
Capital increases from options exercised	12	385	2,127
Proceeds from sale of treasury shares	12	418	0
Purchase of treasury shares	12	-172	0
Capital increase private placement	12	0	54,870
Capital increase	12	0	27,576
Cost of issuance of share capital		0	−1,943
Cash flow from financing activities		**631**	**82,630**
Effects of exchange rate changes on cash and cash equivalents		−79	−197
Net increase/(decrease) in cash and cash equivalents		**-27,044**	**59,424**
Cash and cash equivalents at January 1		76,859	17,435
Cash and cash equivalents at December 31		**49,815**	**76,859**

Consolidated Statement of Changes in Equity

In CHF thousands	Notes	Share capital	Capital reserves and share premium	Retained earnings	Employee benefit reserve	Treasury shares	Translation differences	Total
Balance at January 1, 2015		**4,974**	**293,650**	**−279,083**	**−1,287**	**−177**	**−762**	**17,315**
Net result		0	0	5,949	0	0	0	**5,949**
Other comprehensive result	21	0	0	0	−1,671	0	−16	**−1,687**
Total comprehensive result for the period		**0**	**0**	**5,949**	**−1,671**	**0**	**−16**	**4,262**
Share-based payment transactions	17, 20	0	2,040	0	0	0	0	**2,040**
Capital increase from options exercise	12	399	1,728	0	0	0	0	**2,127**
Capital increase private placement	12	590	54,280	0	0	0	0	**54,870**
Capital increase	12	300	27,276	0	0	0	0	**27,576**
Cost of issuance of share capital		0	−1,943	0	0	0	0	**−1,943**
Balance at December 31, 2015		**6,263**	**377,031**	**−273,134**	**−2,958**	**−177**	**−778**	**106,247**
Balance at January 1, 2016		**6,263**	**377,031**	**−273,134**	**−2,958**	**−177**	**−778**	**106,247**
Net result		0	0	−35,415	0	0	0	**−35,415**
Other comprehensive result	21	0	0	0	−1,776	0	−18	**−1,794**
Total comprehensive result for the period		**0**	**0**	**−35,415**	**−1,776**	**0**	**−18**	**−37,209**
Share-based payment transactions	17, 20	0	4,682	0	0	0	0	**4,682**
Capital increase from options exercise	12	17	368	0	0	0	0	**385**
Change in treasury shares	12	0	241	0	0	5	0	**246**
Balance at December 31, 2016		**6,280**	**382,322**	**−308,549**	**−4,734**	**−172**	**−796**	**74,351**

Notes to the Consolidated Financial Statements

1 General Information

Santhera Pharmaceuticals Holding AG (the **Company**, together with its subsidiaries **Santhera** or **Group**) is a specialty pharmaceutical company focused on the development and commercialization of products for the treatment of mitochondrial and neuromuscular diseases, an area which includes many orphan and niche indications with high unmet medical need.

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

The consolidated financial statements were approved for publication by the Board of Directors (**Board**) on March 6, 2017. They are subject to approval by the Annual Shareholders' Meeting (**ASM**) on April 4, 2017.

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 exists when the investor is exposed, or has rights, to variable returns from its investment with the investee and has the ability to affect those returns through its power over the investee. 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., Burlington, US; Santhera Pharmaceuticals (Canada), Inc., Montréal, Canada; Santhera Pharmaceuticals (Deutschland) GmbH, Lörrach, Germany; and Oy Santhera Pharmaceuticals (Finland) Ltd, Helsinki, Finland. The accounts further include the wholly owned subsidiaries of Santhera Pharmaceuticals (Schweiz) AG: Santhera Pharmaceuticals (Liechtenstein) AG, Ruggell, Fürstentum Liechtenstein; Santhera (Italy) S.r.l., Milano, Italy; Santhera (Germany) GmbH, Munich, Germany; Santhera (Netherlands) B.V., Nieuwegein, The Netherlands; and Santhera (UK) Limited, London, United Kingdom.

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

Changes in accounting policies

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

New, revised or amended IFRS standards and interpretations 2016

The following new, revised or amended standards that became effective on January 1, 2016 did not have any significant impact on the consolidated financial statements.

- IAS 1 (Amendments) Disclosure Initiative
- IAS 16 and IAS 38 (Amendments) Clarification of Acceptable Methods of Depreciation and Amortization
- Annual Improvements to IFRSs 2012–2014 Cycle

New, revised or amended IFRS standards and interpretations as from 2017

The following new, revised or amended standards have been published but are not yet effective and have not been early adopted by the Group.

- IFRS 9 Financial Instruments (effective January 1, 2018)
- IAS 7 (Amendments) Disclosure Initiative (effective January 1, 2017)
- IAS 12 (Amendments) Recognition of Deferred Tax Assets for Unrealized Losses (effective January 1, 2017)
- IFRS 2 (Amendments) Classification and Measurement of Share-based Payment Transactions (effective January 1, 2018)

At this stage, the Group does not expect any significant impact on the consolidated financial statements from the new, revised or amended standards above, with the exception for the following standards set out below:

- IFRS 15 Revenue from Contracts with Customers (effective January 1, 2018). The Group has identified one revenue stream from its contracts with customers: product revenue. The evaluation of the contracts is ongoing with the primary focus on its consideration of the standard in regards to estimating the transaction price. While the Company has not completed the analysis of the impact of adoption, the adoption of IFRS 15 is not expected to have material effects on the consolidated financial statements. As part of the Company's analysis, the Company is evaluating and implementing changes to its policies, procedures and controls.
- IFRS 16 Leases (effective January 1, 2019). The lessee shall recognize leasing obligations in its balance sheet for future lease payments as well as recognizing a right to use the underlying asset. Santhera expects that the new standard IFRS 16 has an impact on the consolidated financial statements. However, a thorough estimate of the impact can only be made once a detailed analysis is finished.

Segment reporting

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

Foreign currency translations

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

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

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

Intangible assets

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

Patents

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

IT software

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

Tangible assets

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

	Useful life
Equipment	4 to 10 years
IT hardware	2 to 5 years
Leasehold improvements	2 to 10 years

Impairment of assets

Assets include intangible assets not yet available for use, intangible assets with finite useful lives and tangible assets. In general and in accordance with the terms of IFRS, assets not in use are capitalized at cost in the balance sheet and reviewed for impairment at least annually. Impairment testing is performed at the same time every year or whenever there is an indication that the asset may be impaired. A change to finite useful life is accounted for as a change in an accounting estimate for the respective asset. Testing for indicators of impairment is done at the end of each reporting period.

Trade and other receivables

Receivables which generally have 30 to 60 days payment terms are stated at their nominal value less an allowance for any uncollectible amount if required. An allowance for doubtful debts is made when collection is deemed no longer probable.

Inventories

Inventories are stated at the lower of cost or 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 or 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. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the reporting date. Valuation is at fair value through profit and loss. Financial assets at fair value through profit or loss are subsequently carried at fair value. Realized and unrealized gains and losses arising from changes in the fair value are included in the income statement in the period in which they arise.

Loans and receivables

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

Leases

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

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

Cash and cash equivalents

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

Share capital

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

Treasury shares

Treasury shares are purchased at cost and recognized as deduction from equity. Income or loss from subsequent sale is presented in equity.

Financial liabilities

Santhera classifies its financial liabilities into two categories:

Financial liabilities at fair value through profit or loss

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

Other liabilities measured at amortized costs

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

Income taxes

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

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

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

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

Earnings/loss per share

Basic earnings/loss per share are calculated by dividing the net profit/loss attributable to owners of ordinary Shares of the Company by the weighted average number of Shares outstanding during the reporting period. Diluted earnings per share are calculated by dividing the net profit attributable to owners of ordinary Shares of the Company by the weighted average number of shares issued and outstanding during the reporting period adjusted for Shares held as treasury shares (purchased at market) and the number of potential shares from stock option plans.

Employee benefits

Post-retirement benefits

Santhera operates both defined benefit and defined contribution pension schemes.

- Defined benefit scheme:

  Santhera's pension plan in Switzerland is classified as a defined benefit plan. Payments under this scheme are made directly to the pension fund for the account of each insured person. Typically, on retirement, an employee will receive an amount of the accumulated defined benefit obligation depending on several factors such as the total individual amount paid in, age and implied life expectancy. The compensation will be in the form of a lifelong pension or a lump sum payment. The scheme also covers disability as a consequence of illness and death-in-service.

  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, adjusted for the effects of the asset ceiling, when relevant.

  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.

- Defined contribution schemes:

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

Share-based compensation

Santhera has established stock option and share appreciation rights (**SAR**s) plans to align the long-term interests of the members of the Board, the Executive Management, employees and selected consultants who are eligible to participate. Under all plans, options and share appreciation rights are equity-settled. The fair value of options and SARs is determined at the grant date and recognized as personnel expense over the period Santhera receives services for each award. Where stock option awards are modified as a minimum, the expenses are recognized as if no terms had been modified; modifications which increase the fair value of options are expensed additionally. Unless determined otherwise by the Board, terminations of employment by the employer are treated as forfeiture and any previously accumulated share-based payment expenses for unvested awards are reversed.

Provisions

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

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

Revenue recognition

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

Revenue from out-licensing

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

Revenue associated with up-front payments or performance milestones

Such revenue is recognized in accordance with respective agreements.

Revenue from royalties

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

Interest income

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

Development / intangible assets

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

3 Critical Accounting Estimates, Assumptions and Judgments

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

- Measurement and impairment testing of intangible assets, see note 7 *"Impairment Test for Intangible Assets"*.
- Measurement and impairment testing of inventory, see note 9 *"Inventories"*.
- Personnel expenses from share-based payments in accordance with IFRS 2, i.e. estimates regarding the valuation of equity rights plans when granted, see note 17 "*Equity Rights Plans"*.
- Actuarial valuations in the context of defined benefit pension plans where various assumptions on e.g. discount rates, salary increase rates and mortality rates, etc. bear significant uncertainties due to the long-term nature of the plans, see note 21 *"Employee Expenses and Benefits"*.

4 Exchange Rates of Principal Currencies

	Income statement in CHF average rates		Balance sheet in CHF year-end rates	
	2016	**2015**	**2016**	**2015**
1 Euro (**EUR**)	1.0902	1.0681	1.0737	1.0826
1 US dollar (**USD**)	0.9851	0.9624	1.0160	0.9927
1 British pound (**GBP**)	1.3352	1.4708	1.2498	1.4694
1 Canadian dollar (**CAD**)	0.7435	0.7534	0.7532	0.7157

5 Tangible Assets

In CHF thousands	Equipment	IT hardware	Leasehold improvements	2016
Cost				
At January 1	225	567	45	**837**
Additions	17	226	46	**289**
Disposals	–3	–36	0	**–39**
Exchange differences	–1	–2	0	**–3**
Reclassification	–1	1	0	**0**
At December 31	**237**	**756**	**91**	**1,084**
Accumulated depreciation and impairment losses				
At January 1	166	231	42	**439**
Additions	16	150	2	**168**
Disposals	–3	–36	0	**–39**
Exchange differences	0	–1	0	**–1**
At December 31	**179**	**344**	**44**	**567**
Net book value	**58**	**412**	**47**	**517**

In CHF thousands	Equipment	IT hardware	Leasehold improvements	2015
Cost				
At January 1	185	334	42	**561**
Additions	61	286	3	**350**
Disposals	–22	–53	0	**–75**
Exchange differences	1	0	0	**1**
At December 31	**225**	**567**	**45**	**837**
Accumulated depreciation and impairment losses				
At January 1	177	211	41	**429**
Additions	11	73	1	**85**
Disposals	–22	–53	0	**–75**
At December 31	**166**	**231**	**42**	**439**
Net book value	**59**	**336**	**3**	**398**

6 Intangible Assets

In CHF thousands	Raxone	Fipamezole	IT software/ patents	2016
Cost				
At January 1	30,387	3,918	477	**34,782**
Additions	0	0	86	**86**
Disposals	0	0	–28	**–28**
At December 31	**30,387**	**3,918**	**535**	**34,840**
Accumulated amortization and impairment losses				
At January 1	1,013	3,918	292	**5,223**
Additions	3,039	0	57	**3,096**
Disposals	0	0	–28	**–28**
At December 31	**4,052**	**3,918**	**321**	**8,291**
Net book value	**26,335**	**0**	**214**	**26,549**

In CHF thousands	Raxone	Fipamezole	IT software/ patents	2015
Cost				
At January 1	30,387	3,918	312	**34,617**
Additions	0	0	165	**165**
At December 31	**30,387**	**3,918**	**477**	**34,782**
Accumulated amortization and impairment losses				
At January 1	26,157	3,918	268	**30,343**
Additions	1,013	0	24	**1,037**
Reversal impairment	–26,157	0	0	**–26,157**
At December 31	**1,013**	**3,918**	**292**	**5,223**
Net book value	**29,374**	**0**	**185**	**29,559**

As a result of receiving the European marketing authorization in September 2015, Santhera determined the recoverable amount of its previously impaired intangible asset "Raxone". This resulted in a reversal of impairment of CHF 26.2 million which has been recorded under Development expenses (see note 7 *"Impairment Test for Intangible Assets"*).

7 Impairment Test for Intangible Assets

During 2016 there was no trigger for impairment of intangible assets. "Raxone" represents the main intangible asset of Santhera. It has become available for use in September 2015 and has an estimated useful life of 10 years.

Prior to that it was not available for use and did not generate cash inflows. It was subject to annual impairment testing and had previously been impaired in 2012. Based on the European marketing authorization, received in September 2015, an impairment test was performed at the time which resulted in the full reversal of the previous impairment and an increase in the carrying amount of the intangible asset to its recoverable amount of CHF 29.4 million. At the same time the intangible asset formerly not available for use was transformed into an asset available for use with a finite useful live of 10 years. Amortization of the asset began in September 2015.

Management used the risk-adjusted Net Present Value (**rNPV**) model taking into consideration the expected cumulative probability of reaching the market to calculate recoverable amount. This is a customary model for the valuation of pharmaceutical intangibles. The rNPV model considers the net cash flows over the expected lifetime of the products based on the lifetime of the underlying intellectual property or the market exclusivity granted through orphan drug protection. For the purpose of estimating these cash flows, Santhera made estimates about the expected revenues based on estimated market size and patient numbers, expected market penetration rates, product pricing and project- or product-related costs. Santhera's strategic focus is on LHON and DMD. Since LHON is the most advanced program with a market authorization in the EU, received in 2015, the impairment test for 2015 was entirely based on projected cash flows derived from this program in Europe.

The key assumptions for the tests were as follows:

	2015
Discount rate (WACC)	15%
Market growth rate (terminal value)	0%
Probability of reaching market	100%
Period of projected cash flows	5 years

8 Prepaid Expenses and Other Assets

In CHF thousands	**2016**	**2015**
Prepayments	487	1,467
Other assets	96	46
Total at December 31	**583**	**1,513**

9 Inventories

In CHF thousands	2016	2015
Raw material (active pharmaceutical ingredients)	5,052	1,552
Semi-finished goods	2,369	1,551
Finished goods	255	338
Total at December 31	**7,676**	**3,441**

10 Trade and Other Receivables

In CHF thousands	2016	2015
Trade receivables	3,412	1,466
Other receivables	864	665
Total at December 31	**4,276**	**2,131**

Trade receivables in 2016 result from product sales, see note 18 *"Segment and Geographic Information"*. Other receivables consist mainly of amounts due from the government for tax reimbursements (e.g. VAT). 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, 2016, and 2015.

11 Cash and Cash Equivalents

In CHF thousands	2016	2015
Cash at banks and on hand		
In CHF	44,358	69,570
In EUR	4,661	6,270
In GBP	546	772
In USD	149	191
In CAD	67	56
Other currencies	34	0
Total at December 31	**49,815**	**76,859**
Of which: Short-term money market deposits		
In CHF	31,000	45,000

12 Share Capital

Ordinary share capital

As of January 1, 2015, the share capital amounted to CHF 4,974,492, divided into 4,974,492 shares ("Shares") at a nominal value of CHF 1 each. During 2015, 398,306 Shares were issued from conditional capital upon the exercise of stock options. 590,000 Shares were issued from authorized capital for a private placement (accelerated bookbuilding) and 300,000 Shares were issued from conditional capital for sale by an independent broker. As a result, as of December 31, 2015, the share capital amounted to CHF 6,262,798, divided into 6,262,798 Shares at a nominal value of CHF 1 each.

During 2016, 17,059 Shares were issued from conditional capital upon the exercise of stock options. As a result, as of December 31, 2016, the share capital amounted to CHF 6,279,857, divided into 6,279,857 Shares at a nominal value of CHF 1 each.

Treasury shares

In connection with the liquidation of Oy Juvantia Pharma, Turku, Finland (**Juvantia**), a company acquired in 2009, Santhera received 8,028 Shares from former Juvantia shareholders. These treasury shares served as pledge from the former owners of Juvantia for compensation of a potential tax claim related to pre-acquisition activities. The claim was resolved and the Shares were sold with a financial profit of TCHF 186.

In the second half of 2016, Santhera entered into an agreement for market making with a well-known bank. Independently, the bank buys and sells Shares on the market on behalf of the Company. On December 31, 2016, Santhera held 3,616 treasury Shares.

Authorized share capital

On the occasion of the ASM on May 11, 2016, the shareholder approved the increase of the authorized share capital as well as an extension. The Board is authorized to increase the share capital at any time until May 10, 2018, through the issuance of up to 1,500,000 Shares with a nominal value of CHF 1 each. An increase in instalments is permitted. For each such increase, the Board has to determine the issue price, the type of payment, the date of issuance of new Shares, the conditions for the exercise of pre-emptive rights and the beginning date for dividend entitlement.

Conditional share capital

At the ASM on May 11, 2016, the shareholders additionally approved a maximum increase of the share capital by an aggregate amount of CHF 550,000 (2015: CHF 800,000) through the issuance of a maximum of 550,000 (2015: 800,000) Shares with a nominal value of CHF 1 each. The Shares can be issued through the exercise of equity rights which are granted according to respective regulations of the Board.

There was no change to the maximum increase in conditional share capital which amounted to CHF 650,000 (2015: CHF 650,000) through the issuance of a maximum of 650,000 (2015: 650,000) Shares with a nominal value of CHF 1 per Share by the exercise of option and/or conversion rights which can be granted in connection with the issuance of bonds, similar obligations or other financial instruments by the Company or another Group company, and/or by the exercise of options which are granted by the Company or another Group company. In the case of the issue of bonds, similar obligations or other financial instruments linked with option and/or conversion rights, and in the case of the issue of option rights, the pre-emptive right of shareholders is excluded.

As of December 31, 2016, the Company had a conditional share capital, pursuant to the above provisions, whereby the share capital may be increased by

- a maximum amount of CHF 532,941 (2015: CHF 401,694) through the issuance of up to 532,941 (2015: 401,694) Shares, under the exclusion of shareholders' pre-emptive rights, for option rights being exercised under the Company's stock option plans, see note 17 *"Equity Rights Plans"*, and
- a maximum amount of CHF 650,000 (2015: CHF 650,000) by issuing up to 650,000 (2015: 650,000) Shares, through the exercise of warrants/options and/or notes granted in connection with bonds or similar debt instruments linked with option and/or conversion rights granted by the Company.

13 Deferred Taxes

Net deferred taxes recorded

In CHF thousands	2016	2015
Temporary differences on inventory	1,067	3,061
Temporary difference on accruals	39	0
Deferred tax assets recognized	**1,106**	**3,061**
Temporary differences on intangible assets	2,154	5,167
Temporary differences on intercompany loans	13,449	0
Tax loss carryforwards	–15,603	–5,167
Deferred tax liabilities recognized	**0**	**0**
Tax loss carryforwards	301,667	269,696
Of which recorded	–195,583	–25,834
Of which unrecorded	**106,084**	**243,862**
Expiring in		
1 year	5,832	9,738
2 years	22,671	5,832
3 years	27,366	22,671
4 years	4,223	177,282
5 years	0	0
More than 5 years	17,942	0
Without expiration	28,050	28,339
Total unrecorded tax loss carryforwards	**106,084**	**243,862**

Due to the uncertainty surrounding the future results of operations and the uncertainty as to whether Santhera can use the loss carryforwards for tax purposes, deferred tax assets on tax loss carryforwards were only considered to the extent that they offset taxable temporary differences within the same taxable entity. As there are no temporary differences associated with investments in subsidiaries, no deferred tax liability has to be recognized. No deferred tax assets are calculated on temporary differences related to pension obligations from IAS 19 (TCHF 6,183 per December 31, 2016, and TCHF 3,957 per December 31, 2015, respectively).

14 Trade and Other Payables

In CHF thousands	2016	2015
Trade payables	3,574	3,290
Other payables (nonfinancial)	884	376
Total at December 31	**4,458**	**3,666**

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

15 Accrued Expenses

In CHF thousands	2016	2015
Development programs	749	699
Liabilities to employees	2,013	905
Accruals for pricing and reimbursement	1,107	673
Accrued marketing and sales expenses	953	629
Expenses for audit, consulting and other	696	331
Accruals for income taxes	282	45
Total at December 31	**5,800**	**3,282**

16 Commitments and Contingent Liabilities

Commitments

Commitment for operating lease (noncancellable)

In CHF thousands	2016	2015
Within 1 year	734	398
After 1 year through to 5 years	804	278
After 5 years	0	15
Total at December 31	**1,538**	**691**

Contingent liabilities

Collaboration and license agreement with Takeda

In September 2013, Santhera announced an agreement with Takeda Pharmaceutical Company Ltd, Osaka, Japan (**Takeda**) to license back all previously granted rights in DMD and Friedreich's ataxia (**FA**) in order to increase its strategic flexibility. In return, Takeda is eligible to obtain a percentage from future licensing and/or sales income generated by Santhera in DMD of up to EUR 7.0 million. In addition, Santhera has obtained the right to cross-reference Takeda's *idebenone* data for regulatory use in any indication and in any territory. If Santhera makes use of such cross-reference right, Takeda is eligible to obtain a percentage from future licensing and/or sales income generated by Santhera in such indications of up to EUR 3.0 million. Lastly, both companies agreed to terminate a similar agreement for FA signed in 2005 and Santhera's contingent liability of EUR 1.0 million payable to Takeda has been waived. Takeda is eligible to receive up to EUR 1.0 million as a percentage from future income generated by Santhera to offset this waiver.

Agreement with the University of Leuven

In March 2005, Santhera entered into an agreement with Katholieke Universiteit Leuven, Leuven, Belgium (**KU Leuven**), under which KU Leuven assigned to Santhera its patents and patent applications relating to the use of Raxone to treat various forms of muscular-dystrophy-related disorders, particularly DMD. Based on this agreement, Santhera has filed patent applications in major territories covering the use of Raxone for the treatment of DMD.

KU Leuven is entitled to a success fee of up to EUR 0.4 million if and when Santhera commercializes any product in a major market, which includes the EU, the US or Japan and certain countries within the EU. In addition, in the event Santhera commercializes the product itself, KU Leuven is entitled to receive 5% royalties on net sales. In the event Santhera grants commercialization rights to a third party, KU Leuven will receive 15% of all the consideration received by Santhera from such third party.

License agreement with Novartis

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

Agreement with the National Institutes of Health

In June 2013, Santhera has obtained an exclusive license from the National Institutes of Health, Bethesda/Maryland, US (**NIH**), to its rights on a patent granted in the US for the use of *idebenone* for the treatment of primary progressive multiple sclerosis (**PPMS**). Under the terms of the agreement, Santhera would have to make certain milestone payments to the NIH not exceeding USD 1.4 million in total. Furthermore, the NIH is eligible to a royalty fee of 3% on net sales and 15% of considerations received in case Santhera sublicenses the program.

Contracts for clinical development and other

As part of its ordinary course of business, Santhera has entered into several contracts for e.g. clinical or technical development services. Commitments are within current market prices and can be terminated at the Company's discretion.

In order to meet its requirements for market supply, potential launch and inventory risk management purposes (security stock), Santhera entered into commitments for the purchase of active pharmaceutical ingredients in the amount of up to EUR 2.6 million (to be delivered in 2017).

Contingent liabilities summary

Santhera believes that the disclosures above and accruals (see note 15 *"Accrued Expenses"*) are adequate based upon currently available information. However, given the inherent difficulties in estimating liabilities relating to clinical development, regulatory, tax, possible litigation and certain other matters due to uncertainty concerning both the amount and timing of future expenditures, it cannot be guaranteed that additional costs will not be incurred materially beyond the amounts accrued.

17 Equity Rights Plans

Santhera has established equity rights plans to align the long-term interests of the members of the Board, the Executive Management and employees. Rights granted under these plans are equity-settled.

17.1 Stock Option Plans

Executive Incentive Plan (EIP)

In November 2006, under the EIP, the members of the Executive Management were granted stock options to acquire 101,065 Shares, as a management incentive. Each of these stock options entitles its holder to purchase one Share at an exercise price of CHF 1. The vesting period of the options was one year. At the end of the option term, i.e. after a period of ten years as from the grant date, all unexercised stock options will expire without value. The EIP is administered under the responsibility of the Board. No further grants can be made under the EIP.

Options outstanding, exercised or forfeited under the EIP

Number of options				2016				2015
Plan	Exercised	Forfeited	Expired	Outstanding	Exercised	Forfeited	Expired	Outstanding
EIP	1,210	0	0	0	790	0	0	1,210

Employee Stock Option Plans

The Company adopted the ESOP 2004, ESOP 2008, ESOP 2010 and ESOP 2015 (collectively the **ESOPs**) to provide incentives to the Executive Management, employees and consultants helping to ensure their commitment to Santhera over the long-term. Since January 1, 2015, new grants have been allocated under the ESOP 2015. Option grants are made periodically at the discretion of the Board or as contractually agreed with employees. The ESOPs contain customary provisions in respect of the adjustment or cancellation of stock options upon termination of employment, retirement, death, disability and certain corporate transactions. All stock option plans are administered under the responsibility of the Board. Each stock option entitles its holder to purchase one Share of the Company at an exercise price defined to be either a) equal to the volume-weighted average share price in the three preceding months for Swiss employees, or b) the closing share price on the SIX Swiss Exchange (**SIX**) at each grant date. In general, 50% of the stock options 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 expire without value. Subject to the provisions of the ESOP 2004, vested stock options of employees leaving the Company in good faith do not lapse. Under the ESOP 2008 and ESOP 2010 vested stock options of employees leaving the Company in good faith expire six months after the termination date of the employment. Under the ESOP 2015 vested stock options of employees leaving the Company in good faith do not expire. Unvested stock options of employees leaving the Company are forfeited under all stock option plans.

Options outstanding, exercised, forfeited or expired under ESOPs

Number of options						**2016**
	At January 1	Exercised	Granted	Forfeited	Expired	At December 31
ESOP 2004	26,091	-4,825	0	0	-20,513	753
ESOP 2008	1,500	-1,500	0	0	0	0
ESOP 2010	47,773	-9,524	0	0	0	38,249
ESOP 2015	140,260	0	135,830	-15,289	0	260,801
Total	**215,624**	**-15,849**	**135,830**	**-15,289**	**-20,513**	**299,803**

Number of options						**2015**
	At January 1	Exercised	Granted	Forfeited	Expired	At December 31
ESOP 2004	35,136	-9,045	0	0	0	26,091
ESOP 2008	1,500	0	0	0	0	1,500
ESOP 2010	409,444	-358,971	0	-2,700	0	47,773
ESOP 2015	0	0	142,260	-2,000	0	140,260
Total	**446,080**	**-368,016**	**142,260**	**-4,700**	**0**	**215,624**

Board Stock Option Plans

The Company adopted the BSOP 2011 and BSOP 2015 (collectively the **BSOPs**) to provide incentives to members of the Board. Since January 1, 2015, new grants have been made under the BSOP 2015. The plan contains the same customary provisions as under the ESOP plans described above. Each stock option entitles its holder to purchase one Share of the Company at an exercise price defined to be either a) equal to the volume-weighted average share price in the three preceding months, or b) the closing share price on the SIX at each grant date. In general, 50% of the stock options 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 expire without value. Under the BSOP 2011 vested stock options of Board members leaving the Board in good faith expire six months after the termination date of them being a member of the Board while unvested stock options of Board members leaving the Board in good faith are forfeited. Under the BSOP 2015 vested and unvested stock options of Board members leaving the Board in good faith do not expire.

Options outstanding, exercised, forfeited or expired under BSOPs

Number of options					**2016**
	Exercised	Granted	Forfeited	Expired	Outstanding
BSOP 2015	0	6,562	0	0	13,562
Total	**0**	**6,562**	**0**	**0**	**13,562**

Number of options					**2015**
	Exercised	Granted	Forfeited	Expired	Outstanding
BSOP 2011	29,500	0	0	0	0
BSOP 2015	0	7,000	0	0	7,000
Total	**29,500**	**7,000**	**0**	**0**	**7,000**

Since July 1, 2016, no more stock options (December 31, 2015: 177,860) are available for future grants under the ESOP 2015 and/or the BSOP 2015. Stock options are replaced by Share Appreciation Rights (**SAR**), see note 17.2 *"Share Appreciation Rights Plans".*

Fair value calculations for stock options granted

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

	2016	2015
Market price of stock	CHF 37.05 to 91.25	CHF 80.20 to 138.90
Exercise prices	CHF 69.30 to 89.45	CHF 83.00 to 133.08
Weighted average fair value of options granted	CHF 24.18	CHF 40.12
Expected volatility[1]	38% to 39%	43% to 46%
CHF risk-free interest rate	0.0% p.a.	−0.10% to 0.38% p.a.
Option term[2]	10 years	10 years
Expected dividend yield	0%	0%

[1] The expected volatility was determined on the basis of selected biotech companies.

[2] After expiration of the vesting period, the stock options become American-style options and may be exercised any time until the end of the option term. The option-pricing model takes into consideration certain assumptions about potential early exercises.

Number of stock options outstanding and exercisable

Number of options	2016	2015
Outstanding at January 1	**223,834**	**477,580**
Granted	142,392	149,260
Exercised[1]	−17,059	−398,306
Forfeited	−15,289	−4,700
Expired	−20,513	0
Outstanding at December 31	**313,365**	**223,834**
Exercisable at December 31	**36,327**	**60,412**

[1] The average closing share price of options exercised during the reporting period 2016 was CHF 68.12 (2015: CHF 95.40).

The value of stock options granted is recognized as personnel expense over the period Santhera receives services. In 2016, stock option grants resulted in personnel expenses of TCHF 3,311 (TCHF 418 related to Development, TCHF 1,766 related to Marketing and sales (**M&S**) and TCHF 1,127 to General and administration (**G&A**)) and in 2015, such grants resulted in personnel expenses of TCHF 1,528 (TCHF 277 related to Development, TCHF 580 related to M&S and TCHF 671 to G&A).

Terms of options outstanding at December 31

Exercise price range for options (in CHF)	Number outstanding	Weighted average remaining contractual life (years)	**2016 Number exercisable**	Number outstanding	Weighted average remaining contractual life (years)	**2015 Number exercisable**
1.00	0	0	0	1,210	0.86	1,210
from 3.78 to 6.34	33,699	6.66	33,574	42,673	7.44	31,611
from 22.25 to 30.10	4,550	7.48	2,000	6,600	7.43	1,500
from 59.44 to 69.30	18,800	9.23	0	19,788	0.52	19,788
from 82.10 to 114.50	256,316	8.61	753	153,563	9.02	6,303
Total	**313,365**	**8.42**	**36,327**	**223,834**	**7.87**	**60,412**

17.2 Share Appreciation Rights Plans

Starting with July 1, 2016, Santhera switched from stock option plans to Share Appreciation Rights Plans (**SARP**). It introduced a Board Share Appreciation Rights Plan (**BSARP 2016**) for the members of its Board and an Employee Share Appreciation Rights Plan (**ESARP 2016**) for the Executive Management, employees and consultants. SAR grants are made periodically at the discretion of the Board or as contractually agreed with employees. The SARPs contain customary provisions in respect of the adjustment or cancellation of SARs upon termination of employment, retirement, death, disability and certain corporate transactions. All SARPs are administered under the responsibility of the Board. In general, 50% of the SARs 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 SAR term, i.e. after a period of 10 years as from the grant date, unexercised SARs expire without value. Upon exercise of one SAR, participants receive the difference between the price of one Share at the time of exercise and the base value ("exercise price" as defined upon grant), in Shares. Subsequently, participants may sell their Shares.

SARs outstanding, exercised, forfeited or expired under SARP

Number of SARs					**2016**
	Exercised	Granted	Forfeited	Expired	Outstanding
ESARP 2016	0	56,581	0	0	56,581

SARP were adopted since July 1, 2016, only.

Fair value calculations for SARs granted

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

	2016
Market price of stock	CHF 37.05 to 91.25
Exercise prices	CHF 51.75 to 76.50
Weighted average fair value of SARs granted	CHF 22.12
Expected volatility[1]	38% to 39%
CHF risk-free interest rate	0.0% p.a.
SAR term[2]	10 years
Expected dividend yield	0%

[1] The expected volatility was determined on the basis of selected biotech companies.

[2] After expiration of the vesting period, the SARs become rights similar to American-style options and may be exercised any time until the end of the SAR term. The SAR pricing model takes into consideration certain assumptions about potential early exercises.

Number of SARs outstanding and exercisable

Number of options	2016
Outstanding at January 1	**0**
Granted	56,581
Exercised	0
Forfeited	0
Expired	0
Outstanding at December 31	**56,581**
Exercisable at December 31	**0**

The value of SARs granted is recognized as personnel expense over the period Santhera receives services. In 2016, SAR grants resulted in personnel expenses of TCHF 150 (TCHF 15 related to Development, TCHF 135 related to M&S and TCHF 0 to G&A) and in 2015, no SARs were granted.

Santhera plans to conditionally allocate up to 198,162 SARs in the first quarter of 2017. These SARs form part of the long-term incentive (**LTI**) award to employees for the year ended December 31, 2016. Although these SARs were not legally granted in 2016, Executive Management considers it appropriate to recognize expenses in 2016 as employees have been rendering services in 2016 in expectation of the annual LTI allocation. Personnel expenses in 2016 for this amounted to TCHF 1,222 (TCHF 332 related to Development, TCHF 569 related to M&S and TCHF 321 related to G&A) based on an estimate of fair value. The allocation of these SARs becomes unconditional once the compensation is approved on the occasion of the ASM, to be held on April 4, 2017. After the ASM the grant date fair value of the SARs will be determined and the cumulative expense adjusted.

Terms of SARs outstanding at December 31

Exercise price range for SARs (in CHF)	Number outstanding	Weighted average remaining contractual life (years)	2016 Number exercisable
from 51.75 to 76.50	56,581	9.71	0
Total	**56,581**	**9.71**	**0**

18 Segment and Geographic Information

Segment information

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

Geographic information

Net sales

In CHF thousands	2016	2015
EU	19,002	4,321
Rest of the world	31	0
Total	**19,033**	**4,321**

In 2016, net sales amounted to CHF 19.0 million. Raxone was sold into 15 EU countries, with the majority of sales reached in France and Germany. In 2015, net sales of Raxone were generated after European marketing authorization in LHON and under special programs (e.g. the French temporary authorization for use as well as international Named Patient Programs) in the amount of CHF 4.3 million.

Noncurrent assets (excluding financial instruments and deferred taxes)

In CHF thousands	2016	2015
Switzerland	26,966	29,876
EU	100	80
North America	0	1
Total	**27,066**	**29,957**

19 Other Operating Income

This position consists primarily of reimbursements from scientific programs.

20 Operating Expenses by Nature

In CHF thousands	2016	2015
External Development expenses	−12,119	−6,341
Reversal of impairment of intangible asset	0	26,157
Reversal of impairment on inventories	0	947
Patent and license expenses	−280	−222
Marketing expenses	−10,121	−3,870
Employee expenses	-21,403	-13,105
Of which non-cash-relevant expenses for share-based payments	*−4,683*	*−2,040*
Other administrative expenses	−3,796	−2,999
Depreciation and amortization	−225	−110
Lease expenses	−587	−406
Other operating expenses	−107	−16
Total operating expenses	**-48,638**	**35**

21 Employee Expenses and Benefits

Employee expenses

In CHF thousands	2016	2015
Wages and salaries	−12,397	−6,435
Social security and other personnel-related expenses[1]	−4,323	−4,630
Of which non-cash-relevant adjustments of pension fund	*-450*	*394*
Share-based payments	−4,683	−2,040
Total employee costs	**-21,403**	**-13,105**

Average number of full-time equivalents[2]	**65.1**	**31.4**
Full-time equivalents at year-end	**74.4**	**53.3**
Total headcount at year-end	**80**	**59**

[1] Thereof TCHF 124 were expensed for defined contribution plans in North America and some EU countries (2015: TCHF 18).

[2] For the calculation of full-time equivalents, only employees with part-time and full-time permanent working contracts are taken into consideration.

Pension plan

In accordance with the Swiss pension fund law "Federal Act on Occupational Old Age, Survivors' and Invalidity Pension Provision" (**OPA**), all employees of Santhera Pharmaceuticals Holding AG and Santhera Pharmaceuticals (Schweiz) AG, both in Liestal, Switzerland, have to be affiliated with a collective independent pension fund. These funds provide for retirement benefits, as well as risk benefits (death and disability). The plans qualify as defined benefit plans under IAS 19 and the assets cannot revert to the employer. Contributions to the plans are such that the employee contributes 40% and the employer the rest. Contributions are computed as percentage of the salary, depending on age. In order to manage these risks, Santhera entered into an agreement with AXA Foundation for occupational benefits (**AXA foundation**). The AXA foundation is responsible for the governance of the plan; the board is composed of an equal number of representatives from the employers and employees chosen from all affiliated companies. AXA foundation has set up investment guidelines, defining in particular the strategic allocation with margins. AXA foundation has reinsured its risks (investment risk, mortality risk, etc.) with AXA Life Ltd, Winterthur, Switzerland (**AXA**). AXA manages the savings capital/investments on behalf of AXA foundation. The accumulated savings capital is allocated to each insured individual and consists of annual contributions, savings credits and interest credits. In certain situations, additional payments or increased periodic contributions by the employer may become due based on the pension plans funded status as measured under Swiss pension rules (**OPA**).

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

Changes in defined benefit obligations

In CHF thousands	2016	2015
Present value of obligation, January 1	**15,797**	**7,747**
Current employer service cost	1,038	704
Past service cost[1]	0	−656
Interest cost	142	76
Employee contributions	382	267
Benefits paid / transfer payments	2,259	6,074
Insurance premiums	−192	−142
Remeasurements[2]	1,853	1,727
Present value of obligation, December 31	**21,279**	**15,797**

[1] Decrease of obligation due to reduction of the conversion rates for the over-mandatory part of the retirement capital.

[2] Details of remeasurements:

In CHF thousands	2016	2015
Effect of changes in demographic assumptions	−435	0
Actuarial (gain)/loss due to changes in financial assumptions	599	170
Actuarial (gain)/loss due to experience adjustments	1,689	1,557
Subtotal (gain)/loss	**1,853**	**1,727**
(Return)/loss on plan assets (excluding interest income)	−77	−56
Total remeasurements in other comprehensive income (gain)/loss	**1,776**	**1,671**

Changes in plan assets

In CHF thousands	2016	2015
Fair value of assets, January 1	**11,840**	**5,067**
Interest income on assets	110	55
Employer contributions	620	463
Employee contributions	382	267
Benefits paid / transfer payments	2,259	6,074
Insurance premiums	–192	–142
Remeasurements (return/(loss) on plan assets (excluding interest income))	77	56
Fair value of assets, December 31	**15,096**	**11,840**

Net defined benefit asset/(obligation)

In CHF thousands	2016	2015
Present value of obligation, December 31	21,279	15,797
Fair value of assets, December 31	15,096	11,840
Net defined asset/(obligation)	–6,183	**–3,957**

Asset breakdown

In CHF thousands	2016		2015	
	Quoted market price	Not quoted market price	Quoted market price	Not quoted market price
Insurance contract	0	15,096	0	11,840
Total value of assets	**0**	**15,096**	**0**	**11,840**

An asset breakdown is not available. The assets of Santhera's defined benefit plan have no quoted market price since AXA fully insures them as an insurance contract.

The weighted-average assumptions to determine benefit obligations and defined benefit cost were as follows:

In %	2016	2015
Discount rate	0.65	0.90
Expected future salary increases	1.50	1.50

Sensitivity analysis for 2016:

In CHF thousands	Defined benefit obligation		Gross service cost	
	Increase assumption	Decrease assumption	Increase assumption	Decrease assumption
Discount rate +/−0.25%	−896	961	−117	125
Salary increase +0.25%	130	–	−1	–
Live expectancy +1 year	431	–	32	–

Sensitivity analysis for 2015:

In CHF thousands	Defined benefit obligation		Gross service cost	
	Increase assumption	Decrease assumption	Increase assumption	Decrease assumption
Discount rate +/−0.25%	−537	578	−73	78
Salary increase +0.25%	84	–	−1	–
Live expectancy +1 year	245	–	20	–

Mortality rate:

Life expectancy at age 65	2016	2015
Male	22.4	21.6
Female	24.4	24.1

The expected employer contributions for fiscal year 2017 amount to approximately TCHF 876 (2015: TCHF 568). No benefit obligations for pensioners exist at December 31, 2016 (2015: none). The duration of the plan liabilities calculated is 21.6 years as per December 31, 2016 (2015: 20.8 years).

22 Financial Income/Expenses

Financial income

In CHF thousands	2016	2015
Interests on cash and cash equivalents	5	2
Realized and unrealized foreign exchange gains	923	414
Total	**928**	**416**

Financial expenses

In CHF thousands	2016	2015
Interest expenses	−15	−11
Realized and unrealized foreign exchange losses	−980	−644
Total	**−995**	**−655**

23 Income Taxes

In CHF thousands	2016	2015
Current income tax income/(expense)	−266	−46
Deferred tax income/(expense)	-1,955	3,061
Total	**-2,221**	**3,015**

The following is a theoretical reconciliation of tax expense and the accounting profit multiplied by expected income tax rate of principal:

In CHF thousands	2016	2015
Result before taxes	-33,194	2,934
Tax (expense)/income at expected group tax rate of 9.3%[1]	3,087	−587
Effect of tax rate difference group versus local	−724	−2,413
Effect of non-deductible expenses	-372	-12
Prior year DTA decrease	-249	0
Utilization of previously unrecognized tax losses	20	7,376
Recognition of previously unrecognized DTL	-13,449	0
Recognition of DTA on previously unrecognized tax losses	13,449	4,336
Unrecognized deferred taxes	−3,983	−5,685
Effective tax income/(expense)	**-2,221**	**3,015**

[1] In 2016 the principal (Santhera Pharmaceuticals (Schweiz) AG) obtained a tax ruling according to which the expected tax rate is reduced to 9.3% (2015: 20%).

The net effect regarding the change in tax rate is CHF 0 because DTAs and DTLs recognized are in the same amount. According to currently applicable Swiss tax law, the period to offset tax loss carryforwards against taxable profit is limited to seven years. According to currently applicable German tax law, tax loss carryforwards can, besides other conditions, be offset against taxable profit for an unlimited period but only to an amount of EUR 1.0 million and in addition for 60% of further amounts beyond this threshold per annum.

24 Earnings/Loss 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 (purchased at market).

	2016	2015
Net result attributable to shareholders (in CHF)	-35,414,845	5,949,239
Weighted average number of shares issued and outstanding	6,273,460	5,343,089
Basic net result per share (in CHF)	**-5.65**	**1.11**

Diluted earnings per share are calculated by dividing the net profit attributable to owners of ordinary Shares of the Company by the weighted average number of Shares issued and outstanding during the reporting period adjusted for Shares held as treasury shares (purchased at market) and the number of potential shares from stock option plans. For 2016, no diluted net result was calculated since the exercise of stock options would have been anti-dilutive.

	2016	2015
Net result attributable to shareholders (in CHF)	-35,414,845	5,949,239
Weighted average number of shares issued and outstanding	6,273,460	5,343,089
Additional shares of potential option exercise	0	140,441
Adjusted weighted average number of shares issued and outstanding	6,273,460	5,483,530
Diluted net result per share (in CHF)	**-5.65**	**1.08**

25 Related Party Transactions

Board and Executive Management compensation

Total compensation of Board and Executive Management

In CHF thousands	2016	2015
Compensation, wages and salaries	2,546	2,043
Post-employment benefits (pension fund contributions)	221	211
Share-based payment expenses (fair value according to IFRS 2)	1,508	855

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.

In 2016, no stock options were exercised by members of the Board (2015: 29,500 stock options exercised). During 2016, 3,999 stock options were exercised by the Executive Management (2015: 211,394 stock options exercised).

26 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.

On a regular basis, operational corporate risks are identified and their likelihood and impact assessed (gross risks). By defining and undertaking appropriate measures, these risks are managed accordingly to either reduce or avoid such risk (net risk). The results of this process are discussed at Board meetings.

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

Foreign exchange rate risk

Santhera holds cash amounts in five major currencies CHF, EUR, USD, GBP and CAD to cover the majority of future expected expenses. In addition, in order to reduce its foreign exchange rate exposure, Santhera occasionally enters into derivative currency contracts (forwards, options, structured derivatives) to hedge against additional major foreign currency exchange rate fluctuations. Evaluations based on market values are 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, GBP and CAD. No derivative currency contracts are outstanding as of December 31, 2016 and 2015.

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

EUR positions	Increase/decrease foreign currency rate	Effect on result before taxes in CHF thousands
2016	+5%	+187
	–5%	–187
2015	+10%	+608
	–10%	–608

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 holds its cash on deposit/current accounts or invests cash through money market instruments in line with its treasury guidelines to follow its financial needs over time.

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

As per end of 2016, variances of +/–50 basis points were calculated, resulting in fluctuations of +/– TCHF 249 before tax (end of 2015: +/–50 basis points resulting in fluctuations of +/–TCHF 384 before tax).

Credit risk

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

Santhera has policies in place to ensure that sales of products or entered partnerships are made to or entered with customers or 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 convertible bonds (see note 27 *"Events After the Reporting Date"*) and there is no interest-bearing 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, 2016 In CHF thousands	On demand	Less than 3 months	3 to 12 months	1 to 5 years	After 5 years	Total	Book value
Accrued expenses	0	3,787	0	0	0	3,787	3,787
Trade payables	0	3,574	0	0	0	3,574	3,574
Total	**0**	**7,361**	**0**	**0**	**0**	**7,361**	**7,361**

Year ended December 31, 2015 In CHF thousands	On demand	Less than 3 months	3 to 12 months	1 to 5 years	After 5 years	Total	Book value
Accrued expenses	0	2,377	0	0	0	2,377	2,377
Trade payables	0	3,290	0	0	0	3,290	3,290
Total	**0**	**5,667**	**0**	**0**	**0**	**5,667**	**5,667**

Categories of financial instruments

Year ended December 31, 2016 In CHF thousands	Book value	Loans and receivables	Other liabilities at amortized cost
Assets			
Financial assets long-term	270	270	0
Trade receivables	3,412	3,412	0
Other receivables	55	55	0
Cash and cash equivalents	49,815	49,815	0
Total	**53,552**	**53,552**	**0**
Liabilities			
Accrued expenses	3,787	0	3,787
Trade payables	3,574	0	3,574
Total	**7,361**	**0**	**7,361**

Year ended December 31, 2015 In CHF thousands	Book value	Loans and receivables	Other liabilities at amortized cost
Assets			
Financial assets long-term	190	190	0
Trade receivables	1,466	1,466	0
Other receivables	49	49	0
Cash and cash equivalents	76,859	76,859	0
Total	**78,564**	**78,564**	**0**
Liabilities			
Accrued expenses	2,377	0	2,377
Trade payables	3,290	0	3,290
Total	**5,667**	**0**	**5,667**

Capital management

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

The funds raised in various private financing rounds, private placements in 2008, 2014 and 2015, SEDA, the sale of Shares by an independent broker as well as funds generated through product sales and revenue from licensing enabled the Group to be adequately financed.

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

27 Events After the Reporting Date

On January 25, 2017, Santhera announced that it has received from Ernesto Bertarelli, Donata Guichard-Bertarelli, Maria-Iris Bertarelli, (together, the "Bertarelli Group") and Ralf Arnold, Markus Kühnle and Thomas Terhorst (together, the "Iglu Group") the notification that they have combined their respective shareholdings in Santhera to form a new shareholder group. The above mentioned shareholders have announced that they have formed a new shareholder group with a combined holding in Santhera of 18.84% (1,179,977 shares).

On February 10, 2017, Santhera has successfully placed CHF 60 million senior unsecured convertible bonds (the "Convertible Bonds") due 2022. The Company intends to use the net proceeds from this placement primarily to fund the commercialization of Raxone in the currently approved indication, to prepare the market entry and commercial launch in subsequent indications, for investment into further clinical trials with Raxone and for other corporate purposes.

The Convertible Bonds have a 5-year maturity and a coupon of 5.00% per annum. The conversion price was fixed at CHF 86.4006, representing a premium of 20% over the volume weighted average price (**VWAP**) of the Shares between the launch and pricing of the Convertible Bonds (the "Reference Share Price"). The Convertible Bonds are issued at 100% of their principal amount and, unless previously redeemed, converted or repurchased and cancelled, will mature on February 17, 2022, at 100% of their principal amount.

The Conversion Price will be reset after the first year if the VWAP of the shares during a specified period of time will be below the Reference Share Price. The new Conversion Price must not be lower than 75% of the Conversion Price at issuance. In addition, Santhera may call the Convertible Bonds at any time on or after the second anniversary of the issue date at par, plus accrued interest, if any, if the VWAP of the shares is at least 160% of the Conversion Price.

The Convertible Bonds will be convertible into 694,440 registered Shares of Santhera Pharmaceuticals Holding AG, representing 11.1% of the current outstanding share capital of Santhera Pharmaceuticals Holding AG. The Shares to be delivered upon conversion shall be sourced from conditional and, if needed, from authorized capital.

The Convertible Bonds are listed and traded on the SIX Swiss Exchange since February 16, 2017.

Santhera agreed to a company lock-up ending 90 days after that date, subject to customary exceptions.

Statutory Auditor's Report on the Audit of the Consolidated Financial Statements

Basle, 6 March 2017

Opinion

We have audited the consolidated financial statements of Santhera Pharmaceuticals Holding AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2016 and the consolidated income statement, the consolidated statement of comprehensive income, consolidated cash flow statement and the consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 18 to 58) give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements.

Revenue recognition related to the measurement of revenue to be recognized for sales to pharmacies and distributors

Area of focus	The Group enters into contractual arrangements with pharmacies and distributors in different jurisdictions that require the Group to provide rebates and discounts that result in deductions to gross sales and which for unsettled amounts are recognised as an accrual. We focused on this area due to the complexity of jurisdictional laws and regulations governing the determination of the sales price. Specifically, the laws and regulations vary across the Group's markets and establishing appropriate accruals for unsettled amounts may require judgment and estimation. *See note 2 to these consolidated financial statements for Santhera Pharmaceuticals Holding Ltd's description of the accounting policy for revenue recognition.*
Our audit response	Our audit procedures included gaining an understanding of the revenue process and understanding jurisdictional laws and regulations. With respect to estimates of amounts offset against sales and sales accruals, we obtained management's calculations and assessed the assumptions used by reference to the Group's stated commercial policies and the respective jurisdictional laws and regulations. Specifically, we considered the Group's processes for making judgments in this area and performed the following procedures: • analysed rebates and discounts accrued during the year against subsequent payments or releases; • analysed and recalculated components of the year-end liability based on contracted and statutory rebate and discount rates; • considered the experience from previous years, including evaluating changes in estimates for indicators of management bias, and assessing changes made to 31 December 2015 sales accruals based on new information that became available in 2016.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements, the compensation report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://www.expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

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

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

Ernst & Young Ltd

/s/ Jolanda Dolente
Licensed audit expert
(Auditor in charge)

/s/ Frederik Schmachtenberg
Licensed audit expert

Statutory Financial Statements of Santhera Pharmaceuticals Holding AG

Contents

Balance Sheet

As of December 31, in CHF thousands	Notes	2016	2015
Assets			
Cash and cash equivalents		43,187	61,256
Other receivables from third parties		24	43
Other receivables from shareholdings		0	287
Prepaid expenses and accrued income		46	180
Current assets		**43,257**	**61,766**
Loans to shareholdings	3.1	17,727	0
Investments in shareholding	3.2	115	59
Noncurrent assets		**17,842**	**59**
Total assets		**61,099**	**61,825**
Liabilities and equity			
Trade accounts payable to third parties		97	154
Other accounts payable to third parties		56	188
Other accounts payable to shareholdings		0	188
Accrued expenses		453	297
Current liabilities		**606**	**827**
Total liabilities		**606**	**827**
Share capital	3.3	6,280	6,263
Reserves from capital contributions		*7,425*	*57,083*
Other capital reserves		*2,916*	*2,891*
Statutory capital reserves		10,341	59,974
Accumulated result		*−6,451*	*−5,557*
Results carried forward		*−5,557*	*−2,593*
Net result for the period		*−895*	*−2,964*
Other voluntary reserves (free reserves)		*50,495*	*495*
Voluntary accumulated result and other reserves		44,044	−5,062
Treasury shares	3.4	−172	−177
Total equity		**60,493**	**60,998**
Total liabilities and equity		**61,099**	**61,825**

Income Statement

For the year ended December 31, in CHF thousands	Notes	2016	2015
Income from shareholdings	3.5	1,551	1,970
Other operating income		134	1
Total operating income		**1,685**	**1,971**
General and administrative expenses	3.6	−2,159	−3,322
Employee costs		−792	−1,656
Other operating expenses		−25	−2
Total operating expenses		**−2,976**	**−4,980**
Operating result		**−1,291**	**−3,009**
Financial income		358	21
Financial expenses		−18	−35
Financial result		**340**	**−14**
Reversal on allowance of investment		56	59
Result before taxes		**−895**	**−2,964**
Direct taxes		0	0
Net result		**−895**	**−2,964**

Notes to the Statutory Financial Statements

1 Introduction

Santhera Pharmaceuticals Holding AG (the Company or Santhera) is the parent company of Santhera Group. The Company has its registered offices at Hammerstrasse 49 in 4410 Liestal, Switzerland.

2 Principles

General

The statutory financial statements of the Company are prepared in accordance with the general accepted accounting principles as set out in Art. 957 to Art. 963b, of the Swiss Code of Obligations (**CO**). Since Santhera prepares consolidated financial statements in accordance with International Financial Reporting Standards (**IFRS**) of the International Accounting Standards Board (**IASB**), a recognized accounting standard, the Company has, in accordance with the CO, elected to forego presenting the statement of cash flows, the additional disclosures and the management report otherwise required by the CO.

Cash

Santhera holds cash balances, denominated mainly in Swiss francs (**CHF**) which include cash deposited in demand bank accounts, money market investment accounts and other liquid investments and interest earned on such cash balances.

Current assets and liabilities

Current assets are recorded at historical cost less adjustments for impairment of value and current liabilities at historical cost.

Loans to shareholdings

These are valued at their acquisition cost adjusted for impairment losses.

Investments in shareholdings

Investments in shareholdings are recorded at acquisition cost less adjustments for impairment of value. We evaluate our investments in subsidiaries for impairment annually and record an impairment loss when the carrying amount of such assets exceeds the fair value. When estimating the fair value of our investments we base such valuation predominantly on the income approach.

Treasury shares

Treasury shares are recognized at acquisition cost and deducted from shareholders' equity at the time of acquisition. Santhera holds treasury shares for market making which is maintained by an external bank. In case of a resale, the gain or loss is recognized through the income statement as financial income or financial expenses.

Related parties

In the meaning of the New Swiss Accounting Law, we consider related parties to be only shareholders, direct and indirect subsidiaries (shareholdings) and the board of directors.

3 Information on Balance Sheet and Income Statement Items

3.1 Loans to shareholdings

Loans are granted to shareholdings primarily to fund the development and marketing activities of the Santhera Group (December 31, 2016: CHF 190.1 million; December 31, 2015: CHF 172.4 million). Until the end of 2015 the balance consisted of fully impaired and subordinated loans to Santhera Pharmaceuticals (Schweiz) AG. To finance the activities in development and the commercialization of LHON, in 2016 the loan granted to Santhera Pharmaceuticals were increased (with the additional loans also being subordinated). As part of the annual reassessment as of December 31, 2016, Executive Management concluded that approximately 10% of the total loan balance is recoverable considering a more positive outlook, both in terms of market success of the developed and launched product (Raxone in LHON) and the development progress in other indications (e.g. Raxone in DMD).

3.2 Investments in shareholdings

In 2016 and 2015, the following companies are direct subsidiaries of Santhera Pharmaceuticals Holding AG (100% ownership and 100% voting rights):

	Share capital at December 31	2016	2015
Santhera Pharmaceuticals (Schweiz) AG Liestal, Switzerland	CHF	125,000	125,000
Santhera Pharmaceuticals (Deutschland) GmbH Lörrach, Germany	EUR	25,000	25,000
Santhera Pharmaceuticals (USA), Inc. Burlington, US	USD	1,000	1,000
Santhera Pharmaceuticals (Canada), Inc. Montréal, Canada	CAD	1,000	1,000
Oy Santhera Pharmaceuticals (Finland) Ltd Helsinki, Finland	EUR	2,500	2,500

Santhera Pharmaceuticals (Schweiz) AG is the primary operational entity while Santhera Pharmaceuticals (Deutschland) GmbH holds the market authorization for the EU. Oy Santhera Pharmaceuticals (Finland) Ltd is not employing any personnel.

In 2015, the following companies, which are 100% direct subsidiaries (100% voting rights) of Santhera Pharmaceuticals (Schweiz) AG, were founded:

	Share capital at December 31	2016	2015
Santhera Pharmaceuticals (Liechtenstein) AG Ruggell, Fürstentum Liechtenstein	CHF	50,000	50,000
Santhera (Italy) S.r.l. Milano, Italy	EUR	50,000	50,000
Santhera (Germany) GmbH Munich, Germany	EUR	50,000	50,000
Santhera (Netherlands) B.V. Nieuwegein, The Netherlands	EUR	50,000	50,000
Santhera (UK) Limited London, United Kingdom	GBP	50,000	50,000

3.3 Share capital

During 2016, the share capital was increased by a total amount of CHF 17,059 to CHF 6,279,857 as of December 31, 2016 (2015: CHF 6,262,798) through the exercise of employee stock options (from conditional share capital).

3.4 Treasury shares

The movement of treasury shares held by Santhera was as follows:

	No of Shares	TCHF
January 1, 2015	8,028	177
December 31, 2015	8,028	177
Purchase	23,002	1,069
Sale[1]	-27,414	-1,074
December 31, 2016	3,616	172

[1] In connection with the liquidation of Oy Juvantia Pharma, Turku, Finland (**Juvantia**), acquired in 2009, Santhera received 8,028 shares from former Juvantia shareholders. These treasury shares served as pledge from the former owners of Juvantia for compensation of a potential tax claim related to pre-acquisition activities. The claim was resolved and the shares were sold with a financial profit of TCHF 186.

3.5 Income from shareholdings

Income from shareholdings represents reimbursement for management services provided by the Company to its major shareholding Santhera Pharmaceuticals (Schweiz) AG.

3.6 General and administrative expenses

In CHF thousands	2016	2015
Administrative expenses	990	712
Consulting expenses	1,169	667
Expenses in connection with capital increases	0	1,943
Total	**2,159**	**3,322**

4 Other Information

4.1 Full-time equivalents

The number of full-time equivalents at period end was not above 10.

4.2 Significant shareholders (>2%)

Pursuant to information from the Company's share register and the disclosure of participations made to the Company in accordance with applicable stock exchange regulation, the following shareholders owned 2% or more of the Company's share capital as registered in the commercial register at December 31, 2016: 6,262,798 shares (February 11, 2016: 6,262,798 shares):

	2016 Shares[1]	2016 %	2015 Shares[2]	2015 %
Iglu Group, Switzerland[3]	632,300	10.1	671,858	10.7
Consonance Capital Management, US	597,069	9.5	625,457	10.0
Bertarelli Ernesto, Guichard-Bertarelli Donata and Bertarelli Maria-Iris, Switzerland[3]	545,777	8.7	545,777	8.7
UBS Fund Management (Switzerland) AG	195,007	3.1	n/a	n/a
Lagoda Investments Management, LLC, US	187,888	3.0	187,888	3.0
UBS Fund Management (Luxembourg) S.A.	183,699	2.9	167,203	2.7
Union Asset Management Holding AG	175,838	2.8	326,838	5.2
RTW Investments, LTD, US	146,365	2.3	140,354	2.2
Visium Balanced Master Fund, Ltd., US[4]	n/a	n/a	179,574	2.9

[1] Including disclosures until December 31, 2016

[2] Including disclosures until March 30, 2016

[3] On January 25, 2017, both Iglu Group and the Bertarelli Group announced that they had formed a new group with combined holdings of 1,179,977 Shares (18.8%).

[4] The fund was liquidated in June 2016 (Bloomberg, June 18, 2016).

4.3 Disclosure of shares and equity rights (share appreciation rights and stock options) held by members of the Board and Executive Management (and their respective related party)

As of December 31, 2016:

	Number of Shares	Number of vested equity rights	Number of unvested equity rights	Total number of equity rights
Board of Directors				
Martin Gertsch, Chairman	38,109	0	6,281	6,281
Jürg Ambühl	30,000	0	7,281	7,281
Executive Management				
Thomas Meier, CEO	72,902	3,750	14,875	18,625
Todd Bazemore, Chief Operating Officer US[1]	0	0	34,881	34,881
Nicholas Coppard, SVP Head Development	0	0	12,250	12,250
Günther Metz, SVP Business Development	0	12,000	7,120	19,120
Christoph Rentsch, Chief Financial Officer	0	0	22,000	22,000
Giovanni Stropoli, Chief Commercial Officer Europe and Rest of World	600	0	20,565	20,565
Oliver Strub, SVP General Counsel and Secretary to the Board	0	9,001	7,240	16,241

[1] Joined the Executive Management September 6, 2016.

As of December 31, 2015:

	Number of Shares	Number of vested equity rights	Number of unvested equity rights	Total number of equity rights
Board of Directors				
Martin Gertsch, Chairman	38,109	0	3,000	3,000
Jürg Ambühl	30,000	0	4,000	4,000
Executive Management				
Thomas Meier, CEO	72,902	0	12,250	12,250
Nicholas Coppard, SVP Head Development[1]	1	0	9,000	9,000
Günther Metz, SVP Business Development [1]	0	11,000	5,000	16,000
Christoph Rentsch, Chief Financial Officer[2]	0	0	15,000	15,000
Giovanni Stropoli, Chief Commercial Officer Europe and Rest of World [1]	400	0	15,000	15,000
Oliver Strub, SVP General Counsel and Secretary to the Board [1]	0	10,000	5,000	15,000

[1] Joined the Executive Management February 1, 2015.

[2] Joined the Executive Management July 1, 2015.

4.4. Disclosure of the allocation of equity rights for Board of Directors, Executive Management and employees of Santhera Group

	2016	2016	2015	2015
	Quantity	Value (in TCHF)[1]	Quantity	Value (in TCHF)[1]
Board of Directors	6,562	224	7,000	282
Executive Management	65,431	1,349	53,500	2,094
Employees of Santhera Group	126,980	3,121	88,760	3,612
Total	**198,973**	**4,694**	**149,260**	**5,988**

[1] Value of the equity rights calculated in accordance with the Hull-White model at the date of allocation in accordance with the terms of the award. The tax value of equity rights is 0 until they would be exercised. Such equity rights values are theoretical values and do not reflect income tax values and do also take into consideration certain vesting provisions. For information about the underlying equity rights plans, see note 17 *"Equity Rights Plans"* in the consolidated financial statements. For information about the Company's compensation procedures, consult the Corporate Governance Report and the Compensation Report.

On January 1, 2017, 198,162 share appreciation rights (**SAR**s) are planned to be conditionally granted to employees of Santhera. These SARs are part of the bonus award for the year 2016 to employees of the Group. These SARs were granted under ESARP 2016 (see note 17 *"Equity Rights Plans"*).

	Quantity	Value (in TCHF)[1]
Executive Management	59,860	1,330
Employees of Santhera Group	138,302	3,072
Total	**198,162**	**4,402**

[1] Value of the equity rights calculated in accordance with the Hull-White model at the date of allocation in accordance with the terms of the award. The tax value of equity rights is 0 until they would be exercised. Such equity rights values are theoretical values and do not reflect income tax values and do also take into consideration certain vesting provisions. For information about the underlying equity rights plans, see note 17 *"Equity Rights Plans"* in the consolidated financial statements. For information about the Company's compensation procedures, consult the Corporate Governance Report and the Compensation Report.

4.5 Contingencies and guarantees

Guarantee towards Swiss VAT authorities

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

Guarantee towards Santhera Pharmaceuticals (Schweiz) AG

The Company guarantees to pay for the liabilities of its subsidiary Santhera Pharmaceuticals (Schweiz) AG until the Annual Shareholders' Meeting in 2018.

Declaration of liability towards Arval Deutschland GmbH

The Company guarantees to pay for the liabilities of its subsidiary Santhera (Germany) GmbH for contractual duties and obligations.

4.6 Events after the reporting date

On January 25, 2017, Santhera announced that it has received from Ernesto Bertarelli, Donata Guichard-Bertarelli, Maria-Iris Bertarelli, (together, the "Bertarelli Group") and Ralf Arnold, Markus Kühnle and Thomas Terhorst (together, the "Iglu Group") the notification that they have combined their respective share-holdings in Santhera to form a new shareholder group. The above mentioned shareholders have announced that they have formed a new shareholder group with a combined holding in Santhera of 18.84% (1,179,977 shares).

On February 10, 2017, Santhera has successfully placed CHF 60 million senior unsecured convertible bonds (the "Convertible Bonds") due 2022. The Company intends to use the net proceeds from this placement primarily to fund the commercialization of Raxone in the currently approved indication, to prepare the market entry and commercial launch in subsequent indications, for investment into further clinical trials with Raxone and for other corporate purposes.

The Convertible Bonds have a 5-year maturity and a coupon of 5.00% per annum. The conversion price was fixed at CHF 86.4006, representing a premium of 20% over the volume weighted average price (**VWAP**) of the Shares between the launch and pricing of the Convertible Bonds (the "Reference Share Price"). The Convertible Bonds are issued at 100% of their principal amount and, unless previously redeemed, converted or repurchased and cancelled, will mature on February 17, 2022, at 100% of their principal amount.

The Conversion Price will be reset after the first year if the VWAP of the shares during a specified period of time will be below the Reference Share Price. The new Conversion Price must not be lower than 75% of the Conversion Price at issuance. In addition, Santhera may call the Convertible Bonds at any time on or after the second anniversary of the issue date at par, plus accrued interest, if any, if the VWAP of the shares is at least 160% of the Conversion Price.

The Convertible Bonds will be convertible into 694,440 registered Shares of Santhera Pharmaceuticals Holding AG, representing 11.1% of the current outstanding share capital of Santhera Pharmaceuticals Holding AG. The Shares to be delivered upon conversion shall be sourced from conditional and, if needed, from authorized capital.

The Convertible Bonds are listed and traded on the SIX Swiss Exchange since February 16, 2017.

Santhera agreed to a company lock-up ending 90 days after that date, subject to customary exceptions.

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

Proposal of the Board for the result to be carried forward, subject to the approval of the Annual Shareholders' Meeting

In CHF	2016	2015
Result carried forward	-5,556,524	-2,592,681
Net result of the year	-894,664	-2,963,843
Accumulated result	**-6,451,188**	**-5,556,524**
Result to be carried forward	**-6,451,188**	**-5,556,524**

Report of the Statutory Auditor on the Financial Statements

Basle, 6 March 2017

As statutory auditor, we have audited the financial statements of Santhera Pharmaceuticals Holding Ltd, which comprise the balance sheet, income statement and notes (pages 63 to 71), for the year ended 31 December 2016.

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 2016 comply with Swiss law and the company's articles of incorporation.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Valuation of investments in and long-term receivables from shareholdings

Area of focus	Santhera Pharmaceuticals Holding Ltd holds investments in subsidiaries and grants loans to subsidiaries for financing purposes, both of which are assessed for impairment as of the balance sheet date. We focused on this area because the impairment assessment of these investments and loans requires estimation and judgement around assumptions used, including prospective financial information and discount rates. Changes to assumptions could lead to material changes in the estimated recoverable amount, impacting both potential impairment charges and also potential reversals of impairment. *See note 3.1 and 3.2 to these financial statements for Santhera Pharmaceuticals Holding Ltd disclosures related to investment in and long-term receivables from shareholdings.*
Our audit response	We evaluated management's impairment indicator assessment, which is based on the income approach, under the applicable accounting standards and analysed the underlying key assumptions in connection with the prospective financial information and discount rates. We assessed the historical accuracy of the estimates and considered the ability to produce accurate long-term forecasts. We evaluated the sensitivity in the impairment indicator assessment resulting from changes to the key assumptions applied and compared these assumptions to externally available market information.

Report on other legal requirements

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

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

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

Ernst & Young Ltd

/s/ Jolanda Dolente
Licensed audit expert
(Auditor in charge)

/s/ Frederik Schmachtenberg
Licensed audit expert

Compensation Report

Contents

Introduction

This Compensation Report (**Report**) describes the principles of the compensation system of Santhera's Board of Directors (**Board**) and Executive Management (**EM**) members and how the respective decisions are made. Furthermore, the Report discloses the compensation attributable to the Board and EM for 2016, as well as shareholdings of the members of the Board and EM members.

Santhera's compensation policy is designed to attract, motivate and retain talent in order to support the achievement of the Company's financial and strategic objectives and also to ensure that the total compensation package is fair and competitive. By combining short- and long-term incentive elements, the Board believes that the compensation system is designed in a way that the interests of the management are aligned with the interests of the Company and its shareholders. The Company's compensation system does not set any unintended enticements or contain any components that could be counterproductive to the objectives of the compensation system. In addition, compensation elements are focused on rewarding the delivery of outstanding and sustainable results without inappropriate risk-taking.

On an ongoing basis, the Compensation Committee (**CC**) reviews and monitors Santhera's compensation policy in light of the Company's business strategy, corporate goals and values, in order to ensure the alignment of employee interests with those of the shareholders. In 2016, the following changes have been made to the Company's compensation system:

- The alignment of the compensation period for the fixed Executive compensation (base salaries) with the reporting period (from January 1 to December 31) which was approved by the shareholders at the 2016 ASM.
- The introduction of a retroactive approval of the variable Executive compensation (cash bonus and long-term incentive plan) for the previous financial year which was approved by the shareholders at the 2016 ASM.
- The replacement of options with share appreciation rights (**SAR**) with a net share settlement, resulting in a lower number of shares to be issued when compared to the exercise of options, thus reducing the dilution of the shareholders.
- The expression of the target short-term and long-term incentives as a percentage of the base salary rather than fixed amounts.

The Board believes that the compensation provisions for the Board and EM members serve the best interests of Santhera's shareholders.

The Role and Powers of the Compensation Committee

The CC currently consists of the two members of the Board. The CC annually reviews the compensation system of the members of the Board and EM and ensures that the Company's regulations and Articles of Incorporation remain in compliance with requirements of the Ordinance against Excessive Compensation (**OaEC**), the SIX Swiss Exchange, as well as Swiss and international best corporate governance practices.

According to the Company's Articles, the role of the CC assists the Board with the:

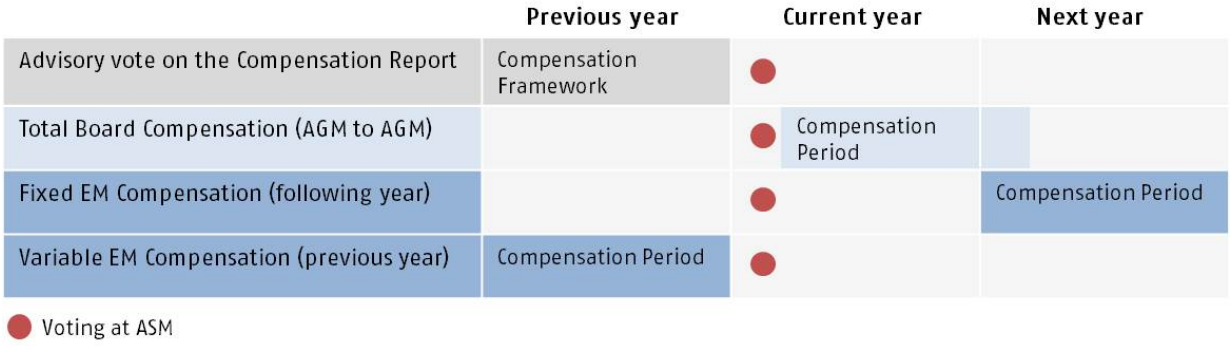
- Determination and review of remuneration policies and guidelines
- Determination and review of performance objectives
- Proposals to the ASM concerning the compensation of the Board of Directors and of EM
- Resolution of other compensation related matters

The Board may assign other tasks to the CC.

Compensation Periods and Approvals by Shareholders

For the Board, the compensation covers the period between two Annual Shareholders' Meetings (**ASM**).

For Executive Management, the compensation period starts on January 1 of a given year and ends on December 31 of such year. With respect to the fixed compensation, the approval of the shareholders is prospective and with respect to the variable compensation, such approval is retrospective, allowing the Board to base its respective motions to the shareholders on the achievement of corporate and individual goals by the executives.



Voting procedures at the 2017 ASM

The Board will propose the following votes on compensation for shareholder approval:

1. Consultative vote on the Compensation Report 2016.
2. Board
   2.1. The maximum total amount of the fixed compensation for the period until the 2018 ASM.
3. Executive Management
   3.1. The maximum total amount of the fixed compensation for the period from January 1 to December 31, 2018.
   3.2. The maximum total amount of the variable compensation for the period from January 1 to December 31, 2016.

The invitation to the ASM contains the text of agenda items, motions and the explanations thereto in detail.

Board of Directors Compensation

The compensation for members of the Board consists of:

- Annual cash fees
- Annual grant of Share Appreciation Rights (**SAR**; as from January 1, 2017)

Up to July 1, 2016, when the Company started to issue SAR, the Company had issued stock options. As the equity component of the Board's compensation was given to the Board on June 1, 2016, this was still in the form of options. Any future grants will be made in the form of SAR.

Both components, cash fees and SAR allocation, do not depend on the achievement of corporate goals or the individual performance of a Board member. Additionally, the Company assumes the payment of employer's social security contributions due on these amounts. Board members do not receive any variable compensation.

Annual cash fees

At the 2016 ASM, the shareholders approved a total cash compensation for the two Board members of a maximum of CHF 242,000. For the 2016 financial year, including social security contributions, the Chairman received total cash compensation of CHF 107,346, while the other member of the Board received CHF 94,457. For the period from the ASM 2016 to the ASM 2017, including social security contributions, the Chairman's fees will amount to CHF 126,226 and the other members' to CHF 113,162; the total amount will be CHF 239,388.

Stock options

At the 2016 ASM, the shareholders approved a total maximum amount of CHF 242,000 to be granted in options for the period until the 2017 ASM. In accordance with the Board Stock Option Plan (**BSOP 2015**), 3,281 options were granted to each Board member as of June 1, 2016. The exercise price is equal to the closing price of Santhera's share on the first trading day in June 2016 and amounted to CHF 82.00 (2015: CHF 90.75). According to BSOP 2015, 50% of the options vest after a period of 2 years from the grant date, 25% vest after 3 years from the grant date, and 25% vest after 4 years from the grant date. During such vesting periods, stock options may lapse subject to certain conditions as defined by the BSOP. The term of the stock option grant is 10 years. For more information about the underlying Plan, see note 17 *"Equity Rights Plans"* in the consolidated financial statements.

Disclosure of compensation of members of the Board for the financial years 2016 and 2015 (audited)

In CHF	Annual cash fees	Stock options[1]	Social security[1, 2]	Total compensation	Number of stock options granted
2016					
Martin Gertsch	99,500	112,013	16,023	227,536	3,281
Jürg Ambühl	89,523	112,013	13,111	214,647	3,281
Total	**189,023**	**224,026**	**29,134**	**442,183**	**6,562**
2015					
Martin Gertsch	75,000	121,320	15,340	211,660	3,000
Jürg Ambühl	65,000	160,410	15,594	241,004	4,000
Total	**140,000**	**281,730**	**30,934**	**452,664**	**7,000**

[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. The tax value of such stock options is CHF 0 until stock options are exercised. Such stock option values are theoretical values and do not reflect income tax values and do also take into consideration certain vesting provisions.

[2] To be in line with the market practice, the Board has decided to disclose the social security from 2015 onwards not on exercised but on the fair value of allocated options. For all options held by Board members as of December 31, 2016, the social security contribution is CHF 0 since the options are not in-the-money. The total value of social security payments on options exercised by members of the Board during 2016 is CHF 0 (2015: CHF 192,523).

Comparison of the approved and paid Board compensation during the approval period

At the 2016 ASM, the shareholders approved a maximum total amount of fixed compensation for the Board of CHF 242,000 for the period from the ASM 2016 to the ASM 2017. In addition, the shareholders approved the allocation of a number of options the fair value of which would be a maximum of CHF 242,000.

The table below represents the approved maximum compensation for the Board, the actual amounts paid in 2016, those still payable until ASM 2017.

	Approved ASM 2016 – ASM 2017	Paid/payable ASM 2016 – ASM 2017
Board fees (CHF)	242,000	239,388
Stock options[1] (CHF)	242,000	241,053
Total (CHF)	**484,000**	**480,441**
Stock options (number)	6,562	6,562

[1] The shareholders approved a fix amount in CHF which was converted into a number of options based on the fair market value of such options on the first trading day of the month immediately following the (2016) ASM.

Outlook for Board compensation

At the 2017 ASM, four new members are proposed to be elected as members of the Board. Among those proposed is Thomas Meier, CEO of Santhera, who will not receive a separate compensation as a Board member.

With the increased Board, the Company intends to put in place an Audit Committee (**AC**) in addition to the already existing Compensation Committee (**CC**). Both committee chairmanships as well as memberships of the Board and its committees are proposed to be remunerated as per table below.

The total maximum compensation would be made 50% in the form of cash fees (including social security contributions) and 50% in the form of SAR.

Function	Maximum compensation (CHF)	Number	Total maximum compensation (CHF)
Chairman of the Board (**COB**)	286,000	1	286,000
Vice Chairman of the Board (**VC**)	242,000	1	242,000
Member of the Board	198,000	2*	396,000
Chairman of the AC	33,000	1	33,000
Member of the AC	11,000	1	11,000
Chairman of the CC	22,000	1	22,000
Member of the CC	11,000	1	11,000
Total			**1,001,000**

* Five Board Members excluding Chairman, Vice Chairman and Santhera's CEO who will not receive a separate compensation as Member of the Board.

To calculate the number of SAR to be allocated, the total SAR amount of CHF 455,000 would be divided by the fair value of the SAR on the date of their grant. The fair value is calculated based on the share price on the trading day at the grant day, then applying the Hull-White model (excluding employers' social security contribution).

Executive Management Compensation

The compensation for members of Executive Management currently consists of:

- Fixed compensation.
- Variable compensation:
    - Annual bonus paid in cash.
    - Annual grant of SAR (until July 1, 2016: options).

Fixed compensation

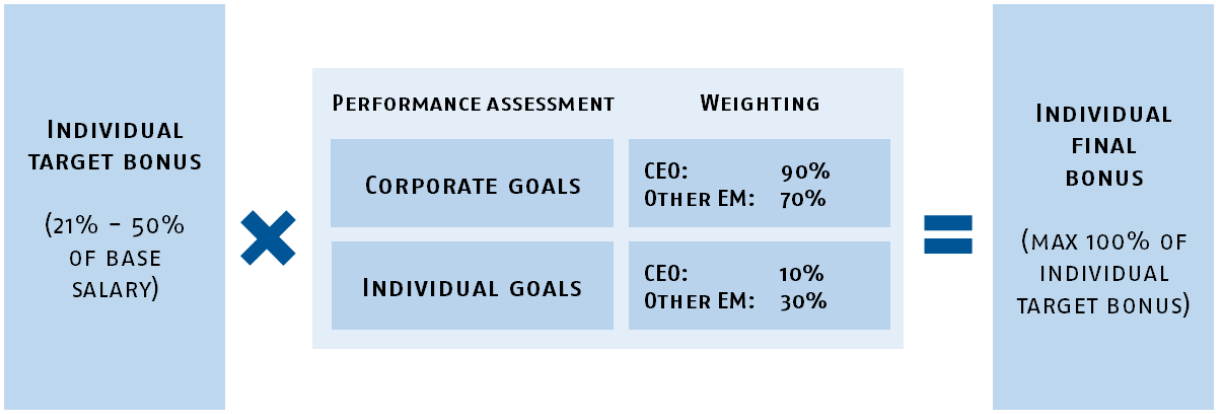
The fixed compensation for the EM members includes base salary, social security contributions and payments to the pension fund by the Company. The base salary takes into account the position, responsibilities, experience and skills of an individual EM member. Base salaries are reviewed annually by the CC, taking into account individual performance and the results of the external benchmarking.

Annual cash bonus

The annual cash bonus for 2016 is based on the achievement of Company and individual goals and will be paid in April 2017, subject to the shareholders' approval. The Company goals included a successful MAA filing in the EU for DMD, sales targets, the determination of the US commercialization strategy, an NDA filing in the US for DMD. The target bonus, i.e. cash bonus to be paid if 100% of corporate and individual objectives are met, is determined individually for each EM member as percentage of the base salary, ranging from 21% to 50%.

The weightings of the corporate and individual goals are individual for each EM member and vary depending on the position. In general, the higher the position of an employee, the more weight is put on the achievement of corporate goals rather than on individual goals. For the Chief Executive Officer (**CEO**), the weighting of the achievement of corporate goals has been 90% and for the other Executives 70%. The final payout is capped at 100% of the target bonus.

Calculation of the individual annual bonus for EM members



The Board determined that the actual target achievement of the 2016 goals was 70% for the calculation of the variable compensation.

The proposal to the shareholders at the 2017 ASM is for a maximum cash bonus payment of CHF 495,000 (of which a maximum of CHF 100,000 for social security contributions). The proposal also includes a maximum bonus payment for Nicholas Coppard who has left the Company on January 31, 2017 for the month of January 2017 of CHF 7,500 (of which a maximum of CHF 1,500 for social security contributions).

Stock options/SAR

Under the Employee Share Appreciation Option Plan (**ESARP**), members of the EM receive an annual grant of a certain number of stock options which was determined by the Board, taking into account the achievement of Company and individual goals.

As of July 1, 2016, the Company has ceased to issue options and started to grant share appreciation rights (**SAR**) to decrease the dilution effect for the shareholders resulting from of the issue of shares. For the allocation of these SAR for the 2016 goal achievements, the exercise base value is equal to the closing price of Santhera's share on the first trading day in 2017 (January 3, 2017) and amounts to CHF 54.85 (previous year: CHF 89.45 [with respect to options]).

The proposal to the shareholders at the 2017 ASM is for a maximum SAR allocation for CHF 1,905,000 which would result in an allocation of 85,416 SAR to the EM.

According to the ESARP, 50% of the SAR vest after a period of 2 years from the grant date, 25% vest after 3 years from the grant date, and 25% vest after 4 years from the grant date. During such vesting periods, SAR may lapse subject to certain conditions as defined by the Plan.

The term of the SAR grant is 10 years. For more information about the underlying Plan, see note 17 *"Equity Rights Plans"* in the consolidated financial statements.

Disclosure of compensation of members of the Executive Management for the years 2016 and 2015 (audited)

In CHF	Base salary	Cash bonus[1]	Equity rights[1, 2, 5]	Social security and pension[2,3]	Total compen-sation	Number of stock options /SAR granted
2016						
Todd Bazemore	118,940	44,275	116,915	20,008	300,138	5,247
Todd Bazemore Retention award	0	0	726,222[4]	10,530	735,752	34,881[4]
Todd Bazemore Total	**118,940**	**44,275**	**843,137**	**30,538**	**1,036,890**	**40,128**
Other 6 members of EM	1,888,644	343,300	1,786,350	630,012	4,648,306	80,169
Total	**2,007,584**	**387,575**	**2,629,487**	**660,550**	**5,685,196**	**120,297**
2015						
Giovanni Stropoli, CCO EU & RoW	302,500	50,930	688,815	122,629	1,164,874	20,565
Other 5 members of EM	1,323,924	225,960	1,135,895	411,750	3,097,529	39,985
Total	**1,626,424**	**276,890**	**1,824,710**	**534,379**	**4,262,403**	**60,550**

[1] Proposal for approval by the 2017 ASM.

[2] Reflects value of share-based payments in accordance with IFRS 2 at grant, i.e. the value of unvested stock options/SAR attributable at grant; tax value of such stock options/SAR is CHF 0 until stock options/SAR are exercised. Such stock option/SAR values are theoretical values and do not reflect income tax values and do also take into consideration certain vesting provisions.

[3] Included in the amounts are social security payments on the fair value of allocated options/SAR. For all options/SAR granted to EM members for 2016, the social security contributions have been calculated to amount to CHF 132,099. The total amount of social security payments on options exercised by members of EM during 2016 is CHF 20,541 (2015: CHF 1,461,173).

[4] Todd Bazemore joined the Company on September 6, 2016. In addition to the proposed amount of CHF 116,915 for the grant of SAR, in 2016, he received SAR with a fair market value of CHF 726,222 as a retention award. This amount has been calculated on the contractually agreed amount of USD 750,000 based on the FX rate of USD 1.0000 = CHF 0.9683. The retention award consists of a grant that is subject to reimbursement by Todd Bazemore to the Company if before September 6, 2017, Todd Bazemore resigns his employment without good reason or if he is terminated by the Company for cause. Additionally, 50% of the SAR vest only two years after the grant, another 25% three years thereafter and the remaining 25% four years thereafter.

[5] In the year under review, stock options and SAR have been granted; in 2015, only stock options had been granted.

Comparison of the approved and paid EM compensation

At the 2016 ASM, shareholders approved a maximum total compensation for the EM as follows: CHF 2,450,000 for the fixed compensation in cash.

	Approved 2016[1]	Paid 2016[1]
Base salary (CHF)	2,450,000	2,316,158

[1] For 6 EM

Newly hired EM member

Effective September 6, 2016, Todd Bazemore was appointed as new Chief Operating Officer Santhera U.S. (**COO**) and joined the EM. As the maximum total compensation approved at the 2016 ASM was not sufficient to compensate the newly appointed COO U.S., his compensation was based on the additional amount as provided for in art. 26 of the Articles of Incorporation to the extent that the approved amount for the fix compensation (CHF 2,450,000) was not sufficient to compensate Todd Bazemore. The actual payments to EM other than Todd Bazemore amounted to CHF 2,316,158, leaving an amount of CHF 133,842 usable to pay part of Todd Bazemore's total fix compensation of CHF 862,833 (consisting of base salary, social security contributions thereon and SAR). As a result, the balance compensation of CHF 728,991 has to be paid out of the additional amount (which is capped at 50% of the fix compensation of all EM members as approved by the 2016 ASM, i.e. at CHF 1,225,000).

Events after the reporting period

At the beginning of 2016, the EM consisted of six members. As Todd Bazemore joined in 2016, the number increased by one. On January 1, 2017, Kristina Sjöblom Nygren joined the Company as Chief Medical Officer (**CMO**), Head of Development and Member of the Executive Management, while Nicholas Coppard retired on January 31, 2017. Currently, the EM consists of seven members.

Outlook for EM compensation

The ASM 2016 has already approved the fix compensation for 2017. The part of the fix compensation of Kristina Sjöblom Nygren that exceeds the amount approved for 2017 (CHF 2,600,000) will be paid out of the additional amount of a maximum of 50% of CHF 2,600,000, i.e. CHF 1,300,000.

For the fix compensation for 2018, the Board will propose an amount of CHF 3,200,000 to the 2017 AGM which reflects the increase from six to seven EM and includes a reserve amount which would allow to increase the fix compensation of the EM if deemed appropriate by the Board.

Executive Contracts

The employment contracts with the EM members have been amended for compliance with the OaEC and the Company's Articles of Incorporation and provide for a notice period of between six months and one year. Any noncompete clauses for the period after termination of an employment agreement shall not exceed one year with the maximum compensation for such period of the last total annual compensation of an EM member in question.

Loans and Credits

In accordance with the Articles of Incorporation, loans to members of the Board and EM may only be on market terms and may only be made by the Company or by any of its directly or indirectly controlled companies, whereas the total sum of total outstanding loans to a particular member, including the amount to be granted, shall not exceed twice the most recent annual compensation to such member. In 2016, no loans or credits were made to the members of the Board, EM or to their related parties.

Compensation of Former Members of the Board and Executive Management

In connection with option exercises by several former members of the Board and EM, Santhera had to contribute to the proceeds from options, as these are subject to social security payments in accordance with applicable laws. With regard to the former Board members, Santhera made a total of CHF 10,037 (2015: CHF 5,590) for such payments in 2016.

Disclosure of compensation of former Board members for the years 2016 and 2015 (audited)

In CHF	Total payment
2016	
Klaus Schollmeier	5,287
Bernd Seizinger	4,750
Total	**10,037**
2015	
Klaus Schollmeier	5,590
Total	**5,590**

With regard to the former EM members, Santhera made no payment in 2016 (2015: CHF 24,556)

Disclosure of compensation of former EM members for the years 2016 and 2015 (audited)

In CHF	Total payment
2016	
N/A	0
Total	**0**
2015	
Barbara Heller	24,556
Total	**24,556**

Shareholdings of Members of the Board and Executive Management

Disclosure of shareholdings in the Company of Board members for the years 2016 and 2015 (audited)

	Number of shares	Number of stock options (vested)	Number of stock options (unvested)
2016			
Martin Gertsch	38,109	0	6,281
Jürg Ambühl	30,000	0	7,281
Total	**68,109**	**0**	**13,562**
2015			
Martin Gertsch	38,109	0	3,000
Jürg Ambühl	30,000	0	4,000
Total	**68,109**	**0**	**7,000**

Disclosure of shareholdings in the Company of Executive Management members for the years 2016 and 2015 (audited)

	Number of shares	Number of stock options (vested)	Number of stock options (unvested)
2016			
Thomas Meier	72,902	3,750	14,875
Todd Bazemore	0	0	34,881[1]
Nicholas Coppard	0	0	12,250
Günther Metz	0	12,000	7,120
Christoph Rentsch	0	0	22,000
Giovanni Stropoli	600	0	20,565
Oliver Strub	0	9,001	7,240
Total	**73,502**	**24,751**	**118,931**
2015			
Thomas Meier	72,902	0	12,250
Nicholas Coppard	1	0	9,000
Günther Metz	0	11,000	5,000
Christoph Rentsch	0	0	15,000
Giovanni Stropoli	400	0	15,000
Oliver Strub	0	10,000	5,000
Total	**73,303**	**21,000**	**61,250**

[1] SAR

Report of the Statutory Auditor on the Compensation Report

Basel, 6 March 2017

We have audited the accompanying compensation report of Santhera Pharmaceuticals Holding Ltd for the year ended 31 December 2016.The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables labeled "audited" on pages 75 to 85 of the compensation report.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance. The Board of Directors is also responsible for designing the compensation system and defining individual compensation packages.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14 – 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14 – 16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of compensation, as well as assessing the overall presentation of the compensation report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the compensation report for the year ended 31 December 2016 of Santhera Pharmaceuticals Ltd complies with Swiss law and articles 14 – 16 of the Ordinance.

Ernst & Young Ltd

/s/ Jolanda Dolente
Licensed audit expert
(Auditor in charge)

/s/ Frederik Schmachtenberg
Licensed audit expert

Corporate Governance Report

Contents

General Information

The Company's corporate governance principles are laid out in its articles of incorporation (**Articles**), the organizational rules (**Organizational Rules**; *Organisationsreglement*), by-laws of the Company's executive management (**Executive Management**) adopted by the Board of Directors (**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, and a risk management process.

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

Group Structure and Shareholders (DCG 1)

Group structure (DCG 1.1)

Listed company

Name	Santhera Pharmaceuticals Holding AG (**Company**, together with its affiliates, **Santhera**)
Domicile	Hammerstrasse 49, 4410 Liestal, Switzerland
Register number	CHE-105.388.338
Listing	SIX Swiss Exchange
Symbol	SANN
Security ID	2714864
ISIN	CH0027148649
Market capitalization	CHF 333 million (December 30, 2016)
Website	www.santhera.com
Commercial register	www.hrabl.ch
Duration of company	Not limited
Subsidiaries	See following section as well as note 3.2 *"Investments in shareholdings"* to the statutory financial statements of the Company.

Santhera operates through its wholly owned subsidiaries (DCG 1.1.3):

Company	Share Capital	Domicile	Activities
Santhera Pharmaceuticals (Schweiz) AG	CHF 125,000	Liestal, CH	Headquarters; development of pharmaceutical drugs, administrative functions
Santhera Pharmaceuticals (Liechtenstein) AG	CHF 50,000	Ruggell, LI	Logistics/distribution
Santhera (Germany) GmbH	EUR 50,000	Munich, DE	Medical information
Santhera (Netherlands) B.V.	EUR 50,000	Nieuwegein, NL	Medical information
Santhera (UK) Limited	GBP 50,000	London, GB	Medical information
Santhera (Italy) S.r.l.	EUR 50,000	Milano, IT	Medical information
Santhera Pharmaceuticals (Canada), Inc.	CAD 1,000	Montréal, CA	Development of pharmaceutical drugs
Santhera Pharmaceuticals (USA), Inc.	USD 1,000	Burlington, Massachusetts, US	Advocacy/patient liaison
Santhera Pharmaceuticals (Deutschland) GmbH	EUR 25,000	Lörrach, DE	Regulatory and development in the EU
Oy Santhera Pharmaceuticals (Finland) Ltd	EUR 2,500	Helsinki, FI	Administrative

None of these subsidiaries is listed on a stock exchange (DCG 1.1.2). The development activities are managed by Santhera Pharmaceuticals (Schweiz) AG and are performed in Switzerland, the EU and the US (DCG 1.1.1).

Significant shareholders (DCG 1.2)

See note 4.2 *"Significant Shareholders"* to the statutory financial statements of the Company.

Cross-shareholdings (DCG 1.3)

There are no cross-shareholdings.

Capital Structure (DCG 2)

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

The Company has one class of registered shares with a nominal value of CHF 1 each (Shares). As of December 31, 2016, it had the following ordinary, authorized and conditional share capital:

Type of capital	Capital as per commercial register		Effectively outstanding capital			
	Amount in CHF	As % of ordinary capital	Amount in CHF	As % of ordinary capital	Expiry	Section in Articles
Ordinary capital	6,262,798	100.0	6,279,857	100.0		3
Authorized capital	1,500,000	24.0	1,500,000	24.0	May 10, 2018	3a
Conditional capital for warrants/option rights granted in connection with debt instruments	650,000	10.4	650,000	10.4	For conversion rights: 10 years from issue date. For options: 7 years from issue date.	3c
Conditional capital for ESOP/BSOP/EIP	550,000	8.8	384,635	6.1		3b

For details with regard to terms and conditions of potential share issues under the Company's authorized and conditional share capital, see sections 3b and 3c of the Company's Articles, which can be downloaded from http://www.santhera.com/investors-and-media/investor-toolbox/articles-of-incorporation, and the section on DCG 2.7 below.

For details with regard to the Company's ESOP, BSOPs, ESARP and BSARP and EIP, see note 17 "*Equity Rights Plans*" to the consolidated financial statements.

Changes in share capital (DCG 2.3)

For changes in capital that occurred in 2014 and 2015, see the Company's Annual Report 2015, which can be downloaded from http://www.santhera.com/investors-and-media/investor-toolbox/financial-reports. For changes that took place in 2016, see note 12 *"Share Capital"* to the consolidated financial statements of the Company.

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

As of December 31, 2016, 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 non-assessable. The Company has not issued any participation certificates or any profit-sharing certificates.

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

Subject to section 5 in the Company's 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 Annual Shareholders' Meeting (**ASM**) resolves in favor of a dividend payment.

Limitations on transferability and nominee registrations (DCG 2.6)

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

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

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

Convertible bonds and warrants/options (DCG 2.7)

Convertible loans

As at December 31, 2016, Santhera did not have any convertible or exchangeable bonds or loans outstanding. With respect to the bond issue see *"27 Events After the Reporting Date"* on page 57.

Options, warrants

See the statutory financial statements of the Company and note 17 "*Equity Rights Plans*" to the consolidated financial statements.

Board of Directors (DCG 3)

Board and committee memberships (DCG 3.1/3.2/3.3 and 3.4)

	Year of birth	Nationality	First elected	Board
Jürg Ambühl	1949	CH	2009	Member
Martin Gertsch	1965	CH	2006	Chairman

Jürg Ambühl

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

Martin Gertsch

Martin Gertsch is an experienced chief financial officer in the life science industry. Until January 2014, he served as chief financial officer of Acino Holding. Before, he was vice president head of finance EMEA at Synthes and held chief financial and chief operating officer positions at Delenex Therapeutics and ESBATech, two privately held biotech companies. From 2002 to the beginning of 2006, he was chief financial officer of Straumann, which he had joined in 1997 as head of group controlling and reporting. Between 1986 and 1997, Mr. Gertsch was an audit engagement manager at PricewaterhouseCoopers, Basel, Switzerland. Mr. Gertsch is a Swiss certified fiduciary and Swiss certified public accountant. He has also completed several executive-level development programs at IMD (International Institute for Management Development) in Lausanne, Switzerland. Mr. Gertsch serves as a board member of Evolva Holding, Symetis and the University Center of Dentistry, Basel (UZB).

Nominations of additional Board members

On January 31, 2017, the Company announced that its Board had nominated Philipp Gutzwiller, Elmar Schnee, Patrick Vink and Thomas Meier (the Chief Executive Officer of Santhera) for election to the Board at the Company's Annual Shareholders' Meeting scheduled to be held on April 4, 2017. Subject to his election to the Board, Thomas Meier is expected to be appointed Delegate of the Board.

Philippe Gutzwiller

Philipp Gutzwiller is Global Head Healthcare at Lloyds Banking Group plc in London. He has accumulated over 15 years of experience as a banker to the broader healthcare industry, advising corporate and private equity clients on the assessment, financing and execution of acquisitions and capital market transactions. He started his career at Roche as a financial controller and later worked as an executive in Roche's corporate mergers and acquisitions team.

Elmar Schnee

Elmar Schnee is Chief Operating Officer of MindMaze, a neuro-technology company spun off from the Swiss Federal Institute of Technology in Lausanne (**EPFL**). Prior to that, he was Chairman, CEO and board member of Cardiorentis in Zug, Switzerland. Previously, he was a General Partner and member of the Executive Board of Merck KGaA, responsible for its worldwide pharmaceutical business. He also led the major restructuring of the business including the acquisition and integration of Serono. Prior to Merck, Elmar Schnee held senior roles as managing director and in marketing, licensing, strategy and business development with UCB Pharma, Sanofi-Synthelabo, Migliara Kaplan and Fisons. He currently serves on the board of directors of listed Jazz Pharmaceuticals and Stallergenes Greer as well as of several privately held life science companies.

Patrick Vink

Patrick Vink, MD, has been an advisor to Santhera's Board since 2016. He advises the life sciences industry and has over 25 years of global industry experience. In his latest assignment, he was employed as Chief Operating Officer at Cubist Pharmaceuticals, overseeing all worldwide commercial and technical operations as well as global alliance management and managing the company's P&L. Previously, Patrick Vink held several senior management positions with Mylan Inc., Novartis Generics/Sandoz, Biogen and Sanofi-Synthelabo. He currently is chairman of the board of privately-held NMD Pharma and Acacia Pharma and a member of the board of listed Concordia International Corp. and several privately held life science companies.

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

All Board members are nonexecutive and none has ever been a member of the Executive Management of the Company or any of its subsidiaries. Amongst others, the Board has nominated the Company's CEO for election to the Board by the annual shareholders' meeting to be held on April 4, 2017. If elected, the CEO would be an executive Board member.

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

See note 25 "*Related Party Transactions*" to the consolidated financial statements.

Other activities and vested interests (DCG 3.2)

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

Permitted mandates in other companies (DCG 3.3)

See table in section on DCG 4.3.

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 must not exceed one year, whereby a year means the period between two ASMs. Directors are appointed or removed exclusively by a resolution of the shareholders. For the time of the first election of 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 both end at the 2017 ASM. The Board members are elected on an individual basis. The Chairman is elected by the shareholders.

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

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 CEO, the CFO and the General Counsel, who also acts as the Secretary to the Board, he decides on agenda items and motions. The other Board member may request that items be placed on the agenda. In case of urgency, the Chairman may approve transactions and measures on behalf of the full Board. The Board also approves the Company's news releases.

The Board committees (DCG 3.5.2)

Santhera has a Compensation Committee that consists of its two Board members. Martin Gertsch acts as its Chairman. All tasks of the former Audit Committee have been allocated to the entire Board, which formally abolished the Audit Committee in 2013. As a result of the growth of the Company, it has decided to reinstate an Audit Committee after the 2017 ASM.

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

Core tasks of the Board

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

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

Work methods of the Board (DCG 3.5.3)

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

Audit-related tasks of the Board

In addition to its other responsibilities, the Board also monitors the integrity of the financial statements of the Company, assesses the independent audit firm's and its representatives' qualifications, 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 Board reviews the Company's financial statements and budgets on an ongoing basis. It also assesses the Company's internal control system and is responsible for the Company's risk management, accounting principles and policies as well as tax structures. The Board communicates with the Company's external auditors concerning the results of their interim audits, audits of the annual and reviews of the interim financial statements and assesses important or critical accounting topics with the Executive Management and the external auditors. In view of its growth and the nomination of additional Board members, the Company currently plans to reinstate the Audit Committee.

Compensation-related tasks of the Board

The compensation-related tasks of the Board are described in the Compensation Report.

Meetings in 2016

In 2016, the Board held five meetings in person which on average lasted more than nine hours. In addition, the Board held three teleconferences which on average lasted three quarters of an hour, not counting the monthly update calls and additional calls as required.

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

As a rule, the CEO, the CFO 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. Other members of Executive Management are invited to attend discussions of their areas of responsibility (commercial operations, development and business development). Other members of senior management are present when HR, financial, and supply chain topics are discussed. In addition, other employees are invited for certain agenda items covering their area of expertise, for example, to discuss results and progress of clinical studies and submissions to regulatory authorities. From time to time, the Board also invites the Company's auditors and tax advisors to its meetings.

For the year under review, the Board had a risk assessment report prepared. Among the key risks identified were the launch of Raxone in the European Union (**EU**) for the treatment of Leber's hereditary optic neuropathy (**LHON**), the regulatory risk in the EU and the US with respect to Duchenne muscular dystrophy (**DMD**), the retention of key personnel, the financial situation of the Company and the dependence on consultants and contractors.

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

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

Executive Management (DCG 4 and 3.6)

In the beginning of the reporting period, the Executive Management consisted of Thomas Meier, CEO, Nicholas Coppard, Senior Vice President (**SVP**), Development, Günther Metz, SVP, Business Development, Christoph Rentsch, Chief Financial Officer (**CFO**), Giovanni Stropoli, Chief Commercial Officer (**CCO**) Europe & Rest of World (**RoW**) and Oliver Strub, SVP, General Counsel & Secretary to the Board.

On October 4, 2016, the Company announced that Nicholas Coppard would retire in January 2017 and that Kristina Sjöblom Nygren would become Chief Medical Officer (**CMO**), Head of Development and Member of the Executive Management with effect from January 1, 2017.

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

The CEO, together with Executive Management, is responsible for implementation of the decisions taken by the Board and its Committees. With the support of the management team – consisting of the members of Executive Management, the Vice President (**VP**) Head Human Resources and the VP Technical Development & Operations – he prepares the business strategy and business plan for decision by the Board. In accordance with the Group Directive "Competencies & Responsibilities," the CEO approves material contracts, decides on the Company's intellectual property rights and the handling of lawsuits. He also allocates financial, personnel and other resources within Santhera and supervises the members of the management team. The management team has regular meetings that usually cover the following topics: product revenues, development programs and clinical studies, regulatory strategies, resource allocation, business development, competitive situation, risk management and internal control system, corporate affairs including important contracts, supply chain and information on subsidiaries, financing situation and strategies, internal and external financial reporting, financial controlling, public and investor relations, human resources, taxes, legal and compliance.

Members of the Executive Management (DCG 4.1)

	Year of birth	Nationality	Position
Thomas Meier	1962	DE	CEO
Todd Bazemore	1970	US	Chief Operating Officer of Santhera U.S.
Nicholas Coppard*	1959	GB	SVP, Head of Development
Günther Metz	1958	DE	SVP, Business Development
Christoph Rentsch	1959	CH	CFO
Kristina Sjöblom Nygren**	1961	SE	CMO, Head of Development
Giovanni Stropoli	1960	IT	CCO Europe & Rest of World
Oliver Strub	1963	CH	SVP, General Counsel & Secretary to the Board

* Until January 31, 2017

** As of January 1, 2017

Thomas Meier

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

Todd Bazemore

Todd Bazemore was appointed Chief Operating Officer of Santhera U.S. in September of 2016. Mr. Bazemore is a biopharmaceutical executive with 22 years of experience across multiple therapeutic areas spanning from ultra-rare diseases to large primary care conditions. He has extensive experience launching and building brands and has been instrumental in the success of a number of drugs. Prior to joining Santhera Mr. Bazemore served as EVP and Chief Commercial Officer at Dyax Corp. where he was responsible for global commercial strategy and oversight of all commercial functions. Dyax was acquired by Shire plc in January of 2016. Prior to joining Dyax Mr. Bazemore was at Sunovion Pharmaceuticals (previously Sepracor INC, prior to acquisition by Sumitomo Dainippon Pharma Co., Ltd) where he served in several roles of increasing responsibility including Vice President of Sales, Vice President of Respiratory Business Unit and Vice President of Market Access and Reimbursement. He began his career in sales at MURO Pharmaceuticals. Mr. Bazemore has a Bachelor's of Science in Health from the University of Massachusetts at Lowell.

Nicholas Coppard

Nicholas Coppard has over 30 years of experience in the research and development of innovative medicines. Prior to joining Santhera as Head of Development in May 2008, he worked in small pharmaceutical and biotech companies providing oversight of critical phases in the preclinical and clinical development of a number of drug candidates. From 1995 to 2001, Mr. Coppard was a lifecycle leader at Hoffmann La Roche, Basel, Switzerland, where he was responsible for the development, registration and lifecycle management of new medicines including Valcyte (valganciclovir) and Mabthera (rituximab). Between its establishment in 1983 and 1995, he oversaw research and development at Senetek, London, United Kingdom. Mr. Coppard earned a BSc in biochemistry at the University of Manchester, UK, and a PhD in chemistry from the University of Aarhus, Denmark.

Günther Metz

Günther Metz spent more than 20 years in the life science industry and has been working for Santhera since its inception in 2004. Mr. Metz began his career in drug discovery at the French company Fournier Pharma, and thereafter joined the German start-up Graffinity, which in 2004 merged with MyoContract to form Santhera. Mr. Metz held various research management positions in cross-functional teams and while working at Santhera gained broad experience across the preclinical and clinical pharmaceutical value chain in diverse indications. In 2008, he transitioned to a new area of responsibilities in business development and licensing, taking up the role of Vice President (**VP**) Business Development at Santhera. Mr. Metz received his PhD in biophysics from the University Freiburg, Germany, in 1992 and subsequently held a postdoctoral research position at Yale University, New Haven, Connecticut, US, supported by a fellowship from the Alexander von Humboldt Foundation.

Christoph Rentsch

With a background in finance, and long-standing experience in the pharmaceutical industry, Christoph Rentsch brings a profound knowledge of the international public and private funding markets to Santhera. Mr. Rentsch started his career in investment banking at Credit Suisse. Subsequently, he worked in various senior management functions for the Alusuisse-Lonza Group both in Switzerland and in the USA. As Head of Group Funding and Capital Markets at Roche, he was responsible for all finance transactions on group level for more than 8 years. In 2003 he became partner of Caperis Ltd, an investment advisory and management firm, before joining privately held Polyphor as CFO, where he supported the company in key stages of its development. Mr. Rentsch joined Santhera in 2015. He holds a degree in Economics and Business Administration from the University of Applied Sciences, Basel.

Kristina Sjöblom Nygren

Kristina Sjöblom Nygren joined Santhera as Chief Medical Officer (**CMO**) and Head of Development and member of Santhera's Executive Management effective January 1, 2017. Ms. Sjöblom Nygren studied chemistry and biochemistry and graduated as a medical doctor from the Karolinska Institute, Sweden. She brings over 18 years of experience as biopharmaceutical executive in drug development across multiple therapeutic areas, including orphan diseases. During her career she has worked in clinical development roles at Wyeth, AstraZeneca and Biovitrum. Prior to joining Santhera Ms. Sjöblom Nygren served as VP and Head of Clinical Development at Sobi where she was leading the clinical development of all programs from first in man to commercialization and life cycle management.

Giovanni Stropoli

Giovanni Stropoli is an experienced commercial manager in the pharmaceutical industry. Until January 2015, he served as SVP for the region called Mid-Sized Countries at InterMune, Switzerland, an orphan drug company acquired by Roche in 2014. For InterMune, Mr. Stropoli successfully launched Esbriet in 11 countries. Before this assignment he was holding several roles at Eisai, Tokyo, Japan, including country manager in Italy, regional manager for Mid-Sized Countries and finally SVP, New Markets, in London, UK, from 2005 until 2011. Before joining Eisai, Mr. Stropoli was country manager Italy for ALK-Abelló, Copenhagen, Denmark, a market leader in vaccine therapy for allergy. Earlier he held several positions in marketing and sales at Eli Lilly, Indianapolis, Indiana, USA, with assignments in Italy, the US and Spain. Mr. Stropoli started his professional career in 1998 as sales representative with Alfa-Wassermann, Bologna, Italy. Mr. Stropoli holds a degree in veterinary medicine from Sassari University, Sardinia, Italy.

Oliver Strub

Oliver Strub is an experienced commercial lawyer, also responsible for the Company's general legal affairs, insurances, trademarks, IT and facility management. Mr. Strub joined Santhera in 2006 as General Counsel, shortly before the Company listed its shares on the SIX. From 1995 to 2006, he was with Ciba-Geigy, then Ciba Specialty Chemicals (now part of BASF), both Basel, Switzerland, where he was Head Corporate Law and Chief Compliance Officer. Mr. Strub holds a degree in law from Basel University, Basel, Switzerland.

Other activities and vested interests (DCG 4.2)

No member of Executive Management 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.

Permitted mandates in other companies (DCG 3.3 and 4.3)

Body	Maximum of mandates on board of listed companies	Maximum of mandates on board of privately held companies
Board members	4	8
Members of Executive Management	2	4

Management contracts (DCG 4.4)

There are no management contracts between the Company and third parties.

Compensation, Shareholdings and Loans (DCG 5)

An extensive description of the compensation system and the amounts paid in the year under review are available in the separate Compensation Report.

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 independent proxy or by another shareholder. Shareholders can instruct the independent proxy by completing an instruction form.

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

Registrations in the share register (DCG 6.5)

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

Changes of Control and Defense Measures (DCG 7)

Duty to make an offer (DCG 7.1)

At the 2013 ASM, shareholders approved an "opting out" clause in the Articles by which it completely excluded the obligation of a shareholder to submit a public takeover offer for all outstanding Shares if he had acquired 33⅓% of all the Company's voting rights (art. 125 para. 4 FMIA in conjunction with art. 135 para. 1 FMIA).

Clauses on changes of control (DCG 7.2)

The ESOP 2004, 2008, 2010, 2015, the BSOP 2011 and 2015, the BSARP and the ESARP under which most options and all share appreciation rights to receive Shares have been granted, contain clauses according to which all options granted under these plans vest immediately upon a sale of more than 50% of the Shares.

Other than that, as of December 31, 2016, agreements and plans from which members of the Board and/or the Executive Management or other members of senior management benefit or may benefit contain no clauses on changes of control.

Auditors (DCG 8)

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

Ernst & Young, Basel, assumed the existing auditing engagement for Santhera's predecessor company MyoContract in 2002. The Shareholders' Meeting elects the Company's auditors for a term of office of one year. The auditor in charge is Jolanda Dolente. She assumed her responsibility in 2015.

Auditing fees and additional fees (DCG 8.2/8.3)

The following fees were charged for professional services rendered by Ernst & Young, for the 12-month period ended December 31:

In CHF thousands	2016	2015
Audit services	330	180
Audit-related services	5	12

Audit services are defined as the standard audit work that needs to be performed each year in order to issue an opinion on the consolidated financial statements of Santhera and to issue reports on the local statutory financial statements. It also includes services that can only be provided by the Group auditor and includes the verification of the implementation of new or revised accounting policies and from reporting periods 2007 onwards the audit of the Company's internal control system and risk management. 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 services in relation to general accounting matters. For reasons of good corporate governance, Santhera contracted the provision of tax and internal control system/risk management 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. In particular, the Board meets with the auditors at the end of an audit or review to discuss in depth the audit procedures, any findings made and recommendations proposed. The auditor's reports to the Board are also extensively discussed.

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 marketing and sales or development.

The most important information tools are the ASMs, the Annual Report, the Interim Reports, news releases and the website www.santhera.com.

Investors and other parties interested in subscribing to the Company's news service may do so by registering themselves on www.santhera.com/investors-and-media/news-and-media-center/news-subscriptions. For contact details, see reverse side of the 2016 Annual Report.

Corporate events 2017

The 2017 Annual Shareholders' Meeting will be held on Tuesday, April 4, 2017, in Basel, Switzerland. See also http://www.santhera.com/investors-and-media/corporate-calendar.

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Forward-Looking Statements

This Annual 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 Annual Report as of the date of the publication, and does not undertake any obligation to update any forward-looking statements contained herein as a result of new information, future events or otherwise.

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