OctoPlus

Annual Report 2008

PHARMACEUTICAL
INNOVATORS

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Message from the CEO

2008 has in many aspects been a turbulent year for OctoPlus. On the one hand, Locteron® development progressed successfully with the start of the PLUS study and clinical proof of concept was demonstrated for OP-145 CSOM. In addition, growing interest from potential customers for our technology platform clearly demonstrates that OctoPlus has a promising future ahead. However, the current financial climate prevented OctoPlus from attracting sufficient means to continue to invest significant sums into own product development and therefore we chose to adopt a more service-oriented strategy. This annual report describes our activities during the year 2008 and the start of the implementation of a new strategy with which we position the Company for a secure future.

Following the positive outcome in 2007 of the Phase IIa clinical study with Locteron, a product for the treatment of chronic hepatitis C, a follow-on study was started in 2008, the PLUS study, which took place in the United States. During the year 2008, discussions with Biolex, our development partner since 2005, resulted in a product rights acquisition agreement whereby OctoPlus sold its commercial rights to Locteron. OctoPlus received an upfront payment of $ 11 million in October and is entitled to further milestone payments and royalties worth up to $ 138 million. Furthermore, we remain involved as a process development and manufacturing partner, for which the Company will be reimbursed by Biolex.

Our Contract Development activities experienced considerable growth, with total service revenues, including inter-segment revenues, increasing by 19% over the previous year. Inter-segment revenues from Locteron demanded a modest portion of the formulation and manufacturing capabilities, allowing us to increase services for third parties. Ongoing growth is expected and can be realised through our expanded development and manufacturing capacity. The new manufacturing facility is planned to become fully operational in the second quarter of 2009.

The growth in Contract Development and the agreements with Biolex together resulted in 226% increased consolidated revenues. In addition, because the Company discontinued using OctoPlus funds to invest in the further development of Locteron, a reduction of 59% of OctoPlus' net loss was accomplished.

In February 2009, we were able to strengthen our financial position through a capital raising of € 6.0 million. Concurrently, the loans provided by Life Sciences Partners and S.R. One were converted into equity.

I would like to thank all our employees for their ongoing commitment, professionalism and contribution during 2008. We look forward to the year ahead and hope to report on new successes originating from our new strategy.

Simon J. Sturge,
Chief Executive Officer

Leiden, the Netherlands, 27 March 2009

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Report from the Board of Supervisory Directors

On behalf of the entire Board of Supervisory Directors, I herewith present to you the 2008 financial statements of OctoPlus N.V. as prepared by the Executive Board. Attached to these statements is the auditors' report by Deloitte Accountants B.V., which is free from any qualifications. We have assessed the financial statements for 2008 and advise the Annual General Meeting of Shareholders to adopt and approve these statements and to grant discharge to the Executive Board with respect to its management and to the Board of Supervisory Directors with respect to its supervision.

The Board held five plenary meetings in 2008, discussing the Company's progress in several areas, especially with respect to the financial position of the Company as well as the discussions with Biolex regarding the agreements with respect to Locteron. Following completion of the agreements with Biolex, the Board discussed the revised strategy with the Executive Board. The Board also spent considerable time on other matters, such as the continuing growth of our Contract Development activities and progress of OP-145 CSOM. Besides plenary meetings, the Board held numerous conference calls and was also informed about developments via regular written updates provided by the Executive Board. Apart from two occasions, all members of the Board of Supervisory Directors attended all meetings.

The Board of Supervisory Directors did not meet in closed session in order to evaluate its own functioning, nor to evaluate the functioning of each of the members of the Executive Board. However, the Remuneration Committee met to discuss the functioning of the Executive Board members.

The recommendations of the Tabaksblat Commission as laid down in the Corporate Governance Code have been incorporated in OctoPlus' corporate governance policy.

Based on the requirements of the Corporate Governance Code, OctoPlus' articles of association and the rules and regulations applicable to companies listed on Euronext Amsterdam by NYSE Euronext, OctoPlus' Corporate Governance policy includes the monitoring of processes related to risk management and control. The main elements of OctoPlus' corporate governance policy can be found in the relevant chapter of this annual report. The regulations can be found on www.octoplus.nl.

One of the principles of the Corporate Governance Code is that all members of the Board of Supervisory Directors are able to act critically and independently of one another as well as of the Executive Board. The Board declares that this principle of the Corporate Governance Code has been complied with.

Another key element of the Corporate Governance Code is that no more than one member of the Board of Supervisory Directors may be a representative of a shareholder in OctoPlus, holding more than 10% of the outstanding share capital. In view thereof, the Board of Supervisory Directors recruited Mr Frans Eelkman Rooda who is not a representative of any of the shareholders. Furthermore, Mr Philip Smith is no longer a general partner of S.R. One Limited and as such has become an independent board member too. The Board proposes to reappoint Mr Philip Smith at the next Annual General Meeting of Shareholders, since his term will expire this year. Following the recent private placement of shares the Board proposes to appoint Mr James Gale to the Board. Mr Gale is Managing Partner of Signet Healthcare Partners, lead investor of the recent private placement of shares, and holds more than 10% of the outstanding share capital. In case Mr Gale is appointed, he will be the second board member who is a representative of a shareholder in OctoPlus, holding more than 10% of the outstanding share capital.

The Board has established two committees, an Audit Committee and a Remuneration and Nominating Committee. The Audit Committee met three times in 2008. The annual accounts were discussed with the auditor as well as the results from the interim audit. The Remuneration and Nominating Committee met once. OctoPlus' remuneration policy was adopted at the Annual General Meeting of Shareholders on 21 April 2006.

The remuneration of the Executive Board is determined by the Board of Supervisory Directors, based on a proposal of the Remuneration and Nominating Committee and in line with the remuneration policy agreed upon earlier. The remuneration policy is in line with market practice and aims to attract 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. The variable components consist of short-term elements and long-term elements, both of which are dependent on specific personal and corporate targets.

The remuneration of the members of the Board of Supervisory Directors complies with the Corporate Governance Code, consisting of a fixed remuneration in cash only.

A representation of the Board of Supervisory Directors met with the Works Council in 2008.

We would like to thank the entire staff and Executive Board for their contribution to OctoPlus' achievements in 2008. Their dedication has enabled OctoPlus to prepare the Company for its 2009 objectives, most importantly diligently performing its tasks with respect to the furtherance of Locteron and continuing to grow Contract Development revenues.

On behalf of the Board of Supervisory Directors,

Hans Stellingsma,
Chairman of the Board of Supervisory Directors

Leiden, the Netherlands, 27 March 2009

Locteron

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Report from the Executive Board

In 2008, OctoPlus revised its strategy to focus on commercialising its drug delivery technologies, while on the other hand further growing its Contract Development activities. The sale of the commercial rights to Locteron marks the start of OctoPlus' new service-oriented strategy, moving away from developing product candidates at its own expense towards out-licensing its proprietary drug delivery technology and co-developing products with partners.

In order to facilitate the expected growth in Contract Development and prepare for the next phase in Locteron manufacture, expansion of the laboratory and manufacturing facilities was completed. In 2009, we will make the final investment to facilitate the official validation of the manufacturing facilities. The financing provided by two of OctoPlus' key shareholders allowed the Company to bridge the period until the agreements with Biolex were concluded.

Among others, this section elaborates on the progress made with respect to Locteron, OP-145 CSOM and Contract Development activities, as well as the more recently initiated activities in the area of paid-for development of controlled release formulations. The financial development of the Company is also discussed.

Products & Drug Delivery

Research and development activities within OctoPlus Products & Drug Delivery division focussed on further developing Locteron for treating chronic hepatitis C viral infections with a view to maximising its value prior to closing a licensing agreement and continuing the ongoing Phase II clinical studies with OP-145 CSOM for treating chronic otitis media infection. The other development projects, such as OP-286 CR for type 2 diabetes, HBV-OctoVAX, a vaccine against hepatitis B infections, and JEV-OctoVAX, a vaccine against Japanese encephalitis were either progressed at a minimal level or continued on the basis of fee for service research.

Locteron

Following the successful completion in 2007 of the European Phase IIa ('SELECT-1') study – focussing on safety, tolerability and initial efficacy in 32 patients, which showed that six injections of Locteron once-every-two-weeks were not only safe and well-tolerated, but were also effective in reducing the viral load of the treated patients – we commenced a Phase IIa (PLUS) study in the United States under an Investigational New Drug (IND) application filed with the US Food and Drug Administration. The study was designed to evaluate 56 patients with chronic hepatitis C on safety, tolerability, pharmacokinetics and viral kinetics of Locteron giving US investigators first-hand experience with this product. After completion of the PLUS study, Biolex plans to start a Phase IIb ('SELECT-2') study with Locteron, which is scheduled to commence in 2009.

On 6 October 2008, we announced the exclusive agreement with Biolex Therapeutics Inc. as a result of which OctoPlus has sold its commercial rights to Locteron to Biolex in exchange for an upfront fee of $ 11 million, additional milestone payments amounting to $ 138 million, plus royalties on future sales. The agreement also comprises a 1.8% equity interest in Biolex' equity, with the possibility to increase the equity interest to 3%. OctoPlus will remain a partner in the process development and manufacture of Locteron albeit on a fee for service basis. The Company has retained the product's manufacturing rights.

OP-145 CSOM

In July 2008, OctoPlus was able to close the OP-145 CSOM study as a result of the positive outcome of the interim analysis by the independent Data Safety Monitoring Board. OP-145 CSOM is a novel therapy for the treatment of chronic suppurative middle ear infection (otitis media). The interim analysis of the results from 30 patients, being more than 50% of the number of patients planned to participate in this study, showed that treatment with OP-145 is safe and effective, with statistically significant improvement of otoscopic scores. As a result the Data Safety Monitoring Board advised OctoPlus to close the study as the clinical endpoints were achieved. OctoPlus is seeking commercialisation partners for OP-145, besides Green Cross Corporation, a leading pharmaceutical company in the Republic of Korea, who has an exclusive license to develop and market OP-145 for the Korean market.

Other product candidates

As mentioned above, further development of the other product candidates that are all still in pre-clinical phase, OP-286 CR for the GLP-1 based treatment of type 2 Diabetes, a hepatitis B vaccine, HBV-OctoVAX and a vaccine against Japanese encephalitis, JEV-OctoVAX, were progressed at a minimal level awaiting commercial partnerships.

In 2008, OctoPlus worked on five technology related projects, combining OctoPlus' proprietary controlled release technology with the client's active pharmaceutical ingredients. Upon successful completion of such feasibility projects, these projects may evolve into long term relationships based on a mixture of fee for service and future license income including royalties on product sales.

SurModics

SurModics Inc. has a license to the use of PolyActive® for coating purposes. SurModics has successfully performed a feasibility study to show that blending PolyActive with other biodegradable polymers offers possibilities to tailor protein release profiles in implants, showing the release of an antibody during six months.

Intellectual Property

As a result of the product rights acquisition agreement between OctoPlus and Biolex, OctoPlus transferred 20 patents to Biolex, which patents are exclusively related to Locteron. OctoPlus' current patent portfolio consists of 227 granted patents and 88 patent applications, which are divided into 38 patent families, of which 11 relate to OctoDEX® and OctoVAX™, 17 to PolyActive and ten to other technologies, including OP-145 and OP-286 CR. During 2008, OctoPlus obtained 11 patents on products and technologies, and five patents were applied for.

Subsidies

In 2008, OctoPlus received a total of € 0.2 million of subsidies. We remain eligible to another € 0.8 million of subsidies under the currently active subsidy programs.

Contract Development

Also in 2008 Contract Development witnessed significant growth, as revenues increased by 19% to € 10.7 million (2007, € 9.0 million). This is especially gratifying since revenues from external clients other than Biolex increased by almost 50%. This growth does not include revenues from the new manufacturing facility, as this facility is expected to become operational in the second quarter of 2009. Contract Development's headcount increased by 17 employees in 2008 to 81 employees as per 31 December 2008.

2008 revenues were based on work carried out for 47 clients on 61 projects, covering a wide range of therapeutic areas but predominantly in the field of injectables. 20 new projects were started, many of which run into 2009. Locteron is the single largest project in 2008 and is expected to remain the largest revenue generating project in 2009 too. The five largest customers accounted for 47% of 2008 revenues (2007, 55%).

Over the years OctoPlus has been able to establish a loyal international client base. Approximately 60% of our customers are long-term clients, either outsourcing multiple projects at OctoPlus or returning to OctoPlus with their next project or development phase; this accounts for some 70% of revenues.

Human Resources

As a result of its revised strategy OctoPlus restructured its workforce by re-allocating several employees who worked on proprietary projects to Contract Development, while others left the Company. As a result 52 people left OctoPlus. However, in order to achieve higher revenues and start-up of the new manufacturing facility, many vacancies were filled in the second half of 2008, as a result of which at year end 144 people were employed.

The table on the next page provides a comprehensive overview of OctoPlus' staff by business segment and educational background at 31 December 2008.

A large portion of OctoPlus' employees are relatively young; the average age is 37, with the vast majority of employees in the age brackets 26 – 30, 31 – 35 and 36 – 40. Just over half of the employees are female.

OctoPlus' staff per business segment and educational background	Products & Drug Delivery	Contract Development	Corporate & shared functions	Consolidated
Number of employees	24	81	39	144
Educational background				
Scientific education	11	22	20	53
Other education	13	59	19	91

In 2008 absenteeism due to sickness was 3.9% (2007, 3.5%).

OctoPlus has a pro-active approach in order to prevent work-related accidents and illness. New employees receive training for safety and against work related risks. This policy is bearing fruit, as also in 2008 no work-related accidents causing absenteeism occurred.

Management and the Works Council met on a frequent basis, either through formal meetings or in informal sessions. During these sessions general information was provided regarding the Company's operations, as well as discussing matters in preparation for the formal meetings. In total Management and the Works Council met 14 times in 2008. Besides discussing general operational matters and the financial progress of the Company, other matters such as organisation and employment conditions were also on the agenda.

Facilities

Following completion of the construction of the new facilities adjacent to the existing facility at Zernikedreef 12 in Leiden, all staff, except our sales representative in the United States, are based in the same building, consisting of a total of approximately 5,250 m^2 of manufacturing facilities, laboratories and offices. The new manufacturing facility will become operational in the second quarter of 2009.

Financial development

Consolidated revenues increased to € 16.9 million (2007, € 5.2 million), of which € 7.9 million relates to the sale of the commercial rights to Locteron to Biolex. Besides this € 7.9 million revenues, we generated additional income from development and manufacturing services related to Locteron. Costs of contracted work and other external charges, predominantly expenses for clinical trials, declined by € 0.9 million to € 2.8 million (2007, € 3.7 million). Other operating costs show a modest increase to € 18.3 million (2007 € 16.6 million), predominantly caused by higher employee costs (€ 1.1 million) and depreciation charges (€ 0.5 million). The Company started amortising its PolyActive patent portfolio from October 2008 onwards.

2008's result before taxes amounted to a loss of € 6.2 million (2007, a loss of € 15.2 million), an improvement of 59%.

Cash flow

OctoPlus' consolidated operating cash flow amounted to € 4.0 million negative (2007, € 12.5 million negative). Investments in plant and equipment and intangible assets amounted to € 6.7 million (2007, € 4.6 million) of which € 3.7 million through finance leases. The cash flow from financing activities amounted to € 7.3 million, (2007, cash flow neutral). As a result, the 2008 net cash flow amounted to € 3.4 million negative (2007, € 17.0 million negative, excluding the impact of the decrease of deposits with € 12.5 million).

Per year end 2008, OctoPlus had a negative balance of € 0.9 million cash, cash equivalents and deposits (2007, positive € 2.5 million). OctoPlus has a current account lending facility of € 2.0 million, of which € 1.1 million was still available at 31 December 2008.

Products & Drug Delivery

Revenues for the Products & Drug Delivery unit comprise of three distinct sources: service revenues, being development revenues related to the Company's proprietary technology, license and other revenues related to the sale and out-licensing of the Company's proprietary products and drug delivery technologies and income from subsidies. The sum of these revenues amounted to € 9.4 million (2007, € 0.8 million). Revenues from Biolex with respect to the sale of the commercial rights to Locteron amounted to € 7.9 million. Development

Key financial data

In € 1,000	Contract Development		Products & Drug Delivery		OctoPlus[1]	
	2008	2007	2008	2007	2008	2007
Operating revenues	10,730	8,983	9,430	758	16,923	5,194
Operating costs	10,294	8,478	13,951	15,253	21,125	20,328
Operating result	436	505	(4,521)	(14,495)	(4,202)	(15,134)
Interest costs					(2,007)	(41)
Result before taxes					(6,209)	(15,175)

[1] After eliminating inter-segment transactions

revenues for Locteron and other proprietary related technology projects amounted to € 1.3 million. Costs of sales declined significantly to € 5.9 million of which € 2.9 million is inter-segment costs of sales (2007, € 8.4 million and € 4.5 million respectively). Other operating costs amounted to € 8.0 million (2007, € 6.9 million). As a result of the agreements with Biolex, this business segment reduced its operating loss to € 4.5 million (2007, operating loss of € 14.5 million).

Contract Development

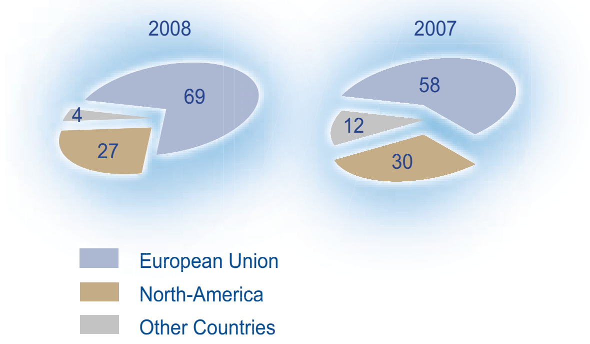
OctoPlus' formulation and manufacturing activities again experienced significant growth; revenues totalled € 10.7 million, an increase of 19% compared to 2007 (2007, € 9.0 million). € 3.2 million of the € 10.7 million is inter-segment revenue (2007, € 4.5 million). Ongoing development and manufacturing of Locteron required, and will still require, a considerable effort from the Contract Development business segment, which is reimbursed by Biolex from October 2008 onwards. Furthermore, we were able to significantly grow revenues from clients other than Biolex. Total operating costs rose by € 1.8 million to € 10.3 million (2007, € 8.5 million), partly as a result of increased revenues, but also in order to validate and staff the new manufacturing facility. As a result thereof, the operating margin deteriorated in the second half of the year such that for the full year the operating margin approximates 4.2%.

OctoShare

Total operating costs for OctoPlus' corporate organisation amounted to € 8.3 million (2007, € 8.0 million). The budgeted costs of OctoShare have been allocated to the two business segments Products & Drug Delivery and Contract Development.

The table above presents some key financial data of the Company's business segments.

Revenues by region (%)



Outlook

Management's prime focus will be on restructuring OctoPlus and building the business into a cash flow positive and profitable organisation. The 2009 objective is to secure positive cash flow from operations. This can be achieved by successfully fulfilling the contractual obligations with respect to Biolex as well as by realising further growth of our Contract Development activities. The current Contract Development order book, supplemented with the ongoing discussions with OctoPlus' clients and potential clients, supports our vision that 2009 will continue to witness further growth for OctoPlus' Contract Development activities. OctoPlus expects that the 2009 external revenues will increase to approximately € 19 million. The Company will be able to meet increased demand from its customers by increasing its staff by approximately 10%, utilising its expanded facilities in Leiden and making some further modest investments, predominantly in equipment.

In addition to the traditional Contract Development activities, we have also won a number of clients for which we will develop and formulate controlled release pharmaceuticals based on their proprietary product. OctoPlus will be reimbursed for these development activities. As such products involve our proprietary drug delivery technology, OctoPlus expects to receive milestone and royalty payments from these activities at a later stage. This kind of technology-based projects complement our Contract Development activities and may generate sustainable long-term revenues.

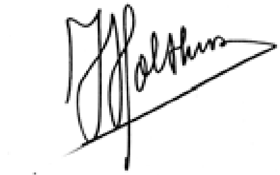
Besides having sold the commercial rights to Locteron, OctoPlus aims to out-license OP-145 CSOM. The successful completion of the Phase II study has opened up several new opportunities in this area.

In February 2009, OctoPlus raised € 6.0 million (gross) through the issuance of 8.0 million ordinary shares. Concurrently, 6.0 million shares were issued in order to convert the bridge loans, including interest, as provided by Life Sciences Partners and S.R. One. The net proceeds of this private placement allow OctoPlus to implement its new strategy and make the final investments in its new manufacturing facilities, with the goal of becoming a sustainable bio-pharmaceutical company.

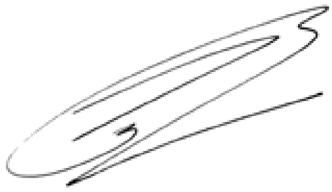
The Executive Board

Simon J. Sturge, Chief Executive Officer

Joost J.M. Holthuis, Chief Operating Officer



Hans C.H.L. Pauli, Chief Financial Officer



Gerben Moolhuizen, Chief Business Officer

Information for Shareholders

Financial calendar

Annual General Meeting of Shareholders	23 April 2009
Publication of 2009 first half-year results	6 August 2009
Publication of 2009 second half-year results	25 February 2010

Major shareholders*

Life Sciences Partners III B.V/C.V.	17.2%
S.R. One, Limited	16.9%
Signet Healthcare Partners	16.6%
Joost Holthuis / Sodoro B.V.	10.2%
Innoven Partenaires S.A.	9.3%
Fagus N.V.	7.2%

* post February 2009 private placement

Ticker symbol

Euronext Amsterdam by NYSE Euronext:	OCTO

Leiden, the Netherlands, 27 March 2009

Development

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Corporate Governance

OctoPlus N.V. is a public limited liability company established under the laws of the Netherlands. OctoPlus N.V. was incorporated on 20 July 1995 as OctoPlus International Holding B.V. On 4 October 2006, OctoPlus International Holding B.V.'s articles of association were amended in order to allow its shares to be traded on the Euronext Amsterdam by NYSE Euronext exchange and its name was changed to OctoPlus N.V. OctoPlus N.V. is a holding company and has the following wholly-owned subsidiaries; OctoShare B.V., OctoPlus Development B.V., OctoPlus Technologies B.V., OctoPlus Sciences B.V., OctoPlus PolyActive Sciences B.V. (incorporated on 9 September 2008), Chienna B.V. and OctoPlus Inc. At 31 December 2008, all of OctoPlus' shares are listed on Euronext Amsterdam by NYSE Euronext.

In accordance with the Corporate Governance Code, listed companies are obliged to clarify in their annual report to what extent they comply with the regulations and the best practice provisions thereof insofar as they affect the Executive Board and the Board of Supervisory Directors. If a company does not, or does not intend to, comply with any of the principles or best practice provisions, it must explain its motivation thereto in its annual report.

Corporate governance concerns the relationship between the various governing bodies of the Company, the Executive Board, the Board of Supervisory Directors and the Shareholders, as well as the other stakeholders of the company. In particular it sees to the manner in which the company is governed, the accountability of management and the supervision thereof.

OctoPlus fully supports the principles and best practice provisions of the Corporate Governance Code. In this section OctoPlus outlines how it has organised its corporate governance and how it complies with the most relevant best practice provisions. Any deviation from the Corporate Governance Code is motivated.

OctoPlus' governance

OctoPlus has a so-called two-tier governance structure in which the executive and supervisory responsibilities are separated. The Executive Board is responsible for the day-to-day affairs of the Company. The Board of Supervisory Directors supervises the Executive Board. Certain decisions of the Executive Board, as outlined in the articles of association, require the prior approval of the Board of Supervisory Directors. Furthermore, the Board of Supervisory Directors can inform the Executive Board that additional decisions of the Executive Board require prior approval of the Board of Supervisory Directors. In executing their supervisory role, the members of the Board of Supervisory Directors must be guided by the best interests of OctoPlus and all its stakeholders.

The Executive Board as well as the Board of Supervisory Directors shall report to the Annual General Meeting of Shareholders with regard to OctoPlus' corporate governance regarding its structure and compliance with the Corporate Governance Code.

Structure and composition of the Executive Board

The Executive Board is responsible for the general affairs and business of OctoPlus and as such is responsible for progressing the Company to achieve its goals.

The Executive Board consists of:
- Simon J. Sturge (1959), Chief Executive Officer (since 6 November 2008)
- Joost J.M. Holthuis (1953), Chief Operating Officer (since 6 November 2008)
- Hans C.H.L. Pauli (1960), Chief Financial Officer (until 31 March 2009)
- Gerben Moolhuizen (1966), Chief Business Officer (since 6 November 2008)

Simon Sturge – Chief Executive Officer

Mr Sturge obtained a Bachelor's Degree (Hons.) in Biology from Sussex University. He has over 28 years of experience in the pharmaceutical industry. From 1980 to 1988, he worked as a Division Manager for NAPP Laboratories Ltd. After that, he joined the Celltech Group (now part of UCB), where he held several positions. In 1997, he founded RiboTargets, when it was spun out from the Medical Research Council's Laboratory of

Molecular Biology. He remained Chief Executive Officer of RiboTargets Holdings until 2003. From 2003 till 2008, Mr Sturge has been Chief Executive Officer of Vernalis Group plc. He is also a non-executive director of the Bio Industry Association.

Joost Holthuis – Chief Operating Officer and Co-Founder
Mr Holthuis graduated from the University of Leiden with a Master's Degree in Pharmacy in 1980. After obtaining his Ph.D. and working as an Assistant Professor at Utrecht University, he became the Director of Analytical Laboratories and Product Development at the Dutch subsidiary of Chiron Corporation in 1988. He founded OctoPlus in 1995. He is a member of the board of the "Adviescommissie IS" of the Dutch Ministry of Economic Affairs. Mr Holthuis is also a member of the Netherlands Academy of Technology and Innovation.

Hans Pauli – Chief Financial Officer
Mr Pauli holds a Bachelor's Degree (Hons.) in Business Studies from Ealing College, London and a Master's Degree in Fiscal Economics from the University of Amsterdam. He began his career as investment banker in 1985 before he joined Pharming Group N.V. in 1996 to become its Chief Financial Officer till 1999. Since 1999, Mr Pauli held positions as Chief Financial Officer at various other companies, including RING!Rosa Products N.V., Secon Group B.V. and PamGene B.V. He joined OctoPlus in 2003. Mr Pauli is member of the supervisory boards of BAC B.V. as well as of MedSciences II B.V.

Gerben Moolhuizen – Chief Business Officer
Mr 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 1997, Mr Moolhuizen joined ASD B.V. (currently Primagen B.V.) where he became Vice-President, Business Development in 1999. He joined OctoPlus in 2001, and became Chief Business Officer in January 2006.

OctoPlus concurs with the Corporate Governance Code that a corporation is a long-term form of collaboration between all stakeholders, such as employees, suppliers, customers, financiers, government and other regulatory authorities as well as general society.

The Executive Board has collective powers and responsibilities, which have been divided among its members. The division of these powers and responsibilities and the rules governing its internal organisation have been laid down in by-laws, which are published on OctoPlus' website.

The General Meeting of Shareholders, based on a proposal by the Board of Supervisory Directors, appoints members of the Executive Board. A member of the Executive Board shall be appointed for a period of four years and may be reappointed for additional periods of maximum four years each, unless stated otherwise in the resolution to appoint such member. This appointment policy does not correspond with the current employment terms of three of the four Executive Board members. OctoPlus will respect the current employment terms of its Executive Board members Joost Holthuis and Gerben Moolhuizen. Hans Pauli will resign as Executive Board member of OctoPlus per 31 March 2009. The General Meeting of Shareholders may suspend or dismiss Executive Board members at any time. The Board of Supervisory Directors may also suspend Executive Board members at any time.

Board of Supervisory Directors' positions

Pursuant to the Corporate Governance Code members of the Executive Board are allowed to hold up to five supervisory board positions in other listed companies. The members of the Executive Board did not hold such positions in 2008.

Internal risk management and control systems

The Executive Board is responsible for designing, implementing and operating the internal risk management and control systems. The purpose of such systems is to effectively manage any risks to which OctoPlus is exposed. Such systems can never provide complete assurance for achieving the Company's goals, nor can these provide an absolute and

Members of the Executive Board

Name	Year of birth	Position	Member since	Term
Simon Sturge	1959	Chief Executive Officer	6 November 2008	31 December 2011
Joost Holthuis	1953	Chief Operating Officer	20 July 1995	Indefinite
Hans Pauli	1960	Chief Financial Officer	22 December 2004	31 March 2009
Gerben Moolhuizen	1966	Chief Business Officer	6 November 2008	Indefinite

complete guarantee that material errors, fraud and / or violation of laws and regulations will not occur.

In order to comply with the obligations in the area of internal risk management and control systems, OctoPlus has employed various measures:

- Annual strategic evaluation of our business and product portfolio;
- Regular periodic review meetings with Executive Board, Board of Supervisory Directors and Senior Management Team;
- Monthly financial reporting; and
- Management letters and audit reports provided by our external auditor.

Code of Conduct

The Company has formalised its Code of Conduct. OctoPlus has published this Code of Conduct on its website and on its intranet and published all related documents on intranet, as well as any amendments which may be made. OctoPlus expects all 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 the contents of this Code of Conduct.

Board of Supervisory Directors

The Board of Supervisory Directors is responsible for supervising the conduct of and providing advice to the Executive Board and supervising OctoPlus' business generally. In performing its duties, the Board of Supervisory Directors is required to act in the interests of the Company's business as a whole. The members of the Board of Supervisory Directors are not, however, authorised to represent OctoPlus in dealings with third parties.

The articles of association provide that the Board of Supervisory Directors will determine the number of members of the Board of Supervisory Directors.

OctoPlus' articles of association provide that the General Meeting of Shareholders appoints the members of the Board of Supervisory Directors following a proposal by the Board of Supervisory Directors. The current members of the Board of Supervisory Directors have been appointed for the term set out in the table below. Newly appointed members of the Board of Supervisory Directors will serve for a maximum of four years, unless stated otherwise in the resolution to appoint the Board of Supervisory Directors' member in question, and a Board of Supervisory Directors' member may only be reappointed twice. The General Meeting of Shareholders appoints a chairperson and the Board of Supervisory Directors appoints a deputy chairperson from amongst its members. Under the articles of association, the General Meeting of Shareholders may suspend or dismiss members of the Board of Supervisory Directors at any time. The articles of association provide that the members of the Board of Supervisory Directors shall retire periodically in accordance with a rotation plan as drawn up by the Board of Supervisory Directors.

Under the articles of association, the Board of Supervisory Directors 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 Board of Supervisory Directors then in office are present or represented. Each member of the Board of Supervisory Directors shall be entitled to one vote.

The Corporate Governance Code stipulates that the composition of the Board of Supervisory Directors is such that the members of the Board of Supervisory Directors are able to act critically and independently of each other, of the Executive Board and of any particular interests. This principle is complied with. Per year-end 2008, one member of the Board of Supervisory Directors, Mr Kuijten, is not independent in accordance with best practice provisions III.2.I and III.2.2 of the Corporate Governance Code.

In 2008 the composition of the Board of Supervisory Directors was:

Hans Stellingsma, Chairman

Mr Stellingsma is a partner at Quintel, a strategy consultancy firm and prior to his current position he held numerous senior positions in a range of businesses in the Netherlands. In particular, he has served among others as member of the managing

Board of Supervisory Directors

Name	Position	Citizenship	Initial nomination	Expiration of current term
Hans Stellingsma (1956)	Chairman	the Netherlands	2001	2010
René Kuijten (1964)	Member	the Netherlands	2005	2012
Philip Smith (1949)	Member	United States of America	2005	2009
Paul Toon (1968)	Member	United Kingdom	2005	2011
Frans Eelkman Rooda (1952)	Member	the Netherlands	2008	2012

board of Origin N.V. and was chief executive officer of Content N.V. More recently he was a senior partner with Monitor, a consulting firm.

René Kuijten
Mr Kuijten is a General Partner of Life Sciences Partners. On behalf of Life Sciences Partners, he serves or has served on the supervisory boards or as a Non-Executive Director of several of Life Sciences Partners' portfolio companies. Before 2001, when he joined Life Sciences Partners, he was a senior consultant at McKinsey & Company and co-leader of the European Pharmaceuticals and Healthcare Practice.

Philip Smith
Until December 2008, Mr Smith served as General Partner of S.R. One. Prior thereto, he held positions of increasing responsibility within the Pharmaceutical Development Group at SmithKline Beecham/GlaxoSmithKline.

Paul Toon
Since 2008, Mr Toon has been Managing Partner of Generis Capital Partners. Before his current position, he held various positions in the finance and venture capital industry especially relating to life science and technology companies, as well as fulfilling executive positions in companies active in this field.

Frans Eelkman Rooda
Mr Eelkman Rooda joined the Board on 6 November 2008. Since June 2008, Mr Frans Eelkman Rooda is Chief Financial Officer of Wessanen N.V. Before, he held various positions amongst others at OPG Group N.V. and McKinsey & Company. He is also a member of the supervisory board of De Lage Landen International B.V.

Save for Mr Eelkman Rooda, all members of the Board of Supervisory Directors were initially appointed for an indefinite term. However, in the Extraordinary General Meeting of Shareholders held on 1 September 2006, it was determined that, pursuant to a roster, the terms of the different members of the Board of Supervisory Directors were limited, as described in the table on the previous page. When reappointed, the maximum term of any of the above-mentioned members of the Board of Supervisory Directors is four years.

At the General Meeting of Shareholders held on 6 November 2008, Mr Kuijten was reappointed as member of the Board of Supervisory Directors for a term of four years.
The Board of Supervisory Directors proposes to the General Meeting of Shareholders to appoint Mr James Gale to its Board and to reappoint Mr Smith as member of the Board of Supervisory Directors.

James Gale
Since 1998, Mr Gale has been managing partner of Signet Healthcare Partners. Prior thereto, he was head of principal investment activities and head of investment banking for Gruntal & Co. He is currently on the Board of Directors of various Signet Healthcare Partners' portfolio companies.

Committees

The Board of Supervisory Directors has appointed from among its members an Audit Committee and a Remuneration and Nominating Committee. These committees prepare the decision making of the Board of Supervisory Directors on the relevant matters.

Audit Committee

The Audit Committee assists the Board of Supervisory Directors 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 Board of Supervisory Directors in assessing and mitigating the business and financial risks.

The Audit Committee shall meet at least twice a year and shall also meet prior to each issuance of a press release containing financial figures.

The Audit Committee consists of Frans Eelkman Rooda (chairman), René Kuijten and Hans Stellingsma.

According to the Corporate Governance Code, at least one member of the Committee should be a financial expert. Mr Frans Eelkman Rooda is such an expert.

The Audit Committee has had discussions with the Executive Board and the auditors of the Company with regard to the effectiveness of the administrative organisation and measures of internal control in general, as well as the quality of the management information, follow-up of recommendations made by the auditors, financing of the Company, IT systems and the relationship with the auditors. The relationship with Deloitte Accountants B.V., OctoPlus' auditor, was reviewed, especially concerning its independence regarding OctoPlus, and it was concluded that Deloitte Accountants B.V. is sufficiently independent in order to remain OctoPlus' auditor.

Remuneration and Nominating Committee

The Remuneration and Nominating Committee advises the Board of Supervisory Directors on the remuneration of the members of the Executive Board and monitors the Company's remuneration policy, which covers bonus plans for the Executive Board and other senior managers of the Company. The Remuneration and Nominating Committee furthermore advises on selection criteria and appointment procedures for members of the Executive Board and members of the Board of Supervisory Directors. It also assesses the functioning of individual members of the Board of Supervisory Directors and the Executive Board.

The Remuneration and Nominating Committee consists of Hans Stellingsma (chairman), René Kuijten and Philip Smith.

Deviations from the Corporate Governance Code

OctoPlus supports the Corporate Governance Code and will apply the relevant best practice provisions of the Corporate Governance Code, subject to the exceptions set out below.

II.1.1 *An Executive Board member is appointed for a maximum period of four years. A member may be reappointed for a term of not more than four years at a time.*

Joost Holthuis, Hans Pauli and Gerben Moolhuizen, members of the Executive Board, have been appointed for an unlimited period and the Company does not consider it appropriate to renegotiate the existing agreements, in so far as this would be possible given the mandatory provisions of Netherlands' labour laws. Any future appointments of members of the Executive Board previously not employed by the Company will be in compliance with this provision.

II.2.1 *Options to acquire shares are a conditional remuneration component, and become unconditional only when the management board members have fulfilled predetermined performance criteria after a period of at least three years from the grant date.*

A significant part of the currently outstanding options have been granted unconditionally. These existing agreements shall not be amended considering that OctoPlus was then still in a relatively early stage of development of its products and that the setting of credible predetermined performance criteria at a term of at least three years was not practical at that stage. Therefore, OctoPlus shall not fully comply with this provision. However, options are granted to members of the Executive Committee conditionally and will only become unconditional once the performance criteria have been met. The performance criteria cover at least a one year period.

II.2.6 *The supervisory board shall draw up regulations concerning ownership of and transactions in securities by management board members, other than securities issued by their 'own' company. The regulations shall be posted on the website. A management board member shall give periodic notice, but in any event at least once a quarter, of any changes in his holding of securities in Dutch listed companies to the compliance officer or, if the company has not appointed a compliance officer, to the chairman of the supervisory board. A management board member who invests exclusively in listed investment funds or who has transferred the discretionary management of his securities portfolio to an independent third party by means of a written mandate agreement is exempted from compliance with this last provision.*

OctoPlus believes that the restrictions under Dutch securities law are sufficient to govern the ownership of and transactions in securities by members of the Executive Board. Implementing additional restrictions would potentially harm OctoPlus' ability to attract and ensure the continued services of the members of the Executive Board and OctoPlus therefore believes that applying this best practice provision is not in the Company's best interests.

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*

The Board of Supervisory Directors consists of five members, of whom three were appointed by the General Meeting of Shareholders upon nomination by Life Sciences Partners, S.R. One and Innoven Partenaires, pursuant to the shareholders' agreement dated 19 January 2005. The members of the Board of Supervisory Directors nominated by such shareholders are not independent within the meaning of the Corporate Governance Code. Mr Toon and Mr Smith subsequently became independent within the meaning of the Corporate Governance Code when Mr Toon left Innoven Partenaires in 2007 and when Mr Smith left S.R. One in 2008.

Following the appointment of Mr Gale, upon the nomination by Signet Healthcare Partners, Mr Gale will not be independent within the meaning of the Corporate Governance Code. Mr Kuijten, who was appointed to the Board upon a nomination of Life

Sciences Partners in 2005, is not independent either. The company intends to only appoint independent new Board members in the future.

III.7.3 *The supervisory board shall adopt a set of regulations containing rules governing ownership of and transactions in securities by supervisory board members, other than securities issued by their 'own' company. The regulations shall be posted on the website. A supervisory board member shall give periodic notice, but in any event at least once a quarter, of any changes in his holding of securities in Dutch listed companies to the compliance officer or, if the company has not appointed a compliance officer, to the chairman of the supervisory board. A supervisory board member who invests exclusively in listed investment funds or who has transferred the discretionary management of his securities portfolio to an independent third party by means of a written mandate agreement is exempted from compliance with this last provision.*

OctoPlus believes that the restrictions under Netherlands' securities law are sufficient to govern the ownership of and transactions in securities by members of the Board of Supervisory Directors. Implementing additional restrictions would potentially harm the ability to attract and ensure the continued services of members of the Board of Supervisory Directors, and OctoPlus therefore believes that applying this best practice provision is not in the Company's best interests.

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 OctoPlus' 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. OctoPlus will, however, ensure that presentations are posted on the website immediately after the meetings in question.

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 cognisance of the findings of the internal auditor.*

The Company feels that the financial reporting will be sufficiently monitored by the Audit Committee and will, in view of its size, initially not appoint an internal auditor.

Complete overview of OctoPlus' corporate governance

A complete overview of the manner in which OctoPlus complies with the Corporate Governance Code can be found on the Company's website, www.octoplus.nl, where the following documents can be consulted.

- Compliance with the Corporate Governance Code
- Executive Board regulations
- Board of Supervisory Directors' regulations
- Audit Committee regulations
- Remuneration and nominating committee regulations
- Articles of association
- Internal code on inside information
- Whistleblower's procedure
- Code of Conduct

Remuneration

The General Meeting of Shareholders adopts the remuneration policy in respect of the remuneration of the Executive Board. The Board of Supervisory Directors establishes the remuneration of the individual members of the Executive Board, taking into account the policy adopted by the General Meeting of Shareholders, 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 objective of our remuneration policy is to ensure a high direct involvement and to encourage high performance by our management. The remuneration system is based on achieving performance criteria that are determined on a yearly basis.

Remuneration system

The remuneration system is based on a combination of fixed and variable elements. In 2005, the Board of Supervisory Directors approved the current remuneration policy, consisting of a fixed salary in combination with short-term and long-term incentives. The Annual General Meeting of Shareholders shall adopt the remuneration policy, reflecting the remuneration system.

Base salary

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

Production

Short-term incentives

At the Board of Supervisory Directors meeting of 13 March 2005, the Board of Supervisory Directors reviewed the short-term incentive plan for the Executive Board.

The short-term incentives are linked to clearly measurable personal milestones, which milestones are related to a person's specific roles and responsibilities and are approved by the Board of Supervisory Directors. All milestones of the members of the Executive Board related to the short-term incentives are revised annually and approved by the Board of Supervisory Directors. The specific milestones are not disclosed, as these are commercially sensitive.

The magnitude of the short-term incentives is linked to the base salary and can be as much as 150% of the base salary for the CEO and up to 25% for the other Executive Board members.

Long-term incentives

At the Board of Supervisory Directors' meeting of 13 March 2005, the Board of Supervisory Directors reviewed the long-term incentive plan for the Executive Board and other senior management of the Company.

The long-term incentives consist of conditionally granted options. Pursuant to achieving predetermined milestones, the granting of the 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 milestones and are approved by the Board of Supervisory Directors. The specific milestones are not disclosed, as some of these are commercially sensitive.

The Board of Supervisory Directors has a discretionary power to grant options under the employee stock option plan. The Board of Supervisory Directors determines the criteria for the granting of options, as well as the exercise price. The exercise period of the options shall not exceed 60 months following the date of the grant becoming unconditional. Options can only be granted to members of the Executive Board following approval from the General Meeting of Shareholders.

Contracts of employment for the Executive Board

Except for the employment agreement of the CEO, the employment agreements with the members of the Executive Board have an indefinite term and can be terminated, subject to the statutory notice period, which is one month for the employee and one to four months for the Company, dependent on the number of years of service. Save for the employment agreement of the CEO, the employment agreements with the members of the Executive Board do not provide for severance payments in the event of termination. If OctoPlus terminates the employment agreement with its CEO, OctoPlus 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 years salary. Furthermore, if the employment agreement is terminated within six months of a change of control, the CEO is entitled to a severance amount of 1.5 times the monthly salary inclusive of the average bonus payment received over the three years preceding the change of control, up to a maximum of a full years salary inclusive of the average bonus payment received.

Pension plan and other benefits

The members of the Executive Board have a defined-contribution pension plan, with a pensionable age of 65.

Detailed information

Further detailed information concerning remuneration is provided in Note 31 to the consolidated financial statements of this annual report.

Remuneration policy of Board of Supervisory Directors

The Annual General Meeting of Shareholders determines the remuneration of the members of the Board of Supervisory Directors. The remuneration of the members of the Board of Supervisory Directors consists of a fixed cash remuneration. Further detailed information concerning remuneration is provided in Note 31 to the consolidated financial statements of this annual report.

Issue of shares and rights to subscribe for shares and pre-emptive rights

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 Board of Supervisory Directors, for a period of five years from 4 October 2006, the date on which our articles of association were last amended. 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 Board of Supervisory Directors.

Acquisition of shares

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 meeting of shareholders which was held on 6 November 2008, 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.

Amendment of the articles of association

The General Meeting of Shareholders may resolve to amend the articles of association of OctoPlus, subject to a proposal by the Executive Board, which requires the approval of the Board of Supervisory Directors.

Stichting Continuïteit OctoPlus

On 29 March 2007, OctoPlus incorporated Stichting Continuïteit OctoPlus (the 'Foundation'). The purpose of the Foundation is to safeguard the Company's interests and those of the Company's enterprise and to protect, insofar as possible, the Company's continuity, the Company's independence and the Company's corporate identity.

The Board of the Foundation consists of

- Mr J.W. Termijtelen (chairman)
- Mr E.J.M. Bakker
- Mr R. van Dam

The Company's preference shares will be an instrument of protection against hostile takeovers. In line with guidance from the Corporate Governance Code, the Company believes that the issuance of preference shares may help the Company to determine the Company's position in relation to a bidder and its plans, and to seek alternatives. The issue of preference shares is intended to be temporary. Unless the preference shares have been issued by a vote of the General Meeting of Shareholders, the Company's articles of association require that a General Meeting of Shareholders be held no later than two years after the issue of preference shares to consider their redemption or cancellation. If the General Meeting of Shareholders does not resolve to redeem or cancel the preference shares, another General Meeting of Shareholders will be held within two years. Until the preference shares have been redeemed or cancelled, a General Meeting of Shareholders to consider a redemption or cancellation of the preference shares will be held within two years of the previous meeting.

Risk and Risk management

OctoPlus is exposed to general business risks and specific industry risks. Listed below are the risks perceived to be most significant to the Company, although the risks the Company faces are not limited to this list.

OctoPlus' success depends to a significant degree on Locteron, which is still under development, or any other product candidates it may co-develop in the future. If OctoPlus' co-development partners are unable to bring any or all of these product candidates to market or experience significant delays in doing so, the ability to generate product revenue and the likelihood of success will be harmed.

OctoPlus' ability to generate future product revenue in the form of service revenue, milestone payments and/or royalties will depend on the successful development and commercialisation of the product candidates by its co-development partners. Any of such product candidates could be unsuccessful if:

- it does not demonstrate acceptable safety and efficacy in pre-clinical or clinical trials or otherwise does not meet applicable regulatory standards for approval;
- it does not offer therapeutic or other improvements over existing or future drugs used to treat the same conditions;
- its development is delayed due to other factors;
- it is not capable of being produced in commercial quantities at acceptable costs;
- it is not accepted in the medical community or by third-party payors; or
- the agreements with Biolex or any other client or co-development partner for the (co-)development of a product candidate may prove to be unsuccessful and be terminated.

OctoPlus does not expect Locteron to be commercially available until 2013 at the earliest, if at all. If unable to make the product candidates commercially available, OctoPlus will not generate product revenues from milestone and royalties and may not be successful. The results of the clinical trials to date do not provide assurance that acceptable efficacy or safety will be shown upon completion of Phase III clinical trials.

OctoPlus faces intense competition.

The pharmaceutical and biotechnology industries are highly competitive. Any product candidates that the Company successfully develops will compete with existing and future therapies. Many of these competitors have substantially greater financial, technological, manufacturing, marketing, managerial and research and development resources and experience than OctoPlus has. Accordingly, competitors may succeed in developing competing technologies and products more rapidly than OctoPlus does. Even if the product candidates are ultimately approved, they may not gain market acceptance among physicians, patients and others in the medical community.

OctoPlus faces rapid technological change.

The success of OctoPlus depends, in part, on maintaining a competitive position in the development of technologies and co-developing product candidates in a rapidly evolving field. Within the pharmaceutical and biotechnology industries, major technological changes can happen quickly. Rapid technological change, or the development by competitors of technologically improved or different drug delivery systems or products, could render OctoPlus' platform technologies or product candidates it is co-developing obsolete or non-competitive.

OctoPlus has significant product liability exposure which may harm OctoPlus' business and reputation.

OctoPlus faces an inherent risk of product liability lawsuits related to the testing of product candidates, and will face an even greater risk if the product candidates are introduced commercially. An individual may bring a liability claim against the Company if one of the product candidates co-developed by the Company causes, or merely appears to have caused, an injury. If OctoPlus cannot successfully defend itself against the product liability claim, the Company may incur substantial liabilities.

Some of the collaborations and customer supply agreements contain liability and/or indemnification provisions under which OctoPlus may claim damages from counterparties and under which the counterparties may claim damages from OctoPlus, including damages caused by product defects. In the event OctoPlus needs to claim damages from a counterparty, OctoPlus may not receive payments covering the damages in full, either because the applicable provision limits the payment to a certain amount, is unenforceable for any reason or because the counterparty is unable to pay (due to insolvency or otherwise). Although in many cases OctoPlus tries to limit liability, such limitations may not be effective in the event that OctoPlus needs to pay damages and OctoPlus nevertheless could become liable to make substantial payments.

OctoPlus needs to enter into collaborative relationships to further develop its business and to obtain active pharmaceutical ingredients. If OctoPlus fails to enter into such agreements, or if OctoPlus, or any of its collaborators, terminates or fails to perform any obligations under the collaborative agreements, the development and commercialisation of the product candidates could be delayed or terminated.

A material component of OctoPlus' business strategy is to establish and maintain collaborative arrangements with pharmaceutical and biotechnology companies to develop and commercialise new product candidates.

The process of establishing collaborative relationships is difficult, time-consuming and involves significant uncertainty. Moreover, even if collaborative relationships are established, it may be difficult to maintain or perform under such collaboration arrangements, as funding resources may be limited or collaborators may seek to renegotiate or terminate their relationships due to unsatisfactory clinical results, a change in business strategy, a change of control or other reasons. If OctoPlus or any of its collaborators fails to fulfill any responsibilities in a timely manner, or at all, contractual disputes may arise and research, clinical development or commercialisation efforts related to that collaboration could be delayed or terminated.

OctoPlus' success is dependent on the intellectual property rights of itself and third parties, and its interest in such rights are complex and uncertain.

The patent positions of pharmaceutical and biotechnology companies, including OctoPlus' patent positions, involve complex legal and factual questions and, therefore, validity and enforceability cannot be predicted with certainty. Patents may be challenged, deemed unenforceable, invalidated or circumvented. The validity, enforceability and commercial value of these rights, therefore, are highly uncertain.

OctoPlus intends to apply for patents covering technologies and product candidates as OctoPlus deems appropriate. OctoPlus may fail to apply for patents on important technologies or products in a timely fashion, or at all, and in any event, the applications filed may be challenged and may not result in issued patents.

There can be no assurance that OctoPlus would prevail in any intellectual property infringement action or will be able to obtain a license to any third party intellectual property on commercially reasonable terms, successfully develop non-infringing alternatives on a timely basis, or license non-infringing alternatives, if any exist, on commercially reasonable terms. Any significant intellectual property impediment to our ability to develop and commercialise OctoPlus products could have a material adverse affect on our business and prospects.

OctoPlus has incurred losses since 2002, however, anticipates that it becomes profitable in the foreseeable future. Nevertheless, the Company cannot assure to become profitable nor be able to sustain profitability.

OctoPlus was not profitable in 2008 and has incurred losses in each year since 2002. OctoPlus' net loss before taxes of the years ended 31 December 2008, 2007 and 2006 was € 6.2 million, € 15.2 million and € 8.7 million respectively. As of 31 December 2008, OctoPlus had an accumulated deficit of € 40.3 million. To date, OctoPlus has derived a substantial portion of its revenues from Contract Development Business, OctoPlus has also received government subsidies and has only commenced to generate significant revenues through the agreements with Biolex. OctoPlus does not anticipate that it will generate significant revenues from the sale or out-licensing of products based on its proprietary technology for the foreseeable future, save for future milestone and royalty payments from Biolex, depending on clinical and regulatory progress, and the possible out-licensing of OP-145. OctoPlus may never again achieve profitability. Even if profitability is achieved in the future, OctoPlus may not be able to sustain profitability in subsequent periods.

Raising additional capital by issuing securities or through collaboration and licensing arrangements may cause dilution to existing shareholders, restrict our operations or require us to relinquish proprietary rights.

OctoPlus may seek the additional capital necessary to fund its operations through public or private equity offers, debt financings and collaboration and licensing arrangements. To the extent that OctoPlus raises additional capital through the sale of equity or convertible debt securities, shareholders' ownership interest will be diluted, and the terms of such securities may include liquidation or other preferences that adversely affect shareholders' rights. Debt financing, if available, may involve agreements that include covenants limiting or restricting OctoPlus' ability to take specific actions such as incurring additional debt, making capital expenditures or declaring dividends. If additional funds are raised through collaboration and licensing arrangements with third parties, OctoPlus may have to relinquish valuable rights to its technologies or product candidates, or grant licenses on terms that are not favourable.

Additional capital may not always be available to the Company on acceptable terms, or at all.

Additional funds may not be available when the Company needs them on terms that are acceptable to the Company. As a consequence thereof, the Company may be required to delay, scale back or eliminate certain of our activities and commercialisation efforts, which would have a material adverse affect on our financial condition and may cause the Company to discontinue our operations.

OctoPlus' internal risk management and control system

OctoPlus has developed an internal risk management and control system, which requires frequent evaluation of the magnitude and likelihood of the above mentioned and other risk factors and the potential impact thereof on the Company. Management believes that the risk management and control systems have been effective in 2008. OctoPlus' risk management and control systems will be reviewed frequently in order to assess their quality and reliability.

The Company confirms that internal controls over financial reporting provide a reasonable level of assurance that the financial reporting does not contain any material inaccuracies and confirms that these controls have properly functioned in 2008 and that there are no indications that they will not continue to do so going forward. Please note that this statement cannot be construed as a statement in accordance with the requirements of section 404 of the US Sarbanes-Oxley Act. The management information and its IT systems are adequate for a company of OctoPlus' size.

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Directors' Statement

As required by section 5:25c of the Dutch Act on Financial Supervision, each of the members of the Executive Board hereby confirm that to the best of their knowledge:

- The 2008 financial statements of the Company give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;

- The 2008 Annual Report gives a true and fair view of the Company's position and the undertakings included in the consolidation taken as a whole at 31 December 2008 and of the development and performance of the business for the year 2008;

- The 2008 Annual Report gives an overview of the general business risks and the specific industry risks the Company is exposed to.

The Executive Board

Simon J. Sturge, Chief Executive Officer

Joost J.M. Holthuis, Chief Operating Officer

Hans C.H.L. Pauli, Chief Financial Officer

Gerben Moolhuizen, Chief Business Officer

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Consolidated Financial Statements

Consolidated balance sheet

(In € x 1,000)

	Note	At 31 December 2008	At 31 December 2007
ASSETS			
Non-current assets			
Intangible assets			
Goodwill	6	243	243
Patents	6	2,686	2,759
Other intangible assets	6	115	282
		3,044	3,284
Property, plant and equipment			
Land and buildings	7	8,841	3,040
Machines and installations	7	11,564	6,870
Other equipment	7	335	473
		20,740	10,383
Financial assets carried at cost	8	1,299	16
		25,083	13,683
Current assets			
Inventories	10	634	494
Trade receivables	11	2,126	1,050
Social securities and other taxes	11	76	584
Other receivables, prepayments and accrued income	11	1,132	1,772
Cash and cash equivalents	9	2,171	3,330
		6,139	7,230
Total assets		31,222	20,913
EQUITY			
Shareholders' equity	12	575	6,667
Total group equity		575	6,667
LIABILITIES			
Non-current liabilities			
Finance lease liabilities	15	12,275	3,550
Other non-current liabilities	17	-	8
		12,275	3,558
Current liabilities			
Current portion of non-current liabilities	15	930	139
Bank overdrafts	9,15	3,053	815
Convertible loans	16	4,395	-
Trade payables	2,17	3,222	5,306
Social securities and other taxes	17	438	300
Other current liabilities	2,17	6,334	4,128
		18,372	10,688
Total liabilities		30,647	14,246
Total equity and liabilities		31,222	20,913

The notes on pages 32 to 60 are an integral part of these consolidated financial statements.

Consolidated income statement

(In € x 1,000)

		Year ended 31 December	
	Note	2008	2007
Service revenues	5,18	8,708	4,586
License and other revenues	5,18	8,160	326
Income from subsidies	5,19	55	282
Total revenues		16,923	5,194
Raw materials and auxiliaries	20	678	379
Cost of contracted work and other external charges	20	2,782	3,652
Employee benefits	21	8,946	7,881
Depreciation and amortisation	6,7	1,607	1,122
Other costs	22	7,112	7,294
Total operating costs		21,125	20,328
Operating result		(4,202)	(15,134)
Interest income	24	7	395
Interest costs	24	(2,014)	(436)
Result before corporate income taxes		(6,209)	(15,175)
Corporate income taxes	13	-	-
Result for the period		(6,209)	(15,175)
Attributable to			
Equity holders of the Company		(6,209)	(15,175)
Result per share for result attributable to the equity holders of the Company during the year (expressed in € per share):			
Basic	25	(0.38)	(0.94)
Diluted	25	(0.38)	(0.94)

The notes on pages 32 to 60 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

(In € x 1,000)

	Note	Attributable to equity holders of the Company				
		Share capital	Share premium reserve	Other reserves	Accumulated deficit	Total equity
Balance at 1 January 2007		1,940	38,003	203	(19,004)	21,142
Result for the year		-	-	-	(15,175)	(15,175)
Total recognised loss for 2007		-	-	-	(15,175)	(15,175)
Employee share option scheme:						
Value of employee services	12	-	-	245	-	245
Options exercised, lapsed & forfeited		-	-	(34)	34	-
Other share options	6,12	-	-	292	-	292
Issue of share capital	12	5	158	-	-	163
		5	158	503	34	700
Balance at 31 December 2007		1,945	38,161	706	(34,145)	6,667
Balance at 1 January 2008		1,945	38,161	706	(34,145)	6,667
Result for the year		-	-	-	(6,209)	(6,209)
Total recognised loss for 2008		-	-	-	(6,209)	(6,209)
Employee share option scheme:						
Value of employee services	12	-	-	117	-	117
Options exercised, lapsed & forfeited		-	-	(72)	72	-
		-	-	45	72	117
Balance at 31 December 2008		1,945	38,161	751	(40,282)	575

The notes on pages 32 to 60 are an integral part of these consolidated financial statements.

Consolidated cash flow statement

(In € x 1,000)

		Year ended 31 December	
	Note	2008	2007
Cash flows from operating activities			
Result before corporate income taxes		(6,209)	(15,175)
Adjustments for:			
Depreciation and amortisation	6,7	1,607	1,122
Share-based payments	21	117	245
Interest costs	24	2,014	436
Interest income	24	(7)	(395)
Non-cash other revenues	6	(1,299)	-
Changes in working capital:			
Inventories		(140)	4
Trade receivables		(1,076)	89
Social securities and other taxes		646	(133)
Other receivables, prepayments and accrued income		259	(480)
Trade payables	2,27	(456)	1,119
Other liabilities and accruals	2,27	1,744	935
Cash used in operations		(2,800)	(12,233)
Decrease in other non-current liabilities		(8)	(18)
Interest received		388	188
Interest paid		(1,617)	(408)
Net cash used in operating activities		(4,037)	(12,471)
Cash flows from investing activities			
Purchases of property, plant and equipment	2,7,27	(6,702)	(3,198)
Purchases of intangible assets	6	(12)	(1,361)
Sale of financial assets	8	16	-
Decrease in long-term and short-term deposits		-	12,500
Net cash generated from/(used in) investing activities		(6,698)	7,941
Cash flows from financing activities			
Proceeds from issuance of shares	12	-	163
Finance lease contracts	27	3,678	-
Convertible bridge loans		4,000	-
Repayment of finance lease liabilities		(340)	(171)
Net cash generated from/(used in) financing activities		7,338	(8)
Cash, cash equivalents and bank overdrafts			
Net decrease during the year		(3,397)	(4,538)
Balance at beginning of the year		2,515	7,053
Balance at end of the year	9	(882)	2,515

The notes on pages 32 to 60 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1 General information

OctoPlus N.V. (‘the Company’ or ‘OctoPlus’) and its subsidiaries (together ‘the Group’) are engaged in providing services for life sciences companies in the field of drug formulation. Furthermore, the Group develops products based on its proprietary drug delivery technology in combination with an external partner who takes on all or substantially all of the risk and costs.

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 have been approved for publication by the members of the Executive Board on 27 March 2009.

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 consistently applied to the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated 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 2008 have been adopted by the EU, except that the EU carved out certain hedge accounting provisions of IAS 39. OctoPlus does not utilise this carve out permitted by the EU. Consequently, the accounting policies applied by OctoPlus also comply fully with IFRS.

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.

Reclassification of comparative information

In the 2008 financial statements, ‘payables to related parties’ is no longer presented separately on the face of the Balance sheet but is included under ‘trade payables’ and ‘other current liabilities’. The comparative 2007 Balance sheet figures have also been adjusted to reflect this change, as well as the cash flows from operating activities in the Consolidated cash flow statement. For further details, reference is made to Note 31.

A reclassification amounting to € 1,718 has been made in the 2007 Consolidated cash flow statement between ‘trade payables’ within ‘cash flows from operating activities’ and ‘purchases of property, plant and equipment’ within ‘cash flows from investing activities’ related to outstanding invoices for items of property, plant and equipment at 31 December 2007.

2.2 Consolidation

The Company is the holding company of a group of companies. The other consolidated group companies (‘subsidiaries’) 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[1]., 100%, having its legal seat in Leiden, the Netherlands;

- Chienna B.V., 100%, having its legal seat in Bilthoven, the Netherlands;
- OctoPlus Inc.[2], 100%, having its legal seat in Delaware, United States of America.

[1] OctoPlus PolyActive Sciences B.V. was incorporated on 9 September 2008
[2] In accordance with IAS 21.9, the functional currency of OctoPlus Inc. is Euros

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.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired (also after re-assessment), the difference is recognised directly in the income statement.

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.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment which are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

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.

(b) Transactions and balances

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.

2.5 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. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(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.

2.6 Property, plant and equipment

Property, plant and equipment comprise the land and building in Leiden, the manufacturing and laboratory facilities in this building, all equipment used in the manufacturing and laboratory facilities and other equipment. The building and part of the equipment used in the manufacturing facilities are leased under finance lease agreements. All 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. Land is not depreciated; other items are depreciated as follows:

– 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 2.7).

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.

2.7 Impairment of non-financial assets

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.

2.8 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.

(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. A provision for impairment of trade receivables 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 bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision 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 provision 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.

2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 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 on the balance sheet.

2.11 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 remeasured.

2.12 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.

2.13 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.

2.14 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 of calculating 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 capitalized.

2.15 Pension obligations

The Company operates a defined contribution plan from 1 February 2006 onwards. 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.

2.16 Share-based payments

(a) Share-based compensation to employees

The Company operates an equity-settled, share-based compensation plan. 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, 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.

2.17 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.

2.18 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.

2.19 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 (see 2.20). 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. The stage of completion 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.

2.20 Income from subsidies

The Group receives 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 various 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.


ROTA
YOKOGAWA
630
600 l/h
400
200
63
60 L/h
CE

The WBSO ('afdrachtvermindering 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 contribution is paid towards the labour costs of employees directly involved in research and development. The contribution is in the form of a reduction 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.

2.21 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 on a straight-line basis over the period of the lease.

2.22 Recent accounting announcements

The Group has adopted the following mandatory 2008 IFRIC updates:

- IFRIC 11 IFRS 2 Group and Treasury share Transactions (applicable for accounting years beginning on or after 1 March 2007);
- IFRIC 12 Service Concession Arrangements (applicable for accounting years beginning on or after 1 January 2008);
- IFRIC 14 IAS 19- The limit on a defined benefit asset, minimum funding requirements and their interaction (applicable for accounting years beginning on or after 1 January 2008).

The adoption of IFRIC 11, IFRIC 12, and IFRIC 14 has not led to any changes in the Group's accounting policies.

Accounting Standards issued but not effective:
- IAS 1 Presentation of Financial Statements (annual periods beginning on or after 1 January 2009). This Standard replaces IAS 1 Presentation of Financial Statements (revised in 2003) as amended in 2005);
- Amendment to IAS 27 Consolidated and Separate Financial Statements (applicable for annual periods beginning on or after 1 July 2009). This Standard amends IAS 27 Consolidated and Separate Financial Statements (revised 2003);
- Amendment to IFRS 2 – Vesting Conditions and Cancellations (applicable for annual periods beginning on or after 1 January 2009);
- Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable financial instruments and obligations arising on liquidation (annual periods beginning on or after 1 January 2009);
- IFRS 3 Business Combinations (applicable to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). This Standard replaces IFRS Business Combinations as issued in 2004;
- IFRS 8 Operating Segments (applicable for accounting years beginning on or after 1 January 2009);
- Amendment to IAS 23 Borrowing Costs (applicable for accounting years beginning on or after 1 January 2009);
- Improvements to IFRS (2008) (applicable for accounting years beginning on or after 1 January 2009);
- Amendments to IFRS 1 First Time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements (normally prospective application for annual periods beginning on or after 1 January 2009);
- IFRIC 13 Customer Loyalty Programs (applicable for accounting years beginning on or after 1 July 2008);
- IFRIC 15 Agreements for the construction of real estate (applicable for accounting years beginning on or after 1 January 2009);
- IFRIC 16 Hedges of a net investment in a foreign operation (applicable for accounting years beginning on or after 1 October 2008);
- IFRIC 17 Distributions of Non-cash Assets to Owners (applicable for accounting years beginning on or after 1 July 2009)
- IFRIC 18 Transfers of Assets from Customers (applicable for transfer of assets from customers received on or after 1 July 2009).

The Standards and Interpretations that were in issue but not yet effective for reporting periods beginning on 1 January 2008 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.

3 Financial risk management

3.1 Financial risk factors

The Group is exposed to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management program seeks to minimize potential adverse effects of these financial risk factors on the Group's financial performance.

(a) Market risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities in foreign currencies. In 2008, the Company received a bridge loan from US-based Company Biolex, with the foreign exchange risk for OctoPlus. This bridge loan was settled in October 2008 when the contracts with Biolex were signed (Note 18). In accordance with the Group's accounting policies, the foreign exchange result on this transaction is recognised in the income statement.

The Group did not have significant outstanding receivables or payables in currencies other than Euros at the balance sheet dates presented and was therefore not exposed to other significant foreign exchange risks in the years presented. As of 31 December 2008, 4.4% of the outstanding payables and none of the outstanding receivables consist of currencies other than the Euro.

The Group is exposed to a marginal equity securities price risk through its equity interest in Biolex (Note 8).

The Group is not exposed to commodity price risk.

In 2008, the Company received a number of convertible bridge loans against fixed, pre-determined interest rates. The Group did not have any other loans or borrowings in the years presented with the exception of using part of its current account lending facility with ABN Amro, and the Group's income and operating cash flows are therefore not significantly impacted by changes in market interest rates. The Group does have a marginal fair-value risk.

(b) Credit risk

In October 2008, the Group signed a contract with Biolex for sale of the commercial rights to its lead-product Locteron and a contract for the further development and manufacturing of Locteron (Note 18). As a result of the two contracts signed with Biolex, Biolex has become the Company's largest customer in 2008, generating approximately 58% of total revenues in 2008. Biolex is expected to remain the Group's largest customer in the next few years. 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. The outstanding receivable from Biolex comprised of 47% of the total trade receivables at 31 December 2008 (2007, 0%). None of these amounts outstanding are more than 30 days overdue and all amounts outstanding at 31 December 2008 have been received in the first quarter of 2009. Except for Biolex, there are no external customers that generated more than 5% of the Group's total revenues in 2008. The Group also has policies in place to ensure that contracts are only signed with customers with an appropriate credit history and collaterals from each customer are required before work will start on any new project. Management therefore believes that there are no major credit risks related to the Group's customers.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities plus the availability of funding through an adequate amount of committed credit facilities.

Until 2008, the Company provided development services for life sciences companies in the field of drug formulation and at its own risk, established a product portfolio based on the Group's proprietary drug delivery technology. The Company changed its strategy at the end of 2008. The Company remains focused on providing development services for life sciences companies in the field of drug formulation, but the focus on the development of a product portfolio at its own risk shifted towards the development of products together with external partners that reimburse the Company for all or substantially all activities performed. The products to be developed combine the compound of the external partner with the Company's proprietary drug delivery technology. As a consequence, the Company is not only reimbursed for its activities performed, but also receives milestone and royalty payments depending on the success of the product to be developed. As a result of this change in strategy, the Company expects to become operationally cash flow positive from 2009 onwards. In line with this change in strategy, the Company sold the commercial rights to its lead-product Locteron to Biolex in October 2008 (Note 18) and signed a product development and supply agreement with Biolex (Note 18) whereby OctoPlus is reimbursed by Biolex for all activities performed and to be performed under this agreement.

The Company also raised € 6.0 million (gross) through an equity offering in February 2009 (see 'Events after balance sheet date'). Furthermore, and as part of the equity offering, the convertible bridge loans (Note 16) (including accumulated interest) were converted into OctoPlus ordinary shares (see 'Events after balance sheet date'). As a result of the change in strategy, the amounts received and to be received under the contracts with Biolex, the proceeds from the recent equity offering (see 'Events after balance sheet date') and the current account lending facility (Note 15), the Company has sufficient funds for a period of at least 12 months.

Available amounts are mainly invested in fixed-term deposits with reputable financial institutions/banks and OctoPlus aims to remain flexible in funding by keeping committed lending facilities available.

(d) Objectives and policies for capital management

OctoPlus strives to retain a positive equity balance either through raising capital as needed, or under the new strategy, to strive for a positive net income.

3.2 Estimation fair value of financial instruments

The Group does not hold any financial instruments traded in active markets. Financial assets and liabilities consist of convertible loans (Note 16), other loans and receivables and an unquoted equity investment in Biolex (Note 8) at 31 December 2008.

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 intangible assets 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 is allocated to cash-generating units. In the years presented, all goodwill recognised relates to the acquisition of Chienna B.V. in the year 2003 and is allocated to the Group's Products & Drug Delivery unit. As part of the acquisition of Chienna B.V., the Group acquired patents related to the PolyActive drug delivery technology. Amongst others, this technology is used for Locteron and is also allocated to the Group's Products & Drug Delivery unit, together with some other acquired patents. All patents are tested for impairment as part of this cash-generating unit. 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 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. Determining cash flows requires the use of judgements and estimates that have been included in the Group's strategic plans and long-term forecasts. The data necessary for performing the impairment tests are based on management estimates of future cash flows. The discount rates used are estimated pre-tax rates which reflect specific risks relating to the relevant unit.

(b) Convertible loans

In 2008, the Company obtained convertible bridge loans up to € 4.0 million (excluding accumulated interest) from two of its major Shareholders (Note 16). In accordance with IAS 32.11, this bridge financing is classified as a financial liability as it will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments. As per IAS 39.11, the loan part and the option to convert are treated as two separate transactions. Both parts are initially booked at fair value and classified within short-term financial liabilities, as the loans might be repaid or converted within 12 months. The estimated future cash outflows for the Company in case of actual conversion are expected to be close or equal to zero. The value of the conversion option is therefore also close or equal to zero and the conversion option does not have impact on the 2008 financial statements.

(c) Revenue recognition

In October 2008, the Group signed two contracts with Biolex; a product rights acquisition agreement and a product development and supply agreement (Note 18). As the two contracts relate to different topics, have milestones independent from each other and the product development and supply agreement can be terminated (against a fixed pre-defined fee) without having impact on the product rights acquisition agreement, the revenue recognition criteria for the two transactions are applied separately to each of the two transactions (IAS 18.13).

The 1.83% equity interest in Biolex is classified as an equity-settled share-based payment transaction, measured at fair value. Simultaneously with the contracts signed with OctoPlus, Biolex raised $ 60 million of equity through a private offering. The fair value of the 1.83% equity interest is calculated based upon the price per share paid for by these investors in Biolex and is valued at € 1,299.

As a result of the above, a part of the $11.0 million non-refundable, non-creditable up-front payment and the 1.83% equity interest in Biolex, as received under the product rights acquisition agreement (Note 18), is deferred.

(d) 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.

(e) Share-based payments

Share options granted are measured at the fair value of the equity instruments granted (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.

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 significant 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.

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.

(f) Capitalisation of development costs

Costs incurred on development projects are recognised as intangible assets when it is probable that a project will be a success considering its commercial and technological feasibility. Management's judgement is required in determining when the Group should start capitalising development costs. Management determined that commercial and technological feasibility is, in general, probable when the Group files for regulatory approval for commercial production and costs can be measured reliably. At 31 December 2008, the Group has not filed for regulatory approval for any of its product candidates or proprietary drug delivery technologies. Based on Management's assessment of commercial and technological feasibility, no development costs have been recognised as intangible assets in the consolidated financial statements.

5 Segment information

Primary reporting format – business segments

At 31 December 2008, the Group is organised into two main business segments:

1 Providing development services for life sciences companies in the field of drug formulation ('Contract Development unit'); and
2 Development of products based on the Group's proprietary drug delivery technology, in

combination with an external partner who takes on all or substantially all of the risks and costs ('Products & Drug Delivery unit').

All supporting functions such as the Finance department, the Human Resources department, the IT department as well as the Executive Board, are recorded in OctoShare B.V. and the budgeted costs of OctoShare B.V. are allocated to the Group's two business segments.

The Contract Development unit provides development services to the Products & Drug Delivery unit. These services are provided against market rates and are included under 'total gross segment revenues' below. These inter-segment revenues are deducted in a separate line item to come to the total external segment revenues.

The segment results for the year ended 31 December 2008 are as follows:

	Contract Develop-ment	Products & Drug Delivery	Octo-share	Group
Total gross segment revenues	10,730	9,375	-	20,105
Inter-segment revenues	(3,237)	-	-	(3,237)
Subsidies	-	55	-	55
Total net segment revenues	7,493	9,430	-	16,923
Operating result	436	(4,521)	(117)	(4,202)
Finance costs – net				(2,007)
Result before corporate income taxes				(6,209)
Corporate income taxes				-
Result for the year				(6,209)

The segment results for the year ended 31 December 2007 are as follows:

	Contract Develop-ment	Products & Drug Delivery	Octo-Share	Group
Total gross segment revenues	8,983	476	-	9,459
Inter-segment revenues	(4,547)	-	-	(4,547)
Subsidies	-	282	-	282
Total net segment revenues	4,436	758	-	5,194
Operating result	505	(14,495)	(1,144)	(15,134)
Finance costs – net				(41)
Result before corporate income taxes				(15,175)
Corporate income taxes				-
Result for the year				(15,175)

Other segment items included in the income statement are as follows:

	Contract Develop-ment	Products & Drug Delivery	Octo-Share	Group
Year ended 31 December 2008				
Depreciation and amortisation	813	505	289	1,607
Year ended 31 December 2007				
Depreciation and amortisation	893	364	(135)	1,122

The segment assets and liabilities at 31 December 2008 and capital expenditure for the year then ended are as follows:

	Contract Develop-ment	Products & Drug Delivery	Octo-Share	Elimi-nation	Group
Assets	21,148	4,518	41,682	(36,126)	31,222
Liabilities	17,457	31,725	17,591	(36,126)	30,647
Capital expenditure (Note 6 and 7)	5,484	-	6,240	-	11,724

The segment assets and liabilities at 31 December 2007 and capital expenditure for the year then ended are as follows:

	Contract Develop-ment	Products & Drug Delivery	Octo-Share	Elimina-tion	Group
Assets	9,357	4,257	37,529	(30,230)	20,913
Liabilities	6,661	30,340	7,475	(30,230)	14,246
Capital expenditure (Note 6 and 7)	4,862	1,701	110	-	6,673

The Company's laboratory facilities and manufacturing facilities are owned by the Contract Development unit. The Products & Drug Delivery unit is charged by the Contract Development unit for using these facilities.

In the past years, OctoPlus has raised significant funds through different financing rounds. These funds have been received by OctoShare. A significant part of these funds were used to develop the Group's product portfolio. As a result, OctoShare has funded the development costs recorded in the Product & Drug Delivery unit and shows a significant asset and the Product & Drug Delivery unit shows a significant liability, which are eliminated on consolidation.

Secondary reporting format – geographical segments

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

Revenues	2008	2007
European Union	4,548	3,039
North-America	11,735	1,537
Other countries	640	618
	16,923	5,194

Revenues are allocated based on the country in which the customer is located. Nearly all of the Group's assets and capital expenditure (as disclosed per business segment above) are located in the Netherlands.

The revenues generated in North-America increased significantly in 2008 as a result of the contracts signed with Biolex in October 2008 (Note 18).

6 Intangible assets

	Goodwill	Patents	Other intangible assets	Total
At 1 January 2007				
Cost	243	1,217	454	1,914
Accumulated amortisation	-	-	(148)	(148)
Net book value	243	1,217	306	1,766
Year ended 31 December 2007				
Opening net book value	243	1,217	306	1,766
Additions	-	1,542	111	1,653
Amortisation charge	-	-	(135)	(135)
Closing net book value	243	2,759	282	3,284
At 31 December 2007				
Cost	243	2,759	565	3,567
Accumulated amortisation	-	-	(283)	(283)
Net book value	243	2,759	282	3,284
Year ended 31 December 2008				
Opening net book value	243	2,759	282	3,284
Additions	-	-	12	12
Amortisation charge	-	(73)	(179)	(252)
Closing net book value	243	2,686	115	3,044
At 31 December 2008				
Cost	243	2,759	577	3,579
Accumulated amortisation	-	(73)	(462)	(535)
Net book value	243	2,686	115	3,044

Patents

On the 31 December 2008 balance sheet, OctoPlus has capitalised € 243 of goodwill and € 2,686 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 April 2007, the Group acquired the full rights to the PolyActive technology and its intellectual property in certain strategic areas from IsoTis Inc. for € 1,250.

- The acquisition of 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. on 26 September 2007. On 26 September 2007, the Company granted options to acquire 200,000 OctoPlus shares to Theratechnologies in consideration for the license granted under this agreement. The fair value of the exclusive worldwide rights acquired is difficult to measure. A significant number of parameters are involved in calculating the fair value of the rights acquired. The value of some of these parameters is difficult to estimate. As a result, the Company has measured the value of these rights indirectly through the fair value of the equity instruments granted. As with all other option plans, these options were valued using the Binomial method. The exercise price of the granted options is € 3.95 per option, which is the average of the closing price of the OctoPlus share on the ten trading days immediately prior to the effective date of the agreement. The options are exercisable at any time, in whole or in part, until the earlier of (1) the tenth anniversary of the effective date of the agreement or (2) the fifth anniversary of the date of termination of the agreement. The expected volatility of the option grants is based on the average historical volatility of the OctoPlus share over the period 1 January 2007 up to the effective date of the agreement (26 September 2007) and the interest rate is based on the risk-free interest rate on governmental bonds over a similar period of time as the expected exercise period of the option (ten years). This resulted in an estimated value of € 1.46 per option and a total value of € 292 for all options, and is included under 'intangible assets', with a corresponding entry to 'other reserves' within equity.

- The acquisition of the worldwide rights to sublicense, develop, manufacture, market, distribute and sell OP-145 CSOM, 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.

In October 2008, the Group sold its share of the commercial rights to its lead-product Locteron to Biolex (Note 18). As a result, the Group has started amortising these patents from October 2008 onwards over the remaining life of the patents, which is between eight and ten years at 31 December 2008. Amortisation on the other patents has not started yet, as the assets are not available for their intended use.

The Group estimates the recoverable amount of all patents at the end of each annual reporting period, irrespective of whether there is any indication that impairment might exist.

Impairment test of goodwill and patents

The goodwill and the patents referred to above are allocated to the Group's Products & Drug Delivery unit. This business segment is treated as one cash-generating unit.

The recoverable amount of this cash-generating unit is determined based on a value-in-use calculation (i.e. the present value of the future cash flows expected to be derived from the Products & Drug Delivery unit over the remaining life of the patents). The calculation uses cash flow projections based on financial plans and existing and potential new customer contracts. No impairment loss has been recognised as a result of the impairment testing of goodwill and patents. Key elements for assessing impairment include:

- 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, amongst 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 will have a significant impact on the Group's financial results.
- The agreement signed with Surmodics, who uses the Group's proprietary PolyActive drug delivery technology for coating of medical devices, which generates approximately € 300 revenues per year.
- The potential of OP-286 CR, which is a controlled-release formulation of OP-286, a GLP-1 agonist product candidate for the treatment of type 2 diabetes. Diabetes is a very common disease (approximately 250 million people worldwide suffer from this disease), with a very significant annual turnover for drugs related to this disease as a consequence.
- The successful completion of the OP-145 CSOM Phase II clinical study, as announced on 28 July 2008, which demonstrated the efficacy of OP-145 CSOM. Based on these positive results, OctoPlus will proceed with the preparations for further development of OP-145 CSOM and seek commercial partners to out-license the product.
- The license granted to Green Cross Corporation in November 2006 for the co-development and exclusive commercialisation of OP-145 CSOM in the South Korean market, which generates approximately € 20 revenues per year.

Management has discounted the expected cash flows from all signed agreements and prospects referred to above against the weighted average cost of capital ("WACC"). The Company's WACC per 31 December 2008 requires significant judgement given the financial situation OctoPlus was in at the end of December 2008. Management has evaluated the WACC using different approaches and estimated that the WACC ranges between 20% and 30% (pre-tax). The impairment analysis in respect of the intangible assets has been performed using different WACC percentages within this range and did not give rise to an impairment.

Other intangible assets

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

7 Property, plant and equipment

	Land	Buildings	Machines & instal-lations	Other equip-ment	Total
At 1 January 2007					
Cost	1,084	2,364	6,115	1,880	11,443
Accumulated depreciation	-	(320)	(3,368)	(1,405)	(5,093)
Net book value	1,084	2,044	2,747	475	6,350
Year ended 31 December 2007					
Opening net book value	1,084	2,044	2,747	475	6,350
Additions	-	32	4,752	236	5,020
Depreciation charge	-	(120)	(629)	(238)	(987)
Closing net book value	1,084	1,956	6,870	473	10,383
At 31 December 2007					
Cost	1,084	2,396	10,867	2,096	16,443
Accumulated depreciation	-	(440)	(3,997)	(1,623)	(6,060)
Net book value	1,084	1,956	6,870	473	10,383
Year ended 31 December 2008					
Opening net book value	1,084	1,956	6,870	473	10,383
Additions	-	6,178	5,451	83	11,712
Depreciation charge	-	(377)	(757)	(221)	(1,355)
Closing net book value	1,084	7,757	11,564	335	20,740
At 31 December 2008					
Cost	1,084	8,574	16,318	2,166	28,142
Accumulated depreciation	-	(817)	(4,754)	(1,831)	(7,402)
Net book value	1,084	7,757	11,564	335	20,740

During 2008, an item of property, plant and equipment in the category ‘other equipment’ was replaced and thereby retired. The historical cost of the item was € 13 and it was already fully depreciated at the time of retirement. Accordingly, both ‘cost’ and ‘accumulated depreciation’ at 31 December 2008 reduced by € 13.
During 2007, an item of property, plant and equipment in the category ‘other equipment’ was replaced and thereby retired. The historical cost of the item was € 20 and it was already fully depreciated at the time of retirement. Accordingly, both ‘cost’ and ‘accumulated depreciation’ at 31 December 2007 reduced by € 20.

The land and buildings as shown above relate to the Group’s office, laboratory and manufacturing facilities located in Leiden, the Netherlands. Part of the facilities located in Leiden have been the Group’s headquarters since 2000. Due to a significant growth of the Company, additional facilities were required. These facilities were built adjacent to the already existing facilities. The Group has started occupying these facilities in the beginning of 2008. All facilities are operational except for the manufacturing facilities that will become operational in the second quarter of 2009.

The longer existing facilities were sold to a third party in 2004 and leased back for a period of 20 years, with OctoPlus having the option to extend the lease for an additional five year period at the end of each lease term. A bank guarantee, equal to three months of rent, is provided to the landlord as security (Note 29). As substantially all of the risks and rewards incidental to ownership have been transferred to the Group, the building is classified as a finance lease. The land is not de-recognised from the balance sheet as the Group has a continuing involvement in the land. Therefore, the amount received in relation to the land is considered to be financing and included within ‘finance lease liabilities’ on the balance sheet.

The facilities that became available in 2008 were built and paid for by a third party and were leased by the Group for a period of 20 years, with OctoPlus having the option to extend the lease for an additional five year period at the end of each lease term. A bank guarantee, equal to three months of rent, is provided to the landlord as security in the first quarter of 2009 (Note 29). As substantially all of the risks and rewards incidental to ownership have been transferred to the Group, the building is classified as a finance lease for an initial amount of € 6,178. In accordance with the Group’s accounting policies, the land is classified as an operating lease.

In April 2008, the Group signed an agreement with Amstel Lease Maatschappij N.V. (‘Amstel Lease’) for the sale and lease back of a significant part of the equipment to be used in the Group’s new manufacturing facilities. This equipment was sold to Amstel Lease in December 2008 for an amount of € 3,678 and leased back for a period of five years. At the end of the five year lease term, the equipment can be purchased from Amstel 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.

The agreement with Amstel Lease includes the following securities:
- The shares in OctoPlus Development B.V. are colleteralized to Amstel Lease,
- Shareholders' equity of OctoPlus Development B.V. needs to exceed 28% of its balance sheet total at 31 December 2008 and 30% of its balance sheet total at 31 December 2009. There was no breach of this covenant at 31 December 2008.

There are no further restrictions imposed by this lease agreement.

Finance leases and securities

Property, plant and equipment includes the following amounts where the Group is a lessee under finance leases (including the amount received in relation to the land for the facilities occupied since 2000, as described above):

	2008	2007
Cost capitalised finance leases	13,799	4,041
Accumulated depreciation	(910)	(549)
Net book amount	12,889	3,492

Finance lease liabilities are secured on the assets held under finance leases as the rights to the leased assets revert to the lessor in the event of default. Bank overdrafts are secured with pledge on other property, plant and equipment of the subsidiary OctoPlus Development B.V. with a net book value at 31 December 2008 of € 7,379 (2007, € 6,371) (Note 15).

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

8 Financial assets carried at cost

	2008	2007
Beginning of the year	16	16
Additions	1,299	-
Sale of assets	(16)	-
End of the year	1,299	16
Non-current portion	(1,299)	(16)
Current portion	-	-

Financial assets carried at cost at 31 December 2007 relate to an investment in Zernike Investments Beheer B.V. As part of a sale and lease back transaction for the building occupied since 2000, as included within property, plant and equipment, a group company came to hold all preference shares (90% of issued share capital) of Zernike Investment Beheer B.V. having its legal seat in Maassluis, the Netherlands. This group company was entitled to a pre-defined share of the profit of Zernike Investment Beheer B.V. However, the Group had no significant influence on Zernike Investment Beheer B.V.'s business and operating policy. In July 2008, the Group sold its investment in Zernike Investments Beheer B.V. at book value.

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 a 1.83% equity interest in Biolex. The fair value of this 1.83% equity interest at contract date was € 1,299. Currently, the Group does not intend to sell its equity interest in Biolex in the near future.

No impairment losses have been recognised on these financial assets.

9 Cash, cash equivalents and deposits

	2008	2007
Cash at bank and in hand	2,171	327
Bank deposits (< 3 months)	-	3,003
Cash and cash equivalents	2,171	3,330
Bank overdrafts	(3,053)	(815)
Net cash and cash equivalents	(882)	2,515

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

10 Inventories

	2008	2007
Inventory raw materials	634	494

The inventory raw materials increased as a result of the additional manufacturing facilities becoming operational in the second quarter of 2009.

There has not been a reversal of any write-down of inventories in 2007 or 2008.

11 Trade and other receivables

	2008	2007
Trade receivables	2,168	1,092
Provision for impairment of trade receivables	(42)	(42)
Trade receivables – net	2,126	1,050

As a result of the product development and supply agreement with Biolex (Note 18), the Company's service revenues increased significantly from October 2008 onwards. As a result, trade receivables increased significantly.

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. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality. The credit quality of each existing customer is also regularly re-assessed. In addition, collaterals from each customer are required before work will start on any new project.

The Group performed an evaluation on the recoverability of all outstanding receivables and based upon this evaluation a provision for impairment losses of € 42 is recorded, being similar to the provision at year-end 2007. Additions to and releases from the provision for impaired receivables are included in 'other costs' in the income statement. There was no movement in the provision for impairment of receivables in 2008.

Included in the Group's trade receivable balance are debtors with a carrying amount of € 1,251 (2007, € 533) that are past due at the reporting date for which the Group has not made a provision. At 31 December 2008, collaterals from customers totalling € 1,394 (2007, € 1,196) have been received, thereby significantly reducing any potential risk of any impairment of trade receivables.

Ageing of past due not impaired	2008	2007
1-30 days	956	419
31-60 days	118	6
Over 60 days	177	108
Total overdue	1,251	533

47% of the total trade receivables at 31 December 2008 related to Biolex. 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.

Except for Biolex, there are no other customers that represent more than 10% of the total balance of trade receivables at year-end 2008 (year-end 2007, also no customers with more than 10% of total trade receivable balance).

	2008	2007
Corporate income taxes	-	3
Wage taxes	76	58
VAT to be received	-	523
Social securities and other taxes	76	584

	2008	2007
Prepaid expenses	725	635
Accrued income	194	281
Other amounts to be received	213	856
Other receivables, prepayments and accrued income	1,132	1,772

OctoPlus provides services to mostly international customers. As a result, the Group generally has a VAT receivable at the end of a period (2007, € 523). As part of a sale and lease back contract, the Group sold a significant part of the equipment to be used in the Group's new manufacturing facilities to Amstel Lease (Note 7) in December 2008 for a total amount of € 3,678. This VAT is paid to the tax authorities in January 2009. As a result, the Group has a VAT payable at 31 December 2008.

Accrued income includes € 83 (2007, € 226) related to subsidies.

12 Shareholders' equity

Share capital & share premium reserve

For share capital & share premium reserve, see table below:

	Number of issued ordinary shares	Share capital (€ x 1,000)
At January 2007	16,163,576	1,940
New shares issued	43,500	5
At 31 December 2007	16,207,076	1,945
New shares issued	-	-
At 31 December 2008	16,207,076	1,945

The Company has 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. Preference shares will be an instrument of protection against hostile takeovers, as explained under 'Stichting continuiteit OctoPlus' in the Corporate Governance section.

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 2007 and 2008.

At 1 January 2007, 16,163,576 ordinary shares were issued and outstanding. Because of exercising options in 2007, the number of ordinary shares issued and outstanding increased with 43,500 shares to 16,207,076 per 31 December 2007. There were no changes in the issued and outstanding share capital in 2008.

No shares are held as treasury shares at 31 December 2007 and 2008.
In February 2009, the Company raised € 6.0 million (gross) through an equity offering (see 'Events after balance sheet date'). Furthermore, and as part of the equity offering, the convertible bridge loans (including accumulated interest) were converted into OctoPlus ordinary shares (Note 16 and 'Events after balance sheet date').

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.

Included in other reserves, is € 292 for the options provided to Theratechnologies related to the acquisition of 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, in September 2007 (Note 6).

Share options

The Group operates an equity-settled share-based compensation plan. As per the stock option plan approved by the Shareholders and Board of Supervisory Directors on 1 September 2006, the option pool is maximised at 7.5% of the issued and outstanding share capital. On 6 November 2008, the AGM approved the proposal by the Board of Supervisory Directors to appoint Mr Sturge as new Chief Executive Officer ('CEO') of the Company. Mr Sturge's remuneration package exists of a fixed salary and a short-term and long-term bonus. The long-term bonus consists of 1,215,500 conditional options. As of 31 December 2008, the option pool therefore amounts to 2,431,031 options (7.5% of 16,207,076 issued and outstanding ordinary shares and 1,215,500 conditional options to Mr Sturge). Out of this pool, the number of granted stock options issued and outstanding is 1,949,047 per 31 December 2008 (2007, 794,815) 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 of the Group.

The conditional options granted to Mr Sturge in November 2008 are valued using the Binomial method. The significant inputs into the model for these options were an exercise price of € 0.87 per share, being the closing OctoPlus share price at the date of grant, an annual risk-free interest rate of 3.07%, volatility of 67% 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 2008 up to
5 November 2008. All options vest on 31 December 2008. The number of unconditional options received depends on the average OctoPlus share price during a two-month period prior to 31 December 2012.

Average value per share during a two months period	
€ 2.00 – 2.99	243,100
€ 3.00 – 3.99	243,100
€ 4.00 – 4.99	243,100
€ 5.00 – 5.99	243,100
€ 6.00 – 6.99	243,100
Total conditional options	1,215,500

A total of 135,771 conditional options were granted to certain senior managers on 1 January 2007 and were outstanding at 31 December 2007 (Note 31). The number of conditional options granted that would become unconditional was dependent upon each of the senior managers meeting certain predefined performance criteria in 2007. The conditional options were valued using the Binomial method. The significant inputs into the model for these options were an exercise price of € 4.55 per share at the grant date, being the 2006 closing share price, an annual risk-free interest rate of 3.92%, no expected dividend yields and a volatility of 69%. As published OctoPlus share price information was only available for a short period of time, the expected volatility of these conditional options granted is based on the average historical volatility of the peers over a period that agrees with the period of maturity. No unconditional options were granted from these conditional options. All information throughout this document does not include these conditional options granted unless when specifically stated otherwise.

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. All unconditional options granted to employees 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 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 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.

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

Movements in the number of unconditional options outstanding and their related weighted average exercise prices are as follows:

	2008		2007	
	Average exercise price in € per share	Number of options	Average exercise price in € per share	Number of options
At 1 January	3.34	794,815	3.19	652,815
Granted	-	-	3.95	200,000
Forfeited	3.38	(61,268)	4.55	(7,500)
Exercised	-	-	3.73	(43,500)
Lapsed	-	-	3.58	(7,000)
At 31 December	3.33	733,547	3.34	794,815

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

Expiry year	Share options	Exercise price in € per share	Share options	Exercise price in € per share
	2008	2008	2007	2007
2009	208,200	3.43	222,200	3.43
2010	10,000	2.70	10,000	2.70
2011	315,347	2.90	362,615	2.96
2017	200,000	3.95	200,000	3.95
	733,547		794,815	

Warrants

In 2003 and 2004, various parties (including employees and Management) guaranteed a loan made by a bank to the Group for a total amount of € 400 and provided loans to the Group totalling € 250. As part of the agreements, these parties had the option to receive an interest of 1.0% per month or the lower interest of 0.5% per month and 140 warrants per € 100 per month (based on the amount guaranteed or loan provided). In total, 3,920 warrants, with each warrant entitling the holder thereof the right to acquire 100 shares, have been granted as part of this arrangement (2003, 560 and 2004, 3,360). The warrants could be exercised until 30 November 2008 against an exercise price of € 5.50 per share. No warrants have been exercised and all warrants have lapsed as of 1 December 2008.

13 Corporate income taxes

On 1 January 2007, Chienna B.V. was included in the fiscal unity for corporate income tax headed by OctoPlus N.V. As per this date, OctoPlus N.V. is in a fiscal unity with OctoShare B.V., OctoPlus Development B.V., OctoPlus Technologies B.V., OctoPlus Sciences B.V. and Chienna B.V., all 100% subsidiaries. In 2008, OctoPlus PolyActive Sciences B.V., also a 100% subsidiary of OctoPlus N.V. was added to this fiscal unity. 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.

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 2008, this resulted in a corporate income tax rate of 25.5% (31 December 2007, 25.5%) used to calculate the deferred corporate income tax assets and liabilities for the fiscal unity headed by OctoPlus N.V., located in the Netherlands, and a corporate income tax rate varying between 15% for losses up to $50,000, 25% for losses between $50,001 - $75,000, 34% for losses between $75,001 - $100,000 and 39% for all losses in excess of $100,000 for the US Company OctoPlus Inc.

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 2007 and 2008. In addition, none of the Group companies have witnessed a significant temporary or permanent difference in the years presented. 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.

Corporate Income Tax Act 2007

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 has become effective retroactively, with a transitional provision for losses sustained in the years up to 2002. These losses may still be offset against future profits up to and including book years starting in 2011. The total amounts 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 tax asset	Recog-nised	Not recog-nised
At 31 December 2008				
OctoPlus N.V. [1, 2]	43,369	11,059	381	10,678
OctoPlus Inc	181	58	-	58
	43,550	11,117	381	10,736
At 31 December 2007				
OctoPlus N.V. [1, 2]	37,740	9,624	381	9,243
OctoPlus Inc	214	61	-	61
	37,954	9,685	381	9,304

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 Chienna B.V. was acquired on 1 March 2003 and was included in the fiscal unity headed by OctoPlus N.V. as of 1 January 2007.

The tax losses carried forward per year are as follows:

	OctoPlus Inc	OctoPlus N.V.
2002 or earlier	-	953
2003	-	3,261
2004	-	1,769
2005	-	5,698
2006	43	11,561
2007	138	14,410
2008	-	5,717
Total tax losses carried forward	181	43,369

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 balance sheet at year-end 2008 and 2007 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	2008	2007
Non-current portion	12,275	3,550
Current portion	930	139
Finance lease liabilities	13,205	3,689

Finance lease liabilities	2008	2007
Finance lease liabilities – minimum lease payments:		
No later than 1 year	1,938	496
Between 1 and 5 years	7,260	1,749
Later than 5 years	12,526	4,687
	21,724	6,932
Future finance charges on finance leases	(8,519)	(3,243)
Present value of finance lease liabilities	13,205	3,689
The present value of finance lease liabilities is as follows:		
No later than 1 year	930	139
Between 1 and 5 years	3,950	448
Later than 5 years	8,325	3,102
	13,205	3,689

Finance lease liabilities increased to € 13,205 (2007, € 3,689) due to the finance lease contracts for the additional office, laboratory and manufacturing facilities and the equipment used in the additional manufacturing facilities (Note 7).

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 € 3,053 (2007, € 815) relates to a current account lending facility with ABN Amro Bank N.V. amounting to € 2.0 million for working capital and investment purposes. This lending facility temporarily increased to € 3.75 million.

In December 2008, the Group signed an agreement with Amstel Lease, a subsidiary of ABN Amro Bank N.V., for the sale and lease back of a significant part of the equipment to be used in the Group's new manufacturing facilities (Note 7). The funds related to the sale of the equipment were received by the Group in advance of the formal transfer of the equipment to Amstel Lease. As a result, and as part of the agreement, the Group provided a € 1,750 bank guarantee until the date of formal transfer of the equipment. The equipment was formally transfered in December 2008, but the bank guarantee was not formally released until early January 2009. As a result, ABN Amro Bank N.V. temporarily increased OctoPlus Development B.V.'s current account lending facility with ABN Amro Bank N.V. from € 2.0 million to € 3.75 million until the date the bank guarantee was released.

The following securities were provided by OctoPlus Development B.V. as part of this lending facility:
- Pledge on equipment (excluding finance leases) (book value at 31 December 2008, € 7,379 and 31 December 2007, € 6,371);
- Pledge on receivables (book value at 31 December 2008, € 1,728 and at 31 December 2007, € 1,047);
- Joint and several liability of OctoPlus N.V.;
- In addition, the lending facility includes a covenant which requires the shareholders' equity of OctoPlus Development B.V. to exceed 25% of its balance sheet total. There was no breach of this covenant at 31 December 2007 and 2008.

The carrying amounts of short-term borrowings (bank overdrafts) approximate their fair values.

Effective interest rates and borrowing facilities

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

	2008	2007
Bank overdrafts	7.2%	4.5%
Finance lease liabilities	8.9%	9.1%

The Group's only borrowing facility at 31 December 2007 is the current account lending facility of OctoPlus Development B.V. referred to above. At 31 December 2008, this borrowing facility was still in place. In addition, the Company obtained additional borrowing facilities through convertible bridge loans in 2008 (Note 16). The undrawn portion of the lending facility at the balance sheet date was as follows:

	2008	2007
Undrawn borrowing facility	1,118	1,185

16 Convertible loans

In 2008, the Company obtained convertible bridge loans up to € 4.0 million (excluding accumulated interest) from two of its major Shareholders. The loan part and the option to convert are treated as two separate transactions and are both initially booked at fair value and classified within short-term financial liabilities, as the loans might be repaid or converted within 12 months. The estimated future cash outflows for the Company in case of actual conversion are expected to be close or equal to zero. The value of the conversion option is therefore also close or equal to zero. The balance of the loan part of the convertible loans is € 4,395 (including accumulated interest of € 395 thereon) at 31 December 2008 (2007, € 0). The carrying amounts of the convertible loans approximate their fair values.

The Company raised € 6.0 million (gross) through an equity offering in February 2009 (see 'Events after balance sheet date'). Furthermore, and as part of the equity offering, the convertible bridge loans (including accumulated interest) were converted into ordinary shares. All shares were issued at a price of € 0.75 per share, resulting in approximately 14.0 million additional shares issued as a result of this transaction.

17 Trade and other payables

	2008	2007
Trade payables	3,222	5,306

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 significantly from € 5,306 to € 3,222, mainly as a result of invoices received and outstanding at 31 December 2007 for the new manufacturing and laboratory facilities, and the equipment used in these new facilities, which were paid in 2008. In total € 186 of invoices received and outstanding related to property, plant and equipment at 31 December 2008 (2007, € 1,814).

Included in the Group's trade payable balance are creditors with a carrying amount of € 2,804 (2007, € 2,726) that are past due at the reporting date.

Ageing of past due	2008	2007
1-30 days	1,033	1,778
31-60 days	611	669
Over 60 days	1,160	279
Total overdue	2,804	2,726
Wage taxes and accrued social security costs	438	300
Social securities and other taxes	438	300
Subsidies received in advance (Note 19)	853	853
Deferred income	1,769	478
Collaterals from customers	1,394	1,196
Accrued expenses	2,087	1,476
Other amounts to be paid	231	125
Other current liabilities	6,334	4,128
Non-current portion:		
Deferred income	-	8
Other current and non-current liabilities	6,334	4,136

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

Deferred income increased significantly as a result of the agreements signed with Biolex in October 2008 (Note 18). Accrued expenses increased significantly as a result of some invoices still to be received at 31 December 2008 for the Group's new manufacturing and laboratory facilities (€ 460).

Included under trade payables are related-party transactions for a total amount of € 55 at 31 December 2008 (2007, € 27) and included under accrued expenses are related-party transactions for a total amount of € 305 at 31 December 2008 (2007, € 38) (Note 31).

18 Revenues

In October 2008, the Group signed an exclusive contract (the 'product rights acquisition agreement') to sell 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 a 1.83% equity interest in Biolex. The Group is also eligible to additional milestone payments up to $ 138 million, additional Biolex non-voting common shares up to 3% of the issued and outstanding share capital of Biolex (including the non-voting common shares received at the contract date) 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 receives a pre-determined Euro hourly fee for all development activities performed under the agreement and an agreed Euro price per batch manufactured under the contract. OctoPlus retains the Locteron manufacturing rights, with Biolex having the option to acquire these manufacturing rights for a fixed pre-defined fee.

As a result of these two agreements Biolex has become the Company's largest customer in 2008, generating approximately 58% of total revenues in 2008.

The details of 'license and other revenues' are set out in the table below:

	2008	2007
License revenues	264	326
Other revenues	7,896	-
	8,160	326

Other revenues related to the sale of the Group's commercial Locteron rights to Biolex.

19 Income from subsidies

In 2002 a development project was commenced in association with Diatos S.A. (France). The Group's share of the estimated costs amounted to € 1,925. SenterNovem granted € 1,155 subsidy for this project with the Group financing the remainder. The project was finalised in 2007.

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. Total costs of this project approximate € 3,250. 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' on the balance sheet at 31 December 2007 and 31 December 2008 (Note 17). The project will continue in 2009.

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 and is recorded as 'subsidies received in advance' under 'other current liabilities' on the balance sheet at 31 December 2007 and 31 December 2008 (Note 17). The project has ended in 2008 and the 25% advance received will need to be repaid to SenterNovem in 2009.

20 Raw materials and auxiliaries and cost of contracted work and other external charges

The costs included in raw materials and auxiliaries are the materials used in manufacturing runs for customers. Cost of contracted work and other external charges include costs related to clinical studies, toxicology studies and other purchased research and development costs. With the sale of the commercial rights to the Group's lead-product Locteron to Biolex in October 2008 and the change in strategy whereby the Company no longer develops a product portfolio at its own risk, but only in combination with an external partner who reimburses the Company for all or substantially all activities performed, the cost related to clinical studies, toxicology studies and other purchased research and development costs decreased significantly.

21 Employee benefits

	2008	2007
Wages and salaries	7,925	6,831
Social security costs	601	537
Share options granted to employees (Note 12)	117	245
Pension costs – defined contribution plans	303	268
	8,946	7,881
Number of employees at 31 December	144	170
Average number of employees for the period	158	153

The number of employees in 2007 increased from 139 employees at 1 January 2007 to 170 employees at 31 December 2007, resulting in a lower average number of employees in 2007 than in 2008.

Included under wages and salaries is a € 200 accrual for severance payments.

The wages and salaries are net of WBSO subsidies of € 522 (2007, € 508).

22 Other costs

	2008	2007
Housing costs	1,047	855
Production costs	1,446	1,219
Office expenses	290	393
Selling & Marketing costs	734	916
General expenses	2,094	1,693
Other personnel costs	1,501	2,218
	7,112	7,294

Other costs have decreased slightly. General expenses increased as a result of outside legal support with respect to the Biolex agreements (Note 18) and other personnel costs decreased as a result of lower recruitment expenditures.

For leases where the Group is a lessee under operating leases, lease rentals amounting to € 163 (2007, € 322) are included in 'other costs' in the income statement.

The amount of inventories recognised as an expense in 2008 is € 838 (2007, € 615) and are included in 'production costs' under 'other costs'.

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

	2008	2007
Audit services	203	68
Other assurance services	13	46
Tax advisory services	-	-
Other non-assurance services	65	282
	281	396

Audit services have increased significantly as a significant part of the activities related to the 2007 financial statements were performed in 2008. A significant part of the 2007 other non-assurance services related to the cancelled financing round in 2007.

23 Research and development costs

The costs directly attributable to research and development recognised as costs in the income statement were as follows:

	2008	2007
Direct research and non-capitalised development costs	7,580	10,646

The Group's total costs related to research and development including indirect costs are € 12.0 million (2008) and € 15.3 million (2007).

24 Interest income and interest costs

	2008	2007
Interest income:		
Bank deposits	7	395
Interest costs:		
Bank borrowings, overdrafts and other debt	(330)	(64)
Finance leases	(859)	(364)
Interest on convertible loans	(458)	-
Exchange gains and losses	(367)	(8)
	(2,014)	(436)
Finance costs – net	(2,007)	(41)

Interest income has diminished as a result of the decreasing cash and cash equivalents balances. Interest costs related to bank borrowings, overdrafts and other debt increased significantly, mainly as a result of using a substantial part of the available current account lending facility with ABN Amro. Interest costs for finance leases have increased significantly as a result of the lease contract for the additional office, laboratory and manufacturing facilities and the lease contract with Amstel Lease for leasing equipment used in the new manufacturing facilities. The convertible bridge loans received from two major Shareholders and Biolex resulted in € 458 interest charges in 2008. Finally, the Group realised a € 367 exchange loss in 2008 which related to the repayment of the bridge loan to Biolex, for which OctoPlus bore the foreign exchange risk.

25 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.

	2008	2007
Result attributable to equity holders of the Company	(6,209)	(15,175)
Weighted average number of ordinary shares	16,207,076	16,192,953
Basic earnings per share (€ per share)	(0.38)	(0.94)

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.

In February 2009, the Company issued approximately 14.0 million additional ordinary shares as a result of an equity offering with new and existing Shareholders of the Company and the conversion of the outstanding convertible bridge loans in ordinary shares (see 'Events after balance sheet date').

26 Dividends per share

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

27 Cash flow statement

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

	2008	2007
Additions according to Note 7	11,712	5,020
Non-cash transactions – additional office, laboratory and manufacturing facilities (Note 7)	(6,178)	-
Non-cash transactions – other finance lease contracts	-	(104)
Movement trade payables	1,628	(1,718)
Movement other current liabilities	(460)	-
Purchases of property, plant and equipment	6,702	3,198

An amount of € 3,678 of the 2008 purchases of property, plant and equipment was financed through the agreement with Amstel Lease for the sale and lease back of a significant part of the equipment to be used in the Group's new manufacturing facilities (Note 7).

28 Contingencies

Contingent liabilities

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 license and/or 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 Thera-technologies (Note 6), Theratechnologies is entitled to multiple development, regulatory and sales milestone payments for each product incorporating the licensed technology. The Group is currently considering to develop one product, OP-286 CR, with a third party. 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. The regulatory and sales-related milestone payments account for approximately 80% of the total milestone payments. The Group has the right to satisfy developmental milestone payments of up to € 7.7 million per product by issuing OctoPlus shares to Theratechnologies with a value equal to the amount of the required payment. This right is subject to certain conditions and limitations. In addition to milestone payments, the Group is

required to make low single-digit royalty payments based on sales of products incorporating the licensed technology.

Royalties

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.

Furthermore, 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.

29 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 its newly created Dutch subsidiary OctoPlus PolyActive Sciences B.V. from 2008 onwards, and as a result is jointly and severally liable for any indebtedness of these entities.

Capital commitments

The Group did not have any capital expenditures contracted for but not yet incurred at 31 December 2008. At 31 December 2007 capital expenditures contracted for but not yet incurred amounted to € 4,447. These committed capital expenditures all related to the new laboratory and manufacturing facilities, of which the laboratory facilties have become operational in 2008 and the manufacturing facilities will become operational in the second quarter of 2009.

Operating lease commitments

The Group leases equipment under operating lease agreements. The lease expenditure charged to the income statement during the year is disclosed in Note 22.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2008	2007
No later than 1 year	111	73
Later than 1 year and no later than 5 years	367	28
Later than 5 years	1,273	79
	1,751	180

The increase in the operating lease commitments related to the payments for the land part of the contract for the additional office, laboratory and manufacturing facilities.

Future finance lease commitments

There are no future finance lease commitments at 31 December 2008. The future finance lease commitments at 31 December 2007 related to the 20-year contract for the additional office, laboratory and manufacturing facilities (Note 7).

	2008	2007
No later than 1 year	-	752
Later than 1 year and no later than 5 years	-	3,007
Later than 5 years	-	11,277
	-	15,036

Other operating commitments

The Group has made other unconditional commitments amounting to € 185 (2007, € 1,267). The commitments mainly relate to clinical and pre-clinical studies and have decreased significantly as a result of the sale of the Locteron commercial rights to Biolex in October 2008 (Note 18), the successful completion of the OP-145 CSOM Phase II clinical study in 2008 and the focus on the development of a product portfolio together with an external partner who reimburses OctoPlus for all or substantially all its activities performed instead of at the Group's own risk.

Bank guarantees

As of 31 December 2008, the Company had bank guarantees amounting to € 1,866 (2007, € 116). A € 1,750 temporary bank guarantee was provided to ABN Amro related to a sale and lease back transaction for a significant part of the equipment to be used in the Group's new manufacturing facilities (Note 15). A € 116 bank guarantee related to the office, laboratory and manufacturing facilities the Company has occupied since 2000. In the first quarter of 2009, the Company provided a € 224 bank guarantee to the landlord for the new office, laboratory and manufacturing facitilies the Company started occupying in 2008 (Note 7).

30 Business combinations

There were no business combinations effected during the years ended 31 December 2007 and 2008.

31 Related-party transactions

Some of our key management personnel are also a shareholder. Related-party transactions with key management personnel are discussed in section b 'key management personnel' of this footnote.

a Shareholders

In 2008, the Company obtained convertible bridge loans up to € 4.0 million (excluding accumulated interest) from two of its major shareholders (Note 16). These bridge loans were converted into ordinary shares in February 2009 (see 'Events after balance sheet date').

b Key Management Personnel

For key management personnel, a distinction has been made between (1) Board of Supervisory Directors and (2) Executive Board.

(1) Board of Supervisory Directors

The remuneration of the Board of Supervisory Directors amounted to € 134 (2007, € 75). The remuneration of the individual members of the Supervisory Board is set out in the table below:

	Base salary	Other	2008 Total	2007 Total
H. Stellingsma (Chairman)	36	-	36	30
R. Kuijten	30	-	30	15
P. Toon	30	-	30	15
Ph. Smith	30	-	30	15
F. Eelkman Rooda	8	-	8	-
	134	-	134	75

On 6 November 2008, the AGM approved the proposal by the Board of Supervisory Directors to adjust the fixed annual remuneration to € 31 for the Chairman and € 25 for all other members of the Board of Supervisory Directors; all from 1 January 2008 onwards. In addition, € 5 remuneration is received by a member for each Supervisory Board committee participated in, with a maximum of € 5 for the year 2008.

Part of the remuneration and part of the expense claim reimbursements of the Board of Supervisory Directors (€ 156, 2007, € 58) was not reimbursed at year-end and is recorded under trade payables

(€ 51, 2007, € 20) and other current liabilities (€ 105, 2007, € 38) in the balance sheet.

Payables to related parties were shown separately on the face of the balance sheet in the 2007 Annual Report.

(2) Executive Board

The remuneration of the Executive Board amounted to € 1,351 (2007, € 727); with the details set out in the table below:

	Base salary	Bonus	Pen-sions	Other	2008	2007
S.J. Sturge, CEO	125	50	-	182	357	-
J.J.M. Holthuis, COO	261	23	20	4	308	306
J.C.H.L. Pauli, CFO	202	15	7	202	426	230
G. Moolhuizen, CBO	175	68	9	8	260	191
	763	156	36	396	1,351	727

On 6 November 2008, the AGM approved the proposal by the Board of Supervisory Directors to appoint Mr Sturge as new CEO of the Company, replacing Mr Holthuis who became the new Chief Operating Officer (‘COO’) of the Company as of the same date. The AGM also approved the proposal by the Board of Supervisory Directors to appoint Mr Moolhuizen as new member of the Executive Board of OctoPlus as Chief Business Officer (‘CBO’). Mr Moolhuizen joined OctoPlus in December 2001 as Manager Business Development. As of this date, key management personnel, excluding the members of the Board of Supervisory Directors, as defined in IAS 24.9, consist of these four employees.

The CFO will leave OctoPlus on 31 March 2009. The CFO will receive a severance payment of € 200 which is included under ‘other current liabilities’ in the balance sheet. Before his appointment as CEO, Mr Sturge provided consultancy services for the Group. As consideration, Mr Sturge received a € 175 fee, which is included under ‘Other’ in the table above.

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

	2008	2007
Salaries and other short-term employee benefits	1,257	685
Post-employment benefits	43	50
Share-based payments	59	125
	1,359	860

The 2007 costs related to key management compensation have been adjusted to reflect the impact of the change in the composition of key management personnel as outlined above.

Part of the expense claim reimbursements of the Executive Board (€ 4, 2007, € 7) was not reimbursed at 31 December 2008 and is recorded under trade payables in the balance sheet.

Payables to related parties were shown separately on the face of the balance sheet in the 2007 Annual Report.

Executive Board Member’s interests in the Company

The Executive Board members own shares, have share options and had warrant rights in the Company as follows:

	Shares	Options	Warrants
At 31 December 2008			
S.J. Sturge, CEO [1]	-	1,215,500	-
J.J.M. Holthuis, COO	3,092,400	150,370	-
J.C.H.L. Pauli, CFO	56,500	92,514	-
G. Moolhuizen, CBO	22,500	61,411	-
	3,171,400	1,519,795	-
At 31 December 2007			
S.J. Sturge, CEO	-	-	-
J.J.M. Holthuis, COO	3,091,900	150,370	-
J.C.H.L. Pauli, CFO	56,500	92,514	126,000
G. Moolhuizen, CBO	22,500	61,411	-
	3,179,900	304,295	126,000

[1] All options held by Mr Sturge are conditional options (Note 12).

The number of outstanding shares, options and warrants owned by the Executive Board at 31 December 2007 have been adjusted to reflect the impact of the change in the composition of key management personnel as outlined above.

The warrants received by Mr Pauli could be exercised until 30 November 2008 against an exercise price of € 5.50. No warrants were exercised.

The shares owned by Mr Holthuis at 31 December 2008 represented 19.1% of the total of issued and outstanding share capital at 31 December 2008 (2007, 19.1%).

Share options

S.J. Sturge

S.J. Sturge does not hold any unconditional share options in the Company but holds 1,215,500 conditional share options in the Company, which are explained in detail in Note 12.

J.J.M. Holthuis

J.J.M. Holthuis holds unconditional share options in the Company as follows:

	2008		2007	
	Average exercise price in € per share	Number of options	Average exercise price in € per share	Number of options
At 1 January	3.05	150,370	3.05	150,370
Granted		-		-
Forfeited		-		-
Exercised		-		-
Lapsed		-		-
At 31 December	3.05	150,370	3.05	150,370

No unconditional options were granted from the 40,855 conditional options granted to Mr Holthuis on 1 January 2007 and outstanding at 31 December 2007 (Note 12).

The outstanding share options held by Mr Holthuis on 31 December 2008 expire as follows: 73,500 options on 29 December 2009, 7,100 options on 31 March 2011 and 69,770 options on 31 December 2011.

J.C.H.L. Pauli

J.C.H.L. Pauli holds unconditional share options in the Company as follows:

	2008		2007	
	Average exercise price in € per share	Number of options	Average exercise price in € per share	Number of options
At 1 January	2.99	92,514	3.05	102,514
Granted		-		-
Forfeited		-		-
Exercised		-	3.58	(10,000)
Lapsed		-		-
At 31 December	2.99	92,514	2.99	92,514

No unconditional options were granted from the 26,820 conditional options granted to Mr Pauli on 1 January 2007 and outstanding at 31 December 2007 (Note 12).

The outstanding share options held by Mr Pauli on 31 December 2008 expire as follows: 13,500 options on 14 December 2009, 23,600 options on 29 December 2009, 7,200 options on 31 March 2011 and 48,214 options on 31 December 2011. Mr Pauli will leave the Company on 31 March 2009. With his departure, all options, except for the 23,600 options, will forfeit.

The 10,000 options exercised in 2007 expired on 24 December 2006. Mr Pauli notified the Company in 2006 that he would exercise these options but the issuance of new shares did not take place until 2007. These share options have therefore been included as outstanding options at 1 January 2007.

G. Moolhuizen

G. Moolhuizen holds unconditional share options in the Company as follows:

	2008		2007	
	Average exercise price in € per share	Number of options	Average exercise price in € per share	Number of options
At 1 January	2.82	61,411	2.82	61,411
Granted		-		-
Forfeited		-		-
Exercised		-		-
Lapsed		-		-
At 31 December	2.82	61,411	2.82	61,411

No unconditional options were granted from the 19,947 conditional options granted to Mr Moolhuizen on 1 January 2007 and outstanding at 31 December 2007 (Note 12).

The outstanding share options held by Mr Moolhuizen on 31 December 2008 expire as follows: 10,000 options on 14 December 2009, 9,000 options on 31 January 2011, 5,600 options on 31 March 2011 and 36,811 options on 31 December 2011.

7

Company-only Financial Statements

Balance sheet of OctoPlus N.V.

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

	Note	At 31 December 2008	At 31 December 2007
ASSETS			
Non-current assets			
Goodwill	B	243	243
Land and buildings	C	8,841	3,040
Financial assets carried at cost	D	1,299	-
Investments in group companies	E	22,134	16,244
Long-term receivables from group companies	F	-	908
		32,517	20,435
Current assets			
Short-term receivables from group companies	G	3,828	2,712
Social securities and other taxes		9	3
Other receivables, prepayments and accrued income		446	600
Cash and cash equivalents		129	2,115
		4,412	5,430
Total assets		36,929	25,865
EQUITY			
Issued share capital	H	1,945	1,945
Share premium reserve	H	38,161	38,161
Other reserves	H	751	706
Accumulated deficit	H	(40,282)	(34,145)
Total equity		575	6,667
LIABILITIES			
Non-current liabilities			
Provisions for group companies	I	17,330	6,867
Finance lease liabilities		9,335	3,454
		26,665	10,321
Current liabilities			
Current portion of non-current liabilities		202	70
Convertible bridge loans		4,395	-
Trade payables		579	907
Payable to group companies		3,838	7,403
Social securities and other taxes		-	17
Other current liabilities		675	480
		9,689	8,877
Total liabilities		36,354	19,198
Total equity and liabilities		36,929	25,865

The notes on pages 64 to 66 are an integral part of these consolidated financial statements.

Income statement of OctoPlus N.V.

(In € x 1,000)

	Year ended 31 December	
	2008	2007
Result from subsidiaries after taxes	(4,825)	(14,301)
Other results of OctoPlus N.V. after taxes	(1,384)	(874)
Net result	(6,209)	(15,175)

Notes to the company-only financial statements

A General

The company-only financial statements are part of the 2008 financial statements of OctoPlus N.V.

OctoPlus N.V. is the direct parent and 100% shareholder of all group companies and also effectively exercises influence of significance over the operational and financial activities of all group companies. For further details, reference is made to Note 2.2 of the consolidated financial statements.

In 2008, one newly created legal entity was added to the Group; OctoPlus PolyActive Sciences B.V., having its legal seat in Leiden, the Netherlands. OctoPlus PolyActive Sciences B.V. is a 100% subsidiary of OctoPlus Sciences B.V. and OctoPlus Sciences B.V. is a 100% subsidiary of OctoPlus N.V. The objective of OctoPlus PolyActive Sciences B.V. is to develop and trade in patents, trade marks, licenses, know-how and other intellectual property rights. The initial investment in OctoPlus PolyActive Sciences B.V. is € 18.

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

1 Principles for valuation and determination of the result

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 2008 have been adopted by the EU, except that the EU carved out certain hedge accounting provisions of IAS 39. OctoPlus does not utilise this carve out permitted by the EU. Consequently, the accounting policies applied by OctoPlus also comply fully with IFRS. Please see the notes to the consolidated financial statements for a description of these principles.

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. In case the net asset value of an investment in subsidiaries is negative, a provision for group companies has been set up. By setting up a provision in these cases, reconciliation is maintained between the Group's and the Company's equity.

B Goodwill

Goodwill is the only item of intangible assets owned by OctoPlus N.V. The goodwill relates to the acquisition of Chienna B.V. on 1 March 2003. For further details, reference is made to Note 6 of the consolidated financial statements.

C Land and buildings

Land and buildings are the only items of property, plant and equipment of OctoPlus N.V. Land and buildings increased significantly in 2008 as a result of additional office, laboratory and manufacturing facilities constructed. For further details, reference is made to Note 7 of the consolidated financial statements.

D Financial assets carried at cost

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 Company, was a 1.83% equity interest in Biolex. The fair value of this 1.83% equity interest at contract date is € 1,299 and is calculated based upon the price per share paid for by other investors in Biolex in October 2008. For further details, reference is made to Note 8 of the consolidated financial statements.

E Investments in group companies

	2008	2007
Balance at 1 January	16,244	16,210
Result current year	1,760	(5,071)
Share capital contribution	4,130	-
Balanced with short-term receivables from group companies (see Note G)	-	5,105
Balance at 31 December	22,134	16,244

The share capital contribution in 2008 related to a share capital contribution of € 1,000 of OctoPlus N.V. in OctoPlus Development B.V., a 100% directly held subsidiary of OctoPlus N.V. in December 2008 and a share capital contribution of € 4,900 of OctoPlus N.V. in OctoPlus Sciences B.V., a 100% directly held subsidiary of OctoPlus N.V., in October 2008. € 1,770 was netted with the provision for OctoPlus Sciences B.V. at 31 December 2007, the remaining € 3,130 is included under investments in group companies (Note I).

In 2007, Chienna B.V. generated a loss of € 6,319. The resulting negative net asset value of € 5,105 was netted with the short-term receivable for this group company (Note G).

F Long-term receivables from group companies

	2008	2007
OctoShare B.V.	-	908
OctoPlus Sciences B.V.	-	154
	-	1,062
Balanced with provisions for group companies	-	(154)
	-	908

The loan to OctoShare B.V. was issued in 1999, and the loan to OctoPlus Sciences B.V. was issued in 2003. These loans are subject to 6% interest per year and have been fully redeemed on 1 June 2008.

In accordance with IAS 28.29, the long-term receivable from OctoPlus Sciences B.V. in 2007 is netted with the provision for this group company, as recorded under 'provisions for group companies' (Note I).

G Short-term receivables from group companies

In accordance with IAS 28.29, provisions for group companies are netted with possible short-term and long-term receivables for each respective group company. As a result, the short-term receivables from group companies balance at 31 December 2008 included a provision of € 13,865 (2007, € 19,359 provision).

H 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.

I Provisions for group companies

	2008	2007
Balance at 1 January	6,867	7,041
Result current year	6,585	9,230
Share capital contribution	(1,770)	-
Balanced with long-term receivables from group companies (see Note F)	154	-
Balanced with short-term receivables from group companies (see Note G)	5,494	(9,404)
Balance at 31 December	17,330	6,867

In accordance with IAS 28.29, provisions for group companies are netted with possible short-term and long-term receivables for each respective group company. This resulted in an increase of the provision for group companies with € 154 per 31 December 2008 related to long-term receivables from group companies (2007, no impact) and an increase of the provision for group companies with € 5,494 per 31 December 2008 related to short-term receivables from group companies (2007, decrease of € 9,404).

The share capital contribution in 2008 related to a share capital contribution of € 4,900 of OctoPlus N.V. in OctoPlus Sciences B.V., a 100% directly held subsidiary of OctoPlus N.V., in October 2008 (Note E). € 1,770 was netted with the provision for

OctoPlus Sciences B.V. at 31 December 2007, the remaining € 3,130 is included under investments in group companies (Note E).

J Remuneration of Directors and Board of Supervisory Directors

The remuneration of the Board of Supervisory Directors amounts to € 134 (2007, € 75). For further details, reference is made to Note 31 of the consolidated financial statements; section 'Board of Supervisory Directors'.

The remuneration of the Executive Board amounts to € 1,351 (2007, € 727). For further details, reference is made to Note 31 of the consolidated financial statements; sections with regard to the 'Executive Board' and the paragraph 'remuneration' in the Corporate Governance section.

K Commitments

The Company is the parent company of fiscal unity OctoPlus N.V. and as such jointly and severally liable for tax liabilities of all entities of this fiscal unity.

L Signing of the financial statements

Executive Board

S.J. Sturge, Chief Executive Officer
J.J.M. Holthuis, Chief Operating Officer
J.C.H.L. Pauli, Chief Financial Officer
G. Moolhuizen, Chief Business Officer

Board of Supervisory Directors

J. Stellingsma, Chairman
R.R. Kuijten
P.H.M. Toon
P.L. Smith
F.E. Eelkman Rooda

Leiden, the Netherlands, 27 March 2009

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Other Information

Auditors' report

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

Auditors' report

Report on the financial statements

We have audited the accompanying financial statements 2008 of OctoPlus N.V., Leiden. The financial statements consist of the consolidated financial statements and the company financial statements. The consolidated financial statements comprise the consolidated balance sheet as at 31 December 2008, profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company-only financial statements comprise the company balance sheet as at 31 December 2008, the company profit and loss account for the year then ended and the notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the Report from the Executive Board in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 2008, and of its result and its cash flow 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 Netherlands 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 2008, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the Report from the Executive Board is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, the Netherlands, 27 March 2009

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 Supervisory Board, 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 Supervisory Board, 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 Supervisory Board.

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 2008

The General Meeting of Shareholders will be proposed to add the loss for 2008 of € 6,209 to the accumulated deficit. The financial statements reflect this proposal.

Events after balance sheet date

In February 2009, the Company announced that it raised € 6.0 million (gross of transaction costs) through an equity offering with new and existing Shareholders of the Company. All new shares were issued at a price of € 0.75 per share.

Furthermore, and as part of the equity offering, the convertible bridge loans (including accumulated interest thereon) received from two of the Company's major Shareholders in 2008 were converted into OctoPlus ordinary shares against the same conditions. The balance of the convertible loans at 31 December 2008 is € 4,395 (including accumulated interest of € 395).

As a result of the above, approximately 14.0 million new shares (with a nominal value of € 0.12 per share) were issued. Group equity increased by € 10.5 million (gross of transaction costs) consisting of € 6.0 million through the equity offering and approximately € 4.5 million through the conversion of the convertible loans.

The Company's CEO, Mr Sturge, participated in the equity offering with an investment of € 100.

The new shares will be applied for listing on Euronext Amsterdam by NYSE Euronext in the second quarter of 2009.

Colophon

Coordination, planning & production	Imprima (Nederland) bv
Text & Photography	OctoPlus N.V., Leiden
Design	Van Eck grafisch ontwerpers, Amsterdam

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