



Annual Report

2015

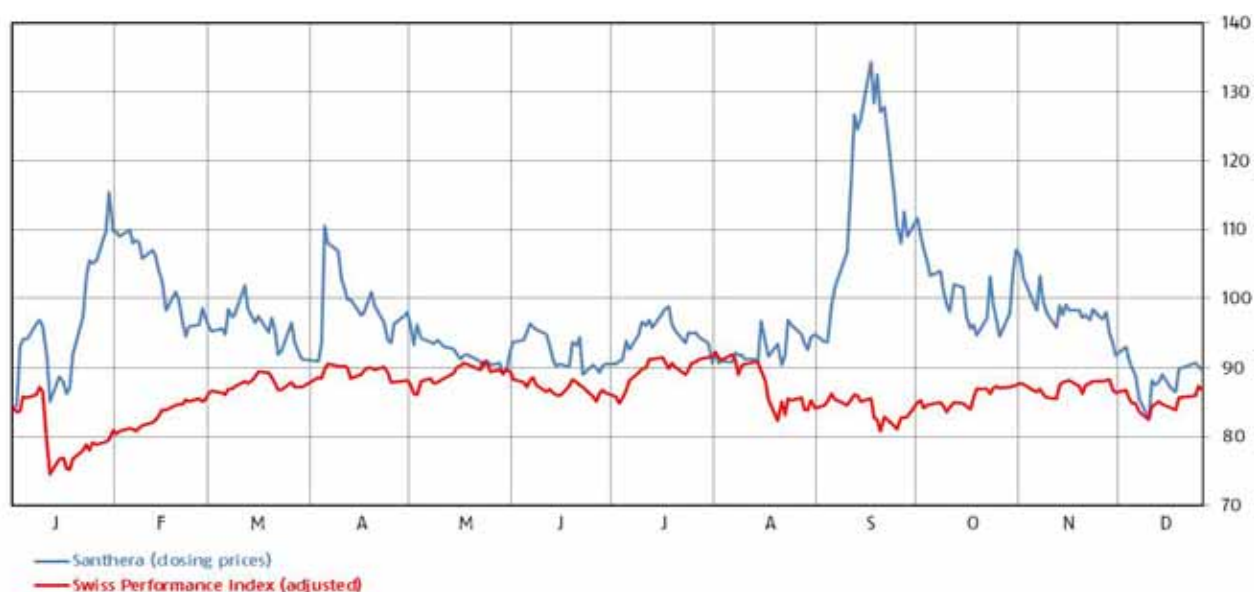


Financial Key Figures

IFRS consolidated, in CHF thousands	2015	2014
Net sales	4,321	2,591
Operating expenses*	35	-10,860
Operating result*	3,173	-7,935
Net result*	5,949	-7,952
Basic earnings/loss per share (in CHF)	1.11	-1.69
Diluted earnings/loss per share (in CHF)	1.08	-1.69
Cash and cash equivalents at December 31	76,859	17,435
Net change in cash and cash equivalents	59,424	12,391

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

Share Price Development in 2015



High	CHF 134.40 (September 21, 2015)
Low	CHF 82.60 (December 12, 2015)
Share price performance in 2015	+5.5%
Share price at year-end	CHF 89.70
Market capitalization at year-end	CHF 562 million
Average volume	21,784 shares/day

(based on closing share prices)

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Letter to Our Shareholders

Dear Shareholders,

Of the many milestones Santhera reached in 2015, there is one that stands out: Commercialization! On September 9, the European Commission granted marketing authorization for our lead product Raxone[®] for the treatment of Leber's hereditary optic neuropathy (**LHON**) in all 28 EU member states, as well as Norway, Iceland and Liechtenstein. Shortly afterwards, on October 1, we launched Raxone in Germany, the first and largest EU market. By Q1 2016, sales were reported primarily for Germany and France, but first sales were also realized in Austria and Switzerland.

The positive market uptake was also reflected in the Company's financial performance: 2015 turned out to be the most successful financial year so far for Santhera. Net sales rose by 67% year-on-year to CHF 4.3 million driven by strong Raxone sales. The Company achieved a positive operating result and a positive net result of CHF 5.9 million influenced by a revaluation of intangible assets and inventory. The progress and prospects of Santhera were also met with excitement from shareholders and investors which enabled us to raise a total of CHF 82.4 million in 2015 in two tranches.

We also saw great progress in the development programs, especially with Raxone in its second indication, Duchenne muscular dystrophy (**DMD**). In April, a paper published in the *The Lancet*, one of the most prestigious medical journals worldwide, validated the positive findings of the pivotal phase III trial (**DELOS**) in DMD. This trial demonstrated the statistically significant and clinically relevant efficacy of Raxone treatment in preserving respiratory function, the loss of which is a main cause of death in this disease.

Last year, we further intensified collaborations with international research groups and patient organizations. For example, we are closely collaborating with the Cooperative International Neuromuscular Research Group (**CINRG**) to compare outcomes of the DELOS trial with natural history data. We are also pleased about our excellent working relationship with patient communities. For example, we have completed a patient and caregiver survey conducted jointly with Parent Project Muscular Dystrophy (**PPMD**), one of the largest and most impactful DMD patient organizations.

Santhera's near-term priorities are the continued commercial rollout of Raxone for the treatment of LHON across Europe. In parallel, the Company intensified preparations for regulatory filings for Raxone in DMD. In Europe, Santhera plans to submit a variation of the existing marketing authorization (**MA**) for Raxone already indicated for the treatment of LHON, while in the US we plan to submit a New Drug Application (**NDA**) to the FDA under the Fast-Track Designation granted last year.

We also continue to explore the use of Raxone in a third indication, primary progressive multiple sclerosis (**PPMS**), where we collaborate with the US National Institutes of Health (**NIH**) in a phase II clinical trial.

Additionally, we are furthering the clinical development of our second compound, omigapil, currently in a phase I (**CALLISTO**) trial, also at the NIH, for the treatment of congenital muscular dystrophies (**CMD**). This program is also supported by several patient organizations.

Our strong cash position (CHF 69.4 as of March 31, 2016) allows us to advance our development programs, support our transition to a fully integrated specialty pharmaceutical company and successfully launch Raxone in additional countries and indications following approval.

Operationally, Santhera's organization was further strengthened by the appointment of professionals to the Company's Executive Management. We are delighted that we can attract and rely on highly talented individuals, and we believe that the strength of the leadership team will enable us to build sustainable growth and long-term success for Santhera. By evolving our organization, we secure the in-house expertise needed to realize the full potential of the lead product Raxone and to build and advance Santhera's pipeline.

We remain fully committed to advancing Santhera as a specialty pharma company dedicated to the development and commercialization of urgently needed therapies to improve the lives of patients suffering from orphan mitochondrial and neuromuscular diseases.

Reaching the current position of Santhera demanded extraordinary efforts from all of us. We would like to thank every team member wholeheartedly for having taken on these challenges with determination and high commitment. Last year, the confidence placed in us by our shareholders began to pay off. Now we move forward as a commercial company, with sales in the first-ever approved treatment of a mitochondrial disease (**LHON**) and a strategy to obtain approval for DMD. We have the funds available to execute on these plans, while we continue pursuing our ongoing clinical programs with Raxone for PPMS and omigapil for CMD.

We appreciate the backing from you, our shareholders, and continue to be grateful for the fortitude, talent and dedication of our employees, the support offered by patient and research organizations and the courage of patients and their families participating in our trials.



Martin Gertsch
Chairman



Thomas Meier
Chief Executive Officer

FINANCIAL AND OPERATIONS HIGHLIGHTS

Santhera Strengthened Operationally and Financially and Transitions to a Commercial Company

Top-line growth driven by increasing sales of Raxone following market approval. Net revenue from product sales in 2015 reached CHF 4.3 million, a 67% increase compared to the previous year (2014: CHF 2.6 million). Net revenues in Q4 were CHF 1.9 million, representing 44% of reported annual revenue and a 136% increase over the average quarterly net sale for Q1–Q3 2015.

Strong top-line growth

Raxone for LHON was launched in Germany on October 1, 2015, and is continued to be sold in France under a temporary use permission until final grant of pricing and reimbursement. In addition, first sales are in the meantime also reported from Austria and Switzerland.

In January 2016, Santhera entered into a distribution and supply agreement with Ewopharma to launch Raxone for the treatment of LHON in eleven countries in Eastern Europe (Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia) and the Baltics (Estonia, Latvia and Lithuania). The agreement with Ewopharma represents an important step for Santhera and underscores its commitment to making Raxone available to patients across all EU member states.

Positive operating result for 2015. Development expenses increased to CHF 10.5 million (2014: CHF 5.9 million) due to costs associated with regulatory filings and study preparation. The launch preparations and market entry for LHON in Europe resulted in higher marketing and sales expenses of CHF 8.4 million (2014: CHF 0.6 million) as well as increased general and administrative expenses of CHF 8.2 million (2014: CHF 4.4 million). Approval of Raxone for LHON allowed for the reversal of a previous impairment charge of CHF 27.1 million (related to LHON development costs) and led to an improvement of the underlying operating result from CHF –23.9 to CHF 3.2 million (2014: CHF –7.9 million).

Positive net result. For the full-year 2015 Santhera reported a net result of CHF 5.9 million (2014: CHF –8.0 million).

Successful financing rounds. The Company realized an aggregate gross amount of CHF 82.4 million (net: CHF 80.5 million) through the issuance of newly created shares and private share placements which, together with increasing income from product sales, substantially improved the financial flexibility and cash reach.

Strong cash position. As of December 31, 2015, Santhera had cash and cash equivalents of CHF 76.9 million (2014: CHF 17.4 million), which corresponds to a net year-on-year increase of CHF 59.4 million (2014: CHF 12.4 million). Santhera believes that, with this strong cash position and increased income from product sales expected in 2016, it has sufficient financial flexibility to support the development and commercialization of the current pipeline.

Financial strength secures development and commercialization plans

Strengthening the organization. Santhera added to the Executive Leadership Team, with the appointment of senior staff members Nicholas Coppard, PhD (SVP Head Development); Günther Metz, PhD (SVP Business Development); Oliver Strub (General Counsel and Secretary to the Board); Giovanni Stropoli (Chief Commercial Officer for Europe and Rest of World) and Christoph Rentsch (CFO) all reporting to the Company's CEO Thomas Meier, PhD. By year-end 2015, Santhera had 59 employees, corresponding to 53.3 full-time equivalents (end of March 2016: 64 employees corresponding to 58.4 full-time equivalents).

PIPELINE HIGHLIGHTS

Santhera with Significant Progress in All Clinical Programs

Santhera's lead compound is Raxone, an oral formulation of idebenone, which is a synthetic short-chain benzoquinone and cofactor for the enzyme NAD(P)H:quinone oxidoreductase (**NQO1**). The drug has a dual mode of action: idebenone enhances mitochondrial function and acts as a cell-protecting antioxidant. Numerous indications exist in which a defect in the mitochondrial electron transport chain and increase in oxidative stress is considered to be an underlying cause of the disease. Idebenone's pharmacological properties make it a development candidate of choice to treat such diseases.

Santhera is exploring Raxone's clinical and commercial potential, evaluating it in multiple mitochondrial and neuromuscular indications. In parallel, Santhera advanced the clinical development for omigapil, the second compound. The Company plans to expand its franchise in orphan indications in which treatments are scarce and regulators worldwide grant incentives to spur drug development.

Raxone is the first product approved for the treatment of LHON

Raxone received marketing authorization in all 28 EU countries, as well as Norway, Iceland and Liechtenstein, in 2015, for the treatment of visual impairment in adolescent and adult patients with Leber's hereditary optic neuropathy. LHON is a rare, heritable, mitochondrial disease that leads to rapid, profound and, if untreated, usually permanent blindness in otherwise healthy patients. Raxone is the first approved therapy in the world for LHON and any mitochondrial disease.

Raxone mitigates vision loss and promotes recovery of visual acuity in LHON

The Company launched Raxone for LHON first in Germany, the largest EU market, and currently reports initial sales from other countries. Raxone is presently also sold in France under a temporary use permission until reimbursement is granted.

Preparations for regulatory filings for Raxone in DMD

Santhera has an ongoing clinical program for Raxone in Duchenne muscular dystrophy (**DMD**), one of the most common and devastating types of inherited degenerative muscle weakness. Raxone can be used in DMD patients with any mutational or disease status.

Statistically significant and clinically relevant results of the successful phase III trial (**DEL05**) show that Raxone slows the loss of respiratory function, a common cause of morbidity and mortality, in DMD patients without concomitant glucocorticoid steroid therapy. Santhera and the leading US patient advocacy group Parent Project Muscular Dystrophy (**PPMD**) announced results of the first-ever patient benefit/risk survey in patients with DMD and caregivers of individuals with DMD. Participants prioritized treatment options that address cardiovascular and pulmonary complications of the disease. Data from this survey will be used as part of the Company's regulatory submissions as supportive evidence of the perceived therapeutic benefits of Raxone in DMD.

In the EU, Santhera plans to file for a Marketing Authorization Application (**MAA**) in DMD as a variation of the marketing approval granted for LHON. In the United States, the Company was granted Fast Track Designation and Rare Pediatric Disease Designation by the FDA last year. The Fast Track Designation for idebenone in DMD will allow us to request priority review when we file the planned New Drug Application (**NDA**).

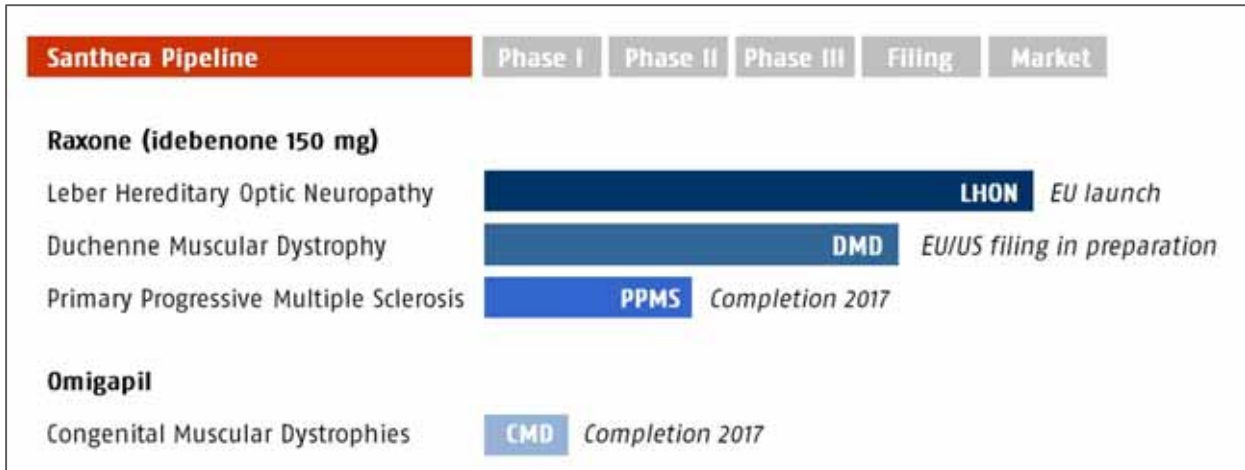
Raxone slows the loss of respiratory function, a frequent cause of mortality in DMD

Given the clear medical need to address respiratory function decline in DMD patients, Santhera has decided to initiate a new clinical trial with Raxone in patients using glucocorticoid steroids (**SIDEROS**). A successful outcome of this trial will offer the potential for a future labeling extension to also treat patients using steroids.

In addition, Santhera has started to develop a novel oral transmucosal formulation for idebenone.

Raxone in primary progressive multiple sclerosis (PPMS)

Santhera also explores Raxone for the treatment of primary progressive multiple sclerosis (**PPMS**), a subtype of MS, in which patients suffer from a slow, but steady, functional decline with none of the distinct episodes of either acute relapse or regeneration that characterize the more common MS forms. We are 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 investigating the efficacy of Raxone in PPMS (**IPPoMS**). The trial which combines a one-year observational run-in phase followed by a two-year placebo-controlled intervention period is fully enrolled. Final results of the IPPoMS trial in Raxone's third indication PPMS are expected late in 2017. Patients who complete this trial are offered participation in a one-year open label extension study.



Santhera advances clinical program for second compound, omigapil, in congenital muscular dystrophies (CMD)

The second compound in Santhera’s pipeline is omigapil for the treatment of congenital muscular dystrophies (CMD). CMD are inherited, severe neuromuscular diseases characterized by different forms of progressive and ultimately devastating loss of muscle tissue, frequently affecting young children. Currently, no treatment is available to slow down or stop progression of the disease. The clinical development of omigapil in the phase I trial (**CALLISTO**) is supported by a public-private partnership, including the NINDS, EndoStem (as part of the EU 7th Framework Program), and two patient organizations in Switzerland and the US. The study investigates the safety, tolerability and pharmacokinetic profile of a new liquid formulation of omigapil in pediatric and adolescent patients with CMD. The trial is expected to be completed in 2017.

Omigapil – first investigational drug for CMD

Consolidated Financial Statements

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Consolidated Balance Sheet

	In CHF thousands	Notes	31.12.2015	31.12.2014 Restated ¹
Assets				
Tangible assets		5	398	132
Intangible assets		6	29,559	4,274
Financial assets long-term			190	85
Deferred tax assets		13	3,061	0
Noncurrent assets			33,208	4,491
Prepaid expenses and accrued income		8	1,513	376
Inventories		9	3,441	0
Trade and other receivables		10	2,131	720
Cash and cash equivalents		11	76,859	17,435
Current assets			83,944	18,531
Total assets			117,152	23,022
Equity and liabilities				
Share capital		12	6,263	4,974
Capital reserves and share premium			377,031	293,650
Retained earnings			-273,133	-279,083
Employee benefit reserve			-2,958	-1,287
Treasury shares		12	-177	-177
Other components of equity			-779	-762
Total equity			106,247	17,315
Pension liabilities		21	3,957	2,680
Total noncurrent liabilities			3,957	2,680
Trade and other payables		14	3,666	2,166
Accrued expenses		15	3,282	861
Total current liabilities			6,948	3,027
Total liabilities			10,905	5,707
Total equity and liabilities			117,152	23,022

¹ Some positions have been restated, see note 2 "Correction of errors".

Consolidated Income Statement

For the year ended December 31, in CHF thousands	Notes	2015	2014 Restated ¹
Net sales	18	4,321	2,591
Cost of goods sold		-1,371	-199
Other operating income	19	188	533
Development	20	16,651	-5,876
<i>Of which Development expenses</i>	20	-10,453	-5,876
<i>Of which reversal impairment on intangible assets and inventory</i>	20	27,104	0
Marketing and sales	20	-8,356	-580
General and administrative	20	-8,244	-4,395
Other operating expenses	20	-16	-9
Operating expenses	20	35	-10,860
Operating result		3,173	-7,935
Financial income	22	416	54
Financial expenses	22	-655	-69
Result before taxes		2,934	-7,950
Income taxes	23	3,015	-2
Net result		5,949	-7,952
Basic earnings/loss per share (in CHF)	24	1.11	-1.69
Diluted earnings/loss per share (in CHF)	24	1.08	-1.69

¹ Some positions have been restated, see note 2 "Correction of errors".

Consolidated Statement of Comprehensive Income

For the year ended December 31, in CHF thousands	Notes	2015	2014 Restated ¹
Net result		5,949	-7,952
<i>Items never to be reclassified to net income in subsequent periods:</i>			
Actuarial gains/(losses) on defined benefit plans	21	-1,671	-1,692
<i>Items to be reclassified to net income in subsequent periods:</i>			
Currency translation differences		-16	5
Other comprehensive result		-1,687	-1,687
Total comprehensive result		4,262	-9,639

¹ Some positions have been restated, see note 2 "Correction of errors".

Consolidated Cash Flow Statement

For the year ended December 31, in CHF thousands	Notes	2015	2014 Restated ¹
Result before taxes		2,934	-7,950
Depreciation of tangible assets	5	85	66
Reversal of impairment on intangible assets	2, 6	-26,157	0
Amortization of intangible assets	6	1,037	9
Expenses for share options	17, 20	2,040	1,177
Change in pension liabilities	21	-394	-9
Change in deferred taxes	13	-3,061	0
Taxes paid		-46	-2
Change in net working capital		942	634
Total financial result	22	239	15
Interest received	22	2	4
Interest paid	22	-11	-7
Cash flow from operating activities		-22,390	-6,063
Investments in tangible assets	5	-350	-160
Investments in intangible assets	6	-165	-47
Investments in other financial assets		-104	0
Cash flow from investing activities		-619	-207
Capital increases from options exercised	12	2,127	3,247
Proceeds from sale of treasury shares SEDA ²	12	0	1,444
Capital increase private placement	12	54,870	1,000
Capital increase	12	27,576	13,294
Cost of issuance of share capital		-1,943	-324
Cash flow from financing activities		82,630	18,661
Effects of exchange rate changes on cash and cash equivalents		-197	0
Net increase/(decrease) in cash and cash equivalents		59,424	12,391
Cash and cash equivalents at January 1		17,435	5,044
Cash and cash equivalents at December 31		76,859	17,435

¹ Some positions have been restated, see note 2 "Correction of errors".

² Standby Equity Distribution Agreement, see note 12 "Share Capital".

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, 2014 (as previously reported)		3,934	274,896	-265,304	405	-221	-6,604	7,106
Correction	2	0	0	-5,827	0	0	5,837	10
Balance at January 1, 2014 (after correction¹)		3,934	274,896	-271,131	405	-221	-767	7,116
Net result ¹		0	0	-7,952	0	0	0	-7,952
Other comprehensive result		0	0	0	-1,692	0	5	-1,687
Total comprehensive result for the period		0	0	-7,952	-1,692	0	5	-9,639
Share-based payment transactions ¹		0	1,177	0	0	0	0	1,177
Capital increase from options exercise		197	3,050	0	0	0	0	3,247
Capital increase SEDA ²		355	1,045	0	0	44	0	1,444
Capital increase private placement		288	712	0	0	0	0	1,000
Capital increase		200	13,094	0	0	0	0	13,294
Cost of issuance of share capital		0	-324	0	0	0	0	-324
Balance at December 31, 2014¹		4,974	293,650	-279,083	-1,287	-177	-762	17,315
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		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		0	2,040	0	0	0	0	2,040
Capital increase from options exercise		399	1,728	0	0	0	0	2,127
Capital increase private placement		590	54,280	0	0	0	0	54,870
Capital increase		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

¹ Some positions have been restated, see note 2 "Correction of errors".

² Standby Equity Distribution Agreement, see note 12 "Share Capital".

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 no current therapy.

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

The consolidated financial statements were approved for publication by the Board of Directors (**Board**) on April 11, 2016. They are subject to approval by the Annual Shareholders' Meeting (**ASM**) on May 11, 2016.

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., Charlestown, 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.

Correction of errors

In the context of the annual impairment testing for its intangible assets, Santhera became aware that the previously impaired intangible asset "Raxone/Catena" had been reported in EUR rather than CHF, generating exchange differences in other comprehensive income that had accumulated in other components of equity over the years to CHF 5.8 million.

The comparative figures for the year 2014 were corrected retrospectively in accordance with IAS 8. The correction of the error did not have an impact on the consolidated income statement and consolidated cash flow statement. The overall net impact on the consolidated balance sheet was considered not material and no third balance sheet as at January 1, 2014, has been presented.

In the context of the preparation of the compensation report 2015, Santhera became aware that part of the expenses for employee stock options granted in 2015 should have been accounted for in the year 2014. Although these options were only granted in 2015, they formed part of the bonus award to employees for the year ended December 31, 2014, and employees had been rendering services in 2014 in expectation of the annual bonus allocation. Executive management determined that the award should have been expensed starting from 2014 until the date of vesting.

The comparative figures for the year 2014 were corrected retrospectively in accordance with IAS 8. The correction of this error did not have a net impact on the consolidated balance sheet, consolidated cash flow statement and consolidated statement of changes in equity. The overall impact on the consolidated income statement of 2014 is an increase of operating expenses of TCHF 418.

The impact on the relevant positions of the Group's prior year consolidated balance sheet, income statement and consolidated statement of comprehensive income is shown below:

Consolidated balance sheet

In CHF thousands	January 1, 2014 reported	Intangible assets	Employee stock options	January 1, 2014 restated
Assets:				
Intangible assets	4,225	10	-	4,235
Equity:				
Retained earnings	-265,304	-5,827	-	-271,131
Other components of equity	-6,604	5,837	-	-767
Total equity	7,106	10	-	7,116

Consolidated income statement and consolidated statement of comprehensive income

	2014 reported	Intangible assets	Employee stock options	2014 restated
Development	-5,695	-	-181	-5,876
Marketing and sales	-574	-	-6	-580
General and administrative	-4,164	-	-231	-4,395
Operating expenses	-10,442	-	-418	-10,860
Operating result	-7,517	-	-418	-7,935
Result before taxes	-7,532	-	-418	-7,950
Net result	-7,534	-	-418	-7,952
Currency translation differences	-62	67	-	5
Total comprehensive result	-9,288	67	-418	-9,639

Consolidated balance sheet

In CHF thousands	December 31, 2014 reported	Intangible assets	Employee stock options	December 31, 2014 restated
Assets:				
Intangible assets	4,197	77	-	4,274
Equity:				
Capital reserves and share premium	293,232	-	418	293,650
Retained earnings	-272,838	-5,827	-418	-279,083
Other components of equity	-6,666	5,904	-	-762
Total equity	17,238	77	-	17,315

Changes in accounting policies

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

The following changes in standards had neither an effect on accounting policies nor on reported amounts or disclosures in these financial statements:

- IAS 19 (Amendments) Defined Benefit Plans: Employee Contributions (effective July 1, 2014)
- Annual Improvements (2011–2013 Cycle/2010–2012 Cycle) (effective July 1, 2014)

The IASB has issued a number of amendments to existing standards as well as new standards and interpretations which will become effective in future periods. Many of these changes are not relevant for Santhera or are currently not expected to have a material impact on Santhera's accounting policies or financial performance but may lead to additional disclosures. The most important change relates to IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases.

The Group is currently evaluating the impact of these changes on the Group's financial reporting:

- IFRS 9 (2014) Financial Instruments (effective January 1, 2018)
- IFRS 15 Revenue from Contracts with Customers (effective January 1, 2018)
- IFRS 16 Leases (effective January 1, 2019)
- IAS 1 (Amendments) Disclosure Initiative (effective January 1, 2016)
- IAS 7 (Amendments) Disclosure Initiative (effective January 1, 2017)
- IAS 16 and IAS 38 (Amendments) Clarification of Acceptable Methods of Depreciation and Amortization (effective January 1, 2016)
- Annual Improvements (2012–2014 Cycle) (effective January 1, 2016)

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[®] and Catena[®] (for the treatment of LHON and DMD). 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 other comprehensive income/equity.

Intangible assets

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

Patents

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

IT software

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

Tangible assets

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

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

Impairment of assets

Assets include intangible assets not yet available for use, intangible assets with finite useful lives and tangible assets. In general and in accordance with the terms of IFRS, assets not in use are capitalized at cost in the balance sheet and reviewed for impairment at least annually. 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 days payment terms are stated at their nominal value less an allowance for any uncollectible amount if required. An allowance for doubtful debts is made when collection of the full amount is no longer probable.

Inventories

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

Financial assets

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

Financial assets at fair value through profit 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 non-current 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.

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 they occur.

Other liabilities measured at amortized costs

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

Income taxes

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

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

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

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

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 several stock option 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. Options granted under all plans are equity-settled. The fair value of employee stock options 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 employee stock options when granted or modified, see note 17 "*Stock Option 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	
	2015	2014	2015	2014
1 Euro (EUR)	1.0681	1.2146	1.0826	1.2028
1 US dollar (USD)	0.9624	0.9152	0.9927	0.9895
1 British pound (GBP) ¹	1.4708	n/a	1.4694	n/a
1 Canadian dollar (CAD)	0.7534	0.8287	0.7157	0.8510

¹ Since annual reporting 2015.

5 Tangible Assets

	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
Exchange differences		0	0	0	0
At December 31		166	231	42	439
Net book value		59	336	3	398

	In CHF thousands	Equipment	IT hardware	Leasehold improvements	2014
Cost					
At January 1		184	633	540	1,357
Additions		1	158	0	159
Disposals		-5	-458	-493	-956
Exchange differences		0	1	0	1
Reclassification		5	0	-5	0
At December 31		185	334	42	561

Accumulated depreciation and impairment losses

At January 1		170	617	531	1,318
Additions		7	51	8	66
Disposals		-5	-458	-493	-956
Exchange differences		0	1	0	1
Reclassification		5	0	-5	0
At December 31		177	211	41	429
Net book value		8	123	1	132

6 Intangible Assets

In CHF thousands	Raxone/ Catena	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

In CHF thousands	Raxone/ Catena	Fipamezole	IT software/ patents	2014
Cost				
At January 1 (after correction)	30,387	3,918	292	34,597
Additions	0	0	47	47
Disposals	0	0	-28	-28
Exchange differences	0	0	1	1
At December 31	30,387	3,918	312	34,617
Accumulated amortization and impairment losses				
At January 1 (after correction)	26,157	3,918	287	30,362
Additions	0	0	9	9
Disposals	0	0	-28	-28
Exchange differences	0	0	0	0
At December 31	26,157	3,918	268	30,343
Net book value	4,230	0	44	4,274

¹ Some positions have been corrected, see note 2 "Correction of errors".

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

7 Impairment Test for Intangible Assets

IAS 36 requires intangible assets not available for use to be tested for impairment on an annual basis by comparing the carrying value to its recoverable amount. The recoverable amount is the higher of fair value less costs of disposal and value in use. If there are indications that an impairment loss recognized in a previous period no longer exists or may have decreased, the recoverable amount of the asset or cash-generating unit is determined.

An entity should also consider the relationship between market capitalization and book values, among other factors, when reviewing for indicators of impairment. As of December 31, 2015, the market capitalization of Santhera was above the book value of its equity and therefore not indicating a potential impairment of the intangible assets.

Raxone/Catena forms the basis of the Raxone/Catena development projects. The intangible asset was previously impaired in 2012.

Santhera's main intangible asset was not available for use at the beginning of the reporting period and did not generate cash flows on a stand-alone basis. Based on the European marketing authorization, received in September 2015, an impairment test was performed which resulted in the full reversal of the previous impairments 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 life 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 is entirely based on project cash flows derived from this program in Europe (equal treatment end of 2014).

The key assumptions for the tests were as follows:

	2015	2014
Discount rate (WACC)	15%	15%
Market growth rate (terminal value)	0%	0%
Probability of reaching market	100%	>50%
Period of projected cash flows	5 years	5 years

8 Prepaid Expenses and Accrued Income

	In CHF thousands	2015	2014
Prepayments		1,467	47
Accrued income		0	323
Other accruals		46	6
Total at December 31		1,513	376

9 Inventories

	In CHF thousands	2015	2014
Raw material (active pharmaceutical ingredients)		1,552	0
Semi-finished goods		1,551	0
Finished goods		338	0
Total at December 31		3,441	0

Due to the marketing authorization received in 2015 for LHON in the EU, a reversal of impairment in the amount of TCHF 947 was recognized under development expenses (TCHF 164 less than reported in the interim reporting 2015 due to reconsiderations).

10 Trade and Other Receivables

	In CHF thousands	2015	2014
Trade receivables		1,466	610
Other receivables		665	110
Total at December 31		2,131	720

Trade receivables in 2015 mainly 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, 2015, and 2014.

11 Cash and Cash Equivalents

	In CHF thousands	2015	2014
Cash at banks and on hand			
In CHF		69,570	16,416
In EUR		6,270	724
In GBP		772	0
In USD		191	267
In CAD		56	28
Total at December 31		76,859	17,435

Short-term money market deposits

In CHF		45,000	10,002
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12 Share Capital

Ordinary share capital

As of January 1, 2014, the share capital amounted to CHF 3,934,049, divided into 3,934,049 Shares at a nominal value of CHF 1 each. During 2014, 197,126 Shares were issued from conditional capital upon the exercise of stock options under the EIP, BSOP 2011, ESOP 2004, ESOP 2008 and ESOP 2010. 355,000 additional Shares were issued from conditional capital under the Standby Equity Distribution Agreement (**SEDA**) (see below). 288,317 Shares were issued from authorized capital for a private placement and 200,000 Shares were issued from conditional capital for sale by an independent broker. As a result, as of December 31, 2014, the share capital amounted to CHF 4,974,492, divided into 4,974,492 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.

Standby Equity Distribution Agreement

In October 2013, Santhera entered into a SEDA with Yorkville Advisors Global Master SPV Ltd., New York, US (**YA Global**). Under the terms of the agreement, YA Global has committed to provide up to CHF 10 million in equity financing during a period of three years. The SEDA has been established in order to support the funding of Santhera's operations. It remains at the sole discretion of the Company to determine the timing of the funding. During 2015 no draws were made. During 2014, Santhera drew a total of CHF 1.4 million from YA Global for which 399,425 Shares were delivered. The remaining amount for equity financing with YA Global amounts to CHF 8.1 million.

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 serve as pledge from the former owners of Juvantia for compensation of a potential tax claim related to pre-acquisition activities of Juvantia. Final tax assessment by the Finnish authorities is expected to be obtained mid- to end 2016.

Authorized share capital

On the occasion of the ASM on May 11, 2015, the shareholders approved an extension of the authorized share capital of the Company. The Board is authorized to increase the share capital at any time until May 11, 2017, through the issuance of up to 1,500,000 Shares with a nominal value of CHF 1 each.

On December 2, 2015, 590,000 Shares were issued in an accelerated bookbuilding process. As a result, as of December 31, 2015, the Board is authorized to increase the share capital at any time until May 11, 2017, through the issuance of up to 910,000 Shares with a nominal value of CHF 1 each. An increase in partial amounts 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, 2015, the shareholders additionally approved a maximum increase of the share capital by an aggregate amount of CHF 800,000 (2014: CHF 800,000) through the issuance of a maximum of 800,000 (2014: 800,000) Shares with a nominal value of CHF 1 each. The Shares can be issued through the exercise of option rights which are granted according to respective regulations of the Board. The exercise price of each option to be granted shall, at the full discretion of the Board, either equal (i) the weighted average share price during the three months preceding the grant for employees outside the US and Canada, or (ii) the closing price of the Share at the grant date.

In addition, the shareholders approved a maximum increase of the share capital by an aggregate amount of CHF 950,000 (2014: CHF 600,000) through the issuance of a maximum of 950,000 (2014: 600,000) Shares with a nominal value of CHF 1 per Share by the exercise of option and/or conversion rights which can be granted in connection with the issuance of bonds, similar obligations or other financial instruments by the Company or another Group company, and/or by the exercise of options which are granted by the Company or another Group company. In the case of the issue of bonds, similar obligations or other financial instruments linked with option and/or conversion rights, and in the case of the issue of option rights, the pre-emptive right of shareholders is excluded.

As of December 31, 2015, 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 401,694 (2014: CHF 604,029) through the issuance of up to 401,694 (2014: 604,029) Shares, under the exclusion of shareholders' pre-emptive rights, for option rights being exercised under the Company's stock option plans, see note 17 "*Stock Option Plans*", and
- a maximum amount of CHF 650,000 (2014: CHF 600,000) by issuing up to 650,000 (2014: 600,000) Shares, through the exercise of warrants/options and/or notes granted in connection with bonds or similar debt instruments linked with option and/or conversion rights granted by the Company.

13 Deferred Taxes

Net deferred taxes recorded

	In CHF thousands	2015	2014
Temporary differences on inventory		3,061	0
Deferred tax assets recognized		3,061	0
Temporary differences on intangible assets		5,167	831
Tax loss carryforwards		-5,167	-831
Deferred tax liabilities recognized		0	0
Tax loss carryforwards		269,696	317,170
Of which recorded		-25,834	-4,153
Of which unrecorded		243,862	313,017
Expiring in			
1 year		9,738	47,276
2 years		5,832	9,738
3 years		22,671	5,832
4 years		177,282	22,671
5 years		0	188,257
More than 5 years		0	11,265
Without expiration		28,339	27,978
Total unrecorded tax loss carryforwards		243,862	313,017

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 3,957 per December 31, 2015, and TCHF 2,680 per December 31, 2014, respectively).

14 Trade and Other Payables

	In CHF thousands	2015	2014
Trade payables		3,290	1,654
Other payables (nonfinancial)		376	512
Total at December 31		3,666	2,166

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

15 Accrued Expenses

	In CHF thousands	2015	2014
Development programs		700	422
Liabilities to employees		905	137
Accruals for pricing and reimbursement		673	0
Accrued marketing and sales expenses		671	38
Expenses for audit, consulting and other		333	264
Total at December 31		3,282	861

16 Commitments and Contingent Liabilities

Commitments

Commitment for operating lease (non-cancellable)

	In CHF thousands	2015	2014
Within 1 year		398	125
After 1 year through to 5 years		278	0
After 5 years		15	0
Total at December 31		691	125

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 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/Catena 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/Catena 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 Dystrophies (**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. 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 6.3 million (to be delivered in 2016).

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 Stock Option Plans

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

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				2015			2014	
Plan	Exer- cised	Forfeit- ed	Expired	Out- standing	Exer- cised	Forfeit- ed	Expired	Out- standing
EIP	790	0	0	1,210	42,598	0	0	2,000

Employee Stock Option Plans

The Company adopted the ESOP 2004, ESOP 2008, ESOP 2010 and ESOP 2015 (collectively the **ESOPs**) to provide incentives to members of the Board, the Executive Management and employees 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 from time to time 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	2015				
	Exercised	Granted	Forfeited	Expired	Outstanding
ESOP 2004	9,045	0	0	0	26,091
ESOP 2008	0	0	0	0	1,500
ESOP 2010	358,971	0	2,700	0	47,773
ESOP 2015	0	142,260	2,000	0	140,260
Total	368,016	142,260	4,700	0	215,624

Number of options	2014				
	Exercised	Granted	Forfeited	Expired	Outstanding
ESOP 2004	45,834	0	0	4,365	35,136
ESOP 2008	4,000	0	0	0	1,500
ESOP 2010	70,694	332,800	5,800	850	409,444
Total	120,528	332,800	5,800	5,215	446,080

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	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

Number of options	2014				
	Exercised	Granted	Forfeited	Expired	Outstanding
BSOP 2011	34,000	29,500	0	0	29,500

As of December 31, 2015, 177,860 stock options (2014: 126,449) are available for future grants under the ESOP 2015 and/or the BSOP 2015.

Fair value calculations for stock options granted

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

	2015	2014
Market price of stock	CHF 80.20 to 138.90	CHF 3.46 to 104.90
Exercise prices	CHF 83.00 to 133.08	CHF 4.23 to 101.00
Weighted average fair value of options granted	CHF 40.12	CHF 2.93
Expected volatility ¹	43% to 46%	50% to 53%
CHF risk-free interest rate	-0.10% to 0.38% p.a.	0.71% to 0.98% 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	2015	2014
Outstanding at January 1		477,580	323,421
Granted		149,260	362,300
Exercised ¹		-398,306	-197,126
Forfeited		-4,700	-5,800
Expired		0	-5,215
Outstanding at December 31		223,834	477,580
Exercisable at December 31		60,412	98,655

¹ The average closing share price of options exercised during the reporting period 2015 was CHF 95.40 (2014: CHF 47.40).

The value of stock options granted is recognized as personnel expense over the period Santhera receives services. In 2015, stock option grants resulted in personnel expenses of TCHF 1,528 (TCHF 277 related to Development, TCHF 580 related to Marketing & Sales (M&S) and TCHF 671 to General & Administration (G&A)) and in 2014, such grants resulted in personnel expenses of TCHF 759 (TCHF 386 related to Development, TCHF 26 related to M&S and TCHF 347 to G&A). In the first quarter of 2016, Santhera allocated 90,730 stock options which form part of the bonus award to employees for the year ended December 31, 2015. Although these stock options were not legally granted in 2015, Executive Management considers it appropriate to recognize expenses in 2015 as employees have been rendering services in 2015 in expectation of the annual bonus allocation. Personnel expenses in 2015 for this amounted to TCHF 512 (TCHF 108 related to Development, TCHF 244 related to M&S and TCHF 160 related to G&A). In the first quarter of 2015, Santhera allocated 39,760 stock options which formed part of the bonus award to employees for the year ended December 31, 2014. Personnel expenses in 2014 for this amounted to TCHF 418 (TCHF 181 related to Development, TCHF 6 related to M&S and TCHF 231 related to G&A) (see note 2 "Correction of errors").

In January 2014, a total of 352,000 options with exercise prices between CHF 3.78 and CHF 4.02 were granted. The majority of these options were exceptionally granted in order to reduce the risk of losing employees at a time when the Company was in a very critical financial situation.

Terms of options outstanding at December 31

Exercise price range for options (in CHF)	Number outstanding	Weighted average remaining contractual life (years)	2015 Number exercisable	Number outstanding	Weighted average remaining contractual life (years)	2014 Number exercisable
1.00	1,210	0.86	1,210	2,000	1.85	2,000
from 3.78 to 6.34	42,673	7.44	31,611	428,644	8.75	60,019
from 22.25 to 30.10	6,600	7.43	1,500	11,800	8.90	1,500
from 59.44 to 60.25	19,788	0.52	19,788	28,833	1.62	28,833
from 82.58 to 114.50	153,563	9.02	6,303	6,303	1.89	6,303
Total	223,834	7.87	60,412	477,580	8.20	98,655

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/Catena for the treatment of LHON, DMD and FA. Geographic revenue information is based on location of the customer.

Geographic information

Net sales

	In CHF thousands	2015	2014
EU		4,321	2,548
Rest of the world		0	43
Total		4,321	2,591

In 2015, net sales of Raxone/Catena 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. In 2014 net sales of Raxone/Catena amounted to CHF 2.6 million, mainly in the EU.

Noncurrent assets (excluding financial instruments and deferred taxes)

	In CHF thousands	2015	2014 Restated
Switzerland		29,876	4,403
EU		80	0
North America		1	3
Total		29,957	4,406

19 Other Operating Income

This position consists primarily of reimbursements from scientific programs.

20 Operating Expenses by Nature

	In CHF thousands	2015	2014 Restated
External Development expenses		-6,341	-3,168
Reversal of impairment of intangible asset		26,157	0
Reversal of impairment on inventories		947	0
Patent and license expenses		-222	-229
Marketing expenses		-3,870	-446
Employee expenses		-13,105	-5,165
Of which non-cash-relevant expenses for share-based payments		-2,040	-1,177
Other administrative expenses		-2,999	-1,517
Depreciation, amortization and impairment		-110	-75
Lease expenses		-406	-251
Other operating expenses		-16	-9
Total operating expenses		35	-10,860

21 Employee Expenses and Benefits

Employee expenses

	In CHF thousands	2015	2014 Restated
Wages and salaries		-6,435	-3,002
Social security and other personnel-related expenses ¹		-4,630	-986
Of which non-cash-relevant adjustments of pension fund		394	9
Share-based payments		-2,040	-1,177
Total employee costs		-13,105	-5,165
<hr/>			
Average number of full-time equivalents²		31.4	13.8
<hr/>			
Full-time equivalents at year-end		53.3	14.7
<hr/>			
Total headcount at year-end		59	18

¹ Thereof TCHF 18 were expensed for defined contribution plans in North America and some EU countries (2014: TCHF 3).

The increase to the previous period results from higher social security expenses on option exercises.

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

Termination benefits

In 2015 and 2014, no termination benefits were expensed.

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	2015	2014
Present value of obligation, January 1		7,747	4,176
Current employer service cost		704	297
Past service cost ¹		-656	-89
Interest cost		76	94
Employee contributions		267	138
Benefits paid / transfer payments		6,074	1,524
Insurance premiums		-142	-75
Remeasurements ²		1,727	1,682
Present value of obligation, December 31		15,797	7,747

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	2015	2014
Actuarial (gain)/loss due to changes in financial assumptions		170	1,604
Actuarial (gain)/loss due to experience adjustments		1,557	78
Subtotal (gain)/loss		1,727	1,682
(Return)/loss on plan assets (excluding interest income)		-56	10
Total remeasurements in other comprehensive income (gain)/loss		1,671	1,692

Changes in plan assets

	In CHF thousands	2015	2014
Fair value of assets, January 1		5,067	3,179
Interest income on assets		55	77
Employer contributions		463	234
Employee contributions		267	138
Benefits paid / transfer payments		6,074	1,524
Insurance premiums		-142	-75
Remeasurements (return/(loss) on plan assets (excluding interest income))		56	-10
Fair value of assets, December 31		11,840	5,067

Net defined benefit asset/(obligation)

	In CHF thousands	2015	2014
Present value of obligation, December 31		15,797	7,747
Fair value of assets, December 31		11,840	5,067
Net defined asset/(obligation)		-3,957	-2,680

Asset breakdown

Assets of the defined benefit plan are not quoted since AXA fully insures them. Therefore the entire amount of TCHF 9,499 (2014: TCHF 5,067) is treated as an insurance contract and has no quoted market price.

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

	In %	2015	2014
Discount rate		0.90	1.05
Expected future salary increases		1.50	1.50

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	-

Sensitivity analysis for 2014:

In CHF thousands	Defined benefit obligation		Gross service cost	
	Increase assumption	Decrease assumption	Increase assumption	Decrease assumption
Discount rate +/-0.25%	-369	397	-31	33
Salary increase +0.25%	73	-	-4	-
Live expectancy +1 year	150	-	10	-

Mortality rate:

Life expectancy at age 65	2015	2014
Male	21.59	21.49
Female	24.06	23.96

The expected employer contributions for fiscal year 2016 amount to approximately TCHF 568 (2014: TCHF 256). No benefit obligations for pensioners exist at December 31, 2015 (2014: none). The duration of the plan liabilities calculated is 20.8 years as per December 31, 2015 (2014: 20.8 years).

22 Financial Income/Expenses

Financial income

	In CHF thousands	2015	2014
Interests on cash and cash equivalents		2	4
Realized and unrealized foreign exchange gains		414	50
Total		416	54

Financial expenses

	In CHF thousands	2014	2014
Interest expenses		-11	-7
Realized and unrealized foreign exchange losses		-644	-62
Total		-655	-69

23 Income Taxes

	In CHF thousands	2015	2014 Restated
Current income tax income/(expense)		-46	-2
Deferred tax income/(expense)		3,061	0
Total		3,015	-2

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

	In CHF thousands	2015	2014
Result before taxes		2,934	-7,950
Tax (expense)/income at expected group tax rate of 20% ¹		-587	1,590
Effect of tax rate difference group versus local		-2,413	0
Effect of non-deductible expenses		-12	0
Utilization of previously unrecognized tax losses		7,376	0
Recognition of DTA on previously unrecognized tax losses		4,336	0
Unrecognized deferred taxes		-5,685	-1,592
Effective tax income/(expense)		3,015	-2

¹ The tax rate of 20% represents the Group's expected long-term tax rate based on rates applicable in those jurisdictions where taxable income should be generated in the future.

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

	2015	2014 Restated
Net result attributable to shareholders (in CHF)	5,949,239	-7,951,925
Weighted average number of shares issued and outstanding	5,343,089	4,704,000
Basic net result per share (in CHF)	1.11	-1.69

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 2014 no diluted net result was calculated since the exercise of stock options would have been anti-dilutive.

	2015	2014
Net result attributable to shareholders (in CHF)	5,949,239	n/a
Weighted average number of shares issued and outstanding	5,343,089	n/a
Additional shares of potential option exercise	140,441	n/a
Adjusted weighted average number of shares issued and outstanding	5,483,530	n/a
Diluted net result per share (in CHF)	1.08	n/a

25 Related Party Transactions

Board and Executive Management compensation

Total compensation of Board and Executive Management

	In CHF thousands	2015	2014 Restated
Compensation, wages and salaries		2,043	504
Post-employment benefits (pension fund contributions)		211	35
Share-based payment expenses (fair value according to IFRS 2)		855	431

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 2015, 29,500 stock options were exercised by members of the Board (2014: 24,000 stock options exercised). 211,394 stock options were exercised by the Executive Management (2014: 23,895 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 four 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 were performed regularly. Any fair value changes of such currency positions are recorded accordingly in the income statement. Santhera's primary exposure to financial risk is due to fluctuation of exchange rates between CHF, EUR, USD, GBP and CAD. No derivative currency contracts are outstanding as of December 31, 2015 and 2014.

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.

	Increase/decrease foreign currency rate	Effect on result before taxes in CHF thousands
EUR positions		
2015	+10%	-608
	-10%	608
2014	+5%	-17
	-20%	67

Interest rate risk

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

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

As per end of 2015, variances of +/-50 basis points were calculated, resulting in fluctuations of +/- TCHF 384 before tax (end of 2014: +/-50 basis points resulting in fluctuations of +/-TCHF 87 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 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, 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	2,609	0	0	0	2,609	2,609
Trade payables	0	3,291	0	0	0	3,291	3,291
Total	0	5,900	0	0	0	5,900	5,900

Year ended December 31, 2014 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	861	0	0	0	861	861
Trade payables	0	1,654	0	0	0	1,654	1,654
Total	0	2,515	0	0	0	2,515	2,515

Categories of financial instruments

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			
Trade payables	3,291	0	3,291
Total	3,291	0	3,291

Year ended December 31, 2014 In CHF thousands	Book value	Loans and receivables	Other liabilities at amortized cost
Assets			
Financial assets long-term	85	85	0
Trade receivables	610	610	0
Other receivables	41	41	0
Cash and cash equivalents	17,435	17,435	0
Total	18,171	18,171	0
Liabilities			
Trade payables	1,654	0	1,654
Total	1,654	0	1,654

Capital management

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

The funds raised in various private financing rounds, the private placement 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

None

Report of the Statutory Auditor on the Consolidated Financial Statements

Basel, April 11, 2016

As statutory auditor, we have audited the consolidated financial statements of Santhera Pharmaceuticals Holding AG, which comprise the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated cash flow statement, consolidated statement of changes in equity and notes (pages 12 to 49), for the year ended 31 December 2015.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of these consolidated financial statements in accordance with IFRS and the requirements of Swiss law and the consolidation and valuation principles as set out in the notes. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2015 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with IFRS and comply with Swiss law.

Report on other legal requirements

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

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

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

Ernst & Young Ltd

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

/s/ Nicole Riggenbach
Licensed audit expert

Statutory Financial Statements of Santhera Pharmaceuticals Holding AG

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Balance Sheet

	As of December 31, in CHF thousands	Notes	2015	2014
Assets				
Cash and cash equivalents			61,256	6,953
Other receivables from third parties			43	8
Other receivables from shareholdings			287	415
Prepaid expenses and accrued income			180	23
Treasury shares			0	177
Current assets			61,766	7,576
Loans to shareholdings		3.1	0	0
Investments in shareholding		3.2	59	0
Noncurrent assets			59	0
Total assets			61,825	7,576
Liabilities and equity				
Trade accounts payable to third parties			154	68
Other accounts payable to third parties			188	447
Other accounts payable to shareholdings			188	49
Accrued expenses			297	171
Current liabilities			827	735
Total liabilities			827	735
Share capital		3.3	6,263	4,974
<i>Reserves from capital contributions</i>			57,083	3,049
<i>Other capital reserves</i>			2,891	916
Statutory capital reserves			59,974	3,965
<i>Reserves for treasury shares</i>			0	177
Statutory retained earnings			0	177
<i>Accumulated result</i>			-5,557	-2,593
<i>Results carried forward</i>			-2,593	-1,503
<i>Net result for the period</i>			-2,964	-1,090
<i>Other voluntary reserves (free reserves)</i>			495	318
Voluntary accumulated result and other reserves			-5,062	-2,275
Treasury shares		3.4	-177	0
Total equity			60,998	6,841
Total liabilities and equity			61,825	7,576

Income Statement

For the year ended December 31, in CHF thousands	Notes	2015	2014
Income from shareholdings	3.5	1,970	1,203
Other operating income		1	1
Total operating income		1,971	1,204
General and administrative expenses	3.6	-3,322	-1,463
Employee costs		-1,656	-845
Other operating expenses		-2	-2
Total operating expenses		-4,980	-2,310
Operating result		-3,009	-1,106
Financial income		21	31
Financial expenses		-35	-15
Financial result		-14	16
Reversal on allowance of investment		59	0
Result before taxes		-2,964	-1,090
Direct taxes		0	0
Net result		-2,964	-1,090

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

Beginning in the year ended December 31, 2015, 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), which became effective since January 1, 2013, and required implementation in relation to the year ended December 31, 2015. In accordance with the transitional regulations for the implementation of the CO the presentation of the prior-year financial statements was not adjusted to conform to the current presentation. Since Santhera prepares consolidated financial statements in accordance with International Financial Reporting Standards (IAASB), 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. We estimate fair value of our investments using a variety of valuation methods (e.g. income approach).

Treasury shares

Treasury shares are recognized at acquisition cost and deducted from shareholders equity at the time of acquisition. 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 to shareholdings are fully impaired to CHF 0 and consist of subordinated loans to Santhera Pharmaceuticals (Schweiz) AG. These loans were primarily related to fund the research and development activities of Santhera Group (December 31, 2015: CHF 172.4 million; December 31, 2014: CHF 172.4 million). The recoverability of these loans is not ensured. The fair value of Santhera Pharmaceuticals (Schweiz) AG and the long-term recoverability of these loans depend on the future market success of the developed and launched products (Raxone in LHON) and successful filings in other indications (Raxone in DMD).

3.2 Investments in shareholdings

In 2015 and 2014 the following companies are direct subsidiaries of Santhera Pharmaceuticals Holding AG (100% ownership and 100% voting rights):

	Share capital at December 31	2015	2014
Santhera Pharmaceuticals (Schweiz) AG Liestal, Switzerland	CHF	125,000	125,000
Santhera Pharmaceuticals (Deutschland) GmbH Lörrach, Germany	EUR	25,000	25,000
Santhera Pharmaceuticals (USA), Inc. Charlestown, US	USD	1,000	1,000
Santhera Pharmaceuticals (Canada), Inc. Montréal, Canada	CAD	1,000	1,000
Oy Santhera Pharmaceuticals (Finland) Ltd Helsinki, Finland	EUR	2,500	2,500

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	2015	2014
Santhera Pharmaceuticals (Liechtenstein) AG Ruggell, Fürstentum Liechtenstein	CHF	50,000	n/a
Santhera (Italy) S.r.l. Milano, Italy	EUR	50,000	n/a
Santhera (Germany) GmbH Munich, Germany	EUR	50,000	n/a
Santhera (Netherlands) B.V. Nieuwegein, The Netherlands	EUR	50,000	n/a
Santhera (UK) Limited London, United Kingdom	GBP	50,000	n/a

3.3 Share capital

During 2015, the share capital was increased by a total amount of CHF 1,288,306 to CHF 6,262,798 as of December 31, 2015 (2014: CHF 4,974,492): The increase consisted of three parts: i) increase through the exercise of 398,306 employee stock options (from conditional capital); ii) increase through an accelerated bookbuilding of 590,000 Shares (from authorized capital) and iii) the increase through the issuance of 300,000 Shares for the sale by an independent broker (from conditional capital).

3.4 Treasury shares

In connection with the liquidation of Oy Juvantia Pharma, Turku, Finland (**Juvantia**), acquired in 2009, Santhera received 8,028 Shares from former Juvantia shareholders. These treasury shares serve as pledge from the former owners of Juvantia for compensation of a potential tax claim related to pre-acquisition activities of Juvantia and were received in February 2010 at CHF 22 each. At December 31, 2015, the number of shares remained unchanged at 8,028.

3.5 Income from shareholdings

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

3.6 General and administrative expenses

	In CHF thousands	2015	2014
Administrative expenses		712	759
Consulting expenses		667	324
Expenses in connection with capital increases		1,943	380
Total		3,322	1,463

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 reporting 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 most recently at February 11, 2016 (6,262,798 shares at February 11, 2016; 4,578,521 shares at December 31, 2014):

	2015 Shares ¹	2015 %	2014 Shares	2014 %
Iglu Group, Switzerland	671,858	10.7	712,670	15.6
Consonance Capital Management, US	625,457	10.0	275,000	6.0
Bertarelli Ernesto, Donata and Maria-Iris, Switzerland	545,777	8.7	545,777	11.9
Union Asset Management Holding AG	326,838	5.2	n/a	n/a
Lagoda Investments Management, LLC, US	187,888	3.0	n/a	n/a
Visum Balanced Master Fund, Ltd., US	179,574	2.9	n/a	n/a
UBS Fund Management (Luxembourg) S.A.	167,203	2.7	n/a	n/a
RTW Investments, LTD, US	140,354	2.2	140,354	3.1
NGN Capital, Germany and US	n/a	n/a	137,409	3.0

¹ Including disclosures until March 30, 2016

² Formerly Ares Life Sciences, Switzerland

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

As of December 31, 2015:

	Number of Shares	Number of vested stock options	Number of unvested stock options	Total number of stock options
<i>Board of Directors</i>				
Martin Gertsch, Chairman	38,109	0	3,000	3,000
Jürg Ambühl	30,000	0	4,000	4,000
<i>Executive Management</i>				
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.

¹ Joined the Executive Management July 1, 2015.

As of December 31, 2014:

	Number of Shares	Number of vested stock options	Number of unvested stock options	Total number of stock options
<i>Board of Directors</i>				
Martin Gertsch, Chairman	21,609	0	16,500	16,500
Jürg Ambühl	17,000	0	13,000	13,000
<i>Executive Management</i>				
Thomas Meier, CEO	38,508	48,644	59,500	108,144

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

	2015	2015	2014	2014
	Quantity	Value (in TCHF) ¹	Quantity	Value (in TCHF) ¹
Board of Directors	7,000	282	29,500	116
Executive Management	53,500	2,094	52,000	93
Employees of Santhera Group	88,760	3,612	280,800	854
Total	149,260	5,988	362,300	1,063

¹ Value of the options 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 such stock options is 0 until stock options would be exercised. Such stock option values are theoretical values and do not reflect income tax values and do also take into consideration certain vesting provisions. For information about the underlying stock option plans, see note 17 "Stock Option 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, 2016, 90,730 options were granted to employees of Santhera. These options are part of the bonus award for the year 2015 to employees of the Group. These options were granted under ESOP 2015 (see note 17 "Stock Option Plans").

	Quantity	Value (in TCHF) ¹
Executive Management	30,550	623
Employees of Santhera Group	60,180	1,226
Total	90,730	1,849

¹ Value of the options 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 such stock options is 0 until stock options would be exercised. Such stock option values are theoretical values and do not reflect income tax values and do also take into consideration certain vesting provisions. For information about the underlying stock option plans, see note 17 "Stock Option 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 2016.

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 Standby Equity Distribution Agreement

In October 2013, Santhera announced that it has entered into a Standby Equity Distribution Agreement (**SEDA**) with Yorkville Advisors Global Master SPV Ltd., New York, US (**YA Global**). Under the terms of the agreement, YA Global has committed to provide up to CHF 10 million in equity financing during a period of three years. The SEDA has been established in order to support the funding of Santhera's operations. It remains at the sole discretion of Santhera to determine the timing of the funding. The remaining amount available for equity financing with YA Global, sums up to CHF 8.1 million.

4.7 Events After the Reporting Date

None

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

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

	In CHF	2015	2014
Result carried forward		-2,592,681	-1,502,786
Net result of the year		-2,963,843	-1,089,895
Accumulated result		-5,556,524	-2,592,681
Result to be carried forward		-5,556,524	-2,592,681

The Board of Directors requests the approval of the Annual Shareholders' Meeting for the following release and transfer from reserves from capital contribution:

	In CHF
Reserves from capital contribution at December 31, 2014	3,049,462
Re-allocation to other capital reserves (legal reserves) following final tax Assessment	-32,149
Share premium of option exercise during 2015	1,728,555
Share premium of capital increase December 2015	52,336,612
Reserves from capital contribution	57,082,480
Transfer from reserves from capital contribution to other voluntary reserves (free reserves)	-50,000,000
Reserves from capital contribution	7,082,480

Subject to approval by the Annual Shareholders' Meeting, the other voluntary reserves (free reserves) develop as follows:

	In CHF
Other voluntary reserves (free reserves) at December 31, 2014	318,098
New presentation of reserve for treasury shares	176,616
Transfer from reserves from capital contribution	50,000,000
Free reserves	50,494,714

Report of the Statutory Auditor on the Financial Statements

Basel, April 11, 2016

As statutory auditor, we have audited the financial statements of Santhera Pharmaceuticals Holding AG, which comprise the balance sheet, income statement and notes (pages 53 to 61), for the year ended 31 December 2015.

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 2015 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

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

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

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

Ernst & Young Ltd

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

/s/ Nicole Riggenschach
Licensed audit expert

Compensation Report

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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 in the respective year, 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. There were no changes in the compensation policy for the Board and EM members in 2015. For the financial year 2016, some changes to the variable compensation design for the Board will be proposed to the shareholders for the 2016 ASM.

At the last Annual Shareholders' Meeting (ASM), the shareholders of Santhera have adopted substantial amendments to the Company's Articles of Incorporation (**Articles**) in compliance with the "Ordinance against Excessive Compensation at Listed Companies" (**OaEC**). The Articles of Santhera include rules on the principles applicable to performance-related pay and to the allocation of equity securities, convertible rights and options (art. 27), additional amounts for payments to Executive Committee members appointed after the vote on pay at the shareholders' meeting (art. 26), loans, credit facilities and post-employment benefits for the Executive Committee and Board (art. 29) and the vote on pay at the shareholders' meeting (art. 25). With regard to binding approval of the maximum total executive compensation, the current Articles provide for a compensation period that starts on July 1 of a given year and ends on June 30 of the following year. Based on the experience of the last ASM, the Board has decided to propose two changes with regard to the voting procedures on executive compensation, which will be reflected in the Articles:

1. To align the compensation period to be approved on with the reporting period from January 1 to December 31.
2. To change the voting procedure on the variable compensation (cash bonus and long-term incentive plan; currently stock options) for the EM to a retrospective approval for the previous financial year.

The Board believes, 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 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 Executive Management
- Resolution of other compensation related matters

The Board may assign other tasks to the CC.

Approval of Compensation by the ASM

With regard to binding approval of the maximum total executive compensation, the current Articles provide for a compensation period that starts on July 1 of a given year and ends on June 30 of the following year. Based on the experience of the last ASM, the Board has decided to propose two changes with regard to the voting procedures on executive compensation, which will be reflected in the Articles of Incorporation:

1. To align the compensation period to be approved on with the reporting period from January 1 to December 31.
2. To change the voting procedure on the variable compensation for the EM to a retrospective approval for the previous year.

	Previous year	Current year	Next year
Advisory vote on the Compensation Report	Compensation Framework	●	
Total Board Compensation (AGM to AGM)		● Compensation Period	
Fixed EM Compensation (following year)		●	Compensation Period
Variable EM Compensation (previous year)	Compensation Period	●	

● Voting at ASM

With those changes, the voting on compensation looks as follows:

1. Consultative vote on the Compensation Report for the previous financial year by the shareholders to express their opinion on the effectively paid compensation to the Board and EM for the previous year.
2. The maximum total amount of the fixed compensation for the Board of Directors for the period from the current until the next Annual Shareholders' Meeting.
3. The maximum total amount of the fixed compensation for the Executive Management for the period from January 1 to December 31 of the following year.
4. The maximum total amount of the variable compensation for the Executive Management for the period from January 1 to December 31 of the previous year.

Voting procedure at the 2016 ASM

As 2016 is a transition year, the Board will propose the following votes on compensation for the shareholder approval:

1. Consultative vote on the Compensation Report 2015.
2. The maximum total amount of the fixed compensation for the Board of Directors for the period until the 2017 ASM.
3. The maximum total amount of the fixed compensation for the Executive Management for the period from January 1 to December 31, 2016.
4. The maximum total amount of the fixed compensation for the Executive Management for the period from January 1 to December 31, 2017.

The invitation to the ASM contains the text of the proposed revisions and the explanations there-to in more detail.

Board of Directors Compensation

The compensation for members of the Board currently consists of:

- Annual cash fees
- Annual grant of stock options

Both components 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

Since 2015, the annual cash fees for the Chairman were increased to CHF 75,000 (previously: CHF 45,000). As there are currently only two Board members who share the entire Board workload mostly equally, there was a decision to bring the compensation of the other Board member in line with that of the Chairman. Thus, the annual cash fees for the other Board member were increased to CHF 65,000 (previously: CHF 32,000). No additional cash fees are paid for work in the Board committees.

Stock options

At the 2015 ASM, the shareholders approved a total maximum amount of CHF 330,000 to be granted in options for the period until the 2016 ASM. In accordance with the Board Stock Option Plan (**BSOP 2015**), the grant of 3,000 options was made to each Board member as of June 1, 2015. The exercise price is equal to the closing price of Santhera's share on the first trading day in June 2015 and amounted to CHF 90.75 (2014: CHF 22.25). 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 "Stock Option Plans" in the consolidated financial statements.

In accordance with the previous option plan regulations and the Company's Group Directive GD-14 (Non-executive Board Member Compensation Policy), Jürg Ambühl received 1,000 options as of January 1, 2015, with an exercise price of CHF 84.10. This was the last grant under this plan.

Disclosure of compensation of members of the Board for the financial years 2015 and 2014 (audited)

In CHF	Annual cash fees	Stock options ¹	Social security ^{1,2}	Total compensation	Number of stock options granted
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
2014					
Martin Gertsch	45,000	90,450	10,564	146,014	16,500
Jürg Ambühl	32,000	25,330	3,776	61,106	13,000
Total	77,000	115,780	14,340	207,120	29,500

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, 2015, 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 2015 is CHF 192,523 (2014: CHF 38,516).

Comparison of the approved and paid Board compensation

At the 2015 ASM, the shareholders approved a maximum total amount of fixed compensation for the Board of CHF 154,000 for the period from the ASM 2015 to the ASM 2016. In addition, the shareholders approved the allocation of 6,000 options with an estimated value of CHF 330,000 (including employer's social security contribution).

Based on the payments made already in 2015 and the amounts forecasted to be paid in 2016 until the ASM, the actual amount of compensation for the Board for this period amounts to CHF 452,664, which is in line with the approved amount.

The table below represents the approved maximum compensation for the Board as well as the actual amounts paid in 2015 and still payable in 2016.

	Approved May 12, 2015 – May 11, 2016	Paid/payable May 12, 2015 – May 11, 2016
Board fees (CHF)	154,000	149,523
Stock options ¹ (CHF)	330,000	261,080
Total (CHF)	484,000	410,603
Stock options (number)	6,000	6,000

¹ The shareholders approved the allocation of a total of 6,000 options, and 6,000 options were granted to the Board.

Outlook for Board compensation

The Board will submit to the 2016 ASM the total unchanged maximum amount of CHF 484,000 for the period until the next ASM. This maximum amount is gross and consists of:

- Board annual fees of CHF 242,000.
- Stock options with a value of CHF 242,000.

With the above motions, the Board proposes to introduce two changes: a decrease of the value of the options to 50% of the total compensation (64% in the previous period) and to use a value in CHF as a basis for the calculation of the number of options to be allocated rather than the allocation of a fix number of options.

To calculate the number of options to be allocated, the above mentioned amount would be divided by the fair value of the options at the date of their grant, July 1, 2016. The fair value is calculated based on the share price on the first trading day of the month immediately following the ASM, then applying the Hull-White model (excluding employers' social security contribution)

Executive Management Compensation

The compensation for members of the Board currently consists of:

- Fixed compensation.
- Variable compensation:
 - Annual bonus paid in cash.
 - Annual grant of stock 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.

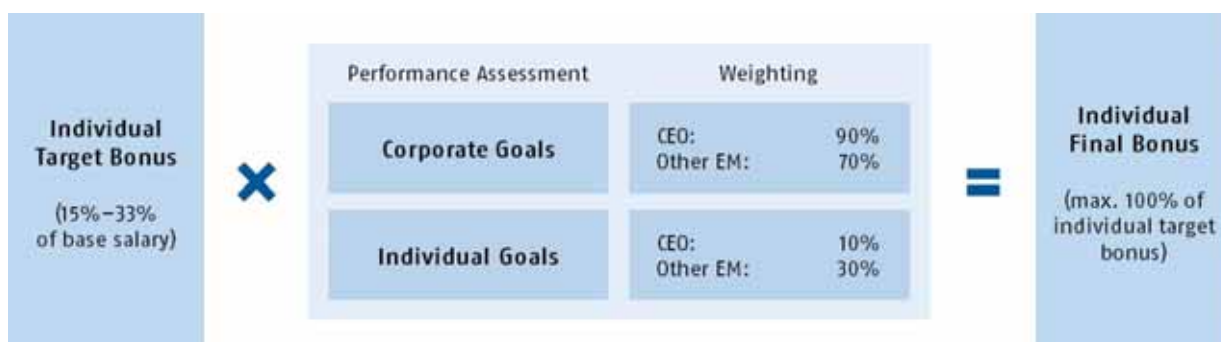
In 2015, the Company had engaged a reputable compensation and performance expert firm located in Switzerland to benchmark the compensation level and structure for the members of EM. The analysis included compensation data of the comparable Pharma/Biopharma companies, among which several US-based companies that have their international headquarters in Switzerland. The Board came to the conclusion that currently only minor adjustments to the EM base salary were required in order for Santhera to remain a competitive employer.

Annual cash bonus

The annual cash bonus for 2015 was based on the achievement of Company and individual goals and has been paid in February 2016. 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 15% to 33%. According to the external benchmarking, the target bonuses continued to be in the lower range of the peer group.

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 2015 corporate goals was 75%. The actual achievement of individual goals by members of the EM ranged between 75% and 95%.

Stock options

Under the Employee Stock Option Plan (**ESOP 2015**), members of the EM receive an annual grant of a certain number of stock options which is determined by the Board, taking into account the achievement of Company and individual goals. For the allocation of these options for the 2015 goal achievements, the exercise price is equal to the closing price of Santhera's share on the first trading day in January 2016 and amounted to CHF 89.45 (previous year: CHF 84.10). According to the ESOP 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 Plan.

The term of the stock option grant is 10 years. For more information about the underlying Plan, see note 17 "Stock Option Plans" in the consolidated financial statements. According to the results of the external benchmarking, the equity-based compensation level appeared to be in line with the market.

Disclosure of compensation of members of the Executive Management for the years 2015 and 2014 (audited)

In CHF	Base salary	Cash bonus	Stock options ¹	Social security and pension ^{1,2}	Total compensation	Number of stock options granted
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
2014						
Thomas Meier, CEO ³	332,947	94,000	415,390	108,133	950,470	60,500
Total	332,947	94,000	415,390	108,133	950,470	60,500

¹ Reflects value of share-based payments in accordance with IFRS 2 at grant, i.e. the value of unvested stock options attributable at grant; tax value of such stock options is 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 EM members as of December 31, 2015, the social security contributions amount to CHF 174,490. The total amount of social security payments on options exercised by members of EM during 2015 is CHF 1,461,173 (2014: CHF 6,160).

³ In the 2014 compensation report, 8,500 Options allocated to the CEO as of January 1, 2015, for the 2014 goal achievement had not been included based on an erroneous classification of such allocation. The restatement made hereinabove results in a difference of the value of stock options of CHF 322,830 in 2014, and of social security and pension payments of CHF 31,570. Accordingly, the total compensation for 2014 as disclosed in the 2014 compensation report amounted to CHF 602,230; the difference to the restated total amount is CHF 348,240.

Comparison of the approved and paid EM compensation

At the 2015 ASM, shareholders approved a maximum total compensation for the EM as follows: CHF 1,900,000 for the fixed compensation in cash; CHF 600,000 for the variable short-term compensation, consisting of a bonus; and a total maximum amount of CHF 1,750,000 for the variable long-term compensation, i.e. for a maximum of 30,500 options to be issued.

	Approved July 1, 2015 – June 30, 2016	Paid/payable July 1, 2015 – June 30, 2016
Base salary (CHF)	1,900,000	1,790,308
Cash bonus (CHF)	600,000	304,661
Stock options (CHF)	1,750,000	516,427
Total (CHF)	4,250,000	2,611,396
Stock options (number)	30,500	23,550 ¹

¹ The balance number of 6,950 unused options (30,500–23,550) has been allocated to the newly hired EM member as described in the next paragraph.

Newly hired EM members

Effective July 1, 2015, Christoph Rentsch was appointed as a new Chief Financial Officer (CFO) of Santhera and joined the EM. As the maximum total compensation approved at the 2015 ASM was not sufficient to compensate the newly joined CFO, his compensation was based on the additional amount as provided for in art. 26 of the Articles. Such additional amount is capped at 50% of each compensation element of the EM members as approved by the 2015 ASM.

The approvals were as follows: CHF 1,900,000 for the fixed compensation in cash; CHF 600,000 for the variable short-term compensation, consisting of a bonus; and a total maximum amount of CHF 1,750,000 for the variable long-term compensation, i.e. for a maximum of 30,500 options to be issued.

Based on the above 50% allowance, the maxima for Mr. Rentsch were CHF 950,000 for the fixed compensation in cash, CHF 300,000 for the variable cash bonus and 22,200 options^{1, 2}.

	Approved July 1, 2015 – June 30, 2016	Paid/payable July 1, 2015 – June 30, 2016
Base salary (CHF)	950,000	414,733
Cash bonus (CHF)	300,000	70,397
Stock options (CHF)	875,000	827,831
Total (CHF)	2,125,000	1,312,961
Stock options (number)	22,200 (15,250 ¹ + 6,950 ²)	22,000

¹ Based on the additional amount as provided for in article 26 of the Articles (30,500 divided by 2).

² Reflects the difference between the total number of options approved for allocation to the EM members (30,500) and those effectively granted to the EM members without the CFO (23,550).

Outlook for EM compensation

According to the new voting procedure (for details see section "Approval of Compensation by the ASM"), it is intended to submit to the 2016 ASM:

1. The maximum total amount of the fixed compensation for the Executive Management for the period from January 1 to December 31, 2016, of CHF 2,450,000.
2. The maximum total amount of the fixed compensation for the period from January 1 to December 31, 2017, of CHF 2,600,000.

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 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. In case of a change in control and related thereto (i) a substantial change in the terms of employment, or (ii) a dismissal without cause, the contract of certain EM members can provide a maximum of a 12 month's salary payment while no notice period has to be observed.

Loans and Credits

In accordance with the Articles, 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 2015, 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 5,590 (2014: CHF 167,755) for such payments in 2015.

Disclosure of compensation of former Board members for the years 2015 and 2014 (audited)

In CHF	Total payment
2015	
Klaus Schollmeier	5,590
Total	5,590
2014	
Klaus Schollmeier	121,151
Timothy Rink	41,777
Peter Wolf	4,827
Total	167,755

With regard to the former EM members, Santhera made a total of CHF 24,556 (CHF 44,760) for such payments in 2015 (2014).

Disclosure of compensation of former EM members for the years 2015 and 2014 (audited)

In CHF	Total payment
2015	
Barbara Heller	24,556
Total	24,556
2014	
Barbara Heller	23,017
Helmut Kessmann	21,743
Total	44,760

Shareholdings of Members of the Board and Executive Management

Disclosure of shareholdings in the Company of Board members for the years 2015 and 2014 (audited)

	Number of shares	Number of stock options (vested)	Number of stock options (unvested)
2015			
Martin Gertsch	38,109	0	3,000
Jürg Ambühl	30,000	0	4,000
Total	68,109	0	7,000
2014			
Martin Gertsch	21,609	0	16,500
Jürg Ambühl	17,000	0	13,000
Total	38,609	0	29,500

Disclosure of shareholdings in the Company of Executive Management members for the years 2015 and 2014 (audited)

	Number of shares	Number of stock options (vested)	Number of stock options (unvested)
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
2014			
Thomas Meier	38,508	48,644	59,500
Total	38,508	48,644	59,500

Report of the Statutory Auditor on the Compensation Report

Basel, April 11, 2016

We have audited the accompanying compensation report of Santhera Pharmaceuticals Holding AG for the year ended 31 December 2015. 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 66 to 76 of the compensation report.

Responsibility of the Board of Directors

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 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 2015 of Santhera Pharmaceuticals Holding AG complies with Swiss law and articles 14–16 of the Ordinance.

Ernst & Young Ltd

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

/s/ Nicole Riggerbach
Licensed audit expert

Corporate Governance Report

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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 562 million (December 30, 2015)
Website	www.santhera.com
Commercial register	www.hrabl.ch
Duration of company	Not limited
Subsidiaries	See following section as well as note 3.2 " <i>Investments in shareholdings</i> " to the statutory financial statements of the Company.

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

Company	Domicile	Activities
Santhera Pharmaceuticals (Schweiz) AG	Liestal, CH	Headquarters; development of pharmaceutical drugs, administrative functions
Santhera Pharmaceuticals (Liechtenstein) AG	Ruggell, LI	Logistics/distribution
Santhera (Germany) GmbH	Munich, DE	Medical information
Santhera (Netherlands) B.V.	Nieuwegein, NL	Medical information
Santhera (UK) Ltd	London, GB	Medical information
Santhera (Italy) S.r.l.	Milano, IT	Medical information
Santhera Pharmaceuticals (Canada), Inc.	Montréal, CA	Development of pharmaceutical drugs
Santhera Pharmaceuticals (USA), Inc.	Charlestown, Massachusetts, US	Advocacy / patient liaison
Santhera Pharmaceuticals (Deutschland) GmbH	Lörrach, DE	Regulatory and development in the EU
Oy Santhera Pharmaceuticals (Finland) Ltd	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, 2015, it had the following ordinary, authorized and conditional share capital:

Type of capital	Capital as per commercial register		Effectively outstanding capital		Expiry	Section in Articles
	Amount in CHF	As % of ordinary capital	Amount in CHF	As % of ordinary capital		
Ordinary capital	5,564,492	100.0	6,262,798	100.0		3
Authorized capital¹	910,000	16.4	910,000	14.5	May 10, 2017	3a
Conditional capital for warrants/option rights granted in connection with debt instruments²	950,000	17.1	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/EIP³	800,000	14.4	401,694	6.4		3b

1 On December 2, 2015, Santhera completed a placement of 590,000 shares via an accelerated bookbuilding process and raised gross proceeds of CHF 54.8 million. The shares were sold at a price of CHF 93.0 per share, a discount of 4.5% to the volume-weighted average price of December 1, 2015.

2 On August 7, 2015, Santhera completed the sale of 300,000 registered shares of common stock yielding an aggregate income of CHF 27.7 million. The shares were sold by the independent broker Kepler Chevreux within four days (August 3 to 6) at an average price of CHF 92.38 per share.

3 In 2015, former and current employees and Board members exercised 398,306 options converting them into the same amount of shares.

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 www.santhera.com/corporate-governance, and the section on DCG 2.7 below.

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

Changes in share capital (DCG 2.3)

For changes in capital that occurred in 2013 and 2014, see the Company's Annual Report 2014, which can be downloaded from www.santhera.com/reports. For changes that took place in 2015, 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, 2015, the Company had one single class of registered Shares with a nominal value of CHF 1 each. All Shares were fully paid in and are nonassessable. The Company has not issued any participation certificates or any profit-sharing certificates.

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

Subject to section 5 in 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

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

Options, warrants

See the statutory financial statements of the Company and note 17 "*Stock Option 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	Elected until	Board
Jürg Ambühl	1949	CH	2009	2016	Member
Martin Gertsch	1965	CH	2006	2016	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, Dr Ambühl was president of the regional business Europe/International at Knoll/BASF Pharmaceuticals when the company was sold to Abbott Laboratories. From 1987 to 1999, he held several senior management positions within MSD Sharp & Dohme in Germany, including general manager with business responsibility for the German market. From 1982 to 1987, Mr. Ambühl worked for McKinsey and prior to that, from 1978 to 1982, he held several management positions within Eli Lilly's German subsidiary in sales and marketing. 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 is a Board member of Evolva Holding and Board member of the University Center of Dentistry, Basel (UZB).

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.

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 and the remaining term of office 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 2016 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. All tasks of the former Audit Committee have been allocated to the entire Board, which formally abolished the Audit Committee in 2013.

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 strate-

gies 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 a management team where the main functional areas of the Company are represented. As of February 1, 2015, the Board nominated several senior members of staff to the newly created Executive Management which is headed by the CEO.

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.

Compensation-related tasks of the Board

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

Meetings in 2015

In 2015, the Board held three meetings in person which on average lasted more than eight hours. In addition, the Board held five teleconferences which on average lasted one 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 management report prepared. Among the key risks identified were the launch of Raxone in the European Union 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), and the retention of key personnel.

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 the CEO only. As of February 1, 2015, the Board appointed Nicholas Coppard, Senior Vice-President (**SVP**), Development, Günther Metz, SVP, Business Development, Giovanni Stropoli, Chief Commercial Officer (**CCO**) Europe & Rest of World, and Oliver Strub, SVP, General Counsel as additional members of the Executive Management. As of July 1, 2015, Christoph Rentsch was appointed as CFO.

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, the VP Finance & Accounting 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
Nicholas Coppard*	1959	GB	SVP, Head of Development
Günther Metz*	1958	DE	SVP, Business Development
Christoph Rentsch**	1959	CH	CFO
Giovanni Stropoli*	1960	IT	CCO Europe & Rest of World
Oliver Strub*	1963	CH	SVP, General Counsel & Secretary to the Board

* as of February 1, 2015

** as of July 1, 2015

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.

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 (UK). 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) Busi-

ness 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.

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 33 $\frac{1}{3}$ % of all the Company's voting rights (art. 53 SESTA in conjunction with art. 22 para. 3 SESTA).

Clauses on changes of control (DCG 7.2)

The ESOP 2004, 2008, 2010, 2015 and the BSOP 2011 and 2015, under which most options 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.

The employment contracts with the CEO and another member of Executive Management contain a change of control provision. Please see the Compensation Report for additional details.

Other than that, as of December 31, 2015, 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	2015	2014
Audit services		180	135
Audit-related services		12	0

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/subscription. For contact details, see reverse side of the 2015 Annual Report.

Corporate events 2016

2016 Annual Shareholders' Meeting Wednesday, May 11, 2016, in Basel Switzerland

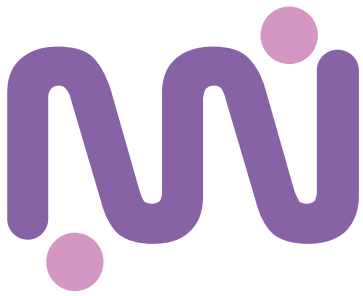
See also www.santhera.com/events.

Contact

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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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