OctoPlus

Annual Report 2010

Transition
Adoption
Acceleration

PHARMACEUTICAL
INNOVATORS

OctoPlus at a glance

OctoPlus is a pharmaceutical company specialised in the controlled release, formulation and cGMP manufacture of injectable products.

As a pharmaceutical development specialist, OctoPlus is a leading European provider of advanced drug formulation and manufacturing services to the pharmaceutical and biotechnology industries, with an impressive track record in difficult-to-formulate active pharmaceutical ingredients.

OctoPlus offers a platform of proprietary biodegradable polymers for the controlled release and extended release of injectable products, in particular proteins. The most advanced product utilising our technology is Locteron®, a controlled release alpha interferon which is in Phase IIb clinical development by OctoPlus' licensee Biolex. In addition to Locteron, we are building a pipeline of follow-on products sponsored by clients.

In 2010 OctoPlus realised € 8.3 million in revenues. OctoPlus is listed on Euronext Amsterdam by NYSE Euronext under the symbol OCTO.

Annual Report 2010

Table of contents

Key figures

	2006	2007	2008	2009	2010
INCOME STATEMENT					
Revenues	6,051	5,194	16,923	19,046	8,329
Operating costs	14,688	20,446	21,246	20,846	13,550
Operating result	**(8,637)**	**(15,252)**	**(4,323)**	**(1,800)**	**(5,221)**
Interest	(28)	77	(1,886)	(1,157)	(981)
Result for the period	**(8,665)**	**(15,175)**	**(6,209)**	**(2,957)**	**(6,202)**
EBITDA	(7,577)	(14,130)	(2,716)	970	(2,447)
CASH FLOW					
Operating	(6,410)	(10,753)	(4,037)	(2,795)	(2,960)
Investing	(1,088)	(6,277)	(6,698)	(1,456)	(58)
Financing	17,821	(8)	7,338	8,446	2,412
Total	**10,323**	**(17,038)**	**(3,397)**	**4,195**	**(606)**
BALANCE SHEET at year-end					
Equity	21,142	6,667	575	11,343	8,935
Total assets	31,182	19,829	30,138	29,741	25,347
Cash Position [1]	19,553	2,515	(882)	3,313	2,707
EMPLOYEES at year-end					
Headcount	139	170	144	132	95
FTE	126.2	157.2	131.2	122.1	88.2
PER SHARE					
Number of shares at year-end ('000)	16,164	16,207	16,207	33,435	36,779
Earnings per share [2]	(0.68)	(0.94)	(0.38)	(0.10)	(0.19)

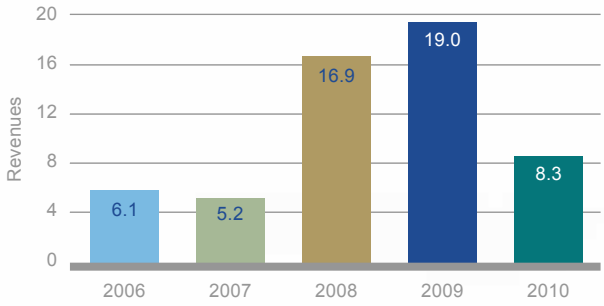
[1] Cash, cash equivalents, bank deposits and overdrafts

[2] Based on the average number of shares during the year

35%
reduction
in operational costs

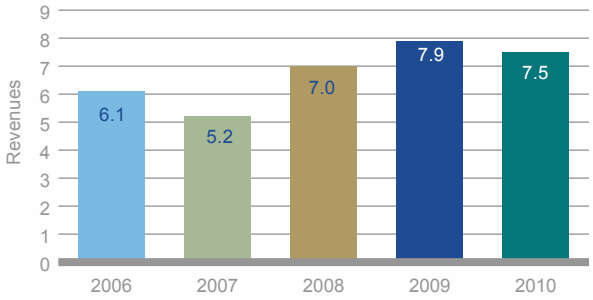
4 new
technology evaluation projects won

Revenues development (€ million)

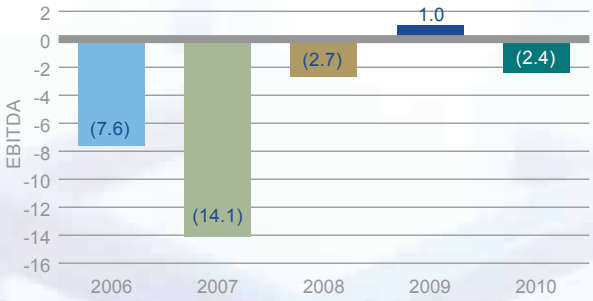


Core business (non-Locteron) revenues

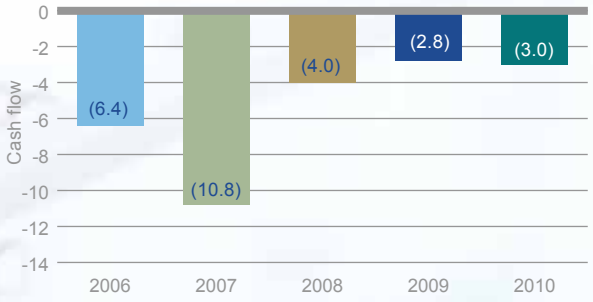
(€ million)



EBITDA (€ million)



Cash flow from operating activities (€ million)

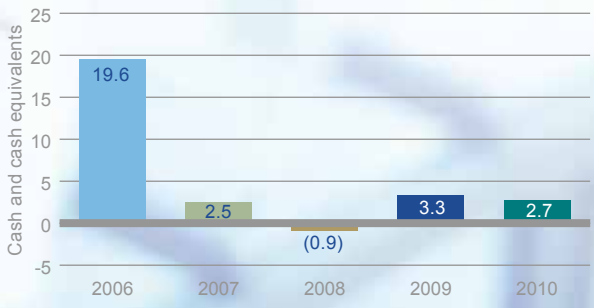


Highlights

+ 46 projects for 41 clients in 2010 working on various compounds
+ 4 drug delivery evaluation projects started in 2010
+ 3 major and 3 minor drug development and manufacturing contracts initiated in 2010
+ Operational cost base decreased in 2010 by 35% compared to 2009

Cash and cash equivalents at 31 December

(€ million)

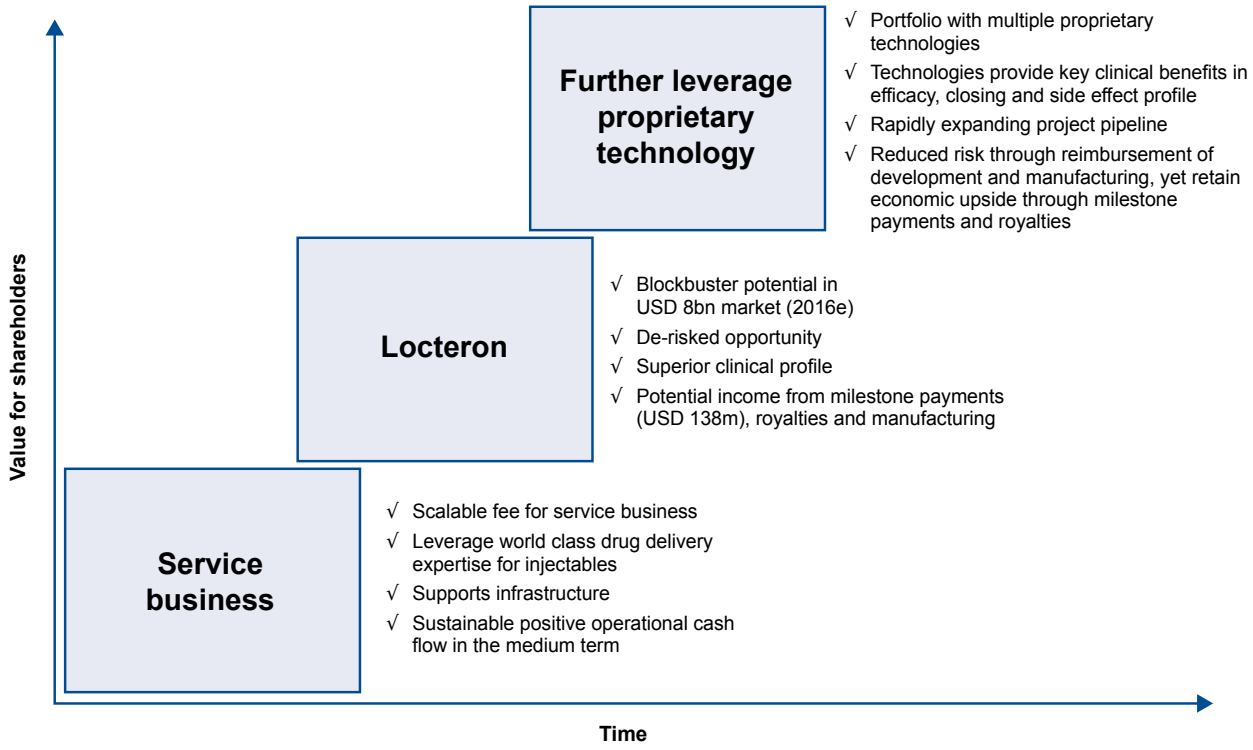


Message from the CEO

I joined OctoPlus in November 2010 because of its unique proprietary technology and expertise. OctoPlus is active in a specialised niche in the pharmaceutical development process, and this work is very exciting. It concerns bringing a new medicine from the lab bench into clinical development, and further. Not many companies can solve the pharmaceutical development challenges that OctoPlus solves for its clients every day. Not many companies can offer the same technological benefits that OctoPlus offers with PolyActive. And not many companies offer the experience required to be able to develop, scale-up and produce a variety of complex formulations. OctoPlus can do all that, and I am excited to be part of this.

Strategy OctoPlus

It is our objective to be the recognised leader in the field of complex formulations, such as protein and liposomal formulations, and most importantly, controlled release formulations of such compounds. We plan to achieve this by performing formulation development and manufacturing services for our clients, and by building a product portfolio which leverages our proprietary drug delivery technology, to enhance the performance of active pharmaceutical ingredients from our customers. Our most advanced product is Locteron, a controlled release formulation of interferon alpha, which was licensed to Biolex Therapeutics in 2008. The development of our product portfolio is primarily funded by our customers. We intend to co-invest with our clients in certain selected high-value projects where we can leverage our formulation expertise to retain more of the economic upside.



Value drivers OctoPlus

In line with the Company's strategy there are three major drivers of value for OctoPlus in the near future:

1. Adoption of our technology. The adoption of PolyActive as the technology of choice in the controlled release of injectable products is progressing as planned. We have started a number of new drug delivery technology evaluation studies during the year, including projects with large worldwide pharmaceutical clients such as Novartis. Our evaluation study for ESBATech progressed into a full development agreement in February 2011. Our goal is to progress more of our feasibility projects into full development and license agreements, comparable to the Locteron programme, from which we may receive development revenues, milestones and royalties.

2. Locteron. The progression of Locteron to the market remains a major value driver for OctoPlus. We are awaiting the final results of the Phase IIb study with Locteron and the interim results from this study have given us great confidence that the product will enter Phase III clinical development. We continue to expect that Biolex will secure a licensing agreement with a commercial partner for Locteron. A new partner may choose to hire us to perform process development work and to manufacture Phase III clinical study material for Locteron, or may choose to pay a manufacturing license fee to obtain the manufacturing rights OctoPlus now holds. In addition, OctoPlus will receive a major milestone payment upon initiation of the Phase III studies.

3. Building a sustainable business. At the heart of our strategy is the drive to build a cash-generative, sustainable business. It is our goal to be sustainable cash flow positive in the medium term, which we will achieve by increasing revenues from service activities and license agreements, and by closely monitoring costs.

Transition – Adoption – Acceleration

During 2009 and 2010 we made the transition into a business model fully focused on providing a service to clients based on our expertise and proprietary technology. Going forward, our aim is to establish significant adoption of our technology and of our unique experience in complex formulations by the pharmaceutical and biotechnology sector. We will do this by building on the number of drug delivery technology evaluation projects we execute and by working towards progressing the current technology projects to a clinical stage.

Our objective is to convert our technology projects into full license and development agreements such that we build a portfolio of customer-funded products in development using our proprietary technology. That is when our technology will start to generate milestone payments and royalties, in addition to the revenues we gain from our formulation and manufacturing activities. This will lead to an acceleration of the commercial value of our technology and will position OctoPlus as a leading specialty pharmaceutical company in the life sciences industry.

Jan Hendrik Egberts
Chief Executive Officer
OctoPlus N.V.

Leiden, the Netherlands, 18 March 2011

The PolyActive technology

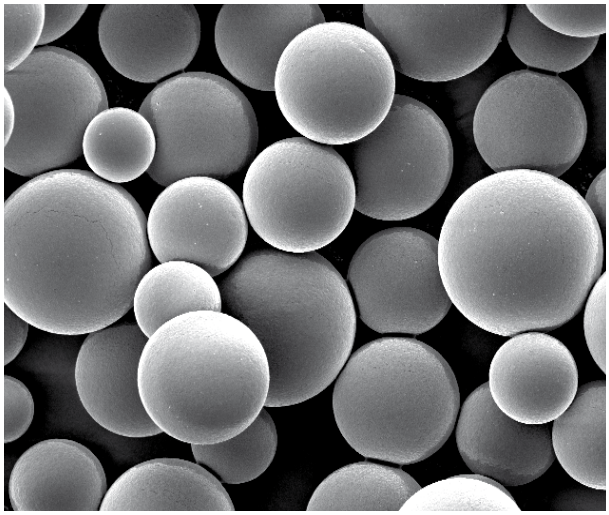


FIGURE 1a: Electron microscope image of PolyActive microspheres. One microsphere is approximately 100 nm.

OctoPlus' most advanced drug delivery technology is PolyActive. PolyActive consists of a biodegradable polymer that enables the slow release of a drug into the patient's body. This slow release can decrease side effects, enhance the therapy's efficacy, and reduces the amount of injections a patient needs during therapy.

At OctoPlus we have gathered highly specialised experience in the development and production of slow release formulations, especially formulations based on PolyActive. Our scientists design a slow release formulation based on the characteristics of a drug, the desired release profile and the dosing regimen of the therapy.

The PolyActive polymer is mixed with the drug in order to produce tiny beads called microspheres. After injection into the body, the drug will be slowly released from these microspheres. By adjusting the exact composition of the polymer and by adjusting various parameters during the production process, we can determine the speed with which the drug is released in the body.

The PolyActive technology is compatible with various drug types and enables a wide range of release profiles:

+ Types of medicines: proteins, such as fusion proteins, antigens, single-chain antibodies, marker molecules, allergoids
+ Molecular weight of API's: 10 – 110 kDa
+ Injection frequency: 1 day up to several months

Our controlled release technology is unique in the sense that we can tailor the release profiles exactly to the client's wishes. In addition, there is no initial burst release as seen with other technologies, and the protein retains its biological activity during the production process and during the release. We have years of experience in development, scale-up and manufacture of our microspheres. The fact that we have proven to be able to manufacture products based on our controlled release technology on an advanced clinical scale is a major driver of the commercialisation of our technology. OctoPlus' technology and know-how are proprietary

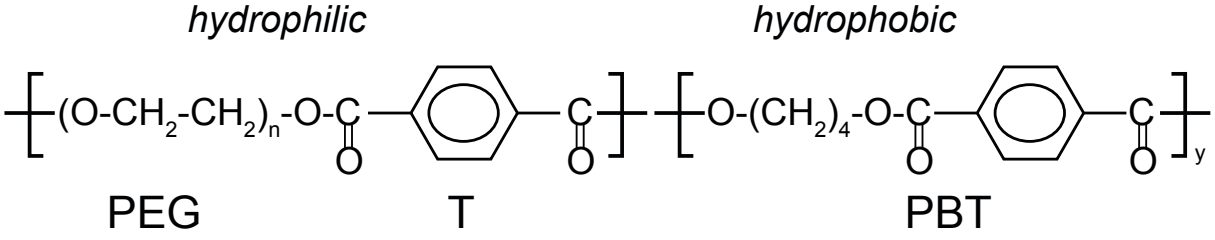


FIGURE 1b: Chemical composition of the PolyActive polymer. PolyActive consists of two building blocks, PEG and PBT. By varying the composition of the polymer, using more PEG, or more PBT, we can adjust the release characteristics of the resulting microsphere.

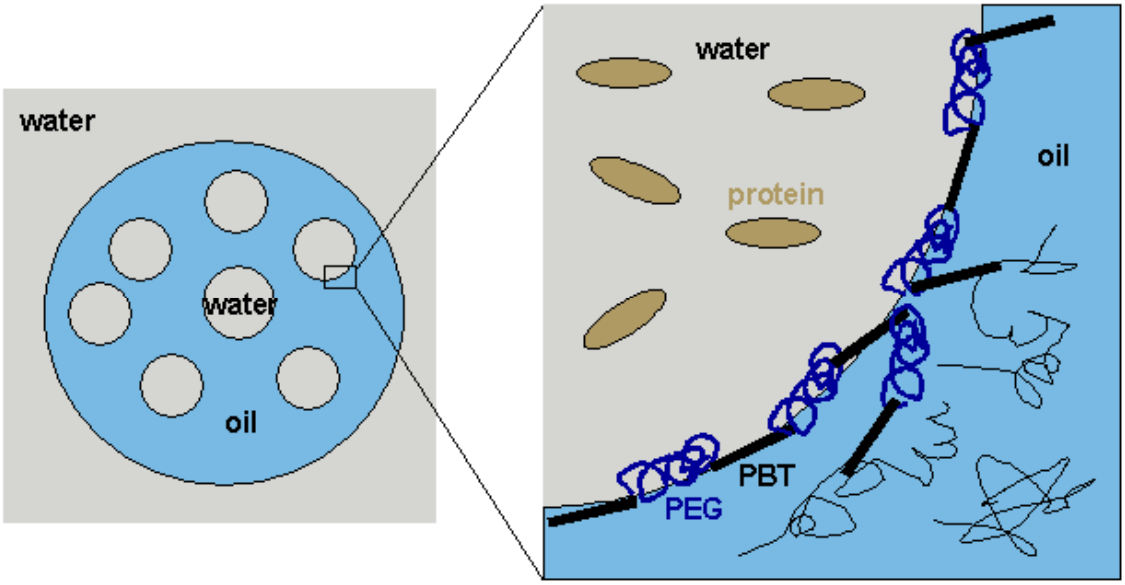


FIGURE 1c: Schematic concept of a microsphere.

and patent protected by over 214 patents.
We believe that longeracting formulations of new or established therapeutics will be the next generation of medicine, offering fewer injections and fewer side effects than therapeutics using traditional instant release administration. The benefits of the PolyActive technology have been proven in several clinical studies, which are described in more detail in the chapter on Locteron.

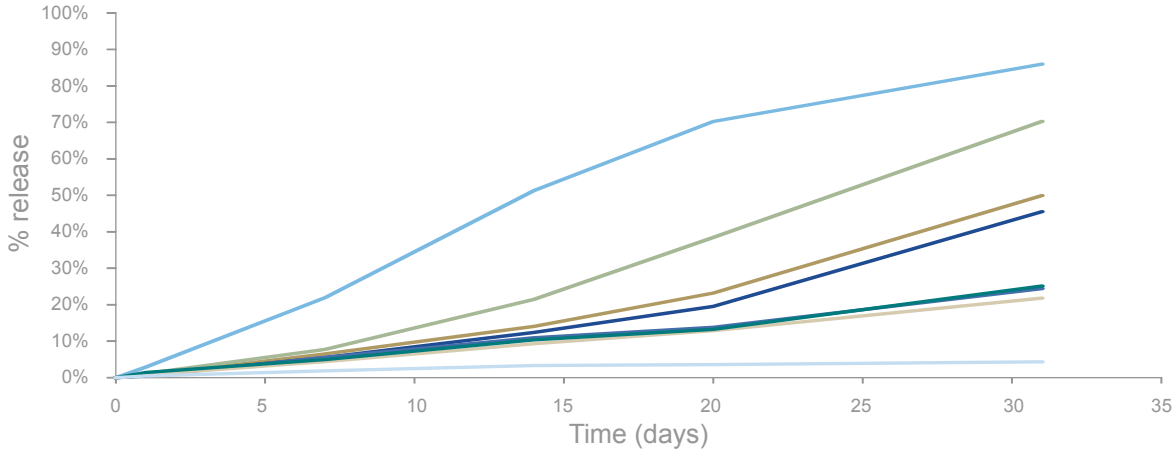


FIGURE 2: The release rate with PolyActive can be tailored (in vitro proof of concept releasing a large protein)

Our contribution to hepatitis C therapy

Hepatitis C: a silent killer

Chronic hepatitis C infection (HCV) is a common disease, affecting over 170 million people worldwide. HCV is spread primarily by contact with infected blood and blood products. HCV kills more people in the Netherlands than HIV/aids does. Infection by HCV is a very serious medical condition that can lead to cirrhosis of the liver, a condition where healthy liver cells are killed by infection with the hepatitis C virus and are replaced by scar tissue. Resulting damage to the liver can lead to impaired liver function and liver cancer.

People infected with HCV often continue their lives for years not knowing that they are ill. The virus can stay dormant for decades before presenting any symptoms. By the time a patient notices the symptoms of the infection, the liver may already have been severely damaged.

The current standard of care in treating hepatitis C is a combination of ribavirin (administered as a tablet) and injections of interferon alpha. This combination therapy may cure only 40-50% of patients infected with the most common HCV type. In addition to that, the therapy continues for 48 weeks, in which patients experience a range of side effects.

Interferon alpha is a naturally occurring protein that is produced in the body in response to viral infections and has antiviral activity. When it is administered as a drug, it helps the body fight off the hepatitis C virus. The side effects however include fever, malaise, chills, headache, muscle aches, and also depression.

Because of the side effects of current HCV therapy, and the fact that patients often do not feel ill, a large portion of patients do not seek treatment. ‘The cure is worse than the disease’, they say. But in the long term, these people are at risk of liver failure, liver cancer and ultimately death.

Obviously there is a high medical need for a more tolerable hepatitis C therapy, one that is as effective as the current treatment, or better, and that does not induce the kind of side effects that causes patients to drop out, or even decide not to start treatment at all. New antiviral combination therapies are in development, including Telaprevir by Vertex and Boceprevir by Merck. Experts believe that interferon will remain part of the backbone of HCV therapy in order to achieve the best possible efficacy, and Locteron is ideally designed to be the interferon of choice in these next generation therapies.

Benefits of use of PolyActive in Locteron: the future of hepatitis C therapy

Locteron combines interferon alpha produced by our licensee Biolex with our proprietary controlled release drug delivery technology PolyActive. Locteron is designed to gradually release its active pharmaceutical ingredient over a 14-day period after a single injection. Currently marketed pegylated interferons for the treatment of HCV are dosed once-every-week. Locteron’s controlled release mechanism avoids the early peak blood plasma levels of the active interferon that characterise other interferon products. This controlled release mechanism is designed to reduce the frequency, duration and severity of side effects, including flu-like symptoms, commonly experienced by patients treated with other interferon products. Locteron aims to provide at least the same therapeutic benefit to HCV patients with fewer, less severe and less frequent side effects and a more convenient dosing schedule. An improved side effect profile may lead to enhanced patient compliance. The intended superior side effect profile of Locteron may attract and maintain patients on therapy who currently delay or refuse treatment, in particular in light of the 24 to 48-week treatment period for HCV genotype 1, the HCV variant most prevalent in Western countries.

In several clinical studies to date, results have shown that Locteron is safe and well tolerated. In particular, groups receiving Locteron reported fewer, less severe and shorter lasting flu-like symptoms than those subjects receiving PEG-Intron, an approved pegylated interferon. Phase IIb results for Locteron show a statistically significant reduction of flu-like adverse events confirmed by two independent reporting methods. In addition, efficacy results for each of the

three Locteron doses tested to date are comparable with or exceed the response rate for the control group. Lastly, patients receiving the two lower doses of Locteron experienced lower rates of depression and discontinuations due to adverse events than patients receiving PEG-Intron. And, as a result of its controlled release mechanism, Locteron is dosed half as frequently as PEG-Intron. These results combined prove that Locteron is positioned as an interferon of choice for future HCV therapy.

Locteron is currently the most advanced controlled release interferon alpha under development and research to date suggests that its controlled release aspect may reduce side effects and has the potential to improve patient compliance and to reduce discontinuation rates. Extensive market research confirms that there is a substantial commercial opportunity for Locteron if a tolerability advantage is demonstrated in more advanced clinical testing.

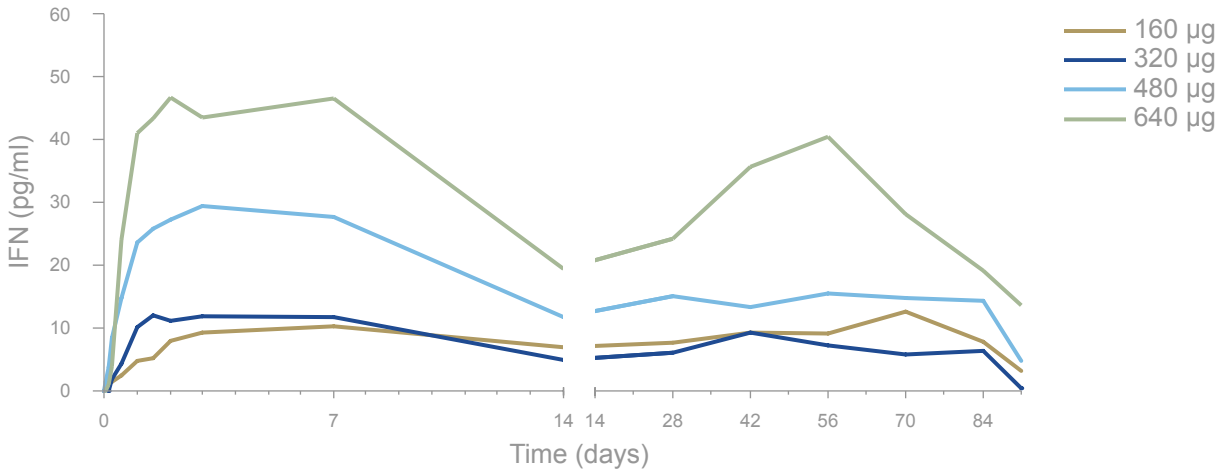


FIGURE 3: The PolyActive technology is used in Locteron, a controlled release interferon alpha product for the treatment of hepatitis C. It ensures a steady drug concentration in the patient's blood with fewer injections and fewer side effects. This graph shows that an injection every two weeks ensures a steady concentration of the drug in the blood.

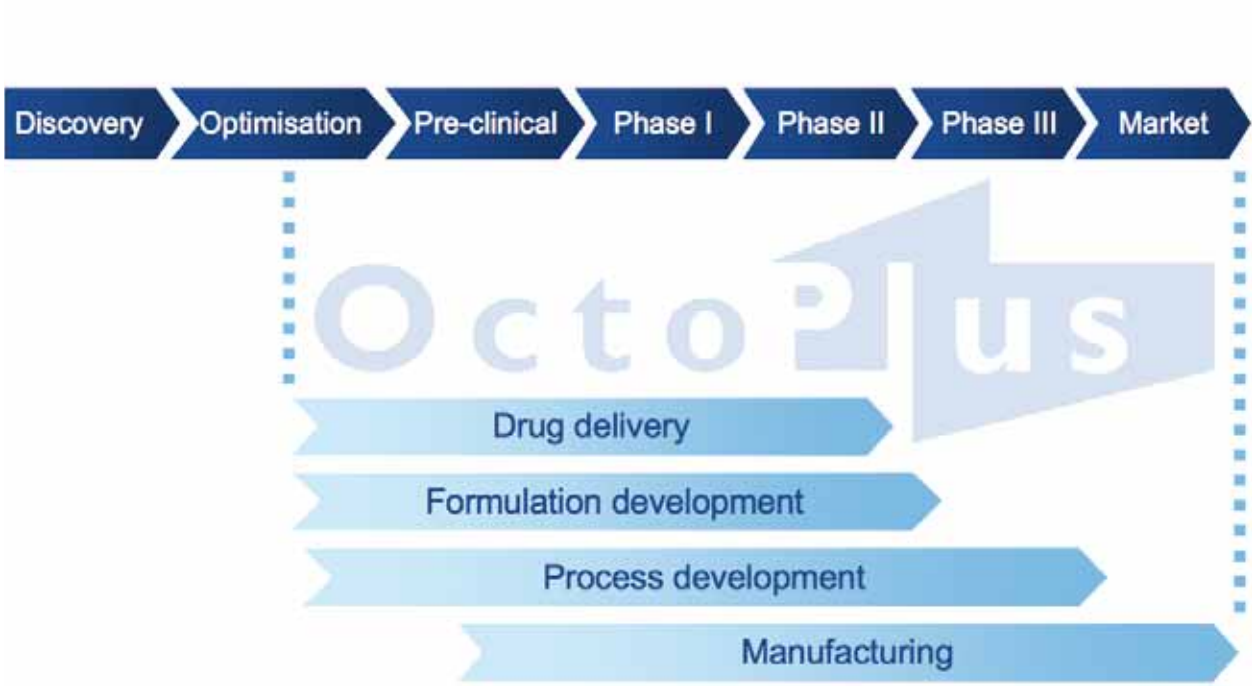
1

OctoPlus' activities

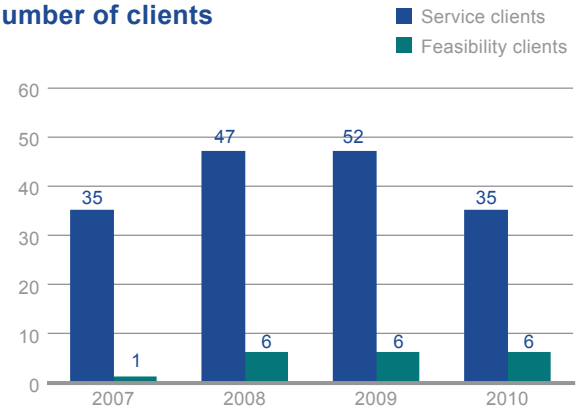
OctoPlus is active in the pharmaceutical development phases from pre-clinical to early commercial product launch. We have provided our services to more than 160 clients that have progressed more than 45 products into clinical studies and six products on to the market. Our clients are both small biotechnology companies and larger pharmaceutical companies worldwide. We focus on building long-term relationships with our clients, during which they return to us when they are ready for the next clinical phase or when they develop their next product.

There are many formulation development and manufacturing service providers, but not many have the specialised expertise in complex formulations that we offer. In addition, we offer a one-stop service of formulation, analytical and process development, manufacture and stability work to support the development of our client's product from lab bench to product launch.

In the area of drug delivery we offer a number of cutting edge technologies for longer-acting therapeutics. Our competitive advantage is the unique flexibility to achieve the desired release profile, in addition to the prevention of a high initial release upon injection (the so-called burst) as seen with other technologies. Our PolyActive technology is the most advanced injectable controlled release technology for the delivery of proteins with clinical Phase IIb results available. During more than ten years of developing controlled release formulations, we have gathered a wealth of expertise in the complex area of scale-up and process development of microsphere formulations.



Number of clients



An established position as formulation experts

OctoPlus has been developing dosage forms enabling the administration of new medicines to patients for over 15 years. We cover this process from lab bench to commercial material production. OctoPlus offers unique development and manufacturing expertise in the area of complex formulations, such as liposomes and microspheres, for a large range of biologicals (proteins, vaccines, antibodies, siRNA, DNA) and small molecules. We are globally recognised as a center of excellence in formulation development, analytical services and cGMP manufacturing up until product launch.

Working towards a client-funded product portfolio based on our technology

It is our ambition that our technology will play a major role in the controlled release of injectable products. Incorporation of our technology in multiple compounds gives us potential milestone payments and royalty streams from multiple products. Because different types of compounds have different characteristics and each require a unique method to optimally combine them with our proprietary polymers, we first need to investigate the possibilities of this combination. The investigation of possibilities is called a feasibility study. Our clients pay us to assess the feasibility of a controlled release formulation of their product given the release profile that they require. This may be realising a length of release of 1 week up to several months. We do not expect that all feasibility studies will convert into a full development programme. The client may choose to discontinue the development because of technical or commercial reasons. If the client chooses to continue the development of the product candidate, this may lead to a license and development agreement under which OctoPlus is eligible for milestone payments and royalties.

Unique expertise in manufacture of complex formulations

OctoPlus has operated a clinical manufacturing plant in Leiden, the Netherlands since 2000. Our facilities include dedicated formulation areas as well as areas for manufacture of parenteral dosage forms. Our Leiden headquarters also comprise laboratories dedicated to analytical activities such as release testing and stability testing. The expansion of our facilities has broadened our capacities in the areas of formulation development, in-line filling, freeze-drying and cGMP manufacturing of final product. Our manufacturing facility offers state-of-the-art technology in cGMP production.

2

Executive Board report

Composition of the Executive Board

Jan Hendrik Egberts – Chief Executive Officer (CEO) – Age 52

Appointment term | to be appointed at the next Annual General Meeting of Shareholders for 4 years

Jan Hendrik Egberts, M.D. has over 20 years of experience in the pharmaceutical sector. He graduated from Erasmus University Medical School in the Netherlands and he pursued the clinical part of his training at Harvard Medical School. He obtained his MBA from Stanford and started his business career in clinical research at Organon Teknika in Belgium. He worked for four years as a strategic consultant to life sciences companies at McKinsey & Company, and from 1994 onwards held business development and general management positions of increasing responsibility in the USA at Merck, Johnson & Johnson and Mölnlycke Health Care. He became CEO of Novadel Pharmaceuticals, Inc. in 2005. Subsequently, Dr. Egberts served as Senior Advisor in healthcare investments to private equity firm 3i Group and has also gained experience in non-executive positions.

Susan Swarte – Chief Financial Officer (CFO) – Age 42

Appointment term | 2010 - 2014

Susan Swarte received a Master's degree in Business Economics from Erasmus University Rotterdam in 1993 and became a Registered Controller in 1996. She has over 17 years of experience in financial and strategic management. She worked at Unilever and Numico (now Danone), two large, international and publicly listed companies, where she has been responsible for Finance, Logistics and Reporting.
Mrs. Swarte was appointed as a Member of the Executive Board at the Annual General Meeting of Shareholders in 2010.

Gerben Moolhuizen – Chief Business Officer (CBO) – Age 44

Appointment term | 2008 - 2014

Gerben Moolhuizen received a Master's Degree in Medical Biology from Utrecht University in 1991, studied at Tohoku University, Sendai, Japan and received an MBA from the Erasmus University of Rotterdam School of Management. He then joined Pharming Group N.V. where he held positions in Business Development, eventually becoming Director Business Development. In 1999, Mr. Moolhuizen joined ASD B.V. as Vice-President, Business Development. He joined OctoPlus in 2001, as Senior Manager, Business Development. He became Chief Business Officer in January 2006 and was appointed to the Executive Board by the Annual General Meeting of Shareholders in 2008.

Report of the Executive Board

In 2009 and 2010 OctoPlus made the transition to a business model in which we utilise our expertise and technology on behalf of our clients. As a result, we commercialise our technology in partnered product development with the ultimate goal to out-license our proprietary drug delivery technology on a product-by-product basis.

In addition, we continued to offer our formulation and manufacturing services to a broader customer base. Our expanded manufacturing facility and specialised knowledge in the areas of liposome formulation, proteins and microsphere-based formulations resulted in 10 new projects for clients including Novartis and The Medicines Company.

Business developments

Drug delivery technology evaluation projects

In 2010 we focused on the acquisition of projects based on our proprietary drug delivery technology. In these projects we develop controlled release formulations that combine the therapeutic product of our partners with our proprietary drug delivery technology. In 2010, 4 of these projects were started, including one for Novartis. In February 2011 our evaluation project with ESBATech, an Alcon Biomedical Research Unit, expanded into a full development agreement. We are reimbursed for our activities under these projects. Depending on the outcome of the projects (which on average run during 6 to 12 months), our partners may decide to continue developing their product candidate, requiring our ongoing investment for further formulation and manufacturing of the product, and ultimately requiring a license to our proprietary drug delivery technology.

Locteron

The clinically most advanced product incorporating our controlled release technology is Locteron. We manufacture Locteron by combining our PolyActive microspheres with Biolex' interferon alpha in our manufacturing facility in Leiden, the Netherlands and perform development and manufacturing activities for which we are reimbursed by Biolex. For detailed information about the design and intended benefits of Locteron, we refer to the chapter 'Our contribution to hepatitis C'.

In March, April, October and November, Phase IIb results for Locteron were published by Biolex. These results included a statistically significant reduction of flu-like adverse events confirmed by two independent reporting methods. Patients treated with each of the three Locteron doses in SELECT-2 reported a statistically significant reduction in flu-like adverse events ($p<0.001$) compared to the PEG-Intron group. Accordingly, Locteron patients in all three dose groups used less concomitant medications (analgesics and antipyretics) than the PEG-Intron patients during the study period. Lastly, patients receiving the two lower doses of Locteron experienced lower rates of depression and discontinuations due to adverse events than patients receiving PEG-Intron.

For each of the three Locteron doses tested, the percentage of patients who maintained undetectable levels of virus at week 60 of the trial, 12 weeks after completion of 48 weeks of treatment (SVR12), were comparable with or exceeded the response rate for the PEG-Intron® control. Through its controlled-release mechanism, Locteron is designed to be dosed half as frequently as PEG-Intron.

Formulation development and manufacturing activities

In our expanded manufacturing facilities we can manufacture on all scales, from pre-clinical to early commercial product launch. During 2010 we signed 6 new service contracts, including a contract with The Medicines Company, and expanded many of our on-going partnerships. In 2010 our non-Locteron revenues amounted to € 7.5 million (2009: € 7.9 million) and our Locteron revenue amounted to € 0.8 million (2009: € 11.2 million). These non-Locteron revenues include the revenues from the drug delivery technology evaluation projects. 2010 revenues were based on work carried out for 41 clients on 46 projects, covering a wide range of therapeutic areas but predominantly in the field of injectables. Locteron revenues generated 10% of total revenues (2009: 59%).

Intellectual property

OctoPlus' current patent portfolio consists of 214 granted patents and 42 patent applications, which are divided into 23 patent families, of which 6 relate to OctoDEX and OctoVAX™, 14 to PolyActive and 3 to other technologies and products, including OP-145. During 2010, OctoPlus obtained 9 patents on products and technologies, and 10 patents were applied for.

OP-145

Our other proprietary clinical-stage product candidate is OP-145, a novel peptide for the treatment of mucosal infections caused by both gram-positive and gram-negative bacteria. The product has an innovative mechanism of action that neutralises bacterial toxins and restores the host's defense mechanism. The product was developed for the treatment of chronic middle ear infections (chronic otitis media). Clinical proof of concept was achieved in a Phase II study in 2008. Topline results from the study were presented at the Interscience Conference on Antimicrobial Agents and Chemotherapy in September 2009. OctoPlus is currently reviewing several options for further commercialisation of this product.

Collaboration partners - Biolex

In October 2008, we out-licensed all commercialisation rights to Locteron to Biolex. We remain involved as manufacturer of Locteron. We will participate in any revenues from the commercialisation of Locteron through milestone payments and royalties on net sales.

Organisational developments

On 31 December 2010, we employed 95 people, all of which were located in the Netherlands (2009: 132). In January and February 2010, 17 employees left the company as a result of the restructuring that was announced in September 2009. During 2010, 12 people joined and 32 people left OctoPlus. On 31 December 2010 we also employed 6 people through recruitment agencies.

On 4 November 2010 we announced the appointment of Jan Egberts as CEO of OctoPlus. He replaced Simon Sturge, who has decided to pursue a new career opportunity as per 1 January 2011.

Financial developments

Consolidated revenues of € 8.3 million were realised in 2010 (2009: € 19.0 million). This is a decline of 56% mainly as a result of the completion of the development and manufacturing of Locteron for use in clinical trials phase IIb for Biolex at the end of 2009. Some activities were performed on Locteron for Biolex in 2010 resulting in revenues of € 0.8 million (2009: € 11.2 million). Non-Locteron revenues declined by 4.8% compared with 2009. Revenue from technology evaluation contracts increased significantly following the ongoing and new projects that have started during 2010. Revenue from the other service contracts were lower than 2009 as a result of a more difficult economic climate where the lead time from initial interest from the customer to signature of the project plan has taken significantly longer than we have experienced in previous years. Cost of materials and work contracted out decreased significantly to € 1.1 million (2009: € 3.5 million) as a result of not manufacturing any Locteron batches for Biolex. Other operating costs also decreased significantly by € 4.8 million to € 12.5 million (2009: € 17.3 million) mainly as a result of employing less personnel. In 2010 we impaired part of the older manufacturing facilities with an impact of € 0.3 million. Interest costs decreased to € 1.0 million (2009: € 1.2 million). The net loss before taxes increased to € 6.2 million (2009: net loss of € 3.0 million).

In December 2010 OctoPlus raised € 3.9 million gross for working capital purposes and to be able to retain upside by co-investing along with clients in selected high-value projects. This financing brought in a number of new investors, broadening OctoPlus' shareholder base.

Consolidated operating cash flow amounted to € 3.0 million negative (2009: € 2.8 million negative) mainly as a result of the net loss. Our (negative) working capital increased slightly resulting in a positive cash flow. Investments in plant and equipment amounted to

€ 0.1 million (2009: € 1.5 million) which decreased significantly with the new manufacturing facility completely up and running in 2010. Repayment of finance lease liabilities amounted to € 1.0 million (2009: € 0.9 million). Combined with the equity issue, the 2010 net cash flow amounted to € 0.6 million negative (2009: € 4.2 million positive). Per year end 2010, OctoPlus had a positive net cash and cash equivalents balance of € 2.7 million (2009: € 3.3 million).

Outlook

During 2011 we will continue to focus on building a sustainable business. We will closely monitor costs, acquire additional technology evaluation contracts and aim for growth of our contract formulation and manufacturing activities.

We look forward to Biolex completing its ongoing partnering discussions to out-license Locteron to a commercial partner. If Biolex secures a commercial partner, this increases the success rates for the market introduction of Locteron, which in turn represents a major value driver for OctoPlus. We expect significant revenues from future development and manufacturing work for Locteron.

In addition, we are building the number of projects based on our technology which will be follow-up programmes to Locteron.

	Objective 2010	Achievement 2010	Objective 2011
Sustainable business model	Profitable in medium term	35% cost reduction realised, revenues slightly declined	Further progression towards a cash generative business in the medium term
Drug delivery technology contracts	Undisclosed number	4	Acquire additional evaluation contracts
Feasibility converting into full development	One	ESBATech contract announced in February 2011	Successfully complete current ESBATech project
OP-145	License in 2010	Not achieved	Conclude in 2011

Risk management and internal control

The Executive Board is responsible for designing, implementing and operating our internal risk control structure in order to manage in an effective and efficient manner the risks to which we are exposed. The principal objective of the OctoPlus business model is to become a sustainable cash flow positive company in the medium term by strict cost control and expanding our revenue base. Our internal risk control structure needs to assist OctoPlus in achieving this objective.

OctoPlus' internal risk control structure consists of:

Policies, principles and procedures

OctoPlus' procedures are formalised in Standard Operating Procedures (SOP's). These SOP's are reviewed at periodic intervals and amended where necessary. The Code of Conduct which includes the Internal Code on Inside Information and the Whistleblower's policy, is published on the intranet. The personnel handbook contains guidelines relevant for all employees and is regularly updated. The authorisation levels within OctoPlus are sufficient and simple, taking into account the size of the company.

Budgeting process

The corporate strategic plan is converted into an annual budget. Regular forecasts are prepared based on the latest information with regards to revenues, costs and cash. Actual financial results are measured against budget and forecast on a monthly basis. Financial and non-financial key performance indicators (KPI's) have been identified. A comprehensive management report is prepared on a monthly basis. This management report includes both financial and non-financial information as well as KPI's. The management report is distributed to and discussed with line management. Furthermore a number of real-time, on-line reports is available for the most important business indicators relating to project acquisition and productivity performance. These real-time reports are heavily being used by line management to monitor performance and take corrective measures where needed on a daily basis. As a result there is a great awareness of the past and expected performance of the Company, which leads to timely action and follow-up.

Organisational structure

A simplified organisational structure has been implemented in 2009, resulting in clear roles and responsibilities throughout the organisation. With the organisational change, budgets have been reallocated to the proper budget owners. On a monthly basis, the actual financial results are monitored against the budgets and corrective measures are taken at departmental level to control the costs.

Audit Committee

The Audit Committee independently monitors the process of risk management on the basis of the supervisory role fulfilled by the Supervisory Board. The Audit Committee focuses on the quality of internal and external reporting, on the effectiveness of internal controls and on the functioning of the external auditor. The Chief Executive Officer, the Chief Financial Officer, the Financial Controller and the external auditor are generally invited to attend these meetings.

External auditor

The external auditor carries out the procedures and activities related to the issuance of the auditor's opinion to the financial statements. The external auditor takes into consideration the systems that are intended to ensure reliable reporting. The external auditor reports any matters relating to internal control measures that have been identified during the audit of the financial statements. The observations made by the external auditor are discussed in the Audit Committee.

Risk factors

An integral part of the internal risk management process is the identification of risks that could prevent us from reaching our objectives. To identify and prioritise these risks we performed a Corporate Risk Assessment with the Executive Board and management team. The outcome has been discussed in the Management Team, the Audit Committee and the Supervisory Board and was taken into account in the risk factors described below.

The risks we face are not limited to the risks listed below. Some risks are not yet known to us and some of the risks that we currently do not believe to be material to our operations could prove to be material at a later date. All of these risks can materially affect our business, financial condition and results of operations.

Strategic risks

Concentration of sales

Our customer base currently comprises approximately 40 clients who award us with work on a contract-by-contract basis. The process of establishing collaborative relationships with customers is difficult, time-consuming and involves significant uncertainty. Our customers may resolve, on relatively short notice, to suspend or terminate the development activities that we conduct on their behalf for reasons beyond our control, such as budgetary limits, changing priorities or lack of funding. We have experienced such project suspensions or terminations with significant customers in the past. The loss, modification or delay of a large contract or of multiple contracts, or the inability to secure new contracts, could have a material adverse effect on our operating results. In order to avoid a concentration of sales it is our objective to develop a balanced portfolio of customers, in terms of size and length of each project. In 2010 we have started working for 10 new customers with projects of varying magnitude to keep a balanced portfolio of projects in terms of size.

Dependence on Locteron

In 2008 and 2009, our collaboration contract with Biolex for the development and manufacturing of Locteron contributed close to 60% of our total consolidated revenues in those years. In 2010, the supply of clinical trial material for phase IIb studies for Locteron was completed and as a result the contribution of Biolex to our total consolidated revenues was reduced to slightly more than 10% of our total consolidated revenues. If Biolex is unable to make Locteron commercially available, we will not generate product revenues from milestones and royalties. By expanding our customer base outside of Biolex and reducing our cost base, we have become less dependent on the revenues from Locteron.

Operational risks

Complex services

The formulation and manufacturing services that we offer can be highly complex. From time to time, issues may arise in the formulation laboratory or manufacturing facility, in both cases for a variety of reasons including equipment malfunction, failure to follow specific protocols and procedures, issues with raw materials and environmental factors. Such issues could affect the formulation success, the production of a particular batch or series of batches. This could, among other things, lead to increased costs, lost revenues, damage to customer relations, reimbursement to customers for lost active pharmaceutical ingredients, time and expense spent investigating the cause. We are mitigating this risk by cross-fertilising experience and knowledge under our staff and by continuing to educate staff on cGMP procedures.

Fixed development and manufacturing capacity

The amount that the pharmaceutical and biotechnology industries spend on formulation development and manufacturing for clinical studies and commercial use and in particular how much they spend on outsourcing such activities may have a large impact on our revenues and profitability. As a result, we may periodically experience overcapacity in terms of development resources and manufacturing resources which could affect our profitability as the costs related to these resources are largely fixed in the medium term. By creating a balanced customer portfolio, building long-term relationships with customers for multiple products and through our pricing strategy we are actively balancing the utilisation of our development and manufacturing capacity.

Qualified personnel

Recruiting and retaining qualified personnel is critical to our success. We may not be able to attract and retain qualified personnel on acceptable terms given the competition among pharmaceutical and biotechnology companies, universities and research institutions for similar personnel. Several measures have been implemented to retain and motivate current personnel, such as the issuance of stock options to all personnel in 2010 and the implementation of a more simplified organisation which allows a more open and direct dialogue between all levels in the organisation.

Product liability exposure

We are exposed to liability risks due to the provision of formulation development and manufacturing services. In our service contracts we include a paragraph which limits our liability. Also we have liability insurance, which we currently believe is adequate to cover liabilities we may incur.

Financial risks

Risk of not establishing a cash generative business model

We have incurred losses since 2002 and at the 31st December 2010, OctoPlus had an accumulated deficit of €49.2 million. We believe that we will be able to become sustainable cash flow positive in the medium term. With the change in business model, through strict cost control and a focus on building a balanced revenues portfolio we have reduced the risk of continuing losses. Moreover, we are entitled to significant further milestone payments and royalties in case Locteron is successful.

Financing risk

Additional funds may not be available to us when we need them on terms that are acceptable to us. In case of a share issuance shareholders' ownership interest will be diluted. Under our current strategy, we strive for a cash flow positive organisation in the medium term through strict cost control and building a balanced revenues portfolio. As a result of our internal controls, our customer base and our current cash balance, we have significantly decreased the financing risk by reducing the need for additional funds.

Interest rate risk

We aim to contain income statement volatility and, at the same time, minimise our financing costs. This is primarily achieved through minimising the use of our credit facility and reducing the interest costs involved in the credit facility, whenever possible.

Currency risk

A significant number of our customers is located outside the Euro-zone. We minimise our exposure to exchange rate risks by invoicing our customers in Euro. The potential milestone payments which have been agreed with Biolex, will be paid in US dollars. We will take appropriate action to mitigate any impact of exchange rate risks as soon as the payment of any milestone becomes certain.

Credit risk

Our customer base is mixed in terms of size and industry. Some of our customers are small biotechnology companies that are equity funded and have not been profitable. In 2010, only 2 customers generated more than 10% of our total revenues (13.2% and 10.1% respectively). We have policies in place that require each customer to pay a collateral prior to the start of a project in order to mitigate the credit risk. In addition to that, we have a proactive receivables collection policy in place.

Financial reporting risks and compliance risks

As in any other company, there is a risk of errors in our financial reporting. To prevent this risk from occurring, we have reporting and accounting procedures, results analysis and external auditing in place to limit the risk of unfair representation of financial reporting. Our Internal Code of Conduct stipulates that staff should comply with all applicable laws and regulations. Complementary to other reporting lines, a whistleblower's procedure enables staff to report alleged irregularities of a general, operational and financial nature without jeopardising their legal status. During 2010, we have received no such reports. Based on management reviews and external auditing, we have concluded that further optimalisation in our control systems is possible. We have laid the foundation of a good internal control system in 2009 with an aligned tone at the top and an effective organisation structure. During 2010 we focused our efforts on improving and expanding financial analysis and management reporting. We have also implemented additional controls in our most critical business processes. These changes have been and will be discussed with the Audit Committee and the Supervisory Board. In 2011 we will continue to improve the internal control framework in the area of better documentation of our key controls.

Financial instruments risk

In the years presented in these financial statements, the Group did not purchase or hold any derivative financial instruments or available-for-sale financial assets. The financial instrument risk is therefore minimal.

Legislation and regulation risk

The pharmaceutical industry in which OctoPlus operates needs to comply to strict rules and regulations, in particular related to cGMP manufacturing. The rules relevant to OctoPlus are established and monitored by the European Medicines Evaluation Agency (the 'EMEA'), the US Food and Drug Administration (the 'FDA') and Dutch regulatory authorities. Rules and regulations might change and this might have consequences for OctoPlus. OctoPlus intends to adhere to the highest (quality) standards, even when this is not specifically required by the relevant governmental bodies, and thereby reduces the possible impact of any changes in rules and regulations.

Corporate social responsibility

Any company has a corporate social responsibility to do its business in a sustainable, safe and responsible way. However, at OctoPlus we recognise that we have a special responsibility towards society, the environment and our personnel, as we develop and produce medicines for human use and we work with chemicals and machinery. This section is intended to provide a high-level, strategic view of our organisation's efforts in respect of corporate social responsibility.

Impact of building a sustainable business

OctoPlus endeavours to carry out its business fairly and honestly, and strives to be a successful company. In order to realise success we need to adhere to a number of behavioural standards. These standards are expressed in a set of general principles comprising our Code of Conduct. They cover principles such as investing in growth and finding a good balance between short-term and long-term interests. It also means that we endeavour as a business to be a trustworthy member of society and to take up our responsibilities towards our employees and towards the environment. Lastly, our Code of Conduct describes that we strive to treat all confidential information within OctoPlus with the utmost respect and that we try to prevent insider trading or other misuse of confidential information inside and outside of the Company.

Impact on people and the environment

OctoPlus is active in the healthcare and pharmaceutical sector. We are very much aware of the fact that the products we produce in our manufacturing facility are ultimately intended to be administered to patients and volunteers. We work according to strict regulations and pay utmost attention to doing our work according to the highest applicable standards. Our manufacturing facility operates under a European cGMP license and is regularly audited by our customers to reconfirm time and time again that we perform according to specific pharmaceutical rules and regulations. In addition to striving to produce a final product of the highest quality, we have internal standard operating procedures to ensure that our personnel and the environment are protected from any adverse effects that could arise from working with the chemicals and laboratory equipment we use.

OctoPlus has a proactive approach in order to prevent work-related accidents and illness. New employees receive training for safety and against work related risks. The emergency response organisation consisted of a team of 13 people at the end of 2010. These people have been trained to perform first aid, fight small fires and to manage an evacuation.

The Health, Safety & Environment (HSE) committee aims to optimise and execute HSE policies applicable to all employees. In 2010 the committee performed the following HSE-projects:

+ organisation of a company-wide HSE training afternoon
+ development of company-wide safety documentation
+ development of a safety policy for pregnant employees
+ development of general and department-specific safety trainings
+ internal safety auditing
+ start-up of the 2011 medical check-up for employees (PAGO survey)

At the end of 2010, the committee consisted of 7 members from across the organisation.

OctoPlus promotes using public transportation as a means to travel to work and transportation by train is the preferred way for short-distance business trips. In addition, we do not provide cars for any of our personnel.

Human resources

OctoPlus employs a diversified pool of people, both in age, gender and nationality. Since its inception, OctoPlus' personnel has comprised more or less equal numbers of men and women. For the management levels, almost half of the managers is female. 36% of employees have a scientific background, which consists

of an academic education or a Ph.D. A large portion of OctoPlus' employees is relatively young; the average age is 38.

Because 58% of our employees are aged below 40, many of our employees are young parents. To support their situation, working part time is an accepted practice for both men and women at OctoPlus.

The average length of service for OctoPlus employees at the end of 2010 is 4.4 years (2009: 3.8 years). In 2010 absenteeism due to sickness was 5.9% (2009: 4.4%). The increase in sickness absenteeism came from a small number of employees with a serious non-work related illness. Most of these employees have now fully recovered and have returned to work.

The table below shows some information on the characteristics of the personnel employed by OctoPlus per 31 December 2010.

	Male	Female	Total
Headcount	49	46	95
Full time	36	20	56
Part time	13	26	39
FTE%	**96%**	**89%**	**93%**
FTE	47.2	41.0	88.2
Management	9	6	15
Non-Management	40	40	80
Scientific	16	18	34
Other	33	28	61
<30	6	4	10
30-39	18	27	45
40-49	19	13	32
>=50	6	2	8
Average age	39	36	38
Length of service	4.7	4.2	4.4

Works Council

The Works Council consists of 7 members who are elected from the staff of the company. The group meets at least every two weeks and discusses ongoing company business. The Works Council also has focused policies associated with Finance, Human Resources, Health Safety & Environment, Communication and Organisation.

The Work Council represents the employees in working with the Executive Board and the Supervisory Board, ensuring that the interests of all stakeholders in the business are addressed. Throughout 2010, the Works Council has held regular meetings with CEO Simon Sturge, at which constructive discussions of company business took place.

In 2010 the Works Council worked closely together with management on subjects regarding organisation and remuneration policies in relation to costs savings. The Works Council represented the views and best interests of the work force during discussions with senior management on basis of which a joint position was agreed.

With two Works Council members participating in the Health Safety & Environment (HSE) committee, 2010 has been a year of expanding activities in this field. Policies and procedures have been implemented or were updated and an increasingly active role was played in day to day business in the field of HSE. In 2010 Works Council elections were held, resulting in a substantially changed team with three new members and a new chairman and vice-chairman.

3

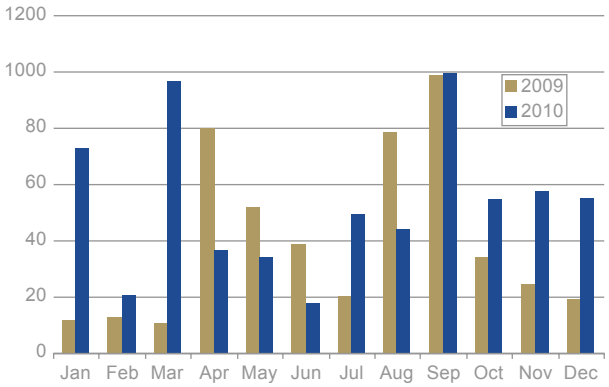
Information for shareholders and investors

General

OctoPlus is listed on Euronext Amsterdam by NYSE Euronext since 4 October 2006. We currently have 36.8 million ordinary shares outstanding.

OctoPlus is included in the Next Biotech index, which comprises the 25 biotech companies listed on NYSE Euronext's European markets. The graph below shows the share price performance of the OctoPlus share versus the index in 2009 and 2010.

Average number of shares traded per month
(thousands)



Major shareholders

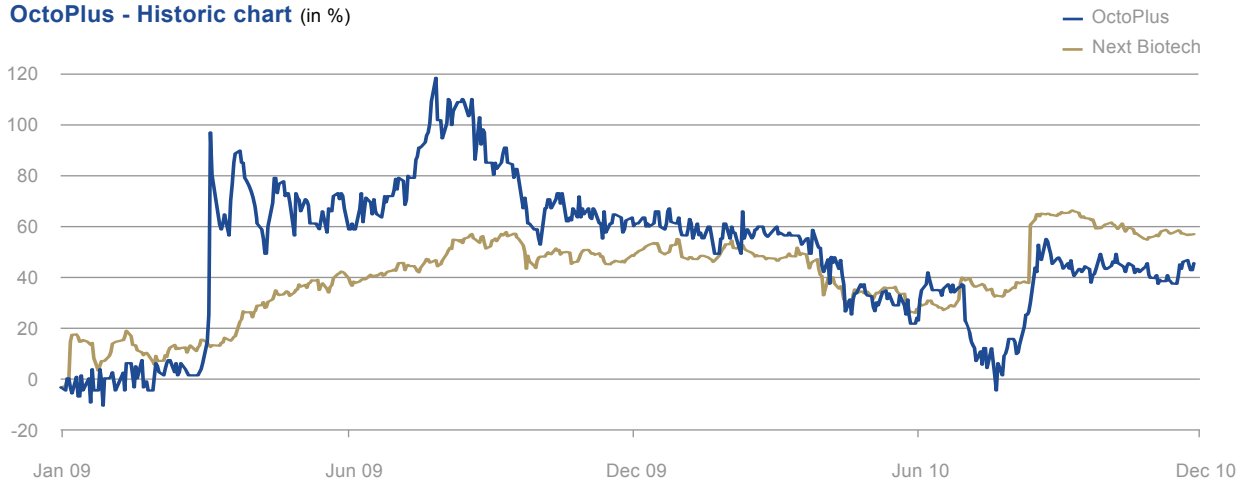
OctoPlus has identified the following major shareholders according to the legal statements on the AFM website per 31 December 2010.

Notifying party	%	Date of notification
Glaxo Smithkline (USA)	15.0%	18 March 2010
Life Sciences Partners (the Netherlands)	14.9%	21 December 2010
Signet Healthcare Partners (USA)	14.4%	23 December 2010
J.J.M. Holthuis (the Netherlands)	9.5%	31 December 2009
Innoven Partenaires (France)	9.3%	25 February 2009
Fagus NV (Belgium)	7.2%	1 November 2006

On 21 January 2011, A. Strating made a legal statement on the AFM website about a shareholding of 5.7% in OctoPlus.

The percentage of shares held by these shareholders to date may be different.

OctoPlus - Historic chart (in %)



4

Supervisory Board report

Composition of the Supervisory Board

Hans Stellingsma – Chairman – Age 54
Appointment term | 2001 - 2014
Nationality | Dutch
Mr. Stellingsma is self-employed and serves on the supervisory boards of MTel B.V., Simac Techniek N.V., De Sleutels van Zijl en Vliet and Twinning Holding B.V. He has held executive positions at Origin N.V., Content N.V. and Monitor.

René Kuijten – Vice-chairman – Age 46
Appointment term | 2005 - 2012
Nationality | Dutch
Mr. Kuijten is a General Partner at Life Sciences Partners (LSP) since 2001. On behalf of LSP he serves on the supervisory boards of Kreatech Holding B.V., Hybrigenics S.A., BMEYE, Nexstim and Syntaxin. Mr. Kuijten is a board member of the NVP (Nederlandse Vereniging van Participatiemaatschappijen) and the Stichting Steun Emma Kinderziekenhuis.

Frans Eelkman Rooda – Age 58
Appointment term | 2008 - 2012
Nationality | Dutch
Mr. Eelkman Rooda is Chief Financial Officer of Wessanen N.V. He is also a member of the supervisory board of De Lage Landen International B.V.

James Gale – Age 61

Appointment term | 2009 - 2013

Nationality | American (United States of America)

Mr. Gale is a founding partner of Signet Healthcare Partners, where he is Managing Director. He is currently the Chairman of the Board of Alpex Pharma S.A., and also serves on the Board of Directors of Cedarburg Pharmaceuticals Inc., Cydex Inc., Indevus Pharmaceuticals, Inc., Spepharm BV and Paladin Laboratories.

Nancy de Ruiter – Age 37

Appointment term | 2010 - 2014

Nationality | Dutch

Mrs. De Ruiter has a scientific background and holds a Ph.D. in Medical Biology from the Universities of Utrecht and San Diego. She has held several Supervisory Board positions, including at Kreatech and at De Ruiter Seeds.

Report of the Supervisory Board

The results of the changed strategy and the simplified organisation became evident in 2010 with the adoption of OctoPlus' proprietary technologies by high profile companies such as Novartis, the positive results achieved in the phase IIb study of Locteron performed by OctoPlus' licensee Biolex and the significantly reduced cost base of the company.

The Supervisory Board discussed a wide range of subjects during its meetings with the Executive Board in 2010. Regular items on the agenda included the company's financial performance, based on periodical reports, its budget and its business, including the research & development portfolio, intellectual property matters and operational updates. The Supervisory Board also discussed the company's strategy and its risks, its goals and objectives and its strategic collaborations. Also discussed were the competitive position of the company, the conversion of customer leads into contracts and revenue and the efficiency of the infrastructure of the organisation. The process and objective of the private placement which was done in December 2010, has been subject of discussion in the latter part of 2010.

The Supervisory Board held 7 meetings and 8 conference calls. All meetings were well attended by the individual members. On top of these meetings, the CEO and Chairman met on a regular basis. Most scheduled meetings took place in the presence of the Executive Board. On some occasions the combined meetings were followed by meetings of the Supervisory Board in closed session. During the closed sessions, the Supervisory Board discussed the performance of the members of the Executive Board, the replacement of the CEO and its own performance as a Board.

From January to May 2010, the Supervisory Board consisted of six members. At the Annual General Meeting of Shareholders (AGM) in May 2010, Mr. Hans Stellingsma was reappointed as Chairman of the Supervisory Board. At the same AGM, Mr. Philip Smith and Mr. Paul Toon resigned and Mrs. Nancy de Ruiter was newly appointed.

The Supervisory Board would like to thank both Mr. Philip Smith and Mr. Paul Toon for their contributions to OctoPlus in the five years that they were Supervisory Board members. As a result of the above changes, the Supervisory Board consisted of five members since May 2010. The names, years of birth, position, citizenship, initial year of nomination, the year in which the current appointment expires and which term they are in, of all current members of the Supervisory Board are listed below.

Pursuant to our Supervisory Board regulations, the Company strives not to have more than one member of the Supervisory Board be an employee of a direct shareholder or a direct shareholder, holding more than 10% of the outstanding share capital in OctoPlus. Although our goal is to adhere to these regulations, currently two members of the Supervisory Board, Mr. James Gale and Mr. René Kuijten, cannot be considered independent as they are employed by Signet Healthcare Partners and Life Sciences Partners, both of which hold more than a 10% share in OctoPlus. Signet Healthcare Partners and Life Sciences Partners both have a long-term interest in the Company and were willing to back this up by making senior partners with relevant knowledge and experience available to the Company. The Supervisory Board considers that Messrs. Gale and Kuijten fit the profile of the

Name (year of birth)	Position	Citizenship	Initial	Expiration	Term
Hans Stellingsma (1956)	Chair	the Netherlands	2001	2014	3rd
René Kuijten (1964)	Vice-chair	the Netherlands	2005	2012	2nd
Frans Eelkman Rooda (1952)	Member	the Netherlands	2008	2012	1st
James Gale (1950)	Member	United States of America	2009	2013	1st
Nancy de Ruiter (1973)	Member	the Netherlands	2010	2014	1st

Supervisory Board and their contributions outweigh any perceived disadvantage of non-independence.

The remuneration of the members of the Supervisory Board is determined by the Annual General Meeting of Shareholders. The annual remuneration of a member of the Supervisory Board is € 25. The chairman receives € 31 per annum. In addition, € 5 remuneration is received by a member for each Supervisory Board committee participated in. In 2010, all members of the Supervisory Board volunteered to reduce their remuneration by 10% out of solidarity with the employees who collectively agreed to a holiday purchase plan. No loans or other financial commitments were made to any member of the Supervisory Board on behalf of OctoPlus.

The Supervisory Board declares that all of its members were critical and independent of one another as well as of the Executive Board.

In accordance with best practice provision II.3.4 and III.6.3 of the Code and per article 16.3 of the Supervisory Board Regulations, Mr. James Gale, Mr. René Kuijten and Mrs. Nancy de Ruiter were not involved in the decision making related to the private placement of shares in December 2010 because they are employees of Signet Healthcare Partners and Life Sciences Partners and indirectly involved in ACEE BV who are shareholders in OctoPlus.

The Annual General Meeting of Shareholders was held on 12 May 2010, during which the following agenda items were discussed: the Executive Board report on 2009 performance and the strategy going forward, the 2009 financial statements, the appropriation of the 2009 result, the appointment of the external auditor for the year 2010, the re-appointment of Mr. Hans Stellingsma and the appointment of Mrs. Nancy de Ruiter in the Supervisory Board, the appointment of Mrs. Susan Swarte to the Executive Board, the change in appointment period and incentives of Mr. Gerben Moolhuizen, amendments in the Stock Option Plan and an update was given on the issuance of preference shares. The external auditor was also present at this meeting.

The Supervisory Board has appointed from among its members an Audit Committee and a Remuneration and Nominating Committee. The Audit Committee assists the Supervisory Board in monitoring systems of internal controls, the integrity of the financial reporting process and the contents of the financial statements and reports. The Audit Committee also advises the Supervisory Board in assessing and mitigating the business and financial risks. In 2010 the Audit Committee paid attention to the internal control systems and internal control findings by the external auditor, external and internal reporting, follow-up on the risk assessment, the audit plan to be executed by the external auditor and the financing of the company.

The Remuneration and Nominating Committee advises the Supervisory Board on the remuneration of the members of the Executive Board and monitors OctoPlus' remuneration policy, which among others covers bonus plans for the Executive Board. The Remuneration and Nominating Committee furthermore advises on the selection criteria and appointment procedures for members of the Executive Board and Supervisory Board. It also assesses the functioning of individual members of the Executive Board and Supervisory Board. In 2010 the Remuneration and Nominating Committee paid special attention to the replacement of the Chief Executive Officer and the granting of options to the entire staff of OctoPlus, which took place early 2010. On the 31st of December 2010, Mr. Simon Sturge stepped down as Chief Executive Officer and was replaced per the 1st of January 2011 by Mr. Jan Egberts, subject to appointment as a member of the Executive Board at the next Annual General Meeting of Shareholders on 20 May 2011.

The Supervisory Board wishes to thank Mr. Sturge for the achievements OctoPlus has made under his leadership.

A representation of the Supervisory Board met with the Works Council in 2010.

In accordance with our Articles of Association, the financial statements of 2010, which have been prepared by the Executive Board and audited by our external auditor Deloitte Accountants B.V., and the Report of the Executive Board, have been submitted to us. We concur with these financial statements and the proposed result appropriation. We recommend that the AGM approves these financial statements and that the members of the Executive Board be granted discharge from their management duties and the members of the Supervisory Board from their supervision thereof.

The Supervisory Board is very grateful to all of OctoPlus' staff for the results achieved and expresses its gratitude for their loyalty, sacrifices and dedication during the year 2010. OctoPlus is ready for its 2011 objectives, most importantly accelerating the adoption of our proprietary technologies through technology evaluation contracts and converting them into development and licensing agreements, continuing the development of Locteron and building revenues from contract formulation and clinical manufacturing.

Remuneration report

The Supervisory Board establishes the remuneration of the individual members of the Executive Board, taking into account our remuneration policy, provided that arrangements in the form of shares or options to subscribe for shares, are subject to approval of the General Meeting of Shareholders. Such a proposal must include the number of shares or rights to subscribe for shares that may be granted to the members of the Executive Board and which criteria apply to a grant or modification.

The remuneration policy is in line with market practice and aims to attract, motivate and retain qualified and expert management with the skills required to manage a listed life sciences company. Remuneration of the members of the Executive Board consists of a fixed salary as well as variable components. One of the goals behind the policy is to achieve a strong link between executive remuneration and the Company's performance. Consequently, the remuneration package includes a (significant) variable part in the form of an annual cash incentive and a long-term incentive consisting of stock options. The performance targets are predominantly linked to OctoPlus' long-term strategy and are designed to balance short-term performance with the long-term objective of creating sustainable value for the Company.

Annually, the Supervisory Board reviews whether or not the base salary should be adjusted, taking into account internal as well as external factors, including OctoPlus' competitive environment. In 2010 the base salary of the Executive Board members was adjusted.

The short-term and long-term incentives are linked to specific and measurable personal targets, which are related to the specific roles and responsibilities of each Executive Board member and are approved by the Supervisory Board. All targets of the members of the Executive Board are revised annually and approved by the Supervisory Board. The targets are linked to financial (e.g. revenues, cashflow), operational (e.g. productivity, employee retention) and business objectives (e.g. number of feasibility projects and conversion into full development contracts). Specific targets are not disclosed, as these are commercially sensitive.

The magnitude of the short term incentives is linked to the base salary and amounts to a maximum of 150% of the base salary for Mr. Sturge and a maximum of 50% of the base salary for Mrs. Swarte and Mr. Moolhuizen. The Supervisory Board has analysed the consequences of the achievement of the maximum bonus possible for each of the Executive Board members and the impact on the individual remuneration package and the financial position of OctoPlus prior to the establishment of these maximum percentages. The annual assessment of the achievement of targets can be done objectively from financial and internal data. The achievement of the targets in 2010 was 8% for Mr. Sturge (Chief Executive Officer), 17% for Mrs. Swarte (Chief Financial Officer) and 8% for Mr. Moolhuizen (Chief Business Officer). The Supervisory Board used its discretionary power to positively adjust the level of variable remuneration in 2010, taking into account their contributions during 2010, to a bonus of € 28 for Mrs. Swarte and € 28 for Mr. Moolhuizen. By contrast, in view of Mr. Sturge's departure, the Supervisory Board will engage in a further discussion with Mr. Sturge regarding his 2010 variable remuneration.

The long-term incentives consist of options, which are granted unconditionally and conditionally. Pursuant to achieving predetermined targets, the granted conditional options will become unconditional and will subsequently vest in accordance with OctoPlus' employee stock option plan. The long-term incentives are linked to clearly measurable personal and corporate targets and are approved by the Supervisory Board. The specific milestones are not disclosed, as these are commercially sensitive.

The Supervisory Board has discretionary power to grant options under the employee stock option plan. The Supervisory Board determines the criteria for the granting of options, as well as the exercise price. The exercise period of the options shall not start earlier than 36 months and not exceed 60 months following the date of the grant becoming unconditional. The granting of options to members of the Executive Board can be made subject to the condition precedent that the General Meeting of Shareholders gives its approval to such granting of options.

In March 2010, the Supervisory Board granted conditional and unconditional options to acquire shares at an exercise price of €1.41 per share (which is the closing price for the shares on 31 December 2009) to Mr. Sturge, Mrs. Swarte and Mr. Moolhuizen. The number of conditional options each person will receive depends on certain pre-defined performance criteria for each person in the years 2010, 2011 and 2012, with 1/3 of the conditional options related to each of the three years. Each conditional option granted can be exercised in the period between 36 months and 60 months after the date of grant. The maximum number of conditional and unconditional options to acquire shares for Mr. Egberts, Mrs. Swarte and Mr. Moolhuizen as per the 31 December 2010 can be found below.

Following the resignation of Mr. Sturge, all conditional and unconditional options that were granted to him, have forfeited per 31 December 2010. On the 31st of January 2011, 9,000 of the unconditional options of Mr. Moolhuizen that were granted to him in 2006 expired.

On 25 February 2011 Mrs. Swarte and Mr. Moolhuizen have been granted 11,133 and 11,133 unconditional options respectively from the conditional option pool 2010 based on their achievement of pre-defined performance criteria, which are not disclosed as they are commercially sensitive. The exercise price of these options is € 1.27. These options can be exercised from 25 February 2014 until 24 February 2016. The remaining 44,534 options for Mrs. Swarte and 44,534 options for Mr. Moolhuizen of the conditional option pool 2010 can be granted by the Supervisory Board to Mrs. Swarte and Mr. Moolhuizen upon the achievement of pre-defined performance criteria in 2013.

The employment agreements with each of the members of the Executive Board have an indefinite term and can be terminated, subject to a notice period. The notice period for the employment agreements with each of the members of the Executive Board is two months for the employee and four months for OctoPlus. All members of the Executive Board have been appointed by the General Meeting of Shareholders for a period of four years.

The employment agreements with each of the members of the Executive Board provide for severance payments in the event of termination. If OctoPlus terminates the employment agreement for either of them, the Company is obliged to pay a severance amount equal to 1.5 times the monthly salary per year of service, up to a maximum of a full year salary. Furthermore, if the employment agreement is terminated within six months after a change of control, they are entitled to a severance

Number of options per year of grant at 31 December 2010

	Unconditional 2006	Conditional 2008	Unconditional 2010	Conditional 2010	Conditional 2011	Conditional 2012	Conditional 2013	Total
J.H. Egberts, CEO [1]	–	–	850,000	–	100,000	100,000	100,000	1,150,000
S.M. Swarte, CFO [2]	–	–	167,000	55,667	55,667	55,666	–	334,000
G. Moolhuizen, CBO [2]	51,411	–	167,000	55,667	55,667	55,666	–	385,411
Total Executive Board	**51,411**	**–**	**1,184,000**	**111,334**	**211,334**	**211,332**	**100,000**	**1,869,411**

1) Mr. Egberts joined the Company per 1 January 2011 and was awarded the options per 1 December 2010.
2) Based on the achievement of predefined targets, the Supervisory board converted part of the conditional options 2010 for Mrs. Swarte and Mr. Moolhuizen on 25 February 2011.

Movements in the number of options outstanding during 2010

	Option grants	1 January 2010	Granted	Exercised	Forfeited or lapsed	31 December 2010	Average exercise price
S.J. Sturge, CEO	Unconditional	–	200,000	–	(200,000)	–	n.a.
	Conditional	1,215,500	200,000	–	(1,415,500)	–	n.a.
J.H. Egberts, CEO	Unconditional	–	850,000	–	–	850,000	1.27
	Conditional	–	300,000	–	–	300,000	1.27
S.M. Swarte, CFO	Unconditional	–	167,000	–	–	167,000	1.41
	Conditional	–	167,000	–	–	167,000	t.b.d.
G. Moolhuizen, CBO	Unconditional	51,411	167,000	–	–	218,411	1.71
	Conditional	–	167,000	–	–	167,000	t.b.d.

amount of 1.5 times the monthly salary per year of service inclusive of the average bonus payment received over the three years preceding the change of control, up to a maximum of a full year's salary including the average bonus payment received.

Of the Executive Board members, only Mr. Moolhuizen participates in OctoPlus' pension scheme which is a defined contribution plan. Mr. Sturge did not get any compensation for pension. Mrs. Swarte receives the equivalent of the employer's contribution to OctoPlus' pension scheme in cash.

As a result of the above and as presented below, the 2010 remuneration of the members of the Executive Board amounted to € 1.0 million (2009: € 1.1 million) and consists of a base salary, bonus, pension compensation and other benefits. The other benefits consist of the legal employer's contribution to health insurance, home-work travel allowance, option costs and a housing allowance for Mr. Sturge.

During 2010, a temporary holiday purchase plan was agreed with all employees of OctoPlus, where all employees agreed to purchase one extra day holiday per month, in order to better match capacity with demand. As a result the employees received approximately 5% lower salary in return for 12 extra days vacation (pro rata for part time employees). The holiday purchase plan was also applicable to all members of the Executive Board. As a result of the holiday purchase plan the Executive Board received € 30 less salary during 2010. Collectively they have agreed not to use the 12 days holiday, and to waive this right.

Remuneration of OctoPlus' Executive Board

	Base salary	Bonus	Pension	Other [2]	Total 2010	Total 2009
S.J. Sturge, CEO	375	46 [3]	–	60	481	757
J.H. Egberts, CEO [1]	–	–	–	52	52	–
S.M. Swarte, CFO	155	28	9	34	226	78
G. Moolhuizen, CBO	175	28	12	44	259	221
Total	**705**	**102**	**21**	**190**	**1,018**	**1,056**

1) Mr. Egberts joined OctoPlus per 1 January 2011 but spent already significant time with OctoPlus during the transition period in November and December for which he is eligible to a consultancy fee of € 42 as included under 'Other'.
2) Included under 'Other' are option costs for Mr. Egberts (€ 10), Mrs. Swarte (€ 30) and Mr. Moolhuizen (€ 36).
3) Maximum exposure based on 8% achievement of targets. This is subject to further discussion with Mr. Sturge.

The annual remuneration of a member of the Supervisory Board is € 25. The chairman receives € 31 per annum. In addition, € 5 remuneration is received by a member for each Supervisory Board committee participated in. Mr. Stellingsma and Mr. Kuijten participated in two committees in 2009 and 2010. Both members waived the fee for the second committee in 2009. In 2010, all members of the Supervisory Board volunteered to reduce their remuneration by 10% out of solidarity with the employees who collectively agreed to the holiday purchase plan. Presented below is the 2010 remuneration of the members of the Supervisory Board.

Remuneration of OctoPlus' Supervisory Board

	2010 base salary	2009 base salary
H. Stellingsma (chairman)	37	36
R. Kuijten	32	30
P. Toon [1]	8	25
Ph. Smith [1]	10	30
F. Eelkman Rooda	27	30
J. Gale	23	17
N.D. de Ruiter [2]	17	–
	154	168

1) Until 12 May 2010
2) From 12 May 2010 onwards

5

Corporate governance

Introduction

OctoPlus fully supports the principles and best practice provisions of the Dutch Corporate Governance Code ('The Code'). OctoPlus recognises the importance of good business stewardship (acting with integrity and being transparent) and good supervision. OctoPlus strives to implement a well-balanced corporate governance policy; being transparent and accountable with a pragmatic approach.

OctoPlus is a company with a statutory two-tier structure in which the executive and supervisory responsibilities are separated. The relevant statutory provisions have been incorporated into the Articles of Association. Two-tier companies have a Supervisory Board, which supervises the management of the Executive Board.

General Meeting of Shareholders

The Annual General Meeting of Shareholders ('AGM') is convened within 6 months after the end of the financial year. Every shareholder is entitled to attend, speak at and vote at that meeting. The rights of holders of OctoPlus shares rank pari passu with each other and each share entitles the relevant party to cast a single vote. Decisions of the General Meeting of Shareholders are taken by an absolute majority of votes cast, except where Dutch law provides for a qualified majority. The Articles of Association do not restrict the voting rights on shares. We are not aware of any contract under which the transfer of shares or exercise of voting rights on shares is prohibited or restricted.

Our Articles of Association designate the Executive Board, for a period of five years from 4 October 2006, as the corporate body authorised to issue ordinary shares and preference shares, and/or to limit or exclude pre-emptive rights in relation to an issuance of shares with the prior approval of our Supervisory Board. This designation may be extended, either by an amendment to the Articles of Association, or by a resolution of the General Meeting of Shareholders, for a period not exceeding five years in each case. A designation pursuant to a resolution of the General Meeting of Shareholders shall require the proposal of the Executive Board, which is subject to the prior approval of the Supervisory Board.

The last AGM took place on 12 May 2010.

Supervisory Board

The role of the Supervisory Board is to supervise the management of the Executive Board and the general course of affairs of OctoPlus and the business connected with it. The supervision of the Executive Board by the Supervisory Board shall include:

(a) achievement of the Company's objectives
(b) corporate strategy and risks inherent to the business activities
(c) structure and operation of the internal risk management and control systems
(d) financial reporting process
(e) compliance with legislation and regulations

Where relevant, the supervision of the Supervisory Board is guided by corporate sustainability principles, such as but not limited to the interests of the different stakeholders of OctoPlus and the environment.

The Supervisory Board shall furthermore assist the Executive Board by providing advice. The responsibility for proper performance of its duties is vested in the Supervisory Board collectively. In performing their duties, the members of the Supervisory Board must be guided by the interests of OctoPlus and the business connected with it as a whole, taking into account the relevant interests of OctoPlus' stakeholders.

The Supervisory Board can only adopt resolutions by an absolute majority of the total number of votes to be cast in a meeting where the majority of the members of the Supervisory Board then in office are present or represented. Each member of the Supervisory Board is entitled to one vote.

The Supervisory Board shall consist of at least four members. In principle, all Supervisory Board members,

with the exception of not more than one person shall be independent from the Company. According to our Supervisory Board regulations, a Supervisory Board member is deemed not to be independent if the member has been an employee or member of the Executive Board, receives personal financial compensation from the Company, has had an important business relationship with the Company, is a member of the Executive Board of a company in which a member of the Executive Board is a Supervisory Board member, holds or is a representative of a legal entity that holds at least 10 percent of the shares in the Company's capital or has temporarily managed the Company during the previous twelve months. However, under circumstances, which are to be determined at the sole discretion of the Supervisory Board, the Supervisory Board may be comprised of more members being a person who is not independent from the Company. During 2010 two members of the Supervisory Board, Mr. René Kuijten and Mr. James Gale, were not independent in accordance with best practice provision III.2.1 and III.2.2 of the Code as they are representatives of companies with a share of more than 10% in OctoPlus. The Supervisory Board considers that Messrs. Gale and Kuijten fit the profile of the Supervisory Board and their contributions outweigh any perceived disadvantage of non-independence.

The members of the Supervisory Board are appointed and reappointed by the General Meeting of Shareholders, based on nominations put forward by the Supervisory Board. Supervisory Board members are appointed for a period of four years, unless provided otherwise in the resolution to appoint the Supervisory Board member concerned. A resigning Supervisory Board member may only be reappointed twice. All current members of the Supervisory Board have been appointed for a period of maximum four years. The members of the Supervisory Board will retire periodically in accordance with a rotation plan as drawn up by the Supervisory Board. The General Meeting of Shareholders may suspend or dismiss members of the Supervisory Directors at any time.

Pursuant to our Articles of Association, as long as Signet Healthcare Partners holds at least 10% of our total issued ordinary share capital, one member of the Supervisory Board shall be appointed from a nomination, drawn up by Signet Healthcare Partners. A nomination drawn up by Signet containing the names of at least two persons shall be binding, provided that the General Meeting of Shareholders may deprive such nomination of its binding character by a resolution adopted by a majority of not less than two thirds of the votes cast, representing more than half of the total issued share capital.

Under our Articles of Association, the General Meeting of Shareholders may suspend or dismiss Supervisory Board members at any time, provided that, as long as Signet Healthcare Partners holds at least 10% of our total issued ordinary share capital, any resolution to suspend or dismiss a member of the Supervisory Board, who is appointed from a nomination drawn up by Signet Healthcare Partners, may only be adopted with a majority of not less than two thirds of the votes cast, representing more than half of total issued share capital.

Currently the members of the Supervisory Board are (between brackets the initial year of nomination): Hans Stellingsma (2001), René Kuijten (2005), Frans Eelkman Rooda (2008), James Gale (2009) en Nancy de Ruiter (2010). Philip Smith (2005) and Paul Toon (2005) have resigned from the Supervisory Board in May 2010.

The profiles of the members of the Supervisory Board are published on OctoPlus' website. The Supervisory Board is comprised of preferably independent, non-executive individuals. Potential members of the Supervisory Board are selected primarily based on their competencies, while also taking into account having a balanced mix of individuals from a background, experience, capability and diversity perspective (gender, age, and ethnicity). The Supervisory Board seeks to have the following qualities represented in the Supervisory Board: entrepreneurship, international business experience, experience as a Chief Financial Officer of a large, preferably Dutch public company, sound knowledge of Corporate Governance, knowledge of managing a (small and large) company in the life sciences business, experience in deal making between small companies and large pharmaceutical and biotechnology companies, basic knowledge about drug delivery, experience in marketing and sales, affinity with technology, strong business sense and a strategic and innovative mindset. A more detailed description of the profiles of the Supervisory Board members can be found on OctoPlus' website.

The General Meeting of Shareholders appoints the chairperson and the Supervisory Board appoints a vice-chairperson from amongst its members. The chairperson is primarily responsible for monitoring the proper functioning of the Supervisory Board and its Committees and shall be the main contact for the Executive Board. The chairperson is responsible for a good meeting procedure during the General Meeting of Shareholders in order to enable a meaningful

discussion in the General Meeting of Shareholders. The vice-chairperson replaces the chairperson in his absence and is the primary contact for individual members of the Executive and Supervisory Board about the performance of the chairperson.

The remuneration of the Supervisory Board is determined by the General Meeting of Shareholders. The remuneration is fixed and not linked to OctoPlus' profits. Since 2008, the annual remuneration is € 25 for a member, € 31 for a chairperson and an additional € 5 for the participation in a committee. In 2010, all Supervisory Board members agreed to a 10% decrease in remuneration for 2010.

The Supervisory Board had 15 physical and telephone meetings during 2010. In addition, the Executive Board kept the Supervisory Board informed of results and business developments by way of written updates. The attendance of the Supervisory Board meetings held in 2010 was 80%.

The Supervisory Board discussed a wide range of subjects during its meetings in 2010, including strategy, the appointment of a new CEO, the issue of shares in December, risk assessment and risk management, cash management, business development, operational targets, financial results, Budget 2011 and latest estimates.

The Supervisory Board has appointed from among its members an Audit Committee and a Remuneration and Nominating Committee. The table below shows the members of the Audit and Remuneration and Nominating Committee.

The Audit Committee assists the Supervisory Board in monitoring systems of internal controls, the integrity of the financial reporting process and the contents of the financial statements and reports. The Audit Committee also assists the Supervisory Board in assessing and mitigating the business and financial risks. The chairman of the Audit Committee, Mr. Frans Eelkman Rooda is Chief Financial Officer of Wessanen NV and is considered a financial expert as intended in best practice provision III.3.2 of the Code. The Audit Committee should meet at least twice a year and shall also meet prior to each issuance of a press release containing financial figures. In 2010 the Audit Committee convened five times. In the discussions with the Executive Board and the external auditor attention was paid to the internal control systems and internal control findings by the external auditor, specific accounting treatments with respect to IFRS, external and internal reporting, corporate governance and the audit plan to be performed by the external auditor. The Audit Committee met prior to each issuance of a press release containing financial figures. In 2010 the Audit Committee met with the external auditor without the presence of members of the Executive Board on one occasion.

In 2010 the Remuneration and Nominating Committee held 5 meetings, either in person or via telephone meetings. In the discussions with the Chief Executive Officer attention was paid to achievement and setting targets of the Executive Board, determining selection criteria for the CEO, remuneration package and appointment terms for the new Chief Executive Officer, granting of options to the Executive Board and other OctoPlus staff in 2010 and reviewing the composition of the Executive and Supervisory Board. The remuneration of the Executive Board is determined by the Supervisory Board and is described in detail in the Remuneration Report.

External auditor

The external auditor is appointed by the General Meeting of Shareholders upon nomination by the Supervisory Board, for which purpose both the Audit Committee and the Executive Board advise the Supervisory Board.

Executive Board

The role of the Executive Board is to manage OctoPlus and it has the responsibility to achieve the Company's aims, strategy and policy, and results. The Executive Board shall perform its activities under the supervision

	Audit Committee	Remuneration and Nominating Committee
Chairperson	Frans Eelkman Rooda	Nancy de Ruiter
Member	Hans Stellingsma	Hans Stellingsma
Member	René Kuijten	René Kuijten

of the Supervisory Board. The Executive Board is accountable to the Supervisory Board and to the General Meeting of Shareholders. The Executive Board shall be guided by the interests of OctoPlus and its affiliated enterprise, taking into consideration the interests of the Company's stakeholders.

The Executive Board shall supply the Supervisory Board in due time with the information required for the performance of its duties. The Executive Board requires the approval of the Supervisory Board on a number of Executive Board resolutions, which are listed in the Executive Board regulations posted on OctoPlus' website.

The Executive Board and Supervisory Board shall ensure that each substantial change in the corporate governance structure of OctoPlus and in the compliance of the Company with the Corporate Governance Code is submitted to the General Meeting of Shareholders for discussion under a separate agenda item.

The Executive Board consists of at least one member. The number of Executive Board members is determined by the Supervisory Board. The members of the Executive Board are appointed by the General Meeting of Shareholders after a proposal by the Supervisory Board. Each member is appointed for a period of four years, unless the resolution to appoint the member states otherwise. Each member of the Executive Board can be suspended and dismissed at any time by the General Meeting of Shareholders. A member of the Executive Board can also be suspended by the Supervisory Board.

During 2010 the Executive Board consisted of three members: the Chief Executive Officer (CEO), the Chief Financial Officer (CFO) and the Chief Business Officer (CBO). Mrs. Swarte was appointed to the Executive Board on 12 May 2010 by the Annual Meeting of Shareholders. Mr. Sturge resigned from OctoPlus per 31 December 2010 and was replaced by Mr. Egberts per 1 January 2011. Mr. Egberts has been nominated for appointment by the AGM in May 2011. As a result, the Executive Board will consist of Jan Egberts (CEO, to be appointed at the next AGM), Susan Swarte (CFO, appointed in 2010) and Gerben Moolhuizen (CBO, appointed in 2008). The Executive Board meets formally at least every two weeks.

Each member has clearly defined roles and responsibilities. The Chief Executive Officer is responsible for the operational management of the Company. The duties of the Chief Executive Officer comprise, amongst others, preparation of and compliance with strategic and business plans, development of the business, maintaining investor and press relations, conducting corporate communications, human resources and quality assurance. The Chief Financial Officer is responsible for the financial management of the Company, in particular the relationship with the Audit Committee and the external auditor, supervision of the financial reports, preparation of and compliance with the Budgets, drawing up Annual Accounts, the Company's internal control system, legal compliance and supporting the Chief Executive Officer in maintaining investor relations. The main responsibility of the Chief Business Officer is Business Development and Program Management.

The remuneration and contractual terms and conditions of employment of the members of the Executive Board shall be determined by the Supervisory Board and shall comply with the remuneration policy adopted by the General Meeting of Shareholders, provided that arrangements in the form of shares or rights to subscribe to shares are subject to the approval of the General Meeting of Shareholders.

The management team assists the Executive Board and consists of the Operations Director, the Quality Assurance Manager, the Development Managers and the Director Program Management, in addition to the three members of the Executive Board. The management team meets weekly and discusses all strategic and major operational matters on an equal footing.

Shares and Share Capital

On 23 April 2009, the AGM approved the increase of the authorised share capital to 40 million ordinary shares with a nominal value of € 0.12 per share and 40 million preference shares with a nominal value of € 0.12 per share. As a result, the authorised share capital amounts to € 9.6 million. Holders of preference shares are entitled to a payment of dividend equal to the average Euribor for the financial year increased by 1% on the profits made in the most recently elapsed financial year and in case of liquidation of the Company, payment of any outstanding dividend as well as the nominal paid-up amount of the preference shares. As of 31 December 2010, 36,778,974 ordinary shares have been issued and are outstanding, representing a share capital of € 4.4 million. At 31 December 2010 no preference shares have been issued.

According to the notifications to the AFM website as per 31 December 2010, there are 6 shareholders with an interest of more than 5% in OctoPlus. These shareholders have an interest of in total 71% of the outstanding issued share capital. The percentage of shares held by these shareholders to date may be different.

The Articles of Association of OctoPlus delegate the authority to issue ordinary shares and preference shares and to grant rights to subscribe for shares, and/or to limit or exclude pre-emptive rights in relation to an issuance of shares, to the Executive Board, with the prior approval of our Supervisory Board, for a period of five years from 4 October 2006. This delegation may be extended, either by an amendment to the current Articles of Association, or by a resolution of the General Meeting of Shareholders, for a period not exceeding five years in each case. A delegation pursuant to a resolution of the General Meeting of Shareholders shall require the proposal of the Executive Board, which is subject to the prior approval of the Supervisory Board.

The General Meeting of Shareholders has authorised the Executive Board to acquire a maximum of 10% of our issued ordinary shares for a period of 18 months from the General Meeting of Shareholders which was held on 12 May 2010, at a purchase price between the nominal value of the shares and 110% of the average price of our ordinary shares during five trading days before the repurchase.

The General Meeting of Shareholders may resolve to amend the Articles of Association, subject to a proposal by the Executive Board, which requires the approval of the Supervisory Board.

Under the current Option Plan, which has been adopted by the AGM, the Supervisory Board has discretionary power to grant options to our employees. The Company will not grant options to employees and members of the Executive Board, which if exercised, would represent more than 7.5% of our issued share capital.

The employment agreement of Mrs. Swarte and Mr. Moolhuizen contains a 'change of control' clause, which entitles them to a severance amount of 1.5 times their monthly salary inclusive of the average bonus payment achieved over the three years preceding the change of control times the number of service years up to a maximum of a full year salary inclusive of the average bonus received. Change of control is defined as a takeover, merger or any other event in which there is a Change in Control over the Company, resulting in a substantial adverse change in the position, tasks and responsibilities of the Executive.

We are not a party to any material agreement, which becomes effective, or is being amended or terminated subject to a condition of a change of control following a public bid as defined in section 5:70 of the Act on the Financial Supervision.

Stichting Continuïteit

In 2007, OctoPlus incorporated Stichting Continuïteit OctoPlus (the 'Foundation') to safeguard OctoPlus' interests and those of OctoPlus' enterprise and to protect, insofar as possible, the Company's continuity, the Company's independence and the Company's corporate identity. In 2010 the Supervisory Board decided that the costs associated with the Foundation were deemed to be too high in relation to the limited risks against which the Foundation would protect the Company. As a result, the Board of the Foundation decided to liquidate the Foundation in March 2010. The foundation was liquidated on 5 May 2010.

Code of Conduct

OctoPlus endeavours to carry out its business fairly and honestly, at the same time taking into account the interests of all those who may in any way be affected by its activities. The Code of Conduct contains a set of general principles related to observing laws and regulations, environmental sustainability, having a diverse workforce which is promoted solely according to their capacities, skills and results, creating safe and good working conditions, supplying complete and truthful information, handling confidential information, avoiding insider trading, avoiding conflicts of interest, avoiding personal gain, promoting honest conduct and protecting company property.

The Code of Conduct explicitly refers to the 'Internal code on inside information' and the 'Whistleblowers' procedure', which form part of the Code of Conduct. The Code of Conduct, Internal code on inside information and the Whistleblower's procedure are published on the intranet and OctoPlus' website. OctoPlus expects its employees to refer to the Code of Conduct and all related documents on a regular basis, to ensure that they are kept up to date with its contents.

Deviations from Corporate Governance Code

Book 2 of the Dutch Civil Code in conjunction with a decree of 10 December 2009 (Bulletin of Acts and Decrees 545) requires listed companies to report an explanation in their annual reports why certain provisions of the Code, if any, are not applied by the company. The code can be found on www.commissiecorporategovernance.nl. OctoPlus' Corporate Governance is fully in line with the recommendations of the Code except for the following best practices, which are explained below:

II.2.4
If options are granted, they shall, in any event, not be exercised in the first three years after the date of granting. The number of options to be granted shall be dependent on the achievement of challenging targets specified beforehand.

As detailed in the section 'Remuneration report', the Supervisory Board granted Mr. Simon Sturge, Mr. Jan Egberts, Mrs. Susan Swarte and Mr. Gerben Moolhuizen a number of conditional and unconditional options in 2010. None of these options can be exercised within three years after unconditional grant. The unconditional options were granted by the Supervisory Board based upon the individual's past performance. This is a deviation from the Code, where unconditional options will only be granted when certain pre-defined, challenging, individual targets have been met. The Supervisory Board perceived that granting of these unconditional options to the Executive Board members was in the best interest of the Company and its stakeholders.

III.2.1
The supervisory board members, with the exception of not more than one person, shall be independent within the meaning of best practice provision III.2.2.

Our Supervisory Board consists of five members. Two members are not independent as they are employed by Signet Healthcare Partners and Life Sciences Partners, both of which hold more than a 10% share in OctoPlus. Signet and LSP both have a long-term interest in the Company and were willing to back this up by making senior partners with relevant knowledge and experience available to the Company. The Supervisory Board considers that Messrs. Gale and Kuijten fit the profile of the Supervisory Board and their contributions outweigh any perceived disadvantage of non-independence.

IV.3.1
Meetings with analysts, presentations to analysts, presentations to investors and institutional investors and press conferences shall be announced in advance on the website and by means of press releases. Provision shall be made for all shareholders to follow these meetings and presentations in real time, for example by means of web casting or telephone lines. After the meetings, the presentations shall be posted on the company's website.

Considering our size, it would create an excessive burden to provide facilities that enable shareholders to follow in real time the meetings and presentations, referred to in the best practice provision. We will, however, ensure that presentations are posted on our website immediately after the meetings in question.

IV.3.13
The company shall formulate an outline policy on bilateral contacts with the shareholders and publish this policy on its website.

We will formulate an outline policy on bilateral contacts with the shareholders and publish this policy on our website in 2011.

V.3.1
The external auditor and the audit committee shall be involved in drawing up the work schedule of the internal auditor. They shall also take cognizance of the findings of the internal auditor.

We feel that our financial reporting is sufficiently monitored by our Audit Committee and will, in view of our size, initially not appoint an internal auditor. The Audit Committee will evaluate the need for an internal auditor every year. Based on this evaluation will the Supervisory Board make a recommendation to the Executive Board whether or not to appoint an internal auditor.

Directors' responsibility statement

Dutch Corporate Governance Code

In line with the best practice provision II.1.4 of the Dutch Corporate Governance Code and bearing in mind the recommendations of the Monitoring Committee Corporate Governance Code, OctoPlus N.V. issues a declaration regarding the effectiveness of the system of internal controls on which the financial reporting is based. In 2010 the Executive Board assessed the effectiveness of the system of internal controls for

financial reporting. During the investigation on which this assessment was based, no shortcomings were identified that might possibly have a material impact on the financial reporting. On the basis of this assessment and the risk analysis that was carried out, the Executive Board is of the opinion that the system of internal controls provides a reasonable degree of certainty that our financial reporting does not contain any inaccuracies of material importance. The Executive Board confirms that in their view the system of internal controls, focused on financial reporting, functioned effectively over the past year. There are no indications that the system of internal controls will not function effectively in 2011.

EU Transparency Directive

The members of the Executive Board, as required by section 5:25c, paragraph 2c of the Dutch Financial Markets Supervision Act (Wet op het Financieel Toezicht), confirm to the best of their knowledge that:

+ The annual financial statements for the year ended 31 December 2010 give a true and fair view of the assets, liabilities, financial position and comprehensive income of OctoPlus N.V. and its consolidated companies;
+ The Annual Report 2010 gives a true and fair view of the position of OctoPlus N.V. and its consolidated companies as per 31 December 2010 and the state of affairs during the year 2010 of OctoPlus N.V. and its consolidated companies;
+ The Annual Report 2010 describes the principal risks and uncertainties facing OctoPlus N.V. and its consolidated companies.

The Executive Board

Jan H. Egberts, Chief Executive Officer
to be appointed to the Executive Board at the next AGM

Susan M. Swarte, Chief Financial Officer

Gerben Moolhuizen, Chief Business Officer

6

Consolidated financial statements

Consolidated statement of financial position

(In € x 1,000)

	Note	At 31 December 2010	At 31 December 2009	At 1 January 2009
ASSETS				
Non-current assets				
Intangible assets				
Goodwill	6	243	243	243
Patents	6	1,811	2,102	2,686
Other intangible assets	6	5	29	115
		2,059	2,374	3,044
Property, plant and equipment				
Buildings	7	6,903	7,333	7,757
Machines and installations	7	8,946	10,804	11,564
Other equipment	7	199	316	335
		16,048	18,453	19,656
Financial assets carried at cost	8	1,299	1,299	1,299
		19,406	22,126	23,999
Current assets				
Inventories	10	307	457	634
Trade receivables	11	1,735	2,207	2,126
Social securities and other taxes	11	208	284	76
Other receivables, prepayments and accrued income	11	978	1,343	1,132
Cash and cash equivalents	9	2,713	3,324	2,171
		5,941	7,615	6,139
Total assets		25,347	29,741	30,138
EQUITY				
Shareholders' equity	12	8,935	11,343	575
Total group equity		8,935	11,343	575
LIABILITIES				
Non-current liabilities				
Finance lease liabilities	15	9,296	10,316	11,191
		9,296	10,316	11,191
Current liabilities				
Current portion of finance lease liabilities	15	1,020	951	930
Bank overdrafts	9,15	6	11	3,053
Convertible loans	16	-	-	4,395
Trade payables	17	1,471	2,136	3,222
Social securities and other taxes	17	176	43	438
Other current liabilities	17	4,443	4,941	6,334
		7,116	8,082	18,372
Total liabilities		16,412	18,398	29,563
Total equity and liabilities		25,347	29,741	30,138

The notes on pages 48 to 77 are an integral part of these consolidated financial statements.
Due to a change in presentation, the consolidated statement of financial position at 1 January 2009 is also presented (Note 1.4).

Condensed consolidated statement of comprehensive income*

(In € x 1,000)

	Note	Year ended 31 December 2010	2009
Service revenues	5,18	7,978	18,636
License and other revenues	5,18	86	370
Income from subsidies	5,19	265	40
Total revenues		8,329	19,046
Cost of materials and work contracted out	20	1,090	3,502
Wages and salaries	21	6,394	10,184
Depreciation and amortisation	6,7	2,774	2,770
Other costs	22	3,292	4,390
Total operating costs		13,550	20,846
Operating result		(5,221)	(1,800)
Interest income	23	12	18
Interest costs	23	(993)	(1,175)
Result before corporate income taxes		(6,202)	(2,957)
Corporate income taxes	13		-
Result for the period		(6,202)	(2,957)
Other comprehensive income			-
Total comprehensive result for the period		(6,202)	(2,957)
Attributable to:			
Equity holders of the Company		(6,202)	(2,957)
Result per share for result attributable to the equity holders of the Company during the period (expressed in Euro per share)			
Basic	24	(0.19)	(0.10)
Diluted	24	(0.19)	(0.10)

The notes on pages 48 to 77 are an integral part of these consolidated financial statements.
* As adjusted, reference is made to Note 1.4.

Consolidated statement of changes in equity

(In € x 1,000)

	Note	Share capital	Share premium reserve	Other reserves	Accumulated deficit	Total equity
Balance at 1 January 2009		1,945	38,161	751	(40,282)	575
Result for the year		-	-	-	(2,957)	(2,957)
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive result for 2009		-	-	-	(2,957)	(2,957)
Employee share option scheme:						
value of employee services	12	-	-	133	-	133
options exercised, lapsed & forfeited	12	-	-	(130)	130	-
Issue of share capital – conversion	12,16	720	3,778	-	-	4,498
Issue of share capital – financing	12	1,347	8,692	-	-	10,039
Issue of share capital – costs	12	-	(945)	-	-	(945)
		2,067	11,525	3	130	13,725
Balance at 31 December 2009		4,012	49,686	754	(43,109)	11,343
Balance at 1 January 2010		4,012	49,686	754	(43,109)	11,343
Result for the year		-	-	-	(6,202)	(6,202)
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive result for 2010		-	-	-	(6,202)	(6,202)
Employee share option scheme:						
value of employee services	12	-	-	157	-	157
options exercised, lapsed & forfeited	12	-	-	(134)	134	-
Issue of share capital – financing	12	401	3,544	-	-	3,945
Issue of share capital – costs	12	-	(308)	-	-	(308)
		401	3,236	23	134	3,794
Balance at 31 December 2010		4,413	52,922	777	(49,177)	8,935

The notes on pages 48 to 77 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

(In € x 1,000)

	Note	Year ended 31 December 2010	2009
Cash flows from operating activities			
Result before corporate income taxes		(6,202)	(2,957)
Adjustments for:			
Depreciation and amortisation	6,7	2,774	2,770
Share option expenses	21	157	133
Interest costs	23	993	1,175
Interest income	23	(12)	(18)
Changes in working capital:			
Inventories		150	177
Trade receivables		472	(81)
Social securities and other taxes		209	(603)
Other receivables, prepayments and accrued income		376	(206)
Trade payables	2,26	(478)	(1,089)
Other liabilities and accruals	2,26	(409)	(1,008)
Cash used in operations		(1,970)	(1,707)
Interest received		-	13
Interest paid		(990)	(1,101)
Net cash used in operating activities		(2,960)	(2,795)
Cash flows from investing activities			
Purchases of property, plant and equipment	2,7,26	(58)	(1,444)
Purchases of intangible assets	6	-	(12)
Net cash used in investing activities		(58)	(1,456)
Cash flows from financing activities			
Proceeds from issuance of shares	12	3,363	9,380
Repayment of finance lease liabilities		(951)	(934)
Net cash generated from financing activities		2,412	8,446
Cash, cash equivalents and bank overdrafts			
Net increase/(decrease) during the year		(606)	4,195
Balance at beginning of the year		3,313	(882)
Balance at end of the year		2,707	3,313

The notes on pages 48 to 77 are an integral part of these consolidated financial statements.
The above illustrates the indirect method of reporting cash flows from operating activities.

Notes to the consolidated financial statements

1 General information

1.1 Corporate information

OctoPlus N.V. ('the Company' or 'OctoPlus', and 'the Group' including its subsidiaries) is a pharmaceutical company specialised in the controlled release, formulation and cGMP manufacture of injectable products. OctoPlus offers a platform of proprietary biodegradable polymers for the controlled release and extended release of injectable products, in particular proteins. The Company is a public limited liability company incorporated and domiciled in the Netherlands. The address of its registered office is Zernikedreef 12, 2333 CL Leiden, the Netherlands.

These consolidated financial statements are subject to approval by the Annual General Meeting of Shareholders ('AGM').

In accordance with section 402 of Part 9 of the Netherlands Civil Code a condensed income statement is included in the Company-only financial statements.

These financial statements of the Company have been approved for publication by the members of the Executive Board on 18 March 2011.

1.2 Basis of preparation

The consolidated financial statements of OctoPlus N.V. for the financial year 2010 have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU'). All standards and all interpretations issued by the International Accounting Standards Board (the 'IASB') and the International Financial Reporting Interpretations Committee (the 'IFRIC') effective for 2010 have been adopted by the EU.

The consolidated financial statements have been prepared under the historical cost convention. Furthermore, the consolidated financial statements are presented in Euros and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires Management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Euros, which is the Company's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

1.3 Basis of consolidation

The Company is the holding company of a group of companies. The other consolidated group companies ('subsidiaries') at 31 December 2010 are:

- OctoShare B.V., 100%, having its legal seat in Leiden, the Netherlands;
- OctoPlus Development B.V., 100%, having its legal seat in Leiden, the Netherlands;
- OctoPlus Technologies B.V., 100%, having its legal seat in Leiden, the Netherlands;
- OctoPlus Sciences B.V., 100%, having its legal seat in Leiden, the Netherlands;
- OctoPlus PolyActive Sciences B.V., 100%, having its legal seat in Leiden, the Netherlands;
- Chienna B.V., 100%, having its legal seat in Bilthoven, the Netherlands;

The Company closed its US office in the year 2009 and OctoPlus Inc., the Company's former 100% US-subsidiary with its legal seat in Delaware, United States of America, was liquidated in 2010.

Inter-company transactions, balances and unrealised gains on transactions between group

companies are eliminated. Unrealised losses between group companies are also eliminated, however, these are considered to be an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies, generally accompanied by a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Acquisitions of businesses are accounted for by the Group using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired (also after re-assessment), the difference is recognised directly in the income statement, as bargain purchase option.

1.4 Changes in presentation

Historically, OctoPlus provided development services for life sciences companies in the field of drug formulation through its Contract Development business unit and developed products based on the Group's proprietary drug delivery technology through its Products and Drug Delivery business unit; with development of products based on the Group's proprietary drug delivery technology (partly) at the Company's own expense. In October 2008, OctoPlus made the strategic decision to focus exclusively on activities for which it is reimbursed. As a result thereof, the two business units were integrated in September 2009, resulting in a significantly reduced complexity of the organisation. The change in strategy had and has a significant impact on the cost profile of the Company. Management re-evaluated the format of the Company's statement of comprehensive income and concluded that changes to the presentation of operating costs would result in more relevant information to users of financial statements.

The changes to the presentation of operating costs are presented below and consist of:
- An aggregation of the cost categories 'raw materials and auxiliaries' (2009, € 202) and 'cost of contracted work and other external charges' (2009, € 1,853) into a new cost category 'cost of materials and work contracted out';
- A reclassification of all costs related to material usage in the Company's manufacturing and laboratory facilities, which were previously recorded under 'other costs', to the new cost category 'cost of materials and work contracted out' (2009, € 1,447); and
- A reclassification of personnel related costs, such as costs for temporary staff, which were previously recorded under 'other costs' to the cost category 'wages and salaries' (which was previously named 'employee benefits') (2009, € 1,123).

The Company no longer develops products at its own expense. As a result, the expenditures for 'raw materials and auxiliaries' and 'cost of contracted work and other external charges' have decreased significantly. It is management's belief that separate disclosure on the face of the statement of comprehensive income is no longer needed as it does not result in more relevant information to users of financial statements. With adding all costs for material usage in the Company's manufacturing and laboratory facilities to the cost category 'cost of materials and work contracted out', all costs directly related to the Company's revenues are now included in this cost category. In the new format, the cost category 'wages and salaries' contains all personnel related costs (both employees and temporary personnel) and the cost category 'other costs' contains all other indirect operating costs, such as housing costs, office expenses, selling & marketing costs and general expenses. The presentation of the details of these 'other costs' in different subcategories has changed from prior years to better reflect the new situation (Note 22).

The changes in the presentation of operating costs did not have an impact on the consolidated statement of financial position. As a result, it is Management's belief that presentation of comparative balance sheet information per

1 January 2009 in the Notes to the consolidated financial statements would not result in more relevant information to users of financial statements. As a result, this information is not presented.

Operating costs – presentation until 31 December 2009

	2010	2009
Raw materials and auxiliaries	24	202
Cost of contracted work and other external charges	529	1,853
Employee benefits	6,015	9,061
Depreciation and amortisation	2,774	2,770
Other costs	4,208	6,960
Total operating costs	13,550	20,846

Operating costs – presentation from 1 January 2010 onwards

	2010	2009
Cost of materials and work contracted out	1,090	3,502
Wages and salaries	6,394	10,184
Depreciation and amortisation	2,774	2,770
Other costs	3,292	4,390
Total operating costs	13,550	20,846

1.5 Recent accounting announcements

The following new accounting standards, amendments and revision to existing standards and interpretations were issued by the IASB in 2010:

- Amendments to IAS 1 'Presentation of Financial Statements';
- Amendments to IAS 12 'Income Taxes';
- Amendments to IAS 27 (revised in 2008) 'Consolidated and Separate Financial Statements';
- Amendments to IAS 34 'Interim Financial Reporting';
- Amendments to IAS 39 'Financial Instruments';
- Amendments to IFRS 1 'First-time Adoption of International Financial Reporting Standards';
- Amendments to IFRS 3 (revised in 2008) 'Business Combinations';
- Amendments to IFRS 7 'Financial Instruments: Disclosures';
- IFRIC 13 'Customer Loyalty Programmes';

These new accounting standards, amendments and revisions to existing standards and interpretations did not have a material effect on the Company's financial statements. Business combinations that took place prior to 1 January 2010 were accounted for in accordance with the previous version of IFRS 3.

Early adoption of IFRS standards and interpretations that were in issue but not yet effective for reporting periods beginning on 1 January 2010

The IFRS standards and interpretations that were in issue but not yet effective for reporting periods beginning on 1 January 2010 were not yet adopted. The Company anticipates that the adoption of these Standards and Interpretations will not have a material effect on the financial statements of the Group in future periods.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been applied consistently in the years presented, unless stated otherwise.

2.1 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. If the cost of an acquisition is less than the fair value of the net assets of the subsidiary acquired (also after re-assessment), the difference is recognised directly in the income statement.

Separately recognised goodwill is tested annually for impairment, or more frequently when there is an indication that the unit may be impaired, and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed in subsequent periods. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Patents

Acquired patents have a definite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of patents over their estimated useful lives (generally 10 years unless a patent expires prior to that date). Amortisation begins when an asset is available for its intended use.

(c) Computer software

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (generally three years).

(d) Research and development

Research expenditure is recognised as an expense in the period in which it is incurred. Costs incurred on development projects are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, generally when filed for regulatory approval for commercial production and when costs can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs with a finite useful life that have been capitalised are amortised from the commencement of the commercial production of the product or the licensing out of the product on a straight-line basis over the period of its expected benefit.

2.2 Property, plant and equipment

Property, plant and equipment comprise the buildings in Leiden, the manufacturing and laboratory facilities in these buildings, all equipment used in the manufacturing and laboratory facilities and other equipment. The buildings and part of the equipment used in the manufacturing facilities are leased under finance lease agreements. Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance charges are expensed in the financial period in which these are incurred.

Depreciation is calculated using the straight-line method to reduce the historical cost of the assets to their residual values over their estimated useful lives. The following depreciable lives are used:

– Buildings	20 years
– Machines and installations	3-10 years
– Other equipment	3-5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (also refer to 2.3).

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement.

Finance leases

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the commencement of the lease at the lower of the fair value of the leased property, plant and equipment and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in 'finance lease liabilities'. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

2.3 Impairment of intangible assets and property, plant and equipment

Goodwill and other assets not subject to amortisation or depreciation are reviewed for impairment at least annually. Assets subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value-in-use (i.e. the present value of the future cash flows to be generated by an asset from its continuing use in the business). For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that

suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.4 Financial assets

The Group has financial assets in the two categories 'loans and receivables' and 'financial assets carried at cost'. In the years presented in these financial statements, the Group did not purchase or hold any derivative financial instruments or available-for-sale financial assets.

(a) Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. An allowance for doubtful accounts is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the allowance is recognised in the income statement within 'other costs'. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. Loans and receivables are included in 'current assets', except for maturities greater than 12 months after the balance sheet date, which are classified as 'non-current assets'.

(b) Financial assets carried at cost

Financial assets carried at cost (less accumulated impairment losses) are unquoted equity instruments that are not carried at fair value because their fair value cannot be reliably measured. They are included in non-current assets unless Management intends to dispose of the investment within 12 months of the balance sheet date.

(c) Purchases and sales of financial assets

Regular purchases and sales of financial assets are recognised on trade-date; the date on which the Group commits to purchase or sell the asset. The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(d) Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

2.5 Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of inventories include expenditures for materials acquired and directly attributable costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Inventories are written down once these become obsolete.

2.6 Cash and cash equivalents

Cash and cash equivalents includes cash-in-hand, current accounts, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown separately within current liabilities in the consolidated statement of financial position.

2.7 Financial liabilities and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

(a) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

(b) Compound instruments

The component parts of compound instruments issued by the Group are classified separately as

financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently re-measured.

2.8 Equity

Ordinary shares and preference shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

2.9 Deferred corporate income taxes

Deferred corporate income tax is recognised, using the liability method, on temporary differences arising between the tax bases book value of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred corporate income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the tax losses can be offset. Deferred corporate income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred corporate income tax asset is realised or the deferred corporate income tax liability is settled.

2.10 Borrowings and other financial liabilities

Borrowings and other financial liabilities are initially measured at fair value, net of transaction costs incurred, and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method to calculate the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Borrowings and other financial liabilities are classified as 'current liabilities' unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date ('non-current liabilities').

Interest on borrowings entered into for the construction of specific assets is capitalised.

2.11 Pension obligations

The Company operates a defined contribution plan. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. There have not been any significant changes to the plan since inception.

2.12 Share-based payments

(a) Share-based compensation to employees

The Company operates an equity-settled, share-based compensation plan which can include conditional option grants and/or unconditional option grants. The costs of employee share option plans are measured by reference to the fair value of the options at the date at which the options are granted using a Binomial option model.

The costs of these options, which reflect the services rendered by employees in exchange for the grant of the options, are recognised in the income statement, together with a corresponding increase in equity during the vesting period. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted at grant date, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

Estimates of forfeitures are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Company revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(b) Equity-settled share-based payment transactions

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods or services received, except when the fair value cannot be estimated reliably, in which

case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counter party renders the services.

2.13 Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing plans if contractually obliged or if there is a past practice that has created a constructive obligation.

2.14 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.15 Revenue recognition

Revenue comprises the fair value of the sale of goods and services, and is shown net of value-added tax, rebates and discounts and after eliminated sales within the Group. The Group's revenues primarily consist of sales of services, license and other revenues and subsidies. These revenues are recognised as follows:

(a) Service revenues

Sales of services are recognised in the accounting period in which the services are rendered by reference to the stage of completion of the specific transaction when the outcome of a transaction can be estimated reliably. Each project is divided into subprojects and the stage of completion for each subproject is assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(b) License and other revenues

License and other revenues include amounts earned from third parties with licenses and/or options to the Group's intellectual property and for amounts received for the sale of part of the Group's intellectual property. License and other revenues are recognised when earned in accordance with the substance and under the terms of the related agreements and when it is probable that the economic benefits associated with the transaction will flow to the entity and the amount of the revenue can be measured reliably. In situations where the Group has continuing performance obligations, revenues related to license fee payments are deferred and the related revenue is recognised in the period of expected performance.

Multiple element arrangements

In certain circumstances, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. Conversely, the recognition criteria are applied to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole.

The Group offers arrangements whereby a customer obtains the right to use the Group's intellectual property and purchases research and development services under one arrangement. When such multiple element arrangements exist, an element is accounted for as a separable element if it has value to the customer on a stand-alone basis and the fair value can be determined objectively and reliably.

When license and other revenues and service revenues are identified as separable elements in a multiple element transaction, the license and other revenues recognised is determined based on the fair value of the right obtained by the customer in relation to the fair value of the arrangement taken as a whole, and is recognised in accordance with the accounting policy for license and other revenues as discussed above. The revenue relating to the service element, which represents the fair value of the servicing arrangement in relation to the fair value of the arrangement as a whole, is recognised over the service period. The fair values of each element are determined based on the current market price of each of the elements when sold separately.

(c) Income from subsidies

The Group was granted certain subsidies, which support the Group's research efforts in defined research and development projects. These subsidies generally provide for reimbursement of approved costs incurred as defined in the grants. Subsidies are recognised at their fair value when there is a reasonable assurance that the subsidy will be received and the Group will comply with all attached conditions.

The Group includes income from subsidies under 'income from subsidies' in the income statement in order to enable comparison of its income statement with companies in the life sciences sector.

Companies in the life sciences sector generally present governmental subsidies as income, as these subsidies often are a significant source of income. Furthermore, research and development expenses would, generally, be incurred to the same amount if no governmental contributions would be granted.

The WBSO ('wet bevordering speur- en ontwikkelingswerk') is a fiscal facility that provides subsidies to companies, knowledge centres and self-employed people who perform research and development activities (as defined in the WBSO Act). Under this Act, a portion of the labour costs of employees directly involved in research and development can be deducted from the regular payment of payroll taxes and social security contributions. Subsidies relating to labour costs (WBSO) are deferred and recognised in the income statement as negative labour costs over the period necessary to match them with the labour costs that they are intended to compensate.

2.16 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement as incurred.

3 Risk management

3.1 Financial risk management

The Group is exposed to a variety of financial risks, with the most important risks being: market risk (including foreign currency risk and credit risk) and liquidity risk. The Group's overall risk management program seeks to minimise potential adverse effects of these financial risk factors on the Group's financial performance. For a discussion of the Company's risk management and system of internal controls, reference is also made to the 'Executive Board report' elsewhere in this document.

(a) Foreign currency risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities in foreign currencies. The Company is not exposed to a significant foreign exchange risk. Substantially all customer invoices are sent and paid in Euro, only a minor part of the supplier invoices are in currencies other than the Euro (4.2% of the outstanding payables at 31 December 2010 consist of currencies other than the Euro) and there are no other significant transactions in currencies other than the Euro.

(b) Credit risk

Over the years, OctoPlus has established a loyal international client base with a high percentage of long-term clients, either outsourcing multiple projects at OctoPlus or returning to OctoPlus with their next project or development phase. The Company top-5 customers in the year 2010 generated 45% of the Company's 2010 consolidated revenues, with the largest two customers generating between 10% and 15% of 2010 consolidated revenues.

The Group has a (pro)-active receivables collection policy in place. Through this policy, the Company ensures that contracts are only signed with customers with a healthy balance sheet, collaterals from each customer are required before work starts on any new project, invoices are sent on a monthly basis directly after the end of each month and the customer is contacted when invoices become overdue.

Through the combination of a loyal client base and the Company's receivables collection policy as outlined above, Management believes that the Company's credit risk is small.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the availability of contingency plans in case of significant downfalls.

At year-end 2010, the Company had a net cash balance of € 2,707, with a credit line facility of up to € 2.0 million available in 2011 (Note 15), of which € 971 was available at 31 December 2010.

OctoPlus is specialised in the controlled release, formulation and cGMP manufacture of injectable products. These services are provided on a fee-for-service basis. Contract periods vary from a number of months to a number of years, with often a significant part of the activities taking place in the first six months. Existing customers often return to OctoPlus for additional work on existing or new projects. Due to the nature of the contracts (including its duration), a significant part of the Company's budgeted revenues for a year is not contracted at the beginning of that year. This also applies to the year 2011. In case the Company is not able to sign new revenue generating deals in the remainder of 2011, its financial position will be harmed significantly. In addition, customers might decide to suspend or terminate the development activities we conduct on their behalf. This can be done on relatively short notice and could also

significantly harm the Company's financial position. However, the Company currently has a healthy order portfolio and a healthy acquisition funnel, which are in line with past experience. As a result, the Company is positive towards meeting its targeted levels of revenues and cash.

Locteron is currently in Phase IIb clinical development. When a commercial partner is found by its current owner Biolex, the Company believes that Biolex and its commercial partner will request OctoPlus to further develop the process and the analytics of the product and to manufacture Locteron as it has done before. This is expected to generate significant revenues in the short and mid-term future and could also result in milestone and royalty payments in the longer term.

In February 2011, the Company signed a contract with ESBATech, an Alcon Biomedical Research Unit to develop a controlled release formulation for one of its proprietary biological compounds for ophthalmic applications. The project includes process development, scale-up and manufacturing for pre-clinical studies. This contract will make a material contribution to the Company's 2011 revenues. In case the project progresses successfully, it might progress into a contract similar to Locteron, with OctoPlus developing and manufacturing the drug and potentially also being eligible to milestone and royalty payments.

Taking into account the Company's year-end cash position, the available credit line facility, the revenues contracted, the cost base, the Company's internal control environment and the available contingency plans, the Company has sufficient funds for a period of at least 12 months. Potential other projects, such as Locteron, might significantly improve the Company's cash position during the next 12 months.

Maturity analysis for non-derivative financial instruments

	No later than 1 year	Between 1 and 5 years	Later than 5 years	Total
At 31 December 2010				
Finance lease liabilities	1,832	5,282	10,045	17,159
Trade and other liabilities[1]	5,489	-	-	5,489
	7,321	5,282	10,045	22,648
At 31 December 2009				
Finance lease liabilities	1,798	6,059	10,526	18,383
Trade and other liabilities[1]	6,371	-	-	6,371
	8,169	6,059	10,526	24,754

1 The contractual payments with regard to trade and other liabilities do not include deferred income (Note 17).

(d) Other financial risks

The Group is exposed to a marginal equity securities price risk through its equity interest in Biolex (Note 8) and to a marginal interest rate risk through its current credit line facility. The Group is not exposed to commodity price risk but does have a marginal fair-value risk.

3.2 Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern. The Group does not have a targeted debt-to-equity ratio but equity needs to be at least 25% of the balance sheet total (adjusted for certain items) to comply with the covenants of its current € 2.0 million credit line facility with ABN Amro (Note 15).

Under the Group's strategy, the Group strives for a cash generative business in the medium term. Any cash requirements the Group might have will be funded through equity or loan agreements.

The capital structure of the Group consists of financial liabilities (as detailed in Note 15), cash and cash equivalents, net of bank overdrafts (as detailed in Note 9) and equity, comprising issued capital, reserves and retained earnings (as detailed in Note 12).

4 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year

as well as critical judgements in applying the Group's accounting policies are discussed below.

(a) Impairment test of goodwill and patents

Goodwill and patents not yet available for their intended use are not amortised but are subject to an annual impairment test or more frequent testing whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of the impairment testing, goodwill and patents are allocated to cash-generating units. The recoverable amount of the applicable cash-generating unit is determined based on value-in-use calculations by using the discounted cash flow model.

In the years presented, all goodwill recognised relates to the acquisition of Chienna B.V. in the year 2003 and substantially all of the patents relate to the PolyActive drug delivery technology as acquired in two stages; (i) as part of the acquisition of Chienna B.V. in 2003 and (ii) as acquired from IsoTis Inc. in April 2007. This technology is used for Locteron and other projects.

The Company operates as one reportable segment and all goodwill and patents are assigned to the 2003 business acquisition that led to the recognition of the goodwill and patents.

In performing impairment testing of goodwill and patents, Management must make significant judgements and estimates to determine whether the cash flows generated by the cash-generating unit that the assets belong to are less than the unit's carrying value. The data necessary for performing the impairment tests are based on Management's estimates of future cash flows. Determining cash flows requires the use of judgements and estimates that have been included in the Group's strategic plans and long-term forecasts. Expected cash flows from all signed agreements and prospects are discounted against the weighted average cost of capital ('WACC'). The Company's WACC per 31 December 2010 requires significant judgement. Management evaluated the WACC using different approaches and estimated that the WACC ranges between 10% and 15% (pre-tax). The impairment analysis in respect of the intangible assets has been performed using different WACC percentages within this range.

No impairment losses have been recognised in 2010 (Note 6).

(b) Impairment test of financial assets

The financial asset carried at cost relates to an equity interest in Biolex (Note 8). The Group assesses at each balance sheet date whether there is any objective evidence that this financial asset is impaired. Signs of impairment could be (i) significant financial difficulty of the issuer, (ii) a breach of contract, (iii) it becoming probable that the borrower will enter into bankruptcy or another financial reorganisation, (iv) the disappearance of an active market for that financial asset because of financial difficulties, or (v) observable data indicating that there is a measurable decrease in the estimated future cash flows from the financial asset since the initial recognition of those assets.

The Group concluded that there is no objective evidence for impairment (Note 8).

(c) Impairment test of tangible fixed assets

The Company's tangible fixed assets consist of property, plant and equipment and are explained in Note 7. All tangible fixed assets are reviewed for impairment at each reporting date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. This assessment includes both (i) internal sources of information, such as a significant and unexpected decline in market value of an asset, significant changes with an adverse effect in the technological, market, economic or legal environment in which the entity operates or the market to which the asset is dedicated and an increase in market interest rates used to discount future cash flows and (ii) external sources of information, such as evidence of obsolescence or physical damage of an asset, significant changes with an adverse effect of how an asset is used or is expected to be used and evidence of decreased performance of an asset.

The Group concluded that the cleanroom in the Company's initial facilities is fully impaired (Note 7).

(d) Revenue recognition

In October 2008, the Group signed an exclusive contract for the sale of its share of the commercial rights to its lead-product Locteron to its former partner Biolex and simultaneously signed an agreement with Biolex for the further development and manufacturing of Locteron (Note 18).

As the two contracts relate to different topics, have milestones independent from each other and the agreement to further develop and manufacture Locteron can be terminated without having impact on the contract related to the sale of the commercial rights to Locteron, the revenue recognition criteria for the two transactions have been applied separately to each of the two transactions.
For the sale of its commercial rights to Locteron, the Group received, among others, an $ 11.0 million

non-refundable, non-creditable up-front payment and an equity interest in Biolex. Part of the up-front payment and the equity interest was deferred and released as service revenues as development and manufacturing of Locteron progressed.

(e) Corporate income taxes

The Group, which has a recent history of tax losses, recognises deferred tax assets arising from unused tax losses or tax credits only to the extent that the relevant fiscal unity has sufficient taxable temporary differences or there is convincing evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by that fiscal unity. Management's judgement is that such convincing evidence is currently not sufficiently available and a deferred tax asset is therefore only recognised to the extent that a fiscal unity has sufficient taxable temporary differences.

(f) Share-based payments

Share options granted are measured at the fair value of the equity instruments granted at grant date (indirect method of measurement). Fair value is determined through the use of an option-pricing model considering, the following variables:

a The exercise price of the option;
b The expected life of the option;
c The current value of the underlying shares;
d The expected volatility of the share price, calculated considering the effect of dividends on stock price;
e The dividends expected on the shares; and
f The risk-free interest rate for the life of the option.

Conditional option grants might include market conditions. These market conditions are included in the calculation of the fair value of the option.

For the Company's share option plans, Management's judgement is that the Binomial method is most appropriate for determining fair values as this method allows accounting for non-transferability, vesting conditions and early exercise.

For options granted before 30 June 2007, published OctoPlus share price information was only available for a short period of time, as the Company became publicly listed on 4 October 2006. The expected volatility of all options granted before that date is therefore still based on the average historical volatility of the peers over a period that agrees with the period of maturity. For all options granted after 30 June 2007, published OctoPlus share price information is available for a longer period of time and the expected volatility of the options granted after that date is therefore based on the average historical volatility of the OctoPlus share over a certain period of time.

All assumptions and estimates of both the conditional and unconditional option grants are further discussed in Note 6 and Note 12 to the consolidated financial statements.

The result of the share option valuations and the related compensation expense is dependent on the model and input parameters used. Even though Management considers the fair values reasonable and defensible based on the methodologies applied and the information available, others might derive at a different fair value for each of the Company's share option plans.

(g) Claims

Third parties might claim amounts from the Group. These claims are considered by Management on a case by case basis. A provision is recorded in case there is a present obligation as a result of a past event, an outflow of resources is probable and a reliable estimate of the obligation can be made. In other cases, a contingent liability is recorded.

5 Segment information

(a) Operating segments

In 2009, the Company adopted IFRS 8 with regard to segment reporting. OctoPlus operates in one reportable segment named 'formulation, drug delivery and manufacturing activities', which combines contract formulation and manufacturing activities and activities whereby the Company combines its proprietary drug delivery technology with biopharmaceutical drugs or compounds of partners in order to improve the properties of such product candidates. Both activities are highly interrelated and as a result decisions are made by the Executive Board (who is identified as the 'chief operating decision maker') on a consolidated basis and discrete and valuable financial information per activity can not be made available.

(b) Geographical information

The Group's customers are mainly located in the European Union and North America as shown below:

Revenues	2010	2009
European Union	3,859	5,450
North-America	2,283	11,531
Other countries	2,187	2,065
	8,329	19,046

(c) Major customers

Biolex contributed 10% to the Company's consolidated revenues in 2010 (2009, 59%). A France-based biotechnology company was the only other customer that contributed more than 10% to the Company's consolidated revenues in 2010 (13%). Except for Biolex, there were no other customers that contributed more than 10% to the Company's consolidated 2009 revenues.

6 Intangible assets

	Goodwill	Patents	Other intangible assets	Total
At 1 January 2009				
Cost	243	2,759	577	3,579
Accumulated amortisation	-	(73)	(462)	(535)
Net book value	243	2,686	115	3,044
Year ended 31 December 2009				
Opening net book value	243	2,686	115	3,044
Additions	-	-	12	12
Amortisation charge	-	(292)	(73)	(365)
Impairment losses	-	(292)	(25)	(317)
Closing net book value	243	2,102	29	2,374
At 31 December 2009				
Cost	243	2,467	519	3,229
Accumulated amortisation	-	(365)	(490)	(855)
Net book value	243	2,102	29	2,374
Year ended 31 December 2010				
Opening net book value	243	2,102	29	2,374
Additions	-	-	-	-
Amortisation charge	-	(291)	(24)	(315)
Closing net book value	243	1,811	5	2,059
At 31 December 2010				
Cost	243	2,467	519	3,229
Accumulated amortisation	-	(656)	(514)	(1,170)
Net book value	243	1,811	5	2,059

6.1 Patents and goodwill

At 31 December 2010, OctoPlus has capitalised € 243 of goodwill and € 1,811 of patents. The goodwill and the patents relate to:

- The acquisition of Chienna B.V. in 2003. As part of this acquisition, the Group acquired patents related to the PolyActive technology which were valued at € 1,167 and recorded € 243 of goodwill. In addition, the Group acquired the full rights to the PolyActive technology and its intellectual property in certain strategic areas from IsoTis Inc., in April 2007 for € 1,250 (€ 1,761 net book value of patents at 31 December 2010).
- The acquisition of the worldwide rights to sublicense, develop, manufacture, market, distribute and sell OP-145, a novel therapy for the treatment of chronic middle ear infection (otitis media) from Leiden University Medical Centre in 2003 for a total amount of € 50 (€ 50 net book value of patents at 31 December 2010).

In October 2008, the Group sold its share of the commercial rights to its lead-product Locteron to Biolex (Note 18). PolyActive is the drug delivery system used in Locteron and the Group has started amortising the PolyActive patents from October 2008 onwards over the remaining life of the patents, which is between six and eight years at 31 December 2010.

OP-145 is the Company's product for middle ear infection which is in Phase II of clinical development. The Company has the intention to out-license the product to a third party and is currently in discussion with potential parties for an out-licensing agreement. As the assets are not ready for their intended use, amortisation on the OP-145 patents has not started yet.

Impairment test of goodwill and patents

(a) Impairment test of goodwill and patents related to the PolyActive technology

The Company has performed an impairment test for the goodwill and patents related to the PolyActive technology by comparing the carrying amounts with the recoverable amounts. Based upon these impairment tests, the Company concluded that the assets were not impaired. Key elements for assessing impairment included:

- The sale of the Group's share of the commercial rights to its lead-product Locteron to co-development partner Biolex (Note 18). As part of the agreement, OctoPlus is, among others, eligible to additional US dollar milestone payments up to $ 138 million and royalty payments on future sales of Locteron;

- The contract signed with Biolex for the further development and manufacturing of Locteron, which had a significant impact on the Group's 2009 and 2010 financial results and which might also have a significant impact on the Group's future financial results;
- At the end of June 2009, Biolex finalized the enrolment of patients in a Phase IIb clinical trial. Detailed and favourable results on 12-week data from this study were presented at the EASL conference in April 2010;
- Early November 2010, Biolex presented positive results from two Phase IIb trials with Locteron at the AASLD conference, further demonstrating the strong anti-viral response and tolerability advantages of the 480 µg dose of Locteron in the treatment of hepatitis C;
- Developments within Biolex, such as outsourcing manufacturing of the active ingredient interferon A to Cook Pharmica as announced by Biolex in August 2009, indicating further development of Locteron; and,
- The collaboration agreements signed with customers for feasibility projects to develop controlled release formulations for biotech and pharmaceutical companies using PolyActive, whereby OctoPlus is reimbursed for the development cost and might be eligible to future milestone and royalty payments in case development progresses successfully.

(b) Impairment test of patents related to OP-145

The Company has performed an impairment test for the patents related to the worldwide rights to sublicense, develop, manufacture, market, distribute and sell OP-145 by comparing the carrying amount with the recoverable amount. Based upon this impairment test, the Company concluded that the patents were not impaired. Key elements for assessing impairment included:

- The successful completion of the OP-145 Phase II clinical study, as announced on 28 July 2008, which demonstrated the efficacy of OP-145; and,
- Currently on-going negotiations with commercial partners to out-license the product. OctoPlus might be eligible to a license fee and is likely to be engaged in the further development of the product on a fee for service basis.

(c) Impairment test of patents related to the treatment of type 2 diabetes

On 26 September 2007, the Company acquired the exclusive worldwide rights to develop and commercialise a family of compounds, including a GLP-1 agonist product candidate for the treatment of type 2 diabetes from Canadian biopharmaceutical company Theratechnologies Inc. As consideration for the license granted, the Company granted options to acquire 200,000 OctoPlus shares at a price of € 3.95 per share to Theratechnologies. Theratechnologies is also eligible to future milestone and royalty payments. The Company measured the value of these rights indirectly through the fair value of the equity instruments granted using the Binomial model, resulting in a fair value of € 292 included under 'intangible assets', with a corresponding entry to 'other reserves' within equity.

Due to the changed Company strategy and the remote probability of finding a license partner for a product based on the family of compounds licensed from Theratechnologies, the patents were impaired in 2009. An impairment loss of € 292 was recorded under 'depreciation and amortisation' in the consolidated statement of comprehensive income in 2009. As the strategy of the Company did not change in 2010, the impairment of these patents is not reversed in 2010.

6.2 Other intangible assets

Other intangible assets consist of acquired software, which is amortised over its estimated useful lives.

During 2009, some of these items were replaced and thereby impaired. The historical cost of these items was € 70 and the accumulated depreciation at the date of impairment was € 45, resulting in an impairment loss of € 25.

7 Property, plant and equipment

	Buildings	Machines & instal-lations	Other equip-ment	Total
At 1 January 2009				
Cost	8,574	16,318	2,166	27,058
Accumulated depreciation	(817)	(4,754)	(1,831)	(7,402)
Net book value	7,757	11,564	335	19,656
Year ended 31 December 2009				
Opening net book amount	7,757	11,564	335	19,656
Additions	5	719	161	885
Depreciation charge	(429)	(1,479)	(180)	(2,088)
Closing net book amount	7,333	10,804	316	18,453
At 31 December 2009				
Cost	8,579	17,037	2,297	27,913
Accumulated depreciation	(1,246)	(6,233)	(1,981)	(9,460)
Net book value	7,333	10,804	316	18,453
Year ended 31 December 2010				
Opening net book amount	7,333	10,804	316	18,453
Additions	-	45	9	54
Depreciation charge	(430)	(1,566)	(126)	(2,122)
Impairment losses	-	(337)	-	(337)
Closing net book amount	6,903	8,946	199	16,048
At 31 December 2010				
Cost	8,579	17,082	2,306	27,967
Accumulated depreciation	(1,676)	(8,136)	(2,107)	(11,919)
Net book value	6,903	8,946	199	16,048

The buildings as shown in the table above relate to the Group's office, laboratory and manufacturing facilities located in Leiden, the Netherlands, which are both leased for a period of 20 years. The initial facilities ('building A') were sold to a third party in 2004 and leased back for a period ending in 2024, with OctoPlus having the option to extend the lease for an additional five year period at the end of each lease term. In 2008, construction was finalized for the facilities built adjacent to the existing facilities ('building B'). Building B was leased by the Group for a period ending in 2028, with OctoPlus having the option to extend the lease for an additional five year period at the end of each lease term. As substantially all of the risks and rewards incidental to ownership have been transferred to the Group, both buildings are classified as a finance lease. The land portion of the lease is classified as an operating lease. Bank guarantees, equal to three months of rent are provided to the landlord as security (Note 28).

The machines and installations as shown in the table above relate to the Group's cGMP manufacturing facilities, the equipment used in these facilities and the equipment used in the Group's laboratory facilities. In December 2008, a significant part of the equipment used in the manufacturing facilities in building B was sold to ABN Amro Lease N.V. ('ABN Amro Lease', formerly known as Amstel Lease Maatschappij N.V.) for an amount of € 3,678 and leased back for a period of five years. At the end of the five year lease term, this equipment can be purchased from ABN Amro Lease for € 4. As substantially all of the risks and rewards incidental to ownership have been transferred to the Group, the equipment is classified as a finance lease.

Other equipment as shown in the table above relates to computer hardware, office equipment and office fit out. In February 2009, the Company signed an agreement for the lease of certain office equipment. As substantially all of the risks and rewards incidental to ownership have been transferred to the Group, this contract is classified as a finance lease for an initial amount of € 80. As part of this agreement, certain other leased office equipment was removed from OctoPlus' premises. The historical cost of this office equipment was € 30 and it was already fully depreciated at the time of retirement. Accordingly, both 'cost' and 'accumulated depreciation' at 31 December 2009 reduced by € 30.

Finance leases and securities

Property, plant and equipment included the following amounts where the Group is a lessee under finance leases:

Buildings	2010	2009
Cost capitalised finance leases	8,825	8,825
Accumulated depreciation	(1,676)	(1,246)
Net book amount	7,149	7,579

Machines and installations	2010	2009
Cost capitalised finance leases	3,678	3,678
Accumulated depreciation	(727)	(306)
Net book amount	2,951	3,372

Other equipment	2010	2009
Cost capitalised finance leases	137	137
Accumulated depreciation	(75)	(34)
Net book amount	62	103

Total	2010	2009
Cost capitalised finance leases	12,640	12,640
Accumulated depreciation	(2,478)	(1,586)
Net book amount	10,162	11,054

Finance lease liabilities are secured on the assets held under these finance leases as the rights to the leased assets revert to the lessor in the event of default.

No interest costs were capitalised related to the investments in property, plant and equipment.

Impairment test of property, plant and equipment

Assets subject to amortisation or depreciation are reviewed for impairment at each reporting date and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In 2009, the Company's manufacturing facilities in building B became available. These facilities offered sufficient capacity for the manufacturing of all 2010 batches. It is also anticipated that these facilities will give sufficient capacity for the batches to be manufactured in the next few years. As a result, the Company decided to use the manufacturing facilities in building A for other purposes and the cleanroom, which is the cGMP facility in which manufacturing takes place, in building A was fully impaired in the second part of 2010. An impairment loss of € 337 is recorded under 'depreciation and amortisation' in the consolidated statement of comprehensive income in 2010.

8 Financial assets carried at cost

	2010	2009
Financial assets carried at cost	1,299	1,299

In October 2008, the Group signed a product rights acquisition agreement to sell its share of the commercial rights to its lead-product Locteron to Biolex (Note 18). Part of the consideration received by the Group, was an equity interest in Biolex. The assets were initially valued at fair value by using the same price per share as paid for by other investors in Biolex in October 2008, resulting in a value of € 1,299 (2009, € 1,299).

At each balance sheet date the Group assesses whether there is any objective evidence of impairment. As Biolex shares are not traded on an active market, a quoted market price is not available. As a result, the shares are subsequently valued at cost. Based upon Management's assessment, the fair value at cost of the Biolex shares is equal to or higher than its current book value and, as a result, there is no objective evidence of impairment and no impairment losses have been recognised by the Company on the equity interest in Biolex.

Currently, the Group does not intend to sell its equity interest in Biolex in the near future.

9 Cash, cash equivalents and bank overdrafts

	2010	2009
Gross cash and cash equivalents	2,713	3,324
Bank overdrafts	(6)	(11)
Net cash and cash equivalents	2,707	3,313

For more details on the bank overdrafts, see Note 15.

10 Inventories

	2010	2009
Inventory raw materials	307	457

The inventory raw materials decreased as a result of more efficient planning within the Company.

There has not been a reversal of any write-down of inventories in 2009 or 2010.

11 Trade and other receivables

	2010	2009
Trade receivables	1,789	2,263
Allowance for doubtful accounts	(54)	(56)
Trade receivables – net	1,735	2,207

Customer invoices for services provided by the Group are generally sent out at or around the end of each month. The average credit period provided to customers is 30 days. In general, interest is not charged on trade receivables. The Group has a proactive receivables collection policy in place to ensure that contracts are only signed with customers with a healthy balance sheet. Collaterals from each customer are required before work will start on any new project. The credit quality of each existing customer is also regularly re-assessed.

Movement in the allowance for doubtful accounts	2010	2009
Balance at the beginning of the year	56	42
Impairment losses recognised on receivables	(2)	14
Balance at the end of the year	54	56

Additions to and releases from the allowance for doubtful accounts are included in 'other costs' in the statement of comprehensive income.

Included in the Group's trade receivable balance are debtors with a carrying amount of € 973 (2009, € 1,178) that are past due at the reporting date for which the Group has not made a provision. At 31 December 2010, collaterals from customers totalling € 1,889 (2009, € 1,538) have been received, thereby significantly reducing any potential risk of any impairment of trade receivables.

Ageing of past due not impaired	2010	2009
1-30 days	596	954
31-60 days	38	88
Over 60 days	339	136
Total overdue	973	1,178

16% of the total trade receivables at 31 December 2010 related to Biolex (2009, 54%). The credit risk for the Company is limited, as Biolex is a creditworthy company which raised $ 60 million through a private offering in October 2008, and a further $ 20 million in 2010. Except for Biolex, there is one other customer that represents more than 10% of the total balance of trade receivables at year-end 2010 (2009, no customers). None of the invoices outstanding for this other customer is more than 1 day overdue at 31 December 2010 and none of these invoices is outstanding as of today.

	2010	2009
VAT to be received	208	284
Social securities and other taxes	208	284

	2010	2009
Prepaid expenses	610	635
Accrued income	226	270
Other amounts to be received	142	438
Other receivables, prepayments and accrued income	978	1,343

Accrued income includes € 72 (2009, € 32) related to subsidies.

12 Shareholders' equity

Share capital & share premium reserve

	Number of issued ordinary shares	Share capital (€ x 1,000)
At 1 January 2009	16,207,076	1,945
New shares issued	17,228,356	2,067
At 31 December 2009	33,435,432	4,012
New shares issued	3,343,542	401
At 31 December 2010	36,778,974	4,413

Authorised share capital
As of 1 January 2009, the Company had an authorised share capital of € 8,640, divided into 36,000,000 ordinary shares with a nominal value of € 0.12 per share and 36,000,000 preference shares with a nominal value of € 0.12 per share. On 23 April 2009, the AGM approved an increase of the authorised share capital to € 9,600, divided into 40,000,000 ordinary shares with a nominal value of € 0.12 per share and 40,000,000 preference shares with a nominal value of € 0.12 per share.

Preference shares
Preference shares are designed to be an instrument of protection against hostile takeovers.

Holders of preference shares are entitled to the following rights:
- Payment of a dividend equal to the average EURIBOR ('Euro Interbank Offered Rate') for the financial year increased by 1% on the profits made in the most recently elapsed financial year.
- In case of liquidation of the Company, payment of any outstanding dividend as well as the nominal paid-up amount of the preference shares.

No preference shares are issued and outstanding at 31 December 2009 and 2010.

Stichting Continuïteit OctoPlus, an entity incorporated in 2007 with the purposes to safeguard OctoPlus' interests and those of OctoPlus' enterprise and to protect, insofar as possible, the Company's continuity, the Company's independence and the Company's corporate identity, was liquidated in May 2010.

Preference shares and Stichting Continuïteit OctoPlus are discussed in more detail in the 'Corporate governance' section.

Ordinary shares issued and outstanding
At 1 January 2009, 16,207,076 ordinary shares were issued and outstanding. On 25 February 2009, OctoPlus issued 13,996,250 ordinary shares at a price of € 0.75 per share pursuant to a private placement and raised € 10.5 million in gross proceeds and € 9.8 million in net proceeds. Part of this private placement related to the conversion of the bridge loan facility entered into with Life Sciences Partners and S.R. One in March 2008 for a total amount of € 4.5 million (including accumulated interest) (Note 16). On 17 December 2009, OctoPlus issued 3,232,106 ordinary shares at a price of € 1.25 per share pursuant to a private placement and raised € 4.0 million in gross proceeds and € 3.8 million in net proceeds. As a result, 33,435,432 ordinary shares were issued and outstanding at 31 December 2009, representing a share capital of € 4,012.

On 23 December 2010, OctoPlus issued 3,343,542 ordinary shares at a price of € 1.18 per share pursuant to a private placement and raised € 3.9 million in gross proceeds and € 3.6 million in net proceeds. As a result, 36,778,974 ordinary shares were issued and outstanding at 31 December 2010, representing a share capital of € 4,413.
Mr. Egberts, the Company's CEO from 1 January 2011 onwards, participated in this financing round and acquired 127,119 shares at identical conditions as the other participants.

No shares are held as treasury shares at 31 December 2009 and 2010.

Other reserves

The costs of share options to employees (including the Executive Board) are recognised in the income statement, together with a corresponding increase in equity during the vesting period, taking into account (deferral of) corporate income taxes. The accumulated expense of share options recognised in the income statement is shown separately in the equity category 'other reserves' in the 'consolidated statement of changes in equity'.

Pursuant to the options being exercised, lapsed or forfeited, 'other reserves' is reversed with a corresponding entry to 'accumulated deficit'.

In the years presented in these financial statements, the Company did not have any legal or other types of reserves.

Share options

Option pool

The Group operates an equity-settled share-based compensation plan. The option pool is maximised at 7.5% of the issued and outstanding share capital, as reconfirmed by the Shareholders and the Supervisory Board on 12 May 2010 and amounted to 2,758,423 options (7.5% of 36,778,974 issued and outstanding ordinary shares) at 31 December 2010. The option pool was temporarily increased with 1,215,500 conditional options that were granted to Mr. Sturge on 6 November 2008. As a result, the option pool at 31 December 2009 amounted to 3,723,157 options (7.5% of 33,435,432 issued and outstanding ordinary shares at 31 December 2009 (2,507,657 options) plus 1,215,500 conditional options granted to Mr. Sturge). With Mr. Sturge's resignation on 31 December 2010, the option pool is maximised at 7.5% of the issued and outstanding share capital again. Share options granted under the Company's

employee share option plan carry no rights to dividends and no voting rights.

Overview options issued and outstanding

Out of the total option pool, the number of granted stock options issued and outstanding is 2,085,089 per 31 December 2010 (2009, 1,812,033 options issued and outstanding) of which 200,000 options have been granted to Theratechnologies on 26 September 2007 (Note 6) and all other options have been granted to employees and former employees of the Group. 1,215,500 options of the 1,812,033 options issued and outstanding per 31 December 2009 were granted to Mr. Sturge on 6 November 2008 (Note 30). With his departure, these options forfeited.

Movements in the number of unconditional options outstanding are as follows:

	2010			
	Lowest exercise price in € per share	Highest exercise price in € per share	Average exercise price in € per share	Number of options
At 1 January	2.70	4.55	3.39	596,533
Granted	1.27	1.41	1.35	1,853,290
Forfeited	1.41	4.55	1.52	(317,740)
Exercised	-	-	-	-
Lapsed	2.70	2.70	2.70	(46,994)
At 31 December	1.41	4.55	1.87	2,085,089

	2009			
	Lowest exercise price in € per share	Highest exercise price in € per share	Average exercise price in € per share	Number of options
At 1 January	2.70	4.55	3.33	733,547
Granted	-	-	-	-
Forfeited	2.70	3.43	2.82	(78,914)
Exercised	-	-	-	-
Lapsed	3.43	3.43	3.43	(58,100)
At 31 December	2.70	4.55	3.39	596,533

Option rights automatically forfeit when an employee leaves the Company. 306,740 options out of the 1,003,290 unconditional options granted under the 2010 option plan forfeited in 2010 as a result of Mr. Sturge's departure (200,000 forfeitures) and other employees departures (106,740 forfeitures). The remaining 11,000 forfeitures relate to prior year option plans.

Unconditional share options outstanding at the end of the year have the following expiry years and exercise prices:

Expiry year	Share options	Exercise price in € per share	Share options	Exercise price in € per share
	2010	2010	2009	2009
2010	-	-	46,994	2.70
2011	188,169	3.17	199,169	3.25
2014	512,920	1.89	150,370	3.05
2015	1,184,000	1.31	-	
2017	200,000	3.95	200,000	3.95
	2,085,089		596,533	

During 2009, two members of the Executive Board and some other managers left the Company. As an exemption, Management decided that a few of these individuals would retain (part of) their option rights under identical conditions, with the exception that the exercise period for some of the options was extended.

The Group has no legal or constructive obligation to repurchase or settle any of the options in cash.

Total option expense for the Company's equity-settled share-based compensation plans recorded in 2010 amounted to € 157 (2009, € 133), of which € 76 (2009, € 74) related to options granted to members of the Executive Board (including the options granted to Mr. Egberts).

Options issued before 2010

The number of granted stock options issued and outstanding that were granted before 1 January 2010 is 538,539 per 31 December 2010 (2009, 596,533 options issued and outstanding)

All unconditional options granted to employees until 31 December 2009 are subject to the employee completing a pre-defined number of years of service ('the vesting period'). Each instalment of the Company's graded vesting scheme is treated as a separate share option grant. Consequently, the vesting periods for the individual instalments of the Company's graded vesting awards are between zero and four years for all options granted to employees. All unconditional options granted until 31 December 2009 are exercisable from the grant date onwards. Employees that have exercised options and leave the Company during the vesting period are generally obliged to repay part of the proceeds ('the award') received. The exercise price of all

granted options is equal to or higher than the market price of the shares on the date of the grant.

The 200,000 options granted to Theratechnologies in September 2007 are valued using the Binomial method. The significant inputs into the model for these options were an exercise price of € 3.95 per share at the grant date, an annual risk-free interest rate of 4.49%, volatility of 45% and no expected dividend yields. The historical volatility used is based on the average of the historical volatility of the OctoPlus share over the period 1 January 2007 up to 26 September 2007. All options granted to Theratechnologies immediately vest and have an exercise period of the earlier of (1) the tenth anniversary of the date of the agreement and (2) the fifth anniversary of the date of termination of the agreement.

Options issued in 2010

The number of granted stock options issued and outstanding that were granted in 2010 is 1,546,550 per 31 December 2010.

On 12 May 2010, a revised option plan was approved by the Shareholders and the Supervisory Board. The revised plan is applicable for all options granted from 1 January 2010 onwards. Under the plan, each unconditional option has a vesting period of three years during which no options can be exercised followed by an exercise period of two years. Option rights automatically forfeit when an employee leaves the Company. Repayment of part of the award is no longer required. The exercise price of all granted options is equal to or higher than the market price of the shares on the date of the (conditional) grant.

Q1 2010 option grants

In February and March 2010, the Company granted 1,003,290 unconditional options and 534,000 conditional options to its personnel under the '2010 option plan'. Of the total number of options granted under the 2010 option plan, all conditional options and 534,000 unconditional options were granted to the members of the Executive Board.

The number of unconditional options each member of the Executive Board will receive from the conditional options granted depends on certain pre-defined performance criteria for each person in the years 2010, 2011 and 2012, with 1/3 of the conditional options related to each of the three years. The pre-defined performance criteria might include market conditions. Any conditional options not granted based upon the 2010, 2011 and 2012 performance may be granted in 2013 when certain pre-defined performance criteria related to the 2013 performance of each of the Executive Board members are met.

All options granted are valued using the Binomial method. The exercise price of each unconditional option under the 2010 option plan is equal to the OctoPlus closing share price of the preceding year. As a result, the exercise price of all unconditional options granted and the exercise price of the 2010 conditional options is equal to the OctoPlus 2009 closing share price of € 1.41 per OctoPlus share, the exercise price for the 2010 conditional options is equal to the OctoPlus 2010 closing share price of € 1.27 per OctoPlus share and the exercise price for the 2012 and 2013 conditional options will be determined at the end of the years 2011 and 2012 respectively. Other significant inputs into the model are presented in the table below. The historical volatility used is based on the average of the historical volatility of the OctoPlus share over the period 1 January 2007 until the date of grant.

	2010	2010	2011	2012	2013
	unconditional options	conditional options	conditional options	conditional options	conditional options
Annual risk-free interest rate	2.46%	2.72%	2.94%	3.13%	3.28%
Volatility	53%	53%	53%	53%	53%
Expected dividend yields	None	None	None	None	None

All options under the 2010 option plan vest three years after the date of unconditional grant and have a subsequent exercise period of two years. The weighted average fair value of the options granted under the 2010 option plan is € 0.69 per option.

On 25 February 2011, Mr. Moolhuizen and Mrs. Swarte received 22,266 unconditional options in total from the 111,334 conditional options granted for their 2010 performance. As per the option plan, the conditional options not granted move to 2013.

December 2010 option grant to Mr. Egberts

On 1 December 2010, the Company granted 850,000 unconditional options and 300,000 conditional options to the Company's new CEO, Mr. Egberts, who formally started working for OctoPlus on 1 January 2011.

The number of unconditional options Mr. Egberts will receive from the conditional options granted depends on certain pre-defined performance criteria in the years 2011, 2012, and 2013 with 1/3 of the conditional options related to each of the

three years. The pre-defined performance criteria might include market conditions.

All options granted are valued using the Binomial method. The exercise price of the unconditional options granted is € 1.27, which is equal to the OctoPlus closing share price on 1 December 2010. The exercise price of each conditional option is equal to the OctoPlus 2010 closing share price of € 1.27. Other significant inputs into the model are presented in the table below. The historical volatility used is based on the average of the historical volatility of the OctoPlus share over the period 1 January 2007 until the date of grant.

	2010	2011	2012	2013
	unconditional options	conditional options	conditional options	conditional options
Annual risk-free interest rate	2.31%	2.58%	2.72%	2.89%
Volatility	50%	50%	50%	50%
Expected dividend yields	None	None	None	None

In case of a merger or an acquisition, all options granted and all options conditional on Mr. Egberts' performance in the year of the merger or acquisition will immediately vest. In case of follow-on financing rounds, Mr. Egberts will receive additional options so that the potential pro rata participation of Mr. Egberts remains unchanged.

All options granted to Mr. Egberts vest three years after the date of unconditional grant and have a subsequent exercise period of two years. The weighted average fair value of the options granted under the plan is € 0.58 per option.

13 Corporate income taxes

OctoPlus N.V. is a fiscal unity for Dutch corporate income tax purposes with OctoShare B.V., OctoPlus Development B.V., OctoPlus Technologies B.V., OctoPlus Sciences B.V., Chienna B.V. and OctoPlus PolyActive Sciences B.V., all 100% subsidiaries of OctoPlus N.V. All members of the fiscal unity are severally liable for any corporate income tax due for the period they are part of this fiscal unity. Until 2010, the Company had a 100% subsidiary in the United States of America which was due corporate income taxes in the United States of America. Following the closure of the Company's US office in the year 2009, this legal entity OctoPlus Inc was liquidated in October 2010.

Deferred corporate income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred corporate income taxes relate to the same fiscal authority.

Deferred corporate income tax assets and liabilities are measured at the (substantially) enacted tax rates that are expected to apply to the period when the asset is realised or the liability is settled. For the Group's deferred corporate income tax assets and liabilities at 31 December 2010, this resulted in a corporate income tax rate of 25.0% (31 December 2009, 25.5%) used to calculate the deferred corporate income tax assets and liabilities for the fiscal unity headed by OctoPlus N.V.

Over the last few years, the Group has shown a net loss, with in general deferred corporate income tax assets, caused by these net losses, well exceeding any (potential) deferred corporate income tax liabilities. The Group only recognises deferred corporate income tax assets when there is convincing evidence that sufficient taxable profit will be available against which the unused tax losses or unused tax credits can be utilised by the relevant fiscal unity. Management's judgement is that such convincing evidence was not sufficiently available in 2009 and 2010. As a consequence of the above, the Company did not record any deferred corporate income tax assets or liabilities and did not record a corporate income tax expense or income in the years presented.

Tax losses

As of 1 January 2007, the Corporate Income Tax Act 2007 became effective. As from this date onwards, tax loss carry-forward in the Netherlands is subject to a time limitation of 9 years. The Corporate Income Tax Act 2007 also applies to tax losses incurred before 2007, with a transitional provision for losses incurred in the years up to and including 2002. These losses may still be offset against future profits up to and including book years starting in 2011. The total amount of tax losses carried forward and deferred corporate income tax assets as well as the amounts of recognised and unrecognised deferred corporate income taxes per fiscal unity are as follows:

	Tax losses carried forward	Deferred taxes	Deferred tax asset recog-nised	Deferred tax asset not-recog-nised
At 31 December 2010				
OctoPlus N.V. [1]	52,602	13,151	-	13,151
OctoPlus Inc [2]	-	-	-	-
	52,602	13,151	-	13,151
At 31 December 2009				
OctoPlus N.V. [1]	46,102	11,756	-	11,756
OctoPlus Inc	286	97	-	97
	46,388	11,853	-	11,853

1 The use of tax losses in future years may be restricted as a result of profit split rules for mergers and fiscal unities as stipulated in the Dutch corporate income tax act 1969.
2 With the liquidation of OctoPlus Inc in 2010, the tax losses carried forward for OctoPlus Inc can no longer be offset against future profits.

The tax losses carried forward per year are as follows:

	OctoPlus N.V.
2002 or earlier	953
2003	3,261
2004	1,750
2005	5,698
2006	11,561
2007	14,410
2008	5,717
2009	2,733
2010	6,519
Total tax losses carried forward	52,602

The tax result for the year can be reconciled to the net (accounting) result as follows:

	2010	2009
Net result for the year	(6,202)	(2,957)
Effect of expenses that are not deductible in determining taxable profit	157	133
Effect of costs directly offset with proceeds of financing rounds	(308)	(945)
Effect of differences in depreciable lives, classification of leases and other items	(166)	900
Tax result for the year	(6,519)	(2,869)

14 Pension liabilities

Until 31 January 2006, the Group operated a collective defined benefit plan. This plan was replaced on 1 February 2006 by a collective defined contribution plan. Under this new plan, the Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. No amounts have been recognised in the consolidated statement of financial position at 31 December 2009 and 2010 for the terminated defined benefit plan, as the only risk remaining for the Group after the termination date is the risk involving the transfer of pension benefits from the Group's pension plan to a third party pension plan at the end of employment with one of the group companies, which risk and its financial impact is perceived by the Company as not material.

15 Borrowings and finance lease liabilities

Finance lease liabilities	2010	2009
Non-current portion	9,296	10,316
Current portion	1,020	951
Finance lease liabilities	10,316	11,267

Maturity analysis for non-derivative financial liabilities:

	2010	2009
Finance lease liabilities – minimum lease payments:		
No later than 1 year	1,832	1,798
Between 1 and 5 years	5,282	6,059
Later than 5 years	10,045	10,526
	17,159	18,383
Future finance charges on finance leases	(6,843)	(7,116)
Present value of finance lease liabilities	10,316	11,267
The present value of finance lease liabilities is as follows:		
No later than 1 year	1,020	951
Between 1 and 5 years	3,086	3,390
Later than 5 years	6,210	6,926
	10,316	11,267

Finance lease liabilities decreased to € 10,316 (2009, € 11,267) due to scheduled repayments on the different finance lease agreements.

The carrying amounts of all non-current financial liabilities approximate their fair values.

Lease liabilities are effectively secured by the lessor as the rights to the leased asset revert to the lessor in the event of default.

Bank overdrafts

The bank overdraft of € 6 (2009, € 11) relates to a credit line facility for working capital and investment purposes up to € 2.0 million with ABN Amro Bank N.V., formerly known as Fortis Bank (Nederland) B.V., as agreed in December 2009. The interest charged on the facility is linked to EURIBOR and the actual amount available in a certain month is calculated as a percentage of the eligible receivables at the end of the previous month. This credit line facility replaced the Company's credit line facility with ABN Amro Bank N.V. (currently Deutsche Bank N.V.) from early 2010 onwards. As collateral, OctoPlus N.V. and its subsidiaries provide a pledge over their equipment, inventories, receivables and patents (with the exception of patents owned by PolyActive Sciences B.V.). The net book value of the property, plant and equipment pledged amounted to € 6,131 at 31 December 2010 (2009, € 7,491). In addition, the facility agreement contains a covenant that requires OctoPlus N.V.'s consolidated tangible net worth to equal at least 25% of the adjusted balance sheet total. There were no breaches of this covenant in 2009 and 2010.

Finance lease arrangements

The agreement with ABN Amro Lease includes the following securities:
- The shares in OctoPlus Development B.V. are collateralised to ABN Amro Lease,
- Shareholders' equity of OctoPlus Development B.V. needs to exceed 30% of the adjusted balance sheet total at 31 December 2010. There was no breach of this covenant at 31 December 2010.

There are no further restrictions imposed by this lease agreement.

Effective interest rates and borrowing facilities

The effective interest rates at the balance sheet date were as follows:

	2010	2009
Bank overdrafts	3.0%	5.0%
Finance lease liabilities	8.9%	8.6%

The available amounts on the credit line facility at the balance sheet date were as follows:

	2010	2009
Credit line facility – up to maximum of facility	1,994	1,487
Credit line facility – available at end of period	971	1,084

16 Convertible loans

In 2009, the Company's bridge loans amounting to € 4.5 million (including accumulated interest) were converted into ordinary shares as part of a private placement in February 2009 (Note 12). The Company obtained these bridge loans from two of its major Shareholders in 2008. The loan part and the option to convert were treated as two separate transactions, with the option to convert valued at zero as the estimated future cash outflows for the Company in case of actual conversion were expected to be close or equal to zero.

17 Trade and other payables

	2010	2009
Trade payables	1,471	2,136

The average credit period received from vendors is 30 days. In general, no interest is charged on trade payables. The Group has financial risk management policies in place to ensure that all payables are generally paid within the credit timeframe.

Trade payables decreased from € 2,136 to € 1,471 mainly as a result of a lower cost base in the Company caused by the change in strategy and a closer cost control.

In total € 7 (2009, € 7) of invoices received and outstanding related to property, plant and equipment.

Included in the Group's trade payable balance are creditors with a carrying amount of € 936 (2009, € 1,341) that are past due at the reporting date.

Ageing of past due	2010	2009
1-30 days	319	535
31-60 days	134	201
Over 60 days	483	605
Total overdue	936	1,341

Wage taxes and accrued social security costs	176	43
Social securities and other taxes	176	43

Subsidies received in advance (Note 19)	521	774
Deferred income	607	760
Collaterals from customers	1,889	1,538
Accrued expenses	1,426	1,718
Other amounts to be paid	-	151
Other current liabilities	4,443	4,941

The carrying amounts of all current financial liabilities approximate their fair values.

Collaterals from customers are settled with the last invoice payment.

Included under 'trade payables' are related-party transactions for a total amount of € 97 at 31 December 2010 (2009, € 115) and included under 'other current liabilities' are related-party transactions for a total amount of € 82 at 31 December 2010 (2009, € 138) (Note 30).

18 Revenues

	2010	2009
Service revenues	7,978	18,636
License and other revenues	86	370
Income from subsidies (Note 19)	265	40
	8,329	19,046

Service revenues

In October 2008, the Group signed an exclusive contract (the 'product rights acquisition agreement') for the sale of its share of the commercial rights to its lead-product Locteron to its former partner Biolex. As consideration, the Group received an $ 11.0 million non-refundable, non-creditable up-front payment and an equity interest in Biolex in October 2008. The Group is also eligible to additional milestone payments up to $ 138 million and some additional Biolex non-voting common shares as well as royalties on future Locteron sales, all dependent upon certain pre-defined criteria with regard to the development, sale and/or out-licensing of Locteron being met.

Simultaneously with the sale of the commercial rights to Locteron, the Group signed an agreement with Biolex for the further development and manufacturing of Locteron (the 'product development and supply agreement'). As consideration, the Group received a pre-determined Euro hourly fee for all development activities performed under the agreement and an agreed Euro price per batch manufactured under the agreement. OctoPlus retains the Locteron manufacturing rights, with Biolex having the option to acquire these manufacturing rights for a fixed pre-defined fee.

Under the product development and supply agreement, OctoPlus performed significant development activities and manufactured all batches required for Biolex' Phase IIb clinical studies in 2009, generating € 11.1 million service revenues in 2009. In 2010, service revenues were only generated from release and stability testing of the batches manufactured in 2009 and prior years. As a result, service revenues decreased to € 0.8 million in 2010.

Non-Locteron service revenues slightly decreased to € 7.1 million (2009, € 7.5 million).

License and other revenues

License revenues relate to amounts earned from third parties with licenses and/or options to the Group's intellectual property and for amounts received for the sale of part of the Group's intellectual property. US-based company Surmodics Inc terminated its contract with OctoPlus related to the license of certain intellectual property owned by the Company in July 2009. As a result, license revenues decreased significantly in 2010 to € 70 (2009, € 357).

Other revenues relate to amounts earned from activities that do not form part of OctoPlus' core business and mostly relate to selling assets and

materials that are no longer required. Other revenues increased to € 16 in 2010 (2009, € 13).

19 Income from subsidies

Income from subsidies in the years presented related to the following two projects:

- In 2004, in collaboration with the Thorax Centre of Erasmus University (Rotterdam, the Netherlands), the Group commenced a three-year research project for a novel approach to treat myocardial regeneration, which was extended until 30 June 2011. Total costs of this project were estimated at € 3,250 at the start of the project. SenterNovem has granted a subsidy of € 2,000 in order to relieve the Group's and Erasmus University's burden in the costs. The Group and Erasmus University will finance the costs that exceed the € 2,000 subsidy. An advance of 25% of the total subsidy (€ 500) was received by the Group in December 2004 and is recorded as 'subsidies received in advance' under 'other current liabilities' in the consolidated statement of financial position at 31 December 2009 and 31 December 2010 (Note 17). At 31 December 2010, a balance of € 87 (2009, € 0) to be repaid to Erasmus University is recorded under 'trade payables' in the consolidated statement of financial position. Income from subsidies for this project amounted to € 265 in 2010 (2009, € 31).

- In 2004, the Group, in partnership with Utrecht University (Utrecht, the Netherlands), initiated a study for a second-generation drug delivery technology. For this study, a total subsidy of € 1,413 was granted by SenterNovem of which € 897 is allocated to the Group (being 70% of its estimated expenditures) and € 516 is allocated to Utrecht University (being 60% of its estimated expenditures). An advance of 25% of the total subsidy (€ 353) was received by the Group in December 2004. The project has ended in 2008 and the total subsidy amounted was determined in December 2009 at € 856, of which € 351 is allocated to the Group and € 505 is allocated to Utrecht University. At 31 December 2010, a balance of € 21 (2009, € 274) to be repaid to SenterNovem is recorded under 'subsidies received in advance' under 'other current liabilities' in the consolidated statement of financial position. In 2009, a balance of € 151 (2010, € 0) to be repaid to Utrecht University is recorded under 'other amounts to be paid' under 'other current liabilities' in the consolidated statement of financial position.

20 Cost of materials and work contracted out

All costs directly related to the Company's revenues are included in the cost category 'cost of materials and work contracted out'. These costs include (i) standard material costs for both the Company's manufacturing and laboratory facilities (ii) costs related to external testing (environmental and process monitoring) to retain the cGMP status for the Company's manufacturing facilities, (iii) costs related to development programs, and (iv) other direct material-related costs.

	2010	2009
Cost of materials and work contracted out	1,090	3,502

Cost of materials and work contracted out decreased significantly in 2010 due to (i) a significantly decrease in Locteron batches manufactured for Biolex, (ii) a more efficient use of materials and (iii) lower costs for external testing.

The amount of inventories recognised as an expense is equal to the standard material costs.

21 Wages and salaries

	2010	2009
Salaries	5,239	8,071
Temporary personnel	392	1,154
Social security costs	408	573
Pension costs	198	254
Share options granted to employees (Note 12)	157	133
	6,394	10,184
Number of employees at 31 December	95	132
Average number of FTE's for the period	108	148

The number of employees in 2009 initially increased from 144 employees at 1 January 2009 to approximately 150 employees during the summer period. As a result of a restructuring announced in September 2009, the number of employees decreased to 132 employees at 31 December 2009 and further decreased to 120 employees in January 2010. In 2010, business decreased compared to 2009 due to significantly lower revenues from Locteron and, as a consequence, vacancies for employees and temporary staff leaving the Company were initially

not filled. From October 2010 onwards, the number of employees and temporary staff started to increase again to be able to meet increased demand, resulting in a headcount of 95 employees at 31 December 2010.

Average headcount decreased with 27% compared to 2009. In addition, no restructuring charges were incurred in 2010. As a result, total costs for wages and salaries excluding costs for share options granted decreased with 38% to € 6,237 (2009, € 10,051).

The salaries are net of WBSO subsidies of € 558 (2009, € 523).

22 Other costs

	2010	2009
Other personnel costs	461	807
Housing costs	1,138	1,121
Office expenses	191	239
Repair and maintenance	437	432
Selling & Marketing costs	59	111
General expenses	1,006	1,680
	3,292	4,390

Other personnel costs decreased with 43% to € 461 (2009, € 807) due to a tight cost control, no recruitment fees in 2010 and a lower number of employees. General expenses decreased with 40% to € 1,006 (2009, € 1,681) due to minimising the use of consultants, lower costs for patents and lower insurance premiums negotiated.

For leases where the Group is a lessee under operating leases, lease rentals amounting to € 220 (2009, € 267) are included in 'other costs' in the statement of comprehensive income.

The costs included in these financial statements related to the Group's external auditor, Deloitte Accountants B.V., are as follows:

	2010	2009
Audit services	127	159
Other assurance services	-	13
Tax advisory services	-	-
Other non-assurance services	16	38
	143	210

23 Interest income and interest costs

	2010	2009
Interest income:		
- Bank deposits	12	18
Interest costs:		
- Bank borrowings, overdrafts and other debt	(30)	(70)
- Finance leases	(958)	(1,006)
- Interest on convertible loans (Note 16)	-	(102)
- Exchange gains and losses	(5)	3
	(993)	(1,175)
Finance costs – net	(981)	(1,157)

24 Earnings per share

Basic

Basic earnings per share is calculated by dividing the result attributable to equity holders of the Company by the weighted average number of shares outstanding during the year.

	2010	2009
Result attributable to equity holders of the Company	(6,202)	(2,957)
Weighted average number of ordinary shares	33,517,876	28,227,128
Basic earnings per share (€ per share)	(0.19)	(0.10)

Diluted

The effects of potential ordinary shares are only reflected in diluted earnings per share when their inclusion in the calculation would increase the loss per share. For both years included in these financial statements, the share options and warrants are not included in the diluted earnings per share calculation as inclusion would decrease the loss per share.

25 Dividends per share

The Company did not declare dividends for any of the years presented in these consolidated financial statements.

26 Cash flow statement

In the consolidated statement of cash flows, purchases of property, plant and equipment comprise:

	2010	2009
Additions according to Note 7	54	885
Non-cash transactions – other finance lease contracts	-	(80)
Movement trade payables at year-end	4	179
Movement other current liabilities	-	460
Purchases of property, plant and equipment	58	1,444

27 Contingencies

Milestone payments and royalties

On 24 April 2007, the Group signed a contract with IsoTis to acquire the full rights to the PolyActive technology and its intellectual property in certain areas. As part of this contract, the 'amended and restated license assignment and cross license assignment' ('ACLA'), as signed in May 2003, was terminated. This ACLA outlines, among others, the commercial development milestone payments and the profit-sharing payments from the Group to IsoTis. As per the new contract, the Group is required to make certain royalty payments on received milestone payments and received royalty payments on the sales of Locteron during the patent terms and the sales on other pharmaceutical products based on the PolyActive technology during the patents terms. If and when these royalty payments have to be made is uncertain and dependent on the commercial success of Locteron and the pharmaceutical products developed based upon the PolyActive technology. The contracts signed with Biolex in October 2008 (Note 18) did not result in any payments to IsoTis so far, but will result in royalty payments in case Locteron development progresses successfully.

On 29 October 2007, US based company Integra LifeSciences Holdings Corporation ('Integra') acquired all issued and outstanding shares of IsoTis and any potential royalties will therefore need to be paid to Integra.

Pursuant to the Group's agreement with Theratechnologies (Note 6), Theratechnologies is entitled to multiple development, regulatory and sales milestone payments for each product incorporating the licensed technology. The sum of these milestone payments amounts to € 35.7 million per product if all milestones are met, with the milestone payments increasing as the development of the product progresses. In 2009, the patents acquired from Theratechnologies were impaired, as the Group stopped development at its own risk and cost and believes that the probability of finding a license partner for a product which is based on the family of compounds licensed from Theratechnologies is low. As a result, it is unlikely that any payments will need to be made to Theratechnologies based upon this agreement.

The Group is obliged to pay royalties to Utrecht University for revenues received based on the OctoDEX technology platform. Such royalties shall not exceed 2% of such revenues.

Leiden University Medical Centre is entitled to certain royalty revenues on OP-145. Depending on the cumulative revenues, the royalties vary from 30% for cumulative revenues below € 15 million to 12.5% once cumulative revenues have exceeded € 30 million.

Claims

OctoPlus is currently subject to one legal proceeding and is in dispute with another third party which might result in a legal proceeding in the future. In addition, OctoPlus, as any other company, may become subject to a variety of other legal proceedings in the future such as product liability, commercial, employment and wrongful discharge, antitrust, securities, sales and marketing practices, health and safety, environmental and tax litigation claims, government investigations and intellectual property disputes. As a result, the Group may become subject to substantial liabilities in the future that may not be covered by insurance.

The Company believes that, after legal advice, the two current disputes can be defended successfully and no losses are expected to be incurred. As a consequence, no provision is recorded for these disputes. However, litigation is inherently unpredictable and a large verdict could occur. As a consequence, OctoPlus may in the future incur judgements or enter into settlements of the current disputes or future claims that could have a material adverse effect on the Group's financial results or cash flows.

28 Commitments

Operating lease commitments

The Group leases equipment under operating lease agreements. The lease expenditure charged to the

statement of comprehensive income during the year is disclosed in Note 22.

	2010	2009
No later than 1 year	221	219
Later than 1 year and no later than 5 years	886	876
Later than 5 years	2,189	2,390
	3,296	3,485

A significant part of the operating lease commitments relate to the monthly rental costs for the land portion of the 20-year lease contracts for the Group's office, laboratory and manufacturing facilities (Note 7).

Other operating commitments

The Group has not made material unconditional other operating commitments at 31 December 2010 (2009, € 224).

Capital commitments

The Group has not made material capital commitments at 31 December 2010 and 2009.

Bank guarantees

Bank guarantees at 31 December 2010 amounted to € 340 (2009, € 340) and equal three months of rent for the Company's office, laboratory and manufacturing facilities. A € 116 bank guarantee related to the office, laboratory and manufacturing facilities the Company has occupied since 2000 and a € 224 bank guarantee related to the new office, laboratory and manufacturing facilities the Company started occupying in 2008 (Note 7). Both bank guarantees will be released at the end of the rental agreements.

29 Business combinations

There were no business combinations effected during the years ended 31 December 2009 and 2010.

30 Related-party transactions

(a) Shareholders

In 2008, the Company obtained convertible bridge loans up to € 4.0 million (excluding accumulated interest) from two of its major Shareholders Life Sciences Partners and S.R. One (Note 16). These bridge loans were converted into ordinary shares in February 2009 (Note 12). GlaxoSmithKline Plc is the ultimate parent company of S.R. One.

Signet Healthcare Partners became a major Shareholder as part of the February 2009 private placement and also participated in the December 2009 private placement. Signet Healthcare Partners was reimbursed for its costs made as part of this private placement (€ 76).

(b) Supervisory Board

The remuneration of the Supervisory Board amounted to € 154 (2009, € 168). The remuneration of the individual members of the Supervisory Board is set out in the table below:

	2010 base salary	2009 base salary
H. Stellingsma (Chairman)	37	36
R. Kuijten	32	30
P. Toon	8	25
Ph. Smith	10	30
F. Eelkman Rooda	27	30
J. Gale	23	17
N.D. de Ruiter	17	-
	154	168

On 23 April 2009, the AGM approved the proposal by the Supervisory Board to appoint Mr. Gale as new member of the OctoPlus Supervisory Board. Mr. Gale is a managing partner at Signet Healthcare Partners, which is a major Shareholder since February 2009 and owned 14.4% of the issued and outstanding shares at 23 December 2010. Mr. Gale was appointed for a period of four years.

On 12 May 2010, the AGM approved the proposal by the Supervisory Board to appoint Mrs. de Ruiter as new member of the OctoPlus Supervisory Board. Mrs. de Ruiter was appointed for a period of four years.

On 12 May 2010, Messrs Toon and Smith resigned from the Supervisory Board.

Since 1 January 2008, the fixed annual remuneration for the members of the Supervisory Board is € 31 for the Chairman and € 25 for all other members of the Supervisory Board. In addition, € 5 remuneration is received by a member for each Supervisory Board committee participated in. Each member of the Supervisory Board agreed to a 10% decrease in fees for the year 2010. As a result, a fixed annual remuneration of € 28 for the Chairman

and € 23 for all other members of the Supervisory Board was accounted for in the year 2010. Mr. Stellingsma and Mr. Kuijten participated in two committees in 2009 and 2010. Both members waived the fee for the second committee in 2009.

Part of the remuneration and part of the expense claim reimbursements of the Supervisory Board over the last few years (€ 173, 2009, € 252) was not reimbursed at year-end and is recorded under 'trade payables' (€ 91, 2009, € 114) and 'other current liabilities' (€ 82, 2009, € 138) in the consolidated statement of financial position.

(c) Executive Board

The Executive Board is defined as the Company's key management personnel. The remuneration of OctoPlus' Executive Board members in 2010 amounted to € 1,018 (2009, € 1,056) with the details set out in the table below:

	Base salary	Bonus	Pen-sions	Other	2010	2009
S.J. Sturge, CEO[1,3,4]	375	46[5]	-	60	481	757
J.H. Egberts, CEO[1,4]	-	-	-	52	52	-
S.M. Swarte, CFO[2,3,4]	155	28	9	34	226	78
G. Moolhuizen, CBO[3,4]	175	28	12	44	259	221
	705	102	21	190	1,018	1,056

1 Mr. Sturge resigned as CEO of OctoPlus per 31 December 2010 and is replaced by Mr. Egberts who became the Company's new CEO from 1 January 2011 onwards.
2 On 1 August 2009, the Company's new CFO, Mrs. Swarte, started working for OctoPlus. On 12 May 2010, the AGM approved the proposal by the Supervisory Board to appoint Mrs. Swarte as new CFO of the Company.
3 During 2010, a temporary holiday purchase plan was agreed with all employees of OctoPlus, where all employees agreed to purchase one extra day holiday per month, in order to better match capacity with demand. As a result the employees received approximately 5% lower salary in return for 12 extra days vacation (pro rata for part time employees). The holiday purchase plan was also applicable to all members of the Executive Board. As a result of the holiday purchase plan the Executive Board received € 30 less salary during 2010. Collectively they have agreed not to use the 12 days holiday, but to waive this right.
4 Included under 'Other' are option costs for Mr. Sturge (€ 0, 2009, € 61), Mr. Egberts (€ 10, 2009, € 0), Mrs. Swarte (€ 30, 2009, € 0) and Mr. Moolhuizen (€ 36, 2009, € 13).
5 Maximum exposure based on 8% achievement of targets. This is subject to further discussion with Mr. Sturge.

The remuneration of the members of the Executive Board resulted in the following costs in the statement of comprehensive income related to key management compensation:

	2010	2009
Salaries and other short-term employee benefits	871	1,189
Post-employment benefits	22	31
Share-based payments	76	74
	969	1,294

2009 remuneration in the table above includes the remuneration of Mr. Holthuis and Mr. Pauli. Mr. Pauli, former-CFO, left the Company in March 2009 and Mr. Holthuis, co-founder and former-CEO left the Company in August 2009.

Part of the expense claim reimbursements of the Executive Board (€ 6, 2009, € 1) was not reimbursed at 31 December 2010 and is recorded under trade payables in the consolidated statement of financial position.

For more details on the remuneration of the Executive Board, reference is made to the 'Remuneration report' elsewhere in this document.

Former members of the Executive Board

Mr. Holthuis left OctoPlus on 31 August 2009. The Company used his expert knowledge on a consultancy basis during 2010 for a total amount of € 90. No other costs were incurred for, or payments were made to former Executive Board members in the year 2010.

Key management's interests in the Company

The Executive Board at 31 December 2010 consisted of three members, Mr. Sturge (CEO), Mrs. Swarte (CFO) and Mr. Moolhuizen (CBO). Mr. Sturge resigned as CEO of OctoPlus per 31 December 2010 and as a result, all of his option rights forfeited.

The shares and options owned by these Executive Board members are outlined below.

G. Moolhuizen

Mr. Moolhuizen held 22,500 shares in the Company at 31 December 2009 and 2010.

Mr. Moolhuizen unconditional share options rights in the Company are as follows:

	2010		2009	
	Average exercise price in € per share	Number of options	Average exercise price in € per share	Number of options
At 1 January	2.70	51,411	2.82	61,411
Granted	1.41	167,000		-
Forfeited		-		-
Exercised		-		-
Lapsed		-	3.43	(10,000)
At 31 December	1.71	218,411	2.70	51,411

The outstanding unconditional share options held by Mr. Moolhuizen on 31 December 2010 expire as follows: 9,000 options on 31 January 2011, 5,600 options on 31 March 2011, 36,811 options on 31 December 2011 and 167,000 options on 4 March 2015. The 9,000 options that expired on 31 January 2011 were not exercised by Mr. Moolhuizen and lapsed as a consequence.

As part of the 2010 option plan, Mr. Moolhuizen received 167,000 conditional options in March 2010.

The number of unconditional options Mr. Moolhuizen receives from the conditional options granted depends on certain pre-defined performance criteria related to the years 2010, 2011 and 2012, with 1/3 of the conditional options related to each of the three years. Mr. Moolhuizen achieved approximately 20% of his 2010 performance criteria and received 11,133 unconditional options from the 55,667 2010 conditional options as a consequence. The remaining 111,333 conditional options related to his 2011 and 2012 performance are still outstanding. The 44,534 conditional options not received related to Mr. Moolhuizen's 2010 performance can still be granted to Mr. Moolhuizen in 2014 in case certain pre-defined performance criteria are met by Mr. Moolhuizen in the year 2013. For details on the 2010 option plan and the performance criteria achieved, reference is made to Note 12 and the 'Remuneration report' elsewhere in this document.

S.M. Swarte

Mrs. Swarte does not hold shares in the Company at 31 December 2009 and 2010.

Mrs. Swarte unconditional share options rights in the Company are as follows:

	2010		2009	
	Average exercise price in € per share	Number of options	Average exercise price in € per share	Number of options
At 1 January				
Granted	1.41	167,000		-
Forfeited		-		-
Exercised		-		-
Lapsed		-		-
At 31 December	1.41	167,000		-

The outstanding unconditional share options held by Mrs. Swarte on 31 December 2010 expire on 4 March 2015.

As part of the 2010 option plan, Mrs. Swarte received 167,000 conditional options in March 2010.

The number of unconditional options Mrs. Swarte receives from the conditional options granted depends on certain pre-defined performance criteria related to the years 2010, 2011 and 2012, with 1/3 of the conditional options related to each of the three years. Mrs. Swarte achieved 20% of her 2010 performance criteria and as a consequence received 11,133 unconditional options from the 55,667 conditional options granted related to her 2010 performance. The remaining 111,333 conditional options related to her 2011 and 2012 performance are still outstanding. The 44,534 conditional options not received related to Mrs. Swarte's 2010 performance can still be granted to Mrs. Swarte in 2014 in case certain pre-defined performance criteria are met by Mrs. Swarte in the year 2013. For details on the 2010 option plan and the performance criteria achieved, reference is made to Note 12 and the 'Remuneration report' elsewhere in this document.

S.J. Sturge, former CEO

In 2009, Mr. Sturge acquired 133,333 ordinary shares as part of the February 2009 financing round (Note 12). Mr. Sturge did not trade in these shares afterwards.

Mr. Sturge unconditional share options rights in the Company are as follows:

	2010		2009	
	Average exercise price in € per share	Number of options	Average exercise price in € per share	Number of options
At 1 January				
Granted	1.41	200,000		-
Forfeited	1.41	(200,000)		-
Exercised		-		-
Lapsed		-		-
At 31 December		-		-

In November 2008, Mr. Sturge received 1,215,500 conditional options at an exercise price of € 0.87 per share and an expiry date of 31 December 2012. The options were conditional on the average OctoPlus share price over a two-month period; with options gradually becoming unconditional when the average OctoPlus share price over the two-month period would be in excess of € 2.00. All conditional options would become unconditional in case the average share price would be in excess of € 6.00 over a two-month period; all before 31 December 2012.

In addition, Mr. Sturge received 200,000 conditional options and 200,000 unconditional options as part of the 2010 option round under identical conditions as the other members of the Executive Board.

With his resignation, all options owned by Mr. Sturge forfeited.

J.H. Egberts, CEO from 1 January 2011 onwards

Mr. Egberts became the Company's new CEO on 1 January 2011 and has been nominated for appointment by the AGM on 20 May 2011. To enable a smooth transition from Mr. Sturge to Mr. Egberts, Mr. Egberts started working for OctoPlus on a consultancy basis in the fourth quarter of 2010 and received a € 42 compensation for his efforts.

Mr. Egberts participated in the December 2010 financing round and acquired 127,119 ordinary shares at a price of € 1.18 per share (Note 12).

Mr. Egberts unconditional share options rights in the Company are as follows:

	2010		2009	
	Average exercise price in € per share	Number of options	Average exercise price in € per share	Number of options
At 1 January		-		-
Granted	1.27	850,000		-
Forfeited		-		-
Exercised		-		-
Lapsed		-		
At 31 December	1.27	850,000		-

On 1 December 2010, Mr Egberts received 850,000 unconditional options and 300,000 conditional options. The number of unconditional options Mr. Egberts will receive from the conditional options granted depends on certain pre-defined performance criteria in the years 2011, 2012 and 2013, with 1/3 of the conditional options related to each of the three years. The pre-defined performance criteria might include market conditions (Note 12).

31 Events after balance sheet date

In February 2011, the Company signed a contract with ESBATech, an Alcon Biomedical Research Unit, to develop a controlled release formulation for one of its proprietary biological compounds for ophthalmic applications. The project includes process development, scale-up and manufacturing for pre-clinical studies. This contract will make a material contribution to the Company's 2011 revenues. In case the project progresses successfully, it might progress into a contract similar to Locteron, with OctoPlus developing and manufacturing the drug and potentially also being eligible to milestone and royalty payments.

7

Company-only financial statements

Balance sheet of OctoPlus N.V.

(After proposed appropriation of net result) (In € x 1,000)

	Note	At 31 Dec 2010	At 31 Dec 2009	At 1 Jan 2009
ASSETS				
Non-current assets				
Goodwill		243	243	243
Buildings		6,903	7,333	7,757
Financial assets carried at cost		1,299	1,299	1,299
Investments in subsidiaries	B	22,605	22,473	22,134
		31,050	31,348	31,433
Current assets				
Short-term receivables from subsidiaries	C	4,099	7,610	3,828
Social securities and other taxes		1	1	9
Other receivables, prepayments and accrued income		347	401	446
Cash and cash equivalents		-	459	129
		4,447	8,471	4,412
Total assets		35,497	39,819	35,845
EQUITY				
Issued share capital	D	4,413	4,012	1,945
Share premium reserve	D	52,922	49,686	38,161
Other reserves	D	777	754	751
Accumulated deficit	D	(49,177)	(43,109)	(40,282)
Total equity		8,935	11,343	575
LIABILITIES				
Non-current liabilities				
Provisions for subsidiaries	E	16,822	18,021	17,330
Finance lease liabilities		7,790	8,030	8,251
		24,612	26,051	25,581
Current liabilities				
Current portion of finance lease liabilities		241	220	202
Convertible bridge loans		-	-	4,395
Trade payables		136	426	579
Payable to subsidiaries		1,013	1,059	3,838
Social securities and other taxes		166	18	-
Other current liabilities		394	702	675
		1,950	2,425	9,689
Total liabilities		26,562	28,476	35,270
Total equity and liabilities		35,497	39,819	35,845

The notes on pages 82 to 83 are an integral part of these company-only financial statements.

Income statement of OctoPlus N.V.

(In € x 1,000)

	Note	Year ended 31 December 2010	2009
Result from subsidiaries after taxes		(6,798)	(2,863)
Other results of OctoPlus N.V. after taxes		596	(94)
Net result		(6,202)	(2,957)

Notes to the company-only financial statements

A General information

Corporate information

The company-only financial statements are part of the 2010 financial statements of OctoPlus N.V.

OctoPlus N.V. is the direct parent and 100% shareholder of all subsidiaries and also effectively exercises influence of significance over the operational and financial activities of all subsidiaries. For further details, reference is made to Note 1.3 of the consolidated financial statements.

With reference to the company-only statement of comprehensive income of OctoPlus N.V., use has been made of the exemption pursuant to Section 402 of Book 2 of the Netherlands Civil Code.

Basis of preparation

For setting the principles for the recognition and measurement of assets and liabilities and determination of the result for its company-only financial statements, OctoPlus N.V. makes use of the option provided in Section 2:362 (8) of the Netherlands Civil Code. This means that the principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as 'accounting policies') of the company-only financial statements of OctoPlus N.V. are the same as those applied for the consolidated IFRS financial statements. The consolidated IFRS financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU'). All standards and all interpretations issued by the International Accounting Standards Board (the 'IASB') and the International Financial Reporting Interpretations Committee (the 'IFRIC') effective for 2010 have been adopted by the EU. Please see the notes to the consolidated financial statements for a description of these principles.

Changes in presentation

In 2010, the Company made a few changes to the presentation of its consolidated statement of comprehensive income. For further details, reference is made to Note 1.4 of the consolidated financial statements.

Investments in subsidiaries

In the company-only financial statements, investments in subsidiaries are stated at net asset value if the Company effectively exercises influence of significance over the operational and financial activities of these investments. The net asset value is determined on the basis of the accounting principles applied by the Company. Subsidiaries with a negative net equity value are valued at nil. If the company fully or partly guarantees the liabilities of the subsidiary concerned, or has the effective obligation respectively, to enable the subsidiary to pay its (share of the) liabilities, a provision is formed. Upon determining this provision, provisions for doubtful debts already deducted from receivables from the subsidiary are taken into account.

B Investments in subsidiaries

	2010	2009
Balance at 1 January	22,473	22,134
Result current year	(3,868)	(661)
Share capital contribution	4,000	1,000
Balance at 31 December	22,605	22,473

The share capital contributions related to a share capital contribution of OctoPlus N.V. in OctoPlus Development B.V., a 100% directly held subsidiary of OctoPlus N.V., in December 2009 and December 2010 respectively.

C Short-term receivables from subsidiaries

Short-term receivables from subsidiaries balance at 31 December 2010 included a provision of € 18,981 (2009, € 15,376 provision).

D Shareholders' equity

The Company has applied Section 2:362 (8) of the Netherlands Civil Code, and therefore the reconciliation is maintained between the Group's equity and the Company's equity. For details of the movements in and components of equity, reference

is made to the 'Statement of changes in equity' and Note 12 of the consolidated financial statements.

No part of the Company's equity is classified as legal reserves.

For details of the movements in share options, reference is made to Note 12 of the consolidated financial statements.

E Provisions for subsidiaries

	2010	2009
Balance at 1 January	18,021	17,330
Additions/(release)	(1,199)	691
Balance at 31 December	16,822	18,021

Provisions for group companies are netted with possible short-term and long-term receivables for each respective group company. This resulted in a decrease of the provision for group companies with € 1,199 per 31 December 2010 related to short-term receivables from group companies (2009, increase of € 691).

F Remuneration of Executive Board and Supervisory Board

The 2010 remuneration of the Supervisory Board amounted to € 154 (2009, € 168) and the 2010 remuneration of the Executive Board amounted to € 1,018 (2009, € 1,056). For further details, reference is made to Note 30 of the consolidated financial statements and the Supervisory Board report, section 'Remuneration report'.

G Employee information

OctoPlus N.V. employed two employees at 31 December 2010 (31 December 2009, two employees). The average number of FTE of OctoPlus N.V. in 2010 was 2.0 FTE (2009, 2.3 FTE). For further details on the number of employees of the Group, reference is made to Note 21 of the consolidated financial statements.

H Commitments

OctoPlus N.V. has issued article 403 statements for all of its 100% Dutch subsidiaries; OctoShare B.V., OctoPlus Development B.V., OctoPlus Technologies B.V., OctoPlus Sciences B.V. and Chienna B.V. from 1 January 2006 onwards, and for OctoPlus PolyActive Sciences B.V. which was created in 2008 from that year onwards, and as a result is jointly and severally liable for any indebtedness of these entities.

OctoPlus N.V. is the parent company of fiscal unity OctoPlus N.V. (both corporate income taxes and value-added taxes) and as such jointly and severally liable for tax liabilities of all entities of this fiscal unity.

For any other operating commitments, reference is made to Note 28 of the consolidated financial statements.

I Signing of the financial statements

Executive Board

J.H. Egberts, Chief Executive Officer (to be appointed to the Executive Board at the next AGM)
G. Moolhuizen, Chief Business Officer
S.M. Swarte, Chief Financial Officer

Supervisory Board

J. Stellingsma, Chairman
R.R. Kuijten
F.E. Eelkman Rooda
J. Gale
N.D. de Ruiter

Leiden, the Netherlands, 18 March 2011

8

Other information

Independent auditor's report

To the Shareholders and the Board of
Supervisory Directors of
OctoPlus N.V.
Leiden, the Netherlands

Independent auditor's report

Report on the financial statements

We have audited the accompanying financial statements 2010 of OctoPlus N.V., Leiden. The financial statements include the consolidated financial statements and the company-only financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of the significant accounting policies and other explanatory information. The company-only financial statements comprise the company-only balance sheet as at 31 December 2010 the company-only profit and loss account for the year then ended and the notes, comprising a summary of the accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Dutch Civil Code. Furthermore management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

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 Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 internal control relevant to the entity's preparation and fair presentation 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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 with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of OctoPlus N.V. as at 31 December 2010 and of its result and its cashflows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Dutch Civil Code.

Opinion with respect to the company-only financial statements

In our opinion, the company-only financial statements give a true and fair view of the financial position of OctoPlus N.V. as at 31 December 2010 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under Section 2:393 sub 5 at e and f of the Dutch Civil Code, we have no deficiencies to report as a result of our examination whether the management board report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and whether the information as required under Section 2:392 sub 1 at b-h has been annexed. Further we report that the management board report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Dutch Civil Code.

Amsterdam, the Netherlands, 18 March 2011

Deloitte Accountants B.V.
I.A. Buitendijk

Statutory arrangement concerning the appropriation of the result

In article 34 of the Articles of Association, the following has been stated concerning profits and distributions:

34.1 From the profits – the positive balance of the profit and loss accounts – made in the most recently elapsed financial year shall first, if possible, on the preferred Shares a dividend shall be made of which the percentage is equal to the average twelve-month EURIBOR (€ Interbank Offered Rate) – weighted for the number of days to which the distribution pertains – increased with one percent (1%), calculated over the paid up part of the nominal value of those Shares. The dividend on the preferred Shares shall be calculated pro rata if the respective Shares have been issued in the course of the financial year. It the twelve-month EURIBOR shall no longer be determined at any time, the dividend percentage of the preference Shares shall be equal to the mathematical average of the average effective return on the five (5) Dutch government bonds with the longest maturity, as drawn up by the Central Bureau of Statistics and published in the Official Price List, over the twenty (20) trading days preceding the issue, increased with a surcharge to be determined by the Executive Board, subject to approval of the Board of Supervisory Directors, of at least zero point twenty-five percent (0.25%) and a maximum of one percent (1%), calculated over the paid up part of the nominal value of those shares.

34.2 It may be determined in the resolution to issue the preference Shares that, in the event that the profits of any financial year do not permit the distribution as referred to in Article 34.1 on the Shares to be issued in full or in part, the deficit shall be distributed from the Distributable Equity, and, if this is also insufficient, from the profits of subsequent years. If preference Shares shall be cumulative as described above, the letter C shall be added to that respective series of Shares. If the Shares are not cumulative preferred, they shall be referred to with the letters N.C.

34.3 Each year, after application of Articles 34.1 and 34.2, and insofar as cumulative preferred Shares are in issue and a distribution must still be made on those Shares, after such distribution, the Executive Board may, subject to the approval of the Board of Supervisory Directors, determine which part of the profits shall be reserved.

34.4 The part of the profit remaining after the reservation in accordance with Article 34.3 shall be distributed as dividend on the ordinary Shares.

34.5 Distributions may be made only up to an amount which does not exceed the amount of Distributable Equity.

34.6 Distribution of profits shall be made after adoption of the annual accounts if permissible under the law given the contents of the annual accounts.

34.7 The Executive Board may resolve to distribute interim dividend on the ordinary Shares. Such a resolution shall be subject to approval of the Board of Supervisory Directors.

34.8 In calculating the amount of any distribution on Shares, Shares held by the Company shall be disregarded.

34.9 The Sections 2:103, 2:104 and 2:105 of the Dutch Civil Code shall apply to distribution to holders of Shares.

Proposed result appropriation for the financial year 2010

The General Meeting of Shareholders will be proposed to add the loss for 2010 of € 6,202 to the accumulated deficit. The financial statements reflect this proposal.

Events after balance sheet date

For events after balance sheet date, reference is made to Note 31 of the consolidated financial statements.

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