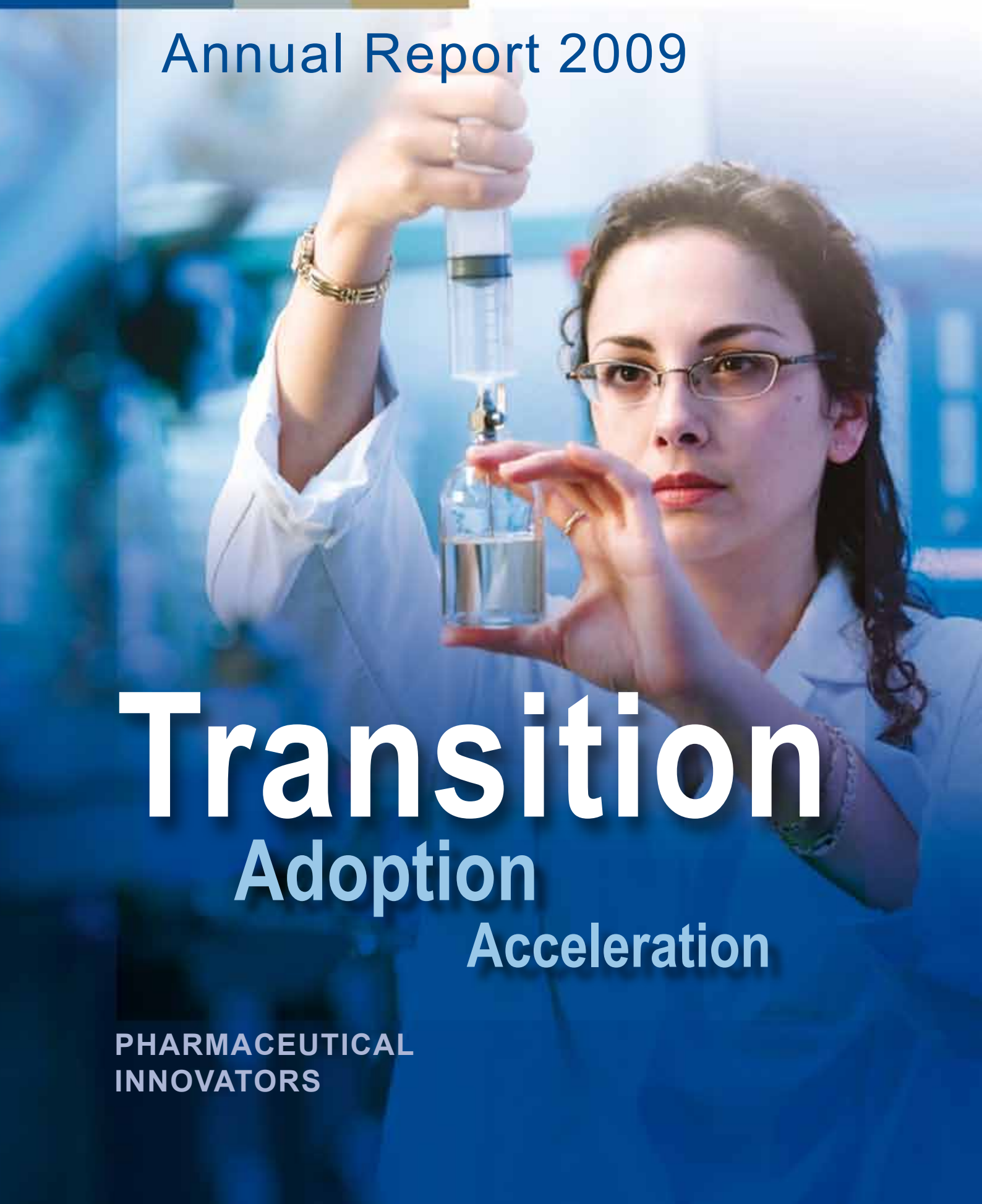
OctoPlus

Annual Report 2009



Transition

Adoption

Acceleration

PHARMACEUTICAL
INNOVATORS

OctoPlus at a glance

OctoPlus is a drug delivery company that specialises in the controlled release, formulation and cGMP manufacture of injectable products. OctoPlus has a platform of proprietary biodegradable polymers for the controlled release and extended release of injectable products, in particular proteins. The most advanced product utilising our technology is Locteron®, a controlled release alpha interferon which is in Phase IIb clinical development by OctoPlus' licensee Biolex. In addition, as a pharmaceutical development specialist, OctoPlus is a leading European provider of advanced drug formulation and manufacturing services to the pharmaceutical and biotechnology industries, with a particular track record in difficult-to-formulate active pharmaceutical ingredients.

In 2009 OctoPlus realised € 19 million in revenues. OctoPlus is listed on Euronext Amsterdam by NYSE Euronext under the symbol OCTO.

Annual Report 2009

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Key figures

(in € x 1.000)	2006	2007	2008	2009
INCOME STATEMENT				
Revenues	6,051	5,194	16,923	19,046
Operating costs	14,688	20,446	21,246	20,846
Operating result	**(8,637)**	**(15,252)**	**(4,323)**	**(1,800)**
Interest	(28)	77	(1,886)	(1,157)
Result for the period	**(8,665)**	**(15,175)**	**(6,209)**	**(2,957)**
EBITDA	(7,577)	(14,130)	(2,716)	970
CASH FLOW				
Operating	(6,410)	(10,753)	(4,037)	(2,795)
Investing	(1,088)	(6,277)	(6,698)	(1,456)
Financing	17,821	(8)	7,338	8,446
Total	**10,323**	**(17,038)**	**(3,397)**	**4,195**
BALANCE SHEET at year-end				
Equity	21,142	6,667	575	11,343
Total assets	31,182	19,829	30,138	29,741
Cash position [1]	19,553	2,515	(882)	3,313
EMPLOYEES at year-end				
Headcount	139	170	144	132
FTE	126.2	157.2	131.2	122.1
PER SHARE				
Number of shares at year-end ('000)	16,164	16,207	16,207	33,435
Earnings per share [2]	(0.68)	(0.94)	(0.38)	(0.10)

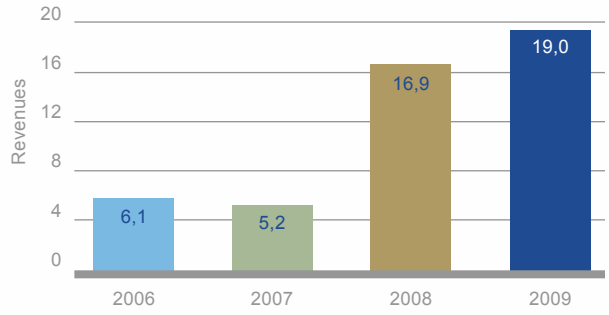
[1] Cash, cash equivalents, bank deposits and overdrafts

[2] In €, based on the average number of shares during the year

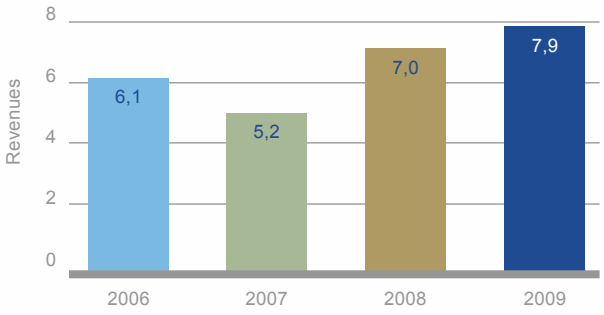
32 cGMP batches
produced successfully in 2009

12%
growth
in core business (non-Locteron) revenues

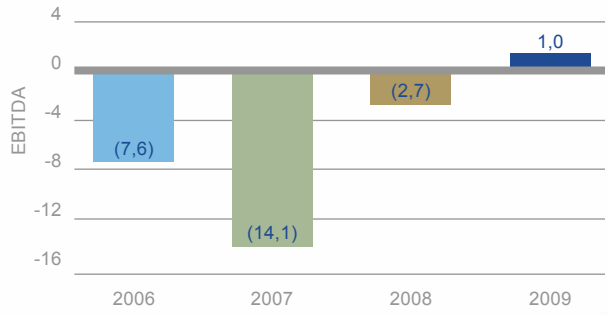
Revenues (€ million)



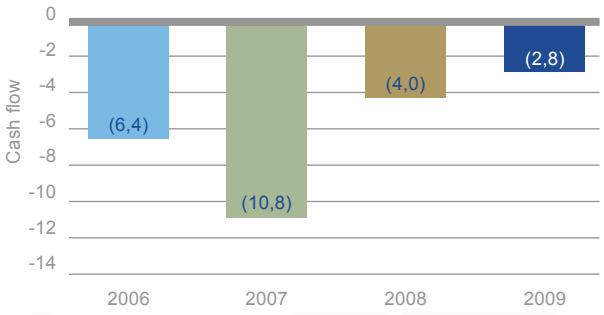
Non-Locteron revenues (€ million)



EBITDA (€ million)

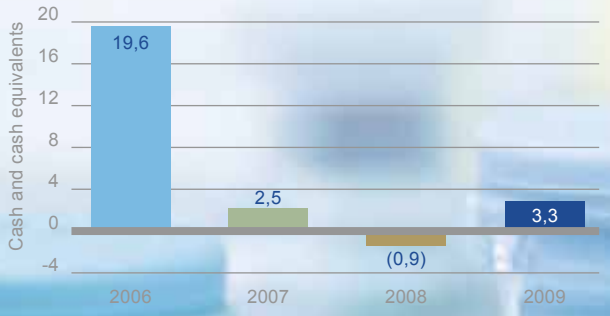


Cash flow from operating activities (€ million)



Cash and cash equivalents at 31 December

(€ million)



Highlights

+ Positive EBITDA for full year 2009
+ 52 projects for 42 clients in 2009
+ 13% growth in total revenues
+ 15 formulation development projects completed successfully in 2009, working on various compounds including monoclonal antibodies, siRNA, therapeutic vaccines and recombinant proteins.

Message from the CEO

Since I've taken on the position of OctoPlus' CEO in September 2008, OctoPlus' focus has changed from own risk product development to a drug delivery business. We have revised OctoPlus' strategy, shifting from investment in the development of our own products to commercialising our proprietary drug delivery technology combined with our 15 years of experience in contract formulation and cGMP manufacture. In line with this strategy we have licensed our lead compound Locteron® to Biolex in 2008, while remaining closely involved, working on the scale-up of the process and the manufacture of Phase IIb clinical study material.

In addition to the growth of our contract formulation and manufacturing activities we were delighted to see the publication of an abstract containing positive preliminary Locteron Phase IIb clinical results in March 2010. The preliminary results showed that Locteron induced 63% less flu-like symptoms than the currently marketed interferon, with reduced injection frequency, and also a more rapid antiviral efficacy. The presentation at the conference will contain final results after 12 weeks of treatment in two Phase IIb studies. These results are very exciting and they greatly increase our confidence of Locteron achieving its significant market potential.

Transition – Adoption - Acceleration

During 2009 we made the transition into a drug delivery business fully focused on providing a service to clients with no further investment into own risk product development. In 2009 we worked on 6 feasibility projects for clients to evaluate the combination of our drug delivery technology with their product.

Going forward, our aim is to establish significant adoption of our controlled release technology by the pharmaceutical and biotechnology sectors as the technology of choice for longer-acting injectables. We will do this by building on the number of feasibility projects we execute and by working towards progressing the current feasibility projects to a clinical stage.

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

Simon J. Sturge,
Chief Executive Officer
OctoPlus N.V.

Leiden, the Netherlands, 2 April 2010

Frequently asked questions about the new OctoPlus

1 What is OctoPlus' strategy?

+ Accelerate our growth and build a profitable business in the medium term. We intend to further grow our globally renowned activities in the fields of drug delivery, formulation development, analytical development, process development services and cGMP manufacturing for our clients.
+ Build a portfolio of licensed products based on our proprietary technology by winning feasibility projects, executing them successfully and converting them into licensing agreements. We intend to expand the number of feasibility projects in which we combine our drug delivery technology with our clients' biopharmaceutical drug. We believe that our controlled release technology may allow us to improve the performance of many new or established biopharmaceutical drugs: this includes improving dosing schedules, reducing side effects and improving efficacy. Improving the performance of these drugs may result in an increased market share in their often significant target markets. Depending on the outcome of these feasibility projects our collaborators may decide to continue the development of the product candidate, requiring our ongoing involvement for the further formulation and manufacturing of the product under a license to our proprietary drug delivery technology.

2 What will drive the value of OctoPlus in the next 3 years?

In line with our strategy we see three major drivers of value over the next three years:

I. Locteron: The progression of Locteron to the market remains a major value driver for OctoPlus. The ongoing Phase IIb studies with Locteron are progressing well and that gives us great confidence that the product will enter Phase III clinical development within the next 12 months. We look forward to Biolex presenting Phase IIb data at the EASL International Liver Meeting in April of this year. We continue to expect that Biolex will secure a licensing agreement with a commercial partner this year. A new partner may choose to hire us to perform process development work and to manufacture Phase III clinical study material for Locteron, or may choose to pay a manufacturing license fee to obtain the manufacturing rights OctoPlus now holds. In addition, OctoPlus will receive a major milestone payment upon initiation of the Phase III studies.

II. Adoption of our technology. We intend to continue to grow the adoption of our proprietary technology as the technology of choice in the controlled release of injectable products. Announcement of further feasibility studies during the year will be testament to that progress.

In the medium term it is our goal that some of these feasibility projects will convert into full development programmes, comparable to the Locteron programme, from which we may receive development revenues, milestones and royalties.

III. Building a profitable business. At the heart of our strategy is the drive to build a profitable business. It is our goal to be profitable in the medium term, which we will strive for by increasing revenues from service activities and license agreements, and by closely monitoring costs.

3 What is unique about OctoPlus' drug delivery technology and what is its potential?

OctoPlus' proprietary drug delivery technology consists of a platform of biodegradable polymers for the controlled parenteral release of proteins, peptides and small molecules. OctoPlus encapsulates the active pharmaceutical ingredient into microspheres made from these polymers, and depending on the composition of the polymers, the release profile of the drug can be adjusted. This enables the development of products that are more patient-friendly and potentially safer and more efficacious. OctoPlus' proprietary technology and know-how are patent protected. OctoPlus' patent portfolio consists of 209 granted patents and 67 patent applications, which are divided into 30 patent families, of which 12 relate to PolyActive and 8 to OctoDEX.

Our controlled release technology is unique in the sense that we can tailor the release profiles exactly to the client's wishes. In addition, we have years of experience in development, scale-up and manufacture of our microspheres. The fact that we have proven to be able to manufacture products based on our controlled release technology on an advanced clinical scale is a major driver of the commercialisation of our technology. We believe that longeracting formulations of new or established therapeutics will be the next generation of medicine, offering fewer injections and fewer side effects than therapeutics using traditional instant release administration.

4 What is OctoPlus' involvement in the development of Locteron?

In October 2008 OctoPlus changed its strategy from own risk product development to a drug delivery business model. At the heart of this strategy is that our customers will fund the development of products which use our controlled release technology. Locteron is such a product. It was always planned that we would license Locteron to a partner prior to Phase III

clinical studies and we have licensed Locteron to our co-development partner Biolex in October 2008. In return we have retained much of the value through an upfront payment, manufacturing income, process development and potential milestones and royalties. Under the agreement, OctoPlus is eligible for milestone payments up to US$ 138 million and revenues from royalties and sale of manufactured products to Biolex equivalent to a low double-digit royalty. So in reality OctoPlus has retained much of the value without the need to invest in expensive Phase IIb clinical studies. Our involvement in Locteron now consists of exclusively manufacturing Locteron for Biolex in our facility in Leiden and performing any necessary process development work for future clinical studies.

5 What is the goal of OctoPlus' feasibility projects?

It is our ambition that our technology will play a major role in the controlled release of injectable products. Incorporation of our technology in multiple compounds gives us potential milestone payments and royalty streams from multiple products. Because different types of compounds have different characteristics and each require a unique method to optimally combine them with our proprietary polymers, we need to investigate the possibilities of this combination first. We do this by offering our clients an initial feasibility study. Our clients pay us to evaluate the feasibility of a controlled release formulation of their product given the release profile that they require. This may be realising a length of release of 1 week up to 6 months. We do not expect that all feasibility studies will convert into a full development programme. The client may choose to discontinue the development because of technical or commercial reasons. If the client chooses to continue the development of the product candidate, this will warrant a license and development agreement under which OctoPlus is eligible for milestone payments and royalties.

6 Will OctoPlus develop its own products again?

Since the implementation of our revised strategy, we no longer invest in own risk product development. Under the agreements that were signed with Biolex in October 2008, OctoPlus has retained much of the value of Locteron without the need to invest in expensive late-stage clinical studies. We will work towards building a portfolio of products that we develop for clients based on our technology, similar to our agreements with Biolex. It is our intention to invest in further improving our drug delivery technology platform and the services we provide to our clients.

7 What news flow can we expect in 2010?

In addition to a continued effort in the areas of increasing revenues and reducing costs, with a focus on becoming profitable in the medium term, we anticipate the following events in 2010:

+ We aim to grow our revenues from projects other than Locteron significantly in 2010.
+ We aim to start a number of additional feasibility projects this year.
+ We aim to out-license OP-145, our product for ear infection, to a commercial partner.
+ Biolex will present topline results from the ongoing Phase IIb study with Locteron at the EASL International Liver Congress in April.
+ We expect later this year that Biolex will find a partner to take Locteron to the market. This will increase the success rates for the market introduction of Locteron, which in turn represents a major value driver for OctoPlus. It is expected that the market for alpha interferon products will approach US$ 6 billion at the time Locteron reaches the market.

8 What has been the result of OctoPlus' reorganisation this year?

Along with our change in strategy came a need to change the internal structure of the Company. OctoPlus is now entirely focused on providing the best possible service to our clients. As a consequence we have simplified the organisation and significantly reduced the cost base. One off costs associated with the reorganisation were approximately € 0.7 million in 2009 and these will result in significant savings going forward.

Another consequence of the change in strategy and simplified organisation is that the activities in the Products & Drug Delivery segment have been terminated. Existing product candidates have been and will be licensed to partners. We will continue to perform formulation, analytical and process development services and GMP manufacturing for some of these product candidates, such as Locteron, on a fee-for-service basis. As a result, the Company has only one business unit from October 2009 onwards.


Storage

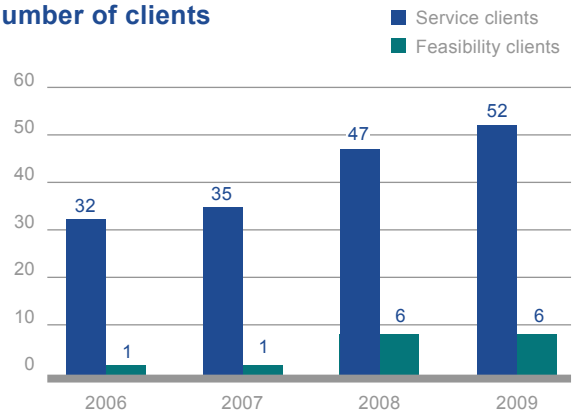
1

OctoPlus' activities

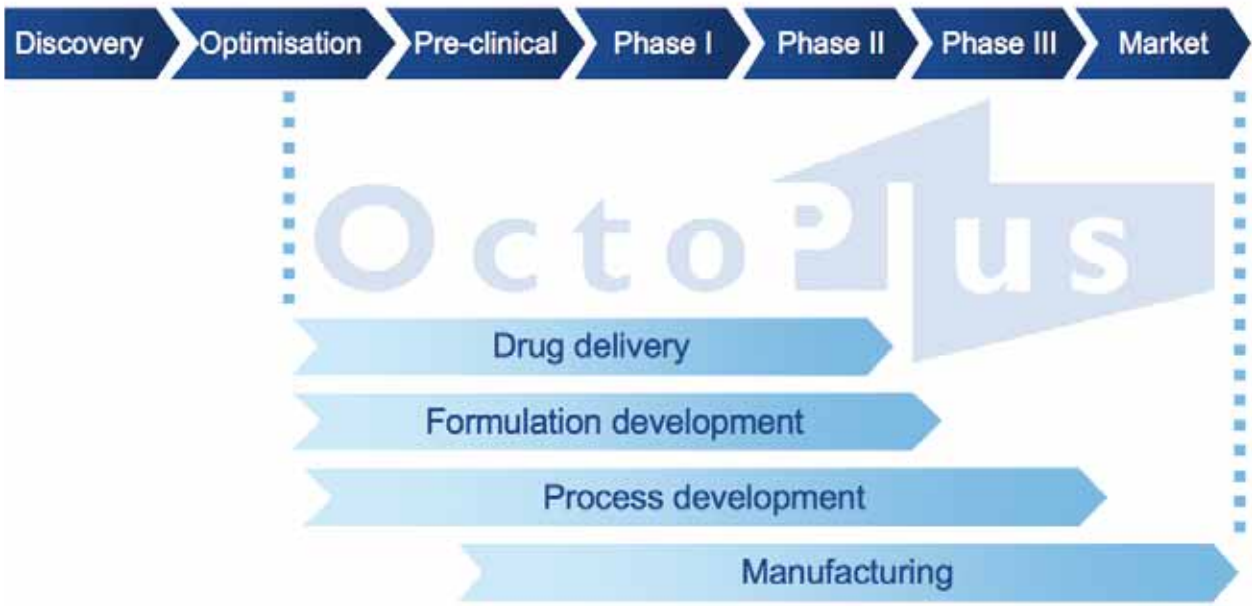
Since 1995, we offer advanced drug formulation and clinical scale manufacturing services to biotechnology and pharmaceutical companies worldwide. In 2008 we added our proprietary drug delivery technology to our service portfolio. OctoPlus is active in the development phases from pre-clinical to early commercial product launch.

We have provided our services to more than 135 clients that have progressed more than 40 products into clinical studies and six products on to the market. In 2009 approximately 29% of our revenues originated in the European Union and approximately 61% of our revenues originated from clients in North America, while the remainder was sourced from other countries. Our clients are both small biotechnology companies and larger pharmaceutical companies. We focus on building long-term relationships with our clients, during which they return to us when they develop their next product. In order to make maximum use of our facilities, we aim to acquire both larger development and manufacturing projects, in addition to fill & finish projects.

Number of clients



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



OctoPlus for that reason, and word of mouth publicity is an important acquisition source for us.

In the area of drug delivery, a number of other technologies for longer-acting therapeutics is available. Our competitive advantage is the unique flexibility to achieve the desired release profile, in addition to the prevention of a high initial release upon injection (the so-called burst) as seen with other technologies. In addition, our PolyActive technology is the most advanced controlled release technology with clinical Phase II results available. Since OctoPlus has worked on developing controlled release formulation for over ten years, we have gathered a wealth of expertise in the complex area of scale-up and process development of microsphere formulations.

Proprietary drug delivery technology

Our technology enables the development of products that are more patient-friendly and that are potentially safer and more efficacious. We have extensive toxicology data available proving the suitability of this technology for human application and products based on this technology are moving through clinical studies. The clinically most advanced product incorporating our technology is Biolex' lead product Locteron, a controlled release formulation of interferon alpha for the treatment of chronic hepatitis C. OctoPlus licensed Locteron exclusively to Biolex in October 2008. Locteron is being manufactured for Biolex by OctoPlus and is currently in Phase IIb clinical studies.

Our proprietary drug delivery technology is based on a platform of biodegradable polymers for controlled parenteral release of proteins, peptides and small molecules. They offer unsurpassed flexibility to achieve a release profile of days, weeks or months and they do not elicit the high initial release upon injection (so-called burst) as seen with other technologies. The manufacturing process has been optimised up to advanced clinical scales and the patent position is well established at both the technology level and product-specific levels.

We commercialise our technology on a product-by-product basis. In addition to our activities for the development of Locteron, we have entered into multiple collaborations with other companies to perform feasibility studies of a controlled release formulation combining our technology with their compound. If these are successful, they may progress into full license and development agreements.

Locteron

The clinically most advanced product incorporating our controlled release technology is Biolex' lead product Locteron. Locteron is a proprietary controlled release formulation of interferon alpha for the treatment of chronic hepatitis C infection (HCV). Hepatitis C is a common disease, affecting over 170 million people worldwide. Infection by HCV is a very serious medical condition that can lead to cirrhosis of the liver, a condition where healthy liver cells are killed by infection

Technology	Purpose	Development stage
PolyActive	Controlled release of biopharmaceuticals and small lipophilic molecules	The first PolyActive product, a controlled release formulation of alpha interferon, named Locteron, is currently in Phase IIb clinical studies. The PolyActive polymer is already marketed in several FDA approved medical devices.
SynBiosys*	Controlled release of peptides and small molecules	Pre-clinical studies with multiple compounds have been completed successfully.
OctoDEX	Controlled release of larger macromolecular drugs, such as proteins, particles, viruses or colloidal systems such as liposomes	The first OctoDEX product (OctoDEX-hGH, a controlled release formulation of growth hormone) successfully completed Phase I clinical studies.

* In collaboration with Innocore B.V.

with the hepatitis C virus and are replaced by scar tissue. Resulting damage to the liver can lead to impaired liver function and liver cancer.

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

In three clinical studies to date, results have shown that Locteron is safe and well tolerated. In particular, groups receiving Locteron reported fewer, less severe and shorter lasting flu-like symptoms than those subjects receiving PEG-Intron, a commonly prescribed pegylated interferon. In addition, 12 weeks of treatment with Locteron in combination with ribavirin have shown to be effective in reducing hepatitis C virus levels.

We manufacture Locteron by combining our PolyActive microspheres with Biolex' interferon alpha for the Phase IIb clinical studies in our manufacturing facility in Leiden, the Netherlands and perform scale-up activities for which we are reimbursed by Biolex.

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

Formulation development activities

OctoPlus develops dosage forms enabling the administration of new medicines to patients. We cover this process from lab bench to commercial material production. Founded in 1995 to offer pharmaceutical development services to the biotechnology and pharmaceutical industries, OctoPlus has built up a wealth of expertise in the formulation and manufacture of conventional and biotechnology-derived pharmaceuticals.

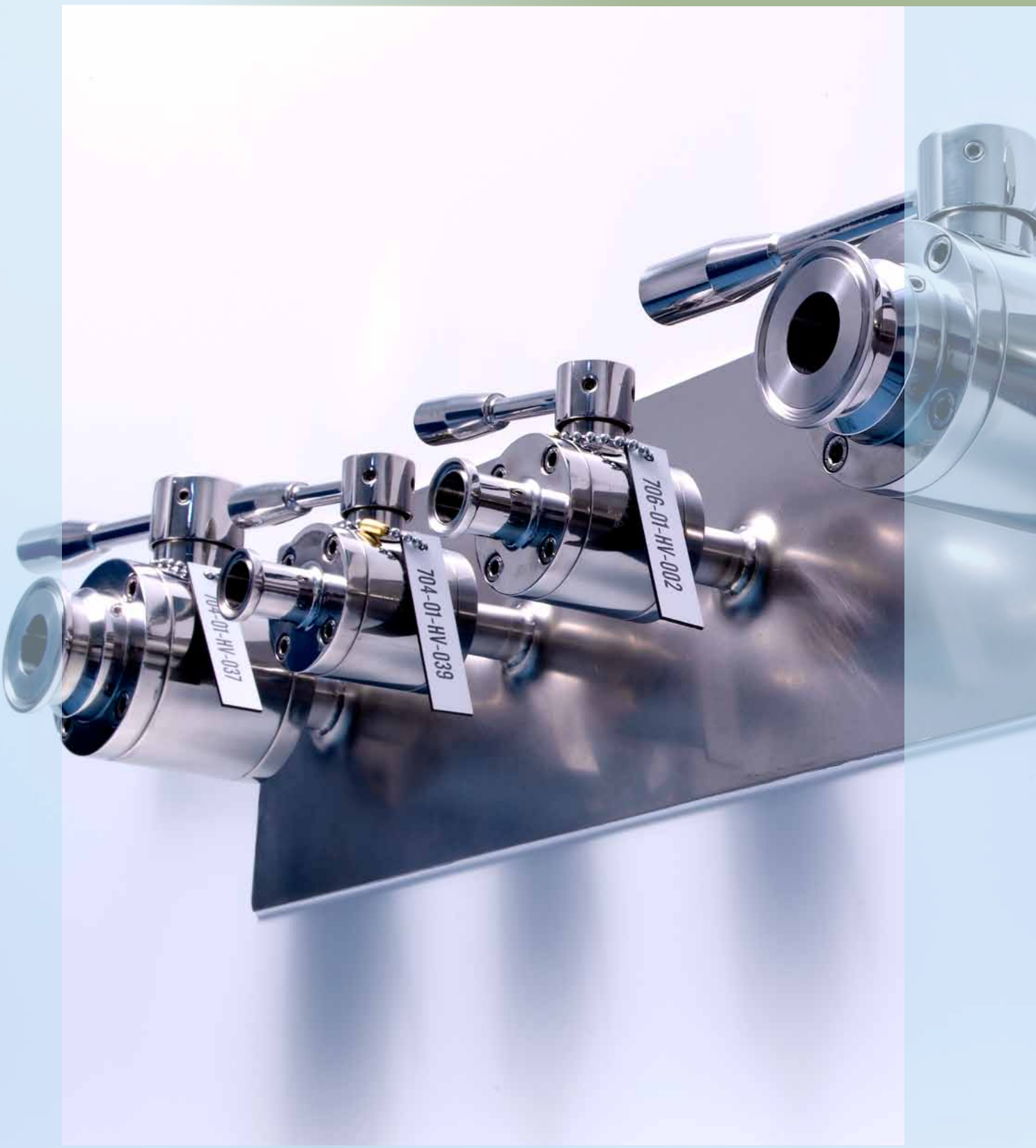
OctoPlus offers unique development and manufacturing expertise in the area of complex formulations, such as liposomes and microspheres, for a large range of biologicals (proteins, vaccines, antibodies, siRNA, DNA) and low-solubles (peptides, small molecules). We have helped more than 135 companies bring their product into the clinic or to the market. We are globally recognised as a center of excellence in formulation development, analytical services and cGMP manufacturing up until product launch.

Manufacturing activities

OctoPlus has operated a clinical manufacturing plant in Leiden, the Netherlands since 2000. In 2008, our facilities were expanded and they now include dedicated formulation areas as well as areas for both manufacture and fill & finish of parenteral dosage forms. Our Leiden headquarters also comprise laboratories dedicated to analytical activities such as stability testing and release testing.

The expansion of our facilities has broadened our capacities in the areas of formulation development, in-line filling, freeze-drying and cGMP manufacturing of final product. Our manufacturing facility offers state-of-the-art technology in cGMP production:

+ Fully automatic filling line with washer, depyrogenation tunnel and stoppering/capping device for injection vials (0,5 - 50 ml)
+ Validated capacity of 100 up to 10,000 vials per batch
+ Pre-clinical up to product launch commercial manufacturing
+ 5 m^2 plate capacity freeze-dryer
+ 2 double door steam autoclaves with forced cool-down (902 and 856 liter volume)
+ Double door equipment washer (682 liter volume)
+ Cool storage 5°C, -20°C and -80°C
+ Terminal sterilisation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Executive Board report

Composition of the Executive Board

Simon Sturge – Chief Executive Officer (CEO) – Age 51

Appointment term | 2008 - 2012

Simon Sturge has over 29 years of experience in the pharmaceutical and biotechnology industry. He has founded and led several life sciences companies and executed a number of major business development deals. He has been on the Executive Board of several companies including Celltech, RiboTargets and Vernalis. He was CEO of UK-based listed biotechnology company Vernalis for 5 years until early 2008. Mr. Sturge was appointed CEO of OctoPlus in November 2008.

Susan Swarte – Chief Financial Officer (CFO) – Age 41

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

Susan Swarte received a Master's degree in Business Economics from Erasmus University Rotterdam in 1993 and became a Registered Controller in 1996. She has over 16 years of experience in financial and strategic management. She worked at Unilever and Numico (now Danone), two large, international and publicly listed companies, where she was responsible for financial, logistic and reporting aspects. Mrs. Swarte is nominated for appointment as Member of the Executive Board at the next Annual General Meeting of Shareholders.

Gerben Moolhuizen – Chief Business Officer (CBO) – Age 43

Appointment term | indefinite

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

Report of the Executive Board

In 2009 OctoPlus worked towards implementing its new drug delivery business model. The sale of the commercial rights to Locteron in October 2008 marked the start of this new strategy, moving away from developing product candidates at our own expense towards developing products for partners and out-licensing our proprietary drug delivery technology.

As a result of our new strategy, OctoPlus no longer invests in own risk product development as of October 2008. We have started discussions with potential license partners for OP-145. 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, hepatitis B vaccine HBV-OctoVAX and a vaccine against Japanese encephalitis, JEV-OctoVAX) was progressed at a minimal level awaiting commercial partnerships. Instead, we focused on the acquisition of projects based on our proprietary drug delivery technology.

In addition, we continued our formulation and manufacturing services. In this area we focused specifically on acquiring projects with a manufacturing component, in order to optimise the use of our new manufacturing facility. During 2009 we worked for 42 clients, including Biolex, Galapagos, Clavis Pharma, Dentsply, Diamyd, Ferring, Neurophyxia, Solvay and Axentis Pharma.

As part of our new strategy we also optimised our organisation, which resulted in a reduction of the workforce by 25%. We completed two equity financings in 2009. As a result, we repositioned OctoPlus in 2009 as an expert provider of formulation, drug delivery and manufacturing services, and focus on building a profitable business in the medium term.

Business developments

Feasibility projects

In 2009 we focused on the acquisition of projects based on our proprietary drug delivery technology. In these projects we develop controlled release formulations that combine the therapeutic product of our partners with our proprietary drug delivery technology. In 2009, 5 new feasibility projects were started. We are reimbursed for our activities under these projects. Revenues from these projects currently are relatively modest. However, depending on the outcome of these feasibility projects (which on average run during 6 to 12 months), our partners may decide to continue developing their product candidate, requiring our ongoing investment for further formulation and manufacturing of the product, under a license to our proprietary drug delivery technology. We have, save for our agreement with Biolex, not yet entered into such a development agreement with a partner.

Locteron

The clinically most advanced product incorporating our controlled release technology is Biolex' lead product Locteron. We manufacture Locteron by combining our PolyActive microspheres with Biolex' interferon alpha in our manufacturing facility in Leiden, the Netherlands and perform development and manufacturing activities for which we are reimbursed by Biolex.

Contract formulation and manufacturing projects

In order to facilitate growth in development and manufacturing activities and to prepare for the next phase in Locteron manufacture, the expansion of our manufacturing facility was completed in June 2009. This has expanded our capacities, where we can now manufacture on all scales from pre-clinical to early commercial product launch. During 2009 we signed 15 new service contracts, including a contract with Galapagos and one with Axentis Pharma. In 2009 our revenues grew to € 19 million. Revenues from clients other than Biolex increased by more than 12%. 2009 revenues were based on work carried out for 42 clients on 52 projects, covering a wide range of therapeutic areas but predominantly in the field of injectables. Locteron was the single largest project in 2009. Locteron revenues generated 59% of total revenues (2008: 58%). Since our establishment in 1995 through 31 December 2009, our service activities have resulted in € 65 million of cumulative net consolidated revenues.

Intellectual property

OctoPlus' current patent portfolio consists of 209 granted patents and 67 patent applications, which are

divided into 30 patent families, of which 8 relate to OctoDEX® and OctoVAX™, 12 to PolyActive® and 10 to other technologies and products, including OP-145 and OP-286 CR. During 2009, OctoPlus obtained 60 patents on products and technologies, and 3 patents were applied for.

OP-145

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

Collaboration partners

Biolex

In October 2008, we entered into a product rights acquisition agreement and a product development and supply agreement with Biolex following earlier agreements of 2003 and 2005 for the co-development of Locteron. As a result, Biolex has obtained all commercialisation rights to the product, while we continue to provide development services and remain involved as manufacturer of Locteron. We will participate in any revenues from the commercialisation of Locteron through milestone payments and royalties on net sales.

SurModics

In 2004 and 2007 we provided SurModics with a worldwide exclusive license for the use of PolyActive and OctoDEX in the development of drug-eluting implants, such as stents and ophthalmic devices. SurModics terminated the license per 30 September 2009 and paid a cancellation fee in September 2009.

Theratechnologies

In September 2007, we obtained a license to certain GLP-1 analogues from Theratechnologies. As a result of our new strategy, we currently do not expect to enter into a partnership in the near future to develop a product based on this licensed technology. Therefore we impaired this patent in our 2009 financial statements, for an amount of € 0.3 million.

Organisational developments

As part of our new business model we have focused on increasing revenues and reducing costs with a number of measures in 2009. In August, we attracted Mrs. Susan Swarte to become Chief Financial Officer, after our previous Chief Financial Officer Mr. Hans Pauli had left in March. Mrs. Swarte will specifically focus on financial control and cost management. Another change in the Executive Board was the departure of our Chief Scientific Officer and co-founder Mr. Joost Holthuis. He will remain involved with OctoPlus on a consultancy basis. In September, we announced efficiency measures to streamline our organisation for an optimal execution of the new strategy. As a result, we reduced our personnel by 25%. This will enable us to reduce personnel costs in 2010 and make more efficient use of our facilities.

On 31 December 2009, we had a total of 132 employees, all of which were located in the Netherlands (2008: 144). 51% of our employees are female. During 2009, 27 people joined and 39 people left OctoPlus. Early 2010 the personnel headcount has decreased to 120, mainly as a result of the completion of the restructuring that was announced in September 2009.

Financial developments

Consolidated revenues increased to € 19.0 million (2008: € 16.9 million) as a result of the ongoing development and manufacturing of Locteron for Biolex amounting to € 11.2 million (2008: € 9.9 million). Raw materials and auxiliaries and cost of contracted work and other external charges decreased significantly to € 2.1 million (2008: € 3.5 million) as a result of the change in strategy whereby all own risk product development including clinical studies were discontinued. Other operating costs increased to € 18.8 million (2008: € 17.8 million) mainly caused by an increase in depreciation and amortisation of € 0.9 million as a result of the expansion of the manufacturing facility. In 2009 we had a number of one-off costs such as restructuring charges of € 0.7 million, an impairment for the Theratechnologies patents for an amount of € 0.3 million and € 0.5 million of costs associated with the first year of operation for the new manufacturing facility. Interest costs decreased significantly to € 1.2 million (2008: € 1.9 million) reflecting the conversion of the bridge loans, that were granted by shareholders Life Sciences Partners and S.R. One in March 2008, into equity early 2009. The net result before taxes amounted to a loss of € 3.0 million (2008: a loss of € 6.2 million), an improvement of 52%.

In February 2009 we issued new shares and raised € 10.5 million gross with new and existing investors, of which € 4.5 million (including accumulated interest) related to the conversion of the bridge loans provided by shareholders Life Science Partners and S.R. One. This private placement allowed us to make the final investments in our new manufacturing facility and continue to implement our new service-based strategy. US-based investor Signet Healthcare Partners joined as a major shareholder. The proceeds of the financing were used mainly for the completion and validation of the new manufacturing facility. In December 2009 OctoPlus raised an additional € 4 million gross to strengthen its cash position. This financing also brought in a number of new investors, broadening OctoPlus' shareholder base.

Consolidated operating cash flow amounted to € 2.8 million negative (2008: € 4.0 million negative) mainly coming from a reduction of working capital. Investments in plant and equipment amounted to € 1.5 million (2008: € 6.7 million) which decreased significantly as the construction of the new manufacturing facility was finalised early 2009. Repayment of finance lease liabilities amounted to € 0.9 million (2008: € 0.3 million). Combined with the two share issues, the 2009 net cash flow amounted to € 4.2 million positive (2008: negative € 3.4 million). Per year end 2009, OctoPlus had a positive net cash and cash equivalents balance of € 3.3 million (2008: € 0.9 million negative).

Outlook

Our prime focus is on building a profitable organisation in the medium term. We believe that this can be achieved by successfully fulfilling our current contractual obligations and by realising further growth of our contract formulation and manufacturing activities. We will be able to meet increased demand from our customers by utilising our expanded facilities in Leiden and making some further modest investments, predominantly in equipment.

In addition to our contract formulation and manufacturing activities, we have started a number of feasibility projects for the development and formulation of controlled release pharmaceuticals, which combine the therapeutic product of our partners with our proprietary drug delivery technology. In 2009, 6 feasibility projects were active. In 2010 we will aim to start a number of additional feasibility projects.

Another goal for 2010 is to obtain an agreement to out-license our OP-145 product for ear infection to a commercial partner. Partnering discussions are ongoing but have not progressed as quickly as we had hoped. In 2010 we will focus to bring this to a close.

With respect to Locteron we look forward to Biolex presenting the topline results from the ongoing Phase IIb study at the EASL International Liver Congress in April. Treatment of patients in this study is expected to be completed end of 2010. In addition, Biolex is in partnering discussions to out-license Locteron to a commercial partner, which may result in a license agreement this year as well. If Biolex secures a commercial partner, this increases the success rates for the market introduction of Locteron, which in turn represents a major value driver for OctoPlus.

Risk management and internal control

The Executive Board is responsible for designing, implementing and operating our internal risk control structure in order to manage in an effective and efficient manner the risks to which we are exposed. During 2009, the Executive Board has implemented a new business model as a result of the new strategy, which was announced in October 2008. The principal objective of the new business model is to become a profitable company in the medium term. Our internal risk control structure needs to assist OctoPlus in achieving this objective.

OctoPlus' internal risk control structure consists of:

Policies, principles and procedures

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

Budgeting process

The corporate strategic plan is converted into an annual budget. Regular rolling forecasts are prepared based on the latest information with regards to revenues, costs and cash. Actual financial results are measured against budget on a monthly basis. Financial and non-financial key performance indicators (KPI's) have been identified. The results of these KPI's are reported on a monthly basis to all personnel and are reviewed with responsible line management. As a result there is a greater awareness of the past and expected performance of the Company, which leads to timely action and follow-up.

Organisational structure

From October 2009, a new simplified organisational structure has been implemented, resulting in clear roles and responsibilities throughout the organisation. With the organisational change, budgets have been reallocated to the proper budget owners.

Audit Committee

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

External auditor

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

Risk factors

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

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

Strategic risks

Concentration of sales

In 2008 and 2009, our collaboration contract with Biolex for the development and manufacturing of Locteron contributed close to 60% of our total consolidated revenues. Our customer base presently comprises approximately 40 clients who award us with work on a contract-by-contract basis. The process of establishing collaborative relationships with customers is difficult, time-consuming and involves significant uncertainty. Our customers may resolve, on relatively short notice, to suspend or terminate the development activities that we conduct on their behalf for reasons beyond our control, such as budgetary limits, changing priorities or lack of funding. We have experienced such project suspensions or terminations with significant customers in the past. The loss, modification or delay of a large contract or of multiple contracts, or the inability to secure new contracts, could have a material adverse effect on our operating results. In order to avoid a concentration of sales it is our objective to develop a balanced portfolio of customers, in terms of size and length of each project.

Dependence on Locteron

A significant part of our revenues in the last 2 years has come from development and manufacturing activities for Locteron which is licensed to Biolex. If Biolex is unable to make Locteron commercially available, we will not generate product revenues from milestones and royalties. We allocate a significant part of our resources to the successful development and manufacturing of Locteron in order to bring this product to the market successfully.

Operational risks

Complex services

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

Fixed development and manufacturing capacity

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

Qualified personnel

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

Product liability exposure

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

Financial risks

Profitability

We have incurred losses since 2002 and at the 31st December 2009, OctoPlus had an accumulated deficit of € 43.1 million. We believe that we will be able to become profitable in the medium term. With the change in business model, through strict cost control and a focus on building a balanced revenues portfolio we have reduced the risk of continuing losses significantly. Moreover, we are entitled to significant further milestone payments and royalties in case Locteron is successful.

Financing risk

Additional funds may not be available to us when we need them on terms that are acceptable to us. In case of a share issuance shareholders' ownership interest will be diluted. Under our new strategy, we strive for a cash flow positive and profitable organisation in the medium term. As a result, we have mitigated the financing risk by reducing the need for additional funds.

Interest rate risk

We aim to contain income statement volatility and, at the same time, minimise our financing costs. This is primarily achieved through minimising the use of our credit facility and reducing the interest costs involved in the credit facility, whenever possible. As a result, we will switch to another bank in the course of 2010.

Currency risk

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

Credit risk

Our customer base is mixed in terms of size and industry. Some of our customers are small biotechnology companies that are equity funded and have not been profitable. Except for Biolex, none of our customers generated more than 5% of our total revenues. We have policies in place that require each customer to pay a collateral prior to the start of a project in order to mitigate the credit risk. In addition to that, we have a proactive receivables collection policy in place.

Financial reporting risks and compliance risks

As in any other company, there is a risk for errors in our financial reporting. To prevent this risk from occurring, we have reporting and accounting procedures, results analysis and external auditing in place to provide assurance on the fair representation of financial reporting. Our Internal Code of Conduct stipulates that staff should comply with all applicable laws and regulations. Complementary to other reporting lines, a whistleblower's procedure enables staff to report alleged irregularities of a general, operational and financial nature without jeopardising their legal status. During 2009, we have received no such alleged irregularities. Based on management reviews and external auditing, we have concluded that further enhancements in our control systems are required.

We have laid the foundation of a good internal control system in 2009 with an aligned tone at the top and an effective organisation structure. We are in the process of redesigning our control systems in line with the new business model and will continue to implement changes during 2010 in the areas of authorisation, registration, documentation, management reporting and Key Performance Indicators. These changes have been and will be discussed with the Audit Committee and the Supervisory Board.

Corporate social responsibility

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

Impact of building a sustainable business

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

Impact on people and the environment

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

OctoPlus has a proactive approach in order to prevent work-related accidents and illness. New employees receive training for safety and against work related risks. The emergency response organisation consisted of a team of 10 people in 2009. These people have been trained to perform first aid, fight small fires and to manage an evacuation.

In 2009, OctoPlus started a Health, Safety & Environment (HSE) project to strengthen the HSE policy applicable to all employees, in the belief that in principle all accidents are preventable both on and off the job. The management team has appointed an HSE committee that supports and advises concerning all HSE-related matters.

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

Human resources

OctoPlus employs a diversified pool of people, both in age, gender and nationality. Since its inception, OctoPlus' personnel has comprised more or less equal numbers of men and women. Part time work is common for both sexes, although more women work part time at OctoPlus than men. For the management levels, almost half of the managers are female. 36% of employees have a scientific background, which consists of an academic education or a Ph.D. A large portion of OctoPlus' employees is relatively young; the average age is 36.

Because 72% of our employees are aged below 40, many of our employees are young parents. To support their situation, working parttime is an accepted practice for both men and women at OctoPlus. In line with this policy, we have increased the 2 days paid parental leave for fathers, which is obligatory under Dutch law, to 7 days.

The average length of service for OctoPlus employees at the end of 2009 is 3.8 years. In 2009 absenteeism due to sickness was 4.4% (2008: 3.9%).

The table below shows some information on the characteristics of the personnel employed by OctoPlus per 31 December 2009.

	Male	Female	Total
Head count	65	67	132
Full time	47	29	76
Part time	18	38	56
FTE%	**96%**	**89%**	**93%**
FTE	62.3	59.8	122.1
Management	9	6	15
Non-Management	56	61	117
Total	**65**	**67**	**132**
Scientific	21	27	48
Other	44	40	84
Total	**65**	**67**	**132**
< 30	14	13	27
30-40	31	37	68
40-50	15	16	31
>50	5	1	6
Total	**65**	**67**	**132**
Length of service	3.7	3.8	3.8

Works Council

The Works Council meets every 2 weeks, or more frequently if there are urgent issues that need to be discussed. The Works Council currently consists of 7 members representing most departments of the Company. Each member has one or two specific tasks besides their general membership. The Works Council has put much effort into not only responding to ad hoc issues that arise, but also to develop a longer term vision and discuss various action points for improvement. Similarly as in 2008, the Works Council had frequent, constructive meetings with the Executive Board in 2009. Every three weeks the Works Council meets with the Chief Executive Officer for an informal meeting to discuss general operational issues, the financial status and development of the Company. Amongst others, the Works Council advised the Executive Board in establishing a Health, Safety & Environment Committee. The restructuring of the Company also absorbed much time from the members of the Works Council. Overall, the Works Council is pleased with the constructive attitude of the Executive Board as well as the open discussions and sharing of information. In line with this open communication from Executive Board to Works Council, the Works Council has identified for 2010 as an important agenda point the ambition to explore additional communication channels with the employees.

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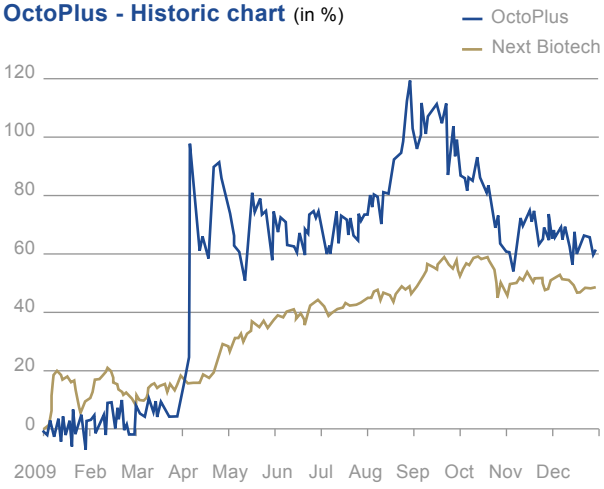
Information for shareholders and investors

General

OctoPlus is listed on Euronext Amsterdam by NYSE Euronext since 4 October 2006. During 2009, we issued new ordinary shares, as a result of which we now have 33 million ordinary shares outstanding.

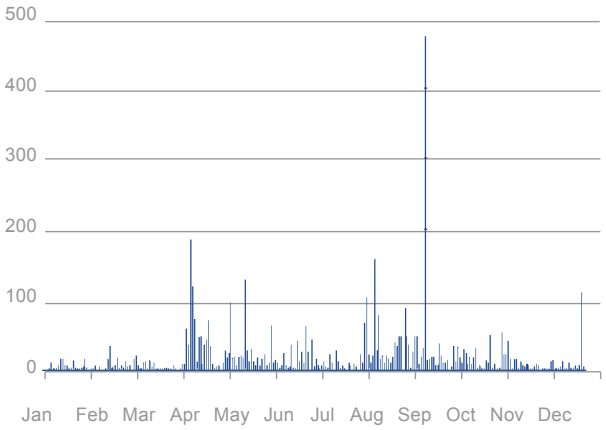
OctoPlus is included in the Next Biotech index, which comprises the 25 biotech companies listed on NYSE Euronext's European markets. The graph below shows the share price performance of the OctoPlus share versus the index.

OctoPlus - Historic chart (in %)



Share liquidity in 2009

Shares traded per trading day (thousands)



Major shareholders

These are the major shareholders that OctoPlus has identified according to the legal statements made on the AFM website.

Signet Healthcare Partners (USA)	15.8 %
Life Sciences Partners (the Netherlands)	15.5 %
S.R. One (USA)	15.0 %
Sodoro B.V. (the Netherlands)	9.0 %
Innoven Partenaires S.A. (France)	8.4 %
Fagus N.V. (Belgium)	6.8 %

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Supervisory Board report

Composition of the Supervisory Board

Hans Stellingsma – Chairman – Age 53
Appointment term | 2001 - 2010
Nationality | Dutch
Mr. Stellingsma is self-employed and serves on the supervisory boards of MTel B.V., Simac Techniek N.V., De Sleutels van Zijl en Vliet and Twinning Holding B.V. He has held executive positions at Origin N.V., Content N.V. and Monitor.

René Kuijten – Vice-Chairman – Age 45
Appointment term | 2005 - 2012
Nationality | Dutch
Mr. Kuijten is a General Partner at Life Sciences Partners (LSP) since 2001. On behalf of LSP he serves on the supervisory boards of Kreatech Holding B.V., Hybrigenics S.A., Trinity Biosystems, BMEYE, Nexstim and Syntaxin. Mr. Kuijten is a board member of the NVP (Nederlandse Vereniging van Participatiemaatschappijen) and the Stichting Steun Emma Kinderziekenhuis.

Phil Smith – Age 60
Appointment term | 2005 - 2013
Nationality | American (United States of America)
Mr. Smith is retired and used to be a General Partner at S.R. One until December 2008. He has held board positions at Avantium Holding B.V., Onyvax Ltd, Redpoint Bio Corp., Cydex, Inc. and Trinity Biosystems, Inc.

Paul Toon – Age 41
Appointment term | 2005 - 2011
Nationality | British
Mr. Toon is founder and Managing Partner of Generis Capital Partners. Currently, Mr. Toon is a board member of Alba Cosmetics, Ltd and Generis Capital Partners SAS. Previously, he was Managing Partner at Innoven Partenaires.

Frans Eelkman Rooda – Age 57
Appointment term | 2008 - 2012
Nationality | Dutch
Mr. Eelkman Rooda is Chief Financial Officer of Wessanen N.V. He is also a member of the supervisory board of De Lage Landen International B.V.

James Gale – Age 59
Appointment term | 2009 - 2013
Nationality | American (United States of America)
Mr. Gale is a founding partner of Signet Healthcare Partners, where he is Managing Director. He is currently the Chairman of the Board of Alpex Pharma S.A., and also serves on the Board of Directors of Cedarburg Pharmaceuticals Inc., Cydex Inc., Indevus Pharmaceuticals, Inc., Spepharm BV and Paladin Laboratories.

Report of the Supervisory Board

The change in strategy towards a drug delivery business model at the end of 2008 marked the beginning of a new strategic phase for OctoPlus. The Supervisory Board devoted considerable time and attention in the course of 2009 monitoring the progress of the implementation of the new business model. The implementation is well on track, having achieved the revenue guidance for 2009 and having simplified the organisation to align with the new strategy.

The Supervisory Board discussed a wide range of subjects during its meetings with the Executive Board in 2009. Most discussions related to the change in strategy and its implications for the organisation and the budget. Furthermore the need to raise additional capital in February and December was discussed frequently.

All scheduled meetings took place in the presence of the Executive Board. On some occasions the combined meetings were followed by meetings of the Supervisory Board in closed session. During the closed sessions, the Supervisory Board discussed the performance of the members of the Executive Board, its own performance as a Board and the composition of the Supervisory Board. One of the outcomes of these discussions was that the number of Supervisory Board members will be reduced and the composition of the Supervisory Board will be rebalanced.

From January to April 2009, the Supervisory Board consisted of five members. After the appointment of Mr. James Gale at the Annual General Meeting of Shareholders (AGM) in April, the Supervisory Board consisted of six members. The names, years of birth, position, citizenship, initial year of nomination, the year in which the current appointment expires and which term they are in, of all members of the Supervisory Board are listed below.

Mr. Philip Smith and Mr. Paul Toon will step down from the Supervisory Board at the AGM on 12 May 2010. The Supervisory Board will propose to appoint Nancy de Ruiter as a member of the Supervisory Board and reappoint Hans Stellingsma as Chairman during that same meeting.

Under the Corporate Governance Code, no more than one member of the Supervisory Board may be (an employee of) a shareholder in OctoPlus, holding more than 10% of the outstanding share capital. Two members of the Supervisory Board, Mr. James Gale and Mr. René Kuijten, cannot be considered independent as they are employed by Signet Healthcare Partners and Life Sciences Partners, both of which hold more than a 10% share in OctoPlus. Signet and LSP both have a long-term interest in the Company and were willing to back this up by making senior partners with relevant knowledge and experience available to the Company. The Supervisory Board considers that Mssrs. Gale and Kuijten fit the profile of the Supervisory Board and their contributions outweigh any perceived disadvantage of non-independence.

The remuneration of the members of the Supervisory Board is determined by the Annual General Meeting of Shareholders. The annual remuneration of a member of the Supervisory Board is € 25,000. The chairman receives € 31,250 per annum. In addition, € 5,000

Name (year of birth)	Position	Citizenship	Initial	Expiration	Term
Hans Stellingsma (1956)	Chair	the Netherlands	2001	2010	2nd
René Kuijten (1964)	Vice-chair	the Netherlands	2005	2012	2nd
Philip Smith (1949)	Member	United States of America	2005	2013	2nd
Paul Toon (1968)	Member	United Kingdom	2005	2011	2nd
Frans Eelkman Rooda (1952)	Member	the Netherlands	2008	2012	1st
James Gale (1950)	Member	United States of America	2009	2013	1st

remuneration is received by a member for each Supervisory Board committee participated in. Two members of the Supervisory Board, who participated in two committees, have waived the second € 5,000 remuneration that they were entitled to. No loans or other financial commitments were made to any member of the Supervisory Board on behalf of OctoPlus.

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

In accordance with best practice provision II.3.4 and III.6.3 of the Code, Mr. Paul Toon and Mr. James Gale did not participate in the December meeting where a resolution to issue shares as part of a private placement was adopted by the Supervisory Board. Mr. Paul Toon and Mr. James Gale did not participate in the meeting because they are employees of Generis Capital Partners and Signet Healthcare Partners who participated in this private placement.

An Annual General Meeting of Shareholders was held on 23 April 2009, during which the following agenda items were discussed: the Executive Board report on 2008 performance and the strategy going forward, the 2008 financial statements, the appropriation of the 2008 result, the appointment of the external auditor for the year 2009, the re-appointment of Mr. Phil Smith and the appointment of Mr. James Gale. In the same AGM our Articles of Association were amended to include the nomination right of Signet Healthcare Partners and the increase of the authorised share capital to € 9.6 million, divided into 40 million ordinary shares with a nominal value of € 0.12 per share and 40 million preference shares with a nominal value of € 0.12 per share. The external auditor was also present at this meeting.

The Supervisory Board has appointed from among its members an Audit Committee and a Remuneration and Nominating Committee. The Audit Committee assists the Supervisory Board in monitoring systems of internal controls, the integrity of the financial reporting process and the contents of the financial statements and reports. The Audit Committee also assists the Supervisory Board in assessing and mitigating the business and financial risks. In 2009 the Audit Committee paid attention to the internal control systems and internal control findings by the external auditor, specific accounting treatments with respect to IFRS, external and internal reporting, follow-up on the risk assessment and the audit plan to be performed by the external auditor. The Remuneration and Nominating Committee advises the Supervisory Board on the remuneration of the members of the Executive Board and monitors OctoPlus' remuneration policy, which among others covers bonus plans for the Executive Board. The Remuneration and Nominating Committee furthermore advises on the selection criteria and appointment procedures for members of the Executive Board and Supervisory Board. It also assesses the functioning of individual members of the Executive Board and Supervisory Board. In 2009 the Remuneration and Nominating Committee paid special attention to the replacement of the Chief Financial Officer and the preparation of granting options to the entire staff of OctoPlus, which took place early 2010.

On the 31st of March 2009, Mr. Hans Pauli stepped down as Chief Financial Officer and was replaced per the 1st of August by Mrs. Susan Swarte. The Supervisory Board wishes to thank Mr. Pauli for his considerable contribution as a key member of the management team over the past years. On the 31st of August 2009 Mr. Joost Holthuis stepped down as Chief Scientific Officer. The Supervisory Board wishes to thank Mr. Holthuis, co-founder of OctoPlus, for his significant contribution in the establishment and development of the Company to where it stands today.

A representation of the Supervisory Board met with the Works Council in 2009.

In accordance with our Articles of Association, the financial statements of 2009, which have been prepared by the Executive Board and audited by our external auditor Deloitte Accountants B.V., and the Report of the Executive Board, have been submitted to us. We concur with these financial statements and the proposed result appropriation. We recommend that the AGM approves these financial statements and that the members of the Executive Board be granted discharge from their management duties and the members of the Supervisory Board from their supervision thereof.
The Supervisory Board is very grateful to all of OctoPlus' staff for the results achieved and expresses its gratitude for their great efforts and dedication during the year 2009. The changes implemented have prepared OctoPlus for its 2010 objectives, most importantly being continuing the involvement in Locteron, building a portfolio of licensed products based on the drug delivery technology by winning feasibility projects, executing them successfully and converting them into licensing agreements and continuing to build revenues from all elements of the business including contract formulation, manufacturing and drug delivery.

Remuneration report

The Supervisory Board establishes the remuneration of the individual members of the Executive Board, taking into account the policy adopted at the Annual General Meeting of Shareholders on the 21st of April 2006, provided that arrangements in the form of shares or options to subscribe for shares, are subject to approval of the General Meeting of Shareholders. Such a proposal must include the number of shares or rights to subscribe for shares that may be granted to the members of the Executive Board and which criteria apply to a grant or modification.

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

Annually, the Supervisory Board reviews whether or not the base salary should be adjusted, taking into account internal as well as external factors, including OctoPlus' competitive environment. In 2009 the base salary of the Executive Board members has not been adjusted.

The short-term and long-term incentives are linked to ten specific and measurable personal targets, which are related to the specific roles and responsibilities of each Executive Board member and are approved by the Supervisory Board. All targets of the members of the Executive Board are revised annually and approved by the Supervisory Board. The targets are linked to financial and operational objectives, business growth and share price. Specific targets are not disclosed, as these are commercially sensitive.

The magnitude of the short term incentives is linked to the base salary and amounts to a maximum of 150% of the base salary for the Chief Executive Officer, a maximum of 25% of the base salary for the other members of the Executive Board. The Supervisory Board has analysed the consequences of the achievement of the maximum bonus possible for each of the Executive Board members and the impact on the individual remuneration package and the financial position of OctoPlus prior to the establishment of these maximum percentages. The annual assessment of the achievement of targets can be done objectively from financial and internal data and the percentage achievement has been determined by the Supervisory Board. The achievement of the targets in 2009 was 53% for the Chief Executive Officer, 44% for the Chief Financial Officer and 29% for the Chief Business Officer.

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

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

Following approval of the Annual General Meeting of Shareholders, the Supervisory Board granted 1,215,500 conditional options with an exercise price of € 0.87 to Mr. Sturge in November 2008. The conditional options will vest on 31 December 2012. All of these conditional options become unconditional if the average OctoPlus share price during a two-month period prior to 31 December 2012 exceeds an average value of € 6.00.

The number of options becoming unconditional depends on the average value per share during the two-month period (see table below). None of the conditional options have become unconditional as of the 31st of December 2009 as the average value per share has not exceeded € 2.00 in 2009.

Average value per share during a two-month period	Number
€ 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**

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

The company paid Mr. Pauli an additional amount of € 10 for services performed in April and May 2009 related to the publication of the prospectus.

The employment agreements with each of the current members of the Executive Board have an indefinite term and can be terminated, subject to a notice period. The notice period for the employment agreements of Mr. Sturge and Mrs. Swarte is two months for the employee and four months for OctoPlus. The notice period for Mr. Moolhuizen is the statutory notice period, which is one month for the employee and two months for OctoPlus.

The employment agreements with Mr. Sturge and Mrs. Swarte provide for severance payments in the event of termination. If OctoPlus terminates the employment agreement for either of them, we are obliged to pay a severance amount equal to 1.5 times the monthly salary per year of service, up to a maximum of a full year salary. Furthermore, if the employment agreement is terminated within six months after a change of control, they are entitled to a severance amount of 1.5 times the monthly salary per year of service inclusive of the average bonus payment received over the three years preceding the change of control, up to a maximum of a full year's salary including the average bonus payment received.

Of the Executive Board members, only the Chief Business Officer participates in OctoPlus' pension scheme which is a defined contribution plan. The Chief Executive Officer does not get any compensation for pension. The Chief Financial Officer receives the equivalent of the employer's contribution to OctoPlus' pension scheme in cash.

	Unconditional 2010	Conditional 2010	Conditional 2011	Conditional 2012	Total options
S.J. Sturge, CEO	200.000	66.667	66.667	66.666	400.000
G. Moolhuizen, CBO	167.000	55.667	55.667	55.666	334.000
S.M. Swarte, CFO	167.000	55.667	55.667	55.666	334.000
Total	**534.000**	**178.001**	**178.001**	**177.998**	**1.068.000**

In 2009, the remuneration paid to the members of the Executive Board amounted to € 1,224.

	Base salary	Bonus	Pension	Other	Total
S.J. Sturge, CEO	375	295		26	696
G. Moolhuizen, CBO	175	13	12	8	208
S.M. Swarte, CFO[1]	65	7	4	2	78
J.J.M. Holthuis, CSO[2]	174		13	2	189
J.C.H.L. Pauli, CFO[3]	50		2	1	53
Total	**839**	**315**	**31**	**39**	**1,224**

[1] Mrs. Swarte joined OctoPlus on 1 August 2009
[2] Mr. Holthuis left OctoPlus on 31 August 2009
[3] Mr. Pauli left OctoPlus on 31 March 2009


Stirrer Speed
2
3
4
Off
5
Labscale™
TFF System
Pump Speed
2
3

5

Corporate governance

Introduction

OctoPlus fully supports the principles and best practice provisions of the Dutch Corporate Governance Code ("The Code"). OctoPlus recognises the importance of good entrepreneurship (acting with integrity and being transparent) and good (accountability of) supervision. OctoPlus strives to implement a well-balanced corporate governance policy; balancing transparency and accountability with the size of OctoPlus.

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

General Meeting of Shareholders

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

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

The rights of holders of the shares rank pari passu with each other, save for anti-dilution protection until 25 August 2010, which has been granted to certain investors in respect of the shares issued in private placements in February 2009 and December 2009. If we issue new ordinary shares or securities convertible into or exchangeable or exercisable for ordinary shares at a price lower than the issue price prior to 25 August 2010, the aforementioned investors shall be entitled to receive simultaneously with such issuance – in the form of a bonus issue – for no additional consideration, such an additional number of ordinary shares that such investor would have obtained in the private placements.

The last Annual General Meeting of Shareholders took place on 23 April 2009.

Supervisory Board

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

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

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

The Supervisory Board shall furthermore assist the Executive Board by providing advice. The responsibility for proper performance of its duties is vested in the Supervisory Board collectively. In performing their

duties, the members of the Supervisory Board must be guided by the interests of OctoPlus and the business connected with it as a whole, taking into account the relevant interests of OctoPlus' stakeholders.

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

The Supervisory Board shall consist of at least four members. In principle, all Supervisory Board members, with the exception of not more than one person shall be independent from the Company. However, under circumstances, which are to be determined at the sole discretion of the Supervisory Board, the Supervisory Board may be comprised of more members being a person who is not independent from the Company. During 2009 two members of the Supervisory Board, Mr. René Kuijten and Mr. James Gale, were not independent in accordance with best practice provision III.2.1 and III.2.2 of the Code as they are employees of companies with a share of more than 10% in OctoPlus.

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

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

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

Currently the members of the Supervisory Board are (between brackets the initial year of nomination): Hans Stellingsma (2001), René Kuijten (2005), Philip Smith (2005), Paul Toon (2005), Frans Eelkman Rooda (2008) and James Gale (2009).

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

innovative mindset. A more detailed description of the profiles of the Supervisory Board members can be found on OctoPlus' website.

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

The remuneration of the Supervisory Board is determined by the General Meeting of Shareholders. The remuneration is fixed and not linked to OctoPlus' profits. The annual remuneration is € 25,000 for a member, € 31,250 for a chairperson and an additional € 5,000 for the participation in a committee.

The Supervisory Board had 10 physical and telephone meetings during 2009 and numerous teleconferences. In addition, the Executive Board kept the Supervisory Board informed of results and business developments by way of written updates. The attendance of the Supervisory Board meetings held in 2009 was 93%.

The Supervisory Board discussed a wide range of subjects during its meetings in 2009, including strategy, the reorganisation of key management and staff, the need to raise additional capital in February and December, risk assessment and risk management, cash management, business development, operational targets, financial results, Budget 2010 and latest estimates.

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

	Audit Committee	Remuneration and Nominating Committee
Chairperson	Frans Eelkman Rooda	Philip Smith
Member	Hans Stellingsma	Hans Stellingsma
Member	René Kuijten	René Kuijten

The Audit Committee assists the Supervisory Board in monitoring systems of internal controls, the integrity of the financial reporting process and the contents of the financial statements and reports. The Audit Committee also assists the Supervisory Board in assessing and mitigating the business and financial risks. The chairman of the Audit Committee, Mr. Frans Eelkman Rooda is Chief Financial Officer of Wessanen NV and is considered a financial expert as intended in best practice provision III.3.2 of the Code. The Audit Committee should meet at least twice a year and shall also meet prior to each issuance of a press release containing financial figures. In 2009 the Audit Committee convened five times and in the discussions with the Executive Board and the external auditor attention was paid to the internal control systems and internal control findings by the external auditor, specific accounting treatments with respect to IFRS, external and internal reporting, follow-up on the risk assessment and the audit plan to be performed by the external auditor. The Audit Committee met prior to each issuance of a press release containing financial figures. In 2009 the Audit Committee met with the external auditor without the presence of members of the Executive Board on two occasions.

In 2009 the Remuneration and Nominating Committee held eight meetings, either in person or via telephone meetings. In the discussions with the Chief Executive Officer attention was paid to achievement and setting targets of the Executive Board, determining selection criteria, remuneration package and appointment terms for the new Chief Financial Officer, granting of options to the Executive Board and other OctoPlus staff in 2010 and reviewing the composition of the Executive and Supervisory Board. The remuneration of the Executive Board is determined by the Supervisory Board and is described in detail in the Remuneration Report.

External auditor

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

Executive Board

The role of the Executive Board is to manage OctoPlus and it has the responsibility to achieve the Company's aims, strategy and policy, and results. The Executive Board shall perform its activities under the supervision of the Supervisory Board. The Executive Board is accountable to the Supervisory Board and to the General Meeting of Shareholders. The Executive Board shall be guided by the interests of OctoPlus and its affiliated enterprise, taking into consideration the interests of the Company's stakeholders.

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

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

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

At the start of 2009 the Executive Board consisted of four members: the Chief Executive Officer (CEO), the Chief Financial Officer (CFO), the Chief Scientific Officer (CSO) and the Chief Business Officer (CBO). The former Chief Scientific Officer and co-founder, Mr. Joost Holthuis, left OctoPlus per 31 August 2009 and will not be replaced. The former CFO, Mr. Hans Pauli, left OctoPlus per 31 March 2009, while the new CFO, Mrs. Susan Swarte, was hired per 1 August 2009. She has been nominated for appointment by the Annual General Meeting of Shareholders on 12 May 2010.

As a result, the Executive Board currently consists of three members, being Simon Sturge (CEO, appointed in 2008), Susan Swarte (CFO, to be appointed as a member of the Executive Board the next AGM) and Gerben Moolhuizen (CBO, appointed in 2008). The Executive Board meets formally at least every two weeks. During 2009 resolutions have been adopted related to material investments and divestments, organisational restructuring, customer relationships, budgets and equity financings in February and December.

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

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

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

Shares and Share Capital

On 23 April 2009, the Annual General Meeting of Shareholders approved the increase of the authorised share capital to 40 million ordinary shares with a nominal value of € 0.12 per share and 40 million

preference shares with a nominal value of € 0.12 per share. As a result, the authorised share capital amounts to € 9.6 million. Holders of preference shares are entitled to a payment of dividend equal to the average Euribor for the financial year increased by 1% on the profits made in the most recently elapsed financial year and in case of liquidation of the Company, payment of any outstanding dividend as well as the nominal paid-up amount of the preference shares. As of 31 December 2009, 33.435.432 ordinary shares have been issued and are outstanding, representing a share capital of € 4.0 million. At 31 December 2009 no preference shares have been issued.

Six shareholders have a qualifying holding in the company, totaling 70.5%. These shareholders are Signet Healthcare Partners (USA; 15.8%), Life Science Partners (the Netherlands; 15.5%), S.R. One (USA; 15.0%), Sodoro B.V. (the Netherlands, 9.0%), Innoven Partenaires S.A. (France; 8.4%) and Fagus N.V. (Belgium; 6.8%).

The Articles of Association of OctoPlus delegate the authority to issue ordinary shares and preference shares and to grant rights to subscribe for shares, and/or to limit or exclude pre-emptive rights in relation to an issuance of shares, to the Executive Board, with the prior approval of our Supervisory Board, for a period of five years from 4 October 2006, 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 Supervisory Board.

The General Meeting of Shareholders has authorised the Executive Board to acquire a maximum of 10% of our issued ordinary shares for a period of 18 months from the General Meeting of Shareholders which was held on 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.

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

Under the current Option Plan, which has been adopted by the Annual General Meeting of Shareholders, the Supervisory Board has discretionary power to grant options to our employees. The Company will not grant options to employees and members of the Executive Board, which if exercised, would represent more than 7.5% of our issued share capital, unless the General Meeting of Shareholders approves otherwise. Following approval of the General Meeting of Shareholders on 6 November 2008, Mr. Sturge has been granted 1,215,500 options in addition to the aforementioned option pool of 7.5% of our issued share capital.

The employment agreements of Mr. Sturge and Mrs. Swarte contain a “change of control” clause, which entitles each of them to a severance amount of 1.5 times their monthly salary inclusive of the average bonus payment achieved over the three years preceding the change of control times the number of service years up to a maxium of a full year salary inclusive of the average bonus received. Change of control is defined as resulting in a substantial adverse change in the position, tasks and responsibilities.

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

Stichting Continuïteit

On 29 March 2007, OctoPlus incorporated Stichting Continuïteit OctoPlus (the ‘Foundation’). The purpose of the Foundation was to safeguard OctoPlus’ interests and those of OctoPlus’ enterprise and to protect, insofar as possible, the Company’s continuity, the Company’s independence and the Company’s corporate identity. In order to be in a position to execute these protectional activities, the Foundation had requested the Company to grant a call option to acquire preference shares. The Supervisory Board decided not to grant the call option because the costs associated with the call option and the Foundation were deemed to be too high in relation to the limited risks against which the Foundation would protect the Company. As a result, the Board of the Foundation decided to liquidate the Foundation in March 2010.

The Board of the Foundation consisted of
+ Mr. J.W. Termijtelen (chairman)
+ Mr. E.J.M. Bakker
+ Mr. R. van Dam

Code of Conduct

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

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

Deviations from Corporate Governance Code

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

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

Our Chief Business Officer, Gerben Moolhuizen, has been appointed to the Executive Board in November 2008, for an indefinite period, in line with his labour agreement. The other two members of the Executive Board have been or will be appointed for a period of maximum four years, irrespective of the term of their labour agreement. Any future appointments of members of the Executive Board will be for a period of 4 years.

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

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

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

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

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

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

Directors' responsibility statement

Dutch Corporate Governance Code

In line with the best practice provision II.1.4 of the Dutch Corporate Governance Code and bearing in mind the recommendations of the Monitoring Committee Corporate Governance Code, OctoPlus N.V. issues a declaration regarding the effectiveness of the system of internal control of the processes on which the financial reporting is based. In 2009 the Executive Board assessed the effectiveness of the system of internal controls for financial reporting. During the investigation on which this assessment was based, no shortcomings were identified that might possibly have a material impact on the financial reporting. On the basis of this assessment and the risk analysis that was carried out, the Executive Board is of the opinion that the system of internal controls provides a reasonable degree of certainty that our financial reporting does not contain any inaccuracies of material importance. The Executive Board confirms that in their view the system of internal controls, focused on financial reporting, functioned effectively over the past year. There are no indications that the system of internal controls will not function effectively in 2010.

EU Transparency Directive

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

+ The annual financial statements for the year ended 31 December 2009 give a true and fair view of the assets, liabilities, financial position and comprehensive income of OctoPlus N.V. and its consolidated companies;
+ The Annual Report 2009 gives a true and fair view of the position of OctoPlus N.V. and its consolidated companies as per 31 December 2009 and the state of affairs during the year 2009 of OctoPlus N.V. and its consolidated companies;
+ The Annual Report 2009 describes the principal risks and uncertainties facing OctoPlus N.V. and its consolidated companies.

The Executive Board

Simon J. Sturge, Chief Executive Officer

Susan M. Swarte, Chief Financial Officer
(to be appointed to the Executive Board at the next AGM)

Gerben Moolhuizen, Chief Business Officer

6

Consolidated financial statements

Consolidated statement of financial position

(In € x 1,000)

	Note	At 31 December 2009	At 31 December 2008	At 1 January 2008
ASSETS				
Non-current assets				
Intangible assets				
Goodwill	6	243	243	243
Patents	6	2,102	2,686	2,759
Other intangible assets	6	29	115	282
		2,374	3,044	3,284
Property, plant and equipment				
Buildings	7	7,333	7,757	1,956
Machines and installations	7	10,804	11,564	6,870
Other equipment	7	316	335	473
		18,453	19,656	9,299
Financial assets carried at cost	8	1,299	1,299	16
		22,126	23,999	12,599
Current assets				
Inventories	10	457	634	494
Trade receivables	11	2,207	2,126	1,050
Social securities and other taxes	11	284	76	584
Other receivables, prepayments and accrued income	11	1,343	1,132	1,772
Cash and cash equivalents	9	3,324	2,171	3,330
		7,615	6,139	7,230
Total assets		29,741	30,138	19,829
EQUITY				
Shareholders' equity	12	11,343	575	6,667
Total group equity		11,343	575	6,667
LIABILITIES				
Non-current liabilities				
Finance lease liabilities	15	10,316	11,191	2,466
Other non-current liabilities		-	-	8
		10,316	11,191	2,474
Current liabilities				
Current portion of non-current liabilities	15	951	930	139
Bank overdrafts	9,15	11	3,053	815
Convertible loans	16	-	4,395	-
Trade payables	17	2,136	3,222	5,306
Social securities and other taxes	17	43	438	300
Other current liabilities	17	4,941	6,334	4,128
		8,082	18,372	10,688
Total liabilities		18,398	29,563	13,162
Total equity and liabilities		29,741	30,138	19,829

The notes on pages 46 to 72 are an integral part of these consolidated financial statements.
Due to a change in accounting policies, the statement of financial position at 1 January 2008 is also presented (Note 1.4).

Consolidated statement of comprehensive income

(In € x 1,000)

	Note	Year ended 31 December 2009	2008
Service revenues	5,18	18,636	8,708
License and other revenues	5,18	370	8,160
Income from subsidies	5,19	40	55
Total revenues		19,046	16,923
Raw materials and auxiliaries	20	202	678
Cost of contracted work and other external charges	20	1,853	2,782
Employee benefits	21	9,061	8,946
Depreciation and amortisation	6,7	2,770	1,607
Other costs	22	6,960	7,233
Total operating costs		20,846	21,246
Operating result		(1,800)	(4,323)
Interest income	24	18	7
Interest costs	24	(1,175)	(1,893)
Result before corporate income taxes		(2,957)	(6,209)
Corporate income taxes	13	-	-
Result for the period		(2,957)	(6,209)
Other comprehensive income		-	-
Total comprehensive result for the year		(2,957)	(6,209)
Attributable to:			
Equity holders of the Company		(2,957)	(6,209)
Result per share for result attributable to the equity holders of the Company during the period (expressed in Euro per share)			
Basic	25	(0.10)	(0.38)
Diluted	25	(0.10)	(0.38)

The notes on pages 46 to 72 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

(In € x 1,000)

	Note	Share capital	Share premium reserve	Other reserves	Accumulated deficit	Total equity
Balance at 1 January 2008		1,945	38,161	706	(34,145)	6,667
Result for the year		-	-	-	(6,209)	(6,209)
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive result for 2008		-	-	-	(6,209)	(6,209)
Employee share option scheme:						
value of employee services	12	-	-	117	-	117
options exercised, lapsed & forfeited	12	-	-	(72)	72	-
		-	-	45	72	117
Balance at 31 December 2008		1,945	38,161	751	(40,282)	575
Balance at 1 January 2009		1,945	38,161	751	(40,282)	575
Result for the year		-	-	-	(2,957)	(2,957)
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive result for 2009		-	-	-	(2,957)	(2,957)
Employee share option scheme:						
value of employee services	12	-	-	133	-	133
options exercised, lapsed & forfeited	12	-	-	(130)	130	-
Issue of share capital - conversion	12,16	720	3,778	-	-	4,498
Issue of share capital - financing	12	1,347	8,692	-	-	10,039
Issue of share capital - costs	12	-	(945)	-	-	(945)
		2,067	11,525	3	130	13,725
Balance at 31 December 2009		4,012	49,686	754	(43,109)	11,343

The notes on pages 46 to 72 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

(In € x 1,000)

	Note	Year ended 31 December 2009	2008
Cash flows from operating activities			
Result before corporate income taxes		(2,957)	(6,209)
Adjustments for:			
Depreciation and amortisation	6,7	2,770	1,607
Share option expenses	21	133	117
Interest costs	24	1,175	1,893
Interest income	24	(18)	(7)
Non-cash revenues	6	-	(1,299)
Changes in working capital:			
Inventories		177	(140)
Trade receivables		(81)	(1,076)
Social securities and other taxes		(603)	646
Other receivables, prepayments and accrued income		(206)	259
Trade payables	27	(1,089)	(456)
Other liabilities and accruals	27	(1,008)	1,744
Cash used in operations		(1,707)	(2,921)
Decrease in other non-current liabilities		-	(8)
Interest received		13	388
Interest paid		(1,101)	(1,496)
Net cash used in operating activities		(2,795)	(4,037)
Cash flows from investing activities			
Purchases of property, plant and equipment	7,27	(1,444)	(6,702)
Purchases of intangible assets	6	(12)	(12)
Sale of financial assets	8	-	16
Net cash used in investing activities		(1,456)	(6,698)
Cash flows from financing activities			
Proceeds from issuance of shares	12	9,380	-
Finance lease contracts	27	-	3,678
Convertible bridge loans	16	-	4,000
Repayment of finance lease liabilities		(934)	(340)
Net cash generated from financing activities		8,446	7,338
Cash, cash equivalents and bank overdrafts			
Net increase/(decrease) during the year		4,195	(3,397)
Balance at beginning of the year		(882)	2,515
Balance at end of the year		3,313	(882)

The notes on pages 46 to 72 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1 General information

1.1 Corporate information

OctoPlus N.V. ('the Company' or 'OctoPlus', and 'the Group' including its subsidiaries) is a drug delivery company committed to the creation of improved pharmaceutical products that are based on OctoPlus' proprietary drug delivery technology and have fewer side effects, improved patient convenience and a better efficacy/safety balance than existing therapies. OctoPlus focuses on the development of long-acting, controlled release versions of known protein therapeutics, other drugs, and vaccines on behalf of its clients.

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 2 April 2010.

1.2 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 2009 have been adopted by the EU.
The consolidated financial statements have been prepared under the historical cost convention. Furthermore, the consolidated financial statements are presented in Euros and all values are rounded to the nearest thousand except when otherwise indicated.

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

Foreign currency translation

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

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

1.3 Basis of consolidation

The Company is the holding company of a group of companies. The other consolidated group companies ('subsidiaries') 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] The functional currency of OctoPlus Inc. is Euros

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses

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

Subsidiaries

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

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.

1.4 Changes in accounting policies

(a) Land which forms part of a sale and lease back transaction

In the year 2009, the Company changed its accounting policies with regard to the treatment of land which formed part of a sale and lease back transaction for buildings in 2004.

Construction of the Group's office, laboratory and manufacturing facilities took place in two steps. Construction of the initial facilities was finalised in 2000. These facilities, including the land, were owned by the Group until they were sold and leased back for a period of 20 years in 2004. Additional facilities were built adjacent to the existing facilities by a third party. These additional facilities became available in 2008 and were leased by the Group for a period of 20 years.

As per IAS 17.15, the land and building elements are considered separately for the purpose of a lease classification. For both buildings, substantially all of the risks and rewards incidental to ownership have been transferred to the Group and, as a result, both buildings are classified as a finance lease.

Until 2009, the land sold in 2004 was not considered to be part of the sale and lease back transaction due to the Company's continuing involvement in the land (IAS 18.14.b). The land was not de-recognised from the consolidated statement of financial position as a consequence. The amount received in relation to the land was considered to be financing and included within 'finance lease liabilities' (non-current liabilities) in the consolidated statement of financial position. As per the Company's revised accounting policies and in line with IAS 17.58, both the building and the land portion of the lease agreement are considered to be part of a sale and lease back transaction due to the fact that the sales price and the lease payment are interdependent. As per IAS 17.14, the land portion of the lease is considered to be an operating lease.

This change in accounting policy has been applied retrospectively, having the following impact:
- Consolidated statement of financial position: a € 1,084 reduction of 'buildings' within 'property, plant and equipment', with a corresponding adjustment to 'finance lease liabilities' within 'non-current liabilities', both at the beginning of the comparative period;
- Consolidated statement of comprehensive income: a € 123 increase of 'housing costs' within 'other costs' in 2009 (2008, € 121), with a corresponding adjustment to 'interest costs'; and
- Consolidated statement of cash flows: a € 123 adjustment to both 'interest costs' and 'interest paid'.

There is no impact on the consolidated statement of changes in equity and no impact on the earnings per share. The total amounts related to finance lease and operating lease obligations, as referred to under notes 7, 15, 22, 24 and 29, have also been adjusted to and reflect the changed obligations.

(b) Segment reporting

In 2009, OctoPlus adopted IFRS 8 'Operating segments' which replaced IAS 14 'Segment reporting'. IFRS 8 sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers.

An operating segment is a component of an entity:
(a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity),
(b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
(c) for which discrete financial information is available.

The Executive Board is identified as the 'chief operating decision maker'. The Executive Board reviews the consolidated operating results regularly to make decisions about resources and to assess overall performance. The Company's segmentation was based on two business units; 'Contract Development', which provided development services for life sciences companies in the field of drug formulation and 'Products & Drug Delivery', which developed products based on the Group's proprietary drug delivery technology. In October 2008, the Company made the strategic decision to focus exclusively on activities for which it is reimbursed. Such contracts include OctoPlus' well established contract formulation and manufacturing activities, but also relate to activities whereby the Company combines its proprietary drug delivery technology with biopharmaceutical drugs or compounds of partners in order to improve the properties of such product candidates. As a result of this change in strategy, the activities of the Products & Drug Delivery business unit were terminated. The two business units were integrated in September 2009 and the complexity of the organisation was significantly reduced. From that moment onwards, OctoPlus operates in one reportable segment named 'formulation, drug delivery and manufacturing activities' and financial statements per segment are no longer prepared and reported to the Executive Board. For further details on the Company's change in strategy, reference is made to the 'Executive Board Report' elsewhere in this document.

(c) Presentation of financial statements

In 2009, the Group adopted IAS 1 (as revised in 2007), 'Presentation of Financial Statements'. This standard uses the terms 'statement of income' (previously 'income statement'), 'statement of financial position' (previously 'balance sheet statement') and 'statement of cash flows' (previously cash flow statement') and introduces a 'statement of comprehensive income'. This statement also requires the presentation of a statement of financial position at the beginning of the first comparative period if an entity has changed its accounting policies retrospectively or made retrospective restatements. This standard only relates to the presentation of financial statements and therefore does not have impact on earnings per share, statement of comprehensive income and statement of financial position.

(d) Other new, amended and revised IFRS standards and interpretations that became effective in 2009

In addition to the changes in accounting policies as outlined above, the following new accounting standards, amendments and revision to existing standards and interpretations were issued by the IASB in 2009:

- IFRIC 14 'IAS 19 – The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction';
- IFRIC 9 and IAS 39 (Amendments) 'Embedded Derivatives';
- IFRIC 15 'Agreements for the Construction of Real Estate';
- IFRIC 16 'Hedges of a Net Investment in a Foreign Operation';
- IAS 27 (Revision) 'Consolidated and Separate Financial Statements';
- IAS 32 and IAS 1 (Amendments) 'Puttable Financial Instruments and Obligations Arising on Liquidation';
- IAS 23 (Amendment) 'Borrowing Costs';
- IAS 32 (Amendment) 'Classification of Rights Issues';
- IAS 39 (Amendment) 'Eligible Hedged Items';
- IFRS 1 and IAS 27 (Amendments) 'Cost of an Investment in a Subsidiary, Jointly-controlled Entity or Associate';
- IFRS 2 (Amendment) 'Vesting Conditions and Cancellations';
- IFRS 2 (Amendment) 'Group Cash-settled Share-based Payment Transactions';
- IFRS 3 (Revision) 'Business Combinations';
- IFRS 7 (Amendments) 'Improving Disclosures about Financial Instruments';
- IFRS 9 'Financial Instruments';
- IAS 24 (Revision) 'Related Party Disclosures';
- IFRIC 14 (Amendment) 'Prepayments of a Minimum Funding Requirement';
- IFRIC 17 'Distribution of Non-cash Assets to Owners';
- IFRIC 18 'Transfers of Assets from Customers';
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments';

These new accounting standards, amendments and revisions to existing standards and interpretations did not have a material effect on the Company's financial statements.

(e) Early adoption of IFRS standards and interpretations that were in issue but not yet effective for reporting periods beginning on 1 January 2009

The IFRS standards and interpretations that were in issue but not yet effective for reporting periods beginning on 1 January 2009 were not yet adopted. The Company anticipates that the adoption of these Standards and Interpretations will not have a material effect on the financial statements of the Group in future periods.

2 Summary of significant accounting policies

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

2.1 Intangible assets

(a) Goodwill

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

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

(b) Patents

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

(c) Computer software

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

(d) Research and development

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

2.2 Property, plant and equipment

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

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

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

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

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

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

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

Finance leases

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

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

2.3 Impairment of 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.

2.4 Financial assets

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

(a) Loans and receivables

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

(b) Financial assets carried at cost

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

(c) Purchases and sales of financial assets

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

(d) Impairment of financial assets

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

2.5 Inventories

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

2.6 Cash and cash equivalents

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

2.7 Financial liabilities and equity instruments

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

(a) Equity instruments

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

(b) Compound instruments

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

2.8 Equity

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

2.9 Deferred corporate income taxes

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

2.10 Borrowings and other financial liabilities

Borrowings and other financial liabilities are initially measured at fair value, net of transaction costs incurred, and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method 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 capitalised.

2.11 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. There have not been any significant changes to the plan since inception.

2.12 Share-based payments

(a) Share-based compensation to employees

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

2.13 Profit-sharing and bonus plans

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

2.14 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.
Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.15 Revenue recognition

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

(a) Service revenues

Sales of services are recognised in the accounting period in which the services are rendered, by reference to the stage of completion of the specific transaction when the outcome of a transaction can be estimated reliably. 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.

(c) Income from subsidies

The Group was granted certain subsidies, which support the Group's research efforts in defined research and development projects. These subsidies generally provide for reimbursement of approved costs incurred as defined in 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.

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.

2.16 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.17 Classes of financial instruments

The financial instruments held by the Group related to loans and receivables and liabilities at amortised costs. The Group did not hold any derivatives or available-for-sale financial assets.

3 Risk management

3.1 Financial risk management

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

(a) Foreign currency risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities in foreign currencies. The Company is not exposed to a significant foreign exchange risk. All customer invoices are sent and paid in Euro, only a minor part of the supplier invoices are in currencies other than the Euro (3.7% of the outstanding payables as of 31 December 2009 consist of currencies other than the Euro) and there are no other significant transactions in currencies other than the Euro.

(b) Credit risk

In October 2008, the Group signed a contract with Biolex for the 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 2009, generating approximately 59% of total revenues in 2009. Biolex is expected to remain the Group's largest customer in the next few years, although its portion of total revenues is expected to decline. The credit risk for the Company is limited, as Biolex is a creditworthy company which paid all of its 2009 invoices on time and raised $ 60 million through a private offering in October 2008 and a further $ 10 million in February 2010. The outstanding receivable from Biolex comprised of 54% of the total trade receivables at 31 December 2009 (2008, 47%), with basically all of these outstanding amounts being current or not more than 30 days overdue.

Except for Biolex, there are no external customers that generated more than 5% of the Group's total revenues in 2009. The Group also has a proactive receivables collection policy in place to ensure that contracts are only signed with customers with a healthy balance sheet. Collaterals from each customer are required before work will start on any new project. 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.

The Company used to provide development services for life sciences companies in the field of drug formulation and built a product portfolio based on the Group's proprietary drug delivery technology at its own risk and cost. The Company changed its strategy in the second part of 2008. The Company remains focused on providing development services for life sciences companies in the field of drug formulation, but no longer develops a product portfolio at its own risk. Products using the Group's proprietary drug delivery technology are still being developed, but always together with external partners who provide the compound and reimburse the Company for all or substantially all activities performed. As a consequence, the Company is not only reimbursed for its activities performed, but is also eligible for milestone and royalty payments depending on the success of the products developed. This is expected to result in a profitable business in the medium term. 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.

In addition, the Company raised € 6.0 million (gross) through a private placement in February 2009 and € 4.0 million (gross) through a private placement in December 2009 (Note 12) and bridge loans amounting to € 4.0 million (excluding accumulated interest) were converted into ordinary shares as part of the February 2009 private placement (Note 16), resulting into a net cash balance of € 3,313 at 31 December 2009, with a credit line facility of up to € 2.0 million available in 2010 (Note 15).

As a result of the above, the Company has sufficient funds for a period of at least 12 months.

For a maturity analysis for non-derivative financial liabilities that shows the remaining contractual maturities, reference is made to Note 15.

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

Maturity analysis for non-derivative financial instruments

	No later than 1 year	Between 1 and 5 years	Later than 5 years	Total
At 31 December 2009				
Finance lease liabilities	1,798	6,059	10,526	18,383
Trade and other liabilities[1]	6,371	-	-	6,371
	8,169	6,059	10,526	24,754

	No later than 1 year	Between 1 and 5 years	Later than 5 years	Total
At 31 December 2008				
Finance lease liabilities	1,819	6,783	11,284	19,886
Convertible loans	4,395	-	-	4,395
Trade and other liabilities[1]	11,278	-	-	11,278
	17,492	6,783	11,284	35,559

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

(d) Other financial risks

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

3.2 Capital risk management

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

Under the Group's new strategy, the Group strives for a profitable business in the medium term. Any cash requirements the Group might have will be funded through equity, although the Group might choose to enter into a new loan agreement.

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

4 Critical accounting estimates and judgements

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year as well as critical judgements in applying the Group's accounting policies are discussed below.

(a) Impairment test of goodwill and patents

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

In the years presented, all goodwill recognised relates to the acquisition of Chienna B.V. in the year 2003. As part of the acquisition of Chienna B.V., the Group acquired patents related to the PolyActive drug delivery technology. This technology is used for Locteron and other projects.

In 2009, the Company changed its accounting policy with regard to segment reporting and operates as one reportable segment going forward (Note 1.4). This also had its impact on the cash-generating units and goodwill and patents can no longer be allocated to the Group's 'Products & Drug Delivery unit' as this unit is integrated with the Group's 'Contract Development unit'. Management decided to assign all goodwill and patents to the 2003 business acquisition that led to the recognition of the goodwill and patents.

In performing impairment testing of goodwill and patents, Management must make significant judgements and estimates to determine whether the cash flows generated by the cash-generating unit that the assets belong to are less than the unit's carrying value. 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) 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 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 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 equity interest in Biolex, as received under the product rights acquisition agreement (Note 18), was deferred.

(c) 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.

(d) 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 longer period of time and the expected volatility of the options granted after that date is therefore based on the average historical volatility of the OctoPlus share.

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.

(e) Claims

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

5 Segment information

(a) Operating segments

In 2009, the Company adopted IFRS 8 with regard to segment reporting and, as explained in Note 1.4, has only one operating segment.

(b) Geographical information

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

Revenues	2009	2008
European Union	5,450	4,548
North-America	11,531	11,735
Other countries	2,065	640
	19,046	16,923

6 Intangible assets

	Goodwill	Patents	Other intangible assets	Total
At 1 January 2008				
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
Year ended 31 December 2009				
Opening net book value	243	2,686	115	3,044
Additions	-	-	12	12
Amortisation charge	-	(292)	(73)	(365)
Impairment losses	-	(292)	(25)	(317)
Closing net book value	243	2,102	29	2,374
At 31 December 2009				
Cost	243	2,467	519	3,229
Accumulated amortisation	-	(365)	(490)	(855)
Net book value	243	2,102	29	2,374

Patents and goodwill

On 31 December 2009 consolidated statement of financial position, OctoPlus has capitalised € 243 of goodwill and € 2,102 of patents. The goodwill and the patents relate to:

(i) The acquisition of Chienna B.V. in 2003. As part of this acquisition, the Group acquired patents related to the PolyActive technology which were valued at € 1,167 and recorded € 243 of goodwill. In addition, the Group acquired the full rights to the PolyActive technology and its intellectual property in certain strategic areas from IsoTis Inc., in April 2007 for € 1,250.

(ii) The acquisition of the worldwide rights to sublicense, develop, manufacture, market, distribute and sell OP-145, a novel therapy for the treatment of chronic middle ear infection (otitis media) from Leiden University Medical Centre in 2003 for a total amount of € 50.

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 seven and nine years at 31 December 2009.

Amortisation on the OP-145 patents has not started yet, as the assets are not ready 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.

Other intangible assets

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

Impairment test of patents, goodwill and other intangible assets

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

In 2009, the Company evaluated the potential of the exclusive worldwide rights acquired from Theratechnologies. With the changed strategy of the Company, products are no longer developed at the Company's own risk and cost. The Company also believes that the probability of finding a license partner for a product which is based on the family of compounds licensed from Theratechnologies is remote. As a result, no cash inflows are expected from this family of compounds and the patents are impaired. An impairment loss of € 292 is recorded under 'deprecation and amortisation' in the consolidated statement of comprehensive income in 2009.

For the remaining goodwill and patents, an impairment loss is not 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 for 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 collaboration agreements signed with customers for feasibility projects to develop controlled release formulations for biotech and pharmaceutical companies using PolyActive, whereby OctoPlus is reimbursed for the development cost and might be eligible for future milestone and royalty payments in case of successful development.
- The successful completion of the OP-145 Phase II clinical study, as announced on 28 July 2008, which demonstrated the efficacy of OP-145. Based on these positive results, OctoPlus is seeking commercial partners to out-license the product. Once out-licensed, OctoPlus is likely to be engaged in the further development of the product.

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 2009 requires significant judgement. Management evaluated the WACC using different approaches and estimated that the WACC ranges between 10% 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 impairment.

During 2009, an item of 'intangible assets' in the category 'other intangible assets' was replaced and thereby impaired. The historical cost of the item was € 70 and the accumulated depreciation at the date of impairment was € 45, resulting in an impairment loss of € 25.

7 Property, plant and equipment

	Buildings	Machines & instal-lations	Other equip-ment	Total
At 1 January 2008				
Cost	2,396	10,867	2,096	15,359
Accumulated depreciation	(440)	(3,997)	(1,623)	(6,060)
Net book value	1,956	6,870	473	9,299
Year ended 31 December 2008				
Opening net book value	1,956	6,871	472	9,299
Additions	6,178	5,451	83	11,712
Depreciation charge	(377)	(757)	(221)	(1,355)
Closing net book value	7,757	11,564	335	19,656
At 31 December 2008				
Cost	8,574	16,318	2,166	27,058
Accumulated depreciation	(817)	(4,754)	(1,831)	(7,402)
Net book value	7,757	11,564	335	19,656
Year ended 31 December 2009				
Opening net book value	7,757	11,564	335	19,656
Additions	5	719	161	885
Depreciation charge	(429)	(1,479)	(180)	(2,088)
Closing net book value	7,333	10,804	316	18,453
At 31 December 2009				
Cost	8,579	17,037	2,297	27,913
Accumulated depreciation	(1,246)	(6,233)	(1,981)	(9,460)
Net book value	7,333	10,804	316	18,453

In February 2009, the Company signed an agreement for the lease of certain office equipment. As substantially all of the risks and rewards incidental to ownership have been transferred to the Group, this contract is classified as a finance lease for an initial amount of € 80. As part of this agreement, certain other leased office equipment was removed from OctoPlus' premises. The historical cost of this office equipment was € 30 and it was already fully depreciated at the time of retirement. Accordingly, both 'cost' and 'accumulated depreciation' at 31 December 2009 reduced by € 30.
The 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 has been the Group's headquarters since 2000. These 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. In accordance with the Group's revised accounting policies (Note 1.4), the land is classified as an operating lease.

As it is the intention to further grow the Company and to offer a wider scale of services, additional facilities were required. These facilities were built adjacent to the already existing facilities and were built and paid for by a third party. The facilities 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. The Group has started occupying these facilities in the beginning of 2008. The manufacturing facilities became operational in 2009, all other facilities were operational from the beginning of 2008 onwards.

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 collateralised to Amstel Lease,
- Shareholders' equity of OctoPlus Development B.V. needs to exceed 30% of the total of the statement of financial position at 31 December 2009. There was no breach of this covenant at 31 December 2009.

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:

	2009	2008
Cost capitalised finance leases	12,640	12,715
Accumulated depreciation	(1,586)	(910)
Net book amount	11,054	11,805

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 on other property, plant and equipment of the subsidiary OctoPlus Development B.V. with a net book value at 31 December 2009 of € 7,351 (2008, € 7,379) (Note 15).

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

8 Financial assets carried at cost

	2009	2008
Beginning of the year	1,299	16
Additions	-	1,299
Sale of assets	-	(16)
End of the year	1,299	1,299
Non-current portion	(1,299)	(1,299)
Current portion	-	-

Financial assets carried at cost at 1 January 2008 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 an equity interest in Biolex. Biolex shares are not traded on an active market and, as a result, a quoted market price is not available and the shares are valued at cost being € 1,299 (2008, € 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 bank overdrafts

	2009	2008
Gross cash and cash equivalents	3,324	2,171
Bank overdrafts	(11)	(3,053)
Net cash and cash equivalents	3,313	(882)

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

10 Inventories

	2009	2008
Inventory raw materials	457	634

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

There has not been a reversal of any write-down of inventories in 2008 or 2009.

11 Trade and other receivables

	2009	2008
Trade receivables	2,263	2,168
Allowance for doubtful accounts	(56)	(42)
Trade receivables – net	2,207	2,126

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

Movement in the allowance for doubtful accounts	2009	2008
Balance at the beginning of the year	42	42
Impairment losses recognised on receivables	14	-
Balance at the end of the year	56	42

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

Included in the Group's trade receivable balance are debtors with a carrying amount of € 1,178 (2008, € 1,251) that are past due at the reporting date for which the Group has not made a provision. At 31 December 2009, collaterals from customers totalling € 1,538 (2008, € 1,394) have been received, thereby significantly reducing any potential risk of any impairment of trade receivables.

Ageing of past due not impaired	2009	2008
1-30 days	954	956
31-60 days	88	118
Over 60 days	136	177
Total overdue	1,178	1,251

54% of the total trade receivables at 31 December 2009 related to Biolex. The credit risk for the Company is limited, as Biolex is a creditworthy company which paid all of its 2009 invoices on time and raised $ 60 million through a private offering in October 2008 and a further $ 10 million in February 2010.
Except for Biolex, there are no other customers that represent more than 10% of the total balance of trade receivables at year-end 2009 and year-end 2008.

	2009	2008
Corporate income taxes	-	-
Wage taxes	-	76
VAT to be received	284	-
Social securities and other taxes	284	76

	2009	2008
Prepaid expenses	635	725
Accrued income	270	194
Other amounts to be received	438	213
Other receivables, prepayments and accrued income	1,343	1,132

OctoPlus provides services to mostly international customers. As a result, the Group generally has a VAT receivable at the end of a period (2009, € 284). 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 had a tax payable at 31 December 2008.

Accrued income includes € 32 (2008, € 83) related to subsidies.

12 Shareholders' equity

Share capital & share premium reserve

	Number of issued ordinary shares	Share capital (€ x 1,000)
At January 2008	16,207,076	1,945
New shares issued	-	-
At 31 December 2008	16,207,076	1,945
New shares issued	17,228,356	2,067
At 31 December 2009	33,435,432	4,012

As of 1 January 2008, the Company had an authorised share capital of € 8,640, divided into 36,000,000 ordinary shares with a nominal value of € 0.12 per share and 36,000,000 preference shares with a nominal value of € 0.12 per share. On 23 April 2009, the AGM approved an increase of the authorised share capital to € 9,600, divided into 40,000,000 ordinary shares with a nominal value of € 0.12 per share and 40,000,000 preference shares with a nominal value of € 0.12 per share.

Preference shares are designed to be an instrument of protection against hostile takeovers, as explained under 'Stichting Continuiteit' 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 2008 and 2009.

At 1 January 2008, 16,207,076 ordinary shares were issued and outstanding. There were no changes in the issued and outstanding share capital in the year 2008. On 25 February 2009, OctoPlus issued 13,996,250 ordinary shares at a price of € 0.75 per share pursuant to a private placement and raised € 10.5 million in gross proceeds and € 9.8 million in net proceeds. Part of this private placement related to the conversion of the bridge loan facility entered into with Life Sciences Partners and S.R. One in March 2008 for a total amount of € 4.5 million (including accumulated interest) (Note 16). On 17 December 2009, OctoPlus issued 3,232,106 ordinary shares at a price of € 1.25 per share pursuant to a private placement and raised € 4.0 million in gross proceeds and € 3.8 million in net proceeds. As a result, 33,435,432 ordinary shares were issued and outstanding at 31 December 2009, representing a share capital of € 4,012.

No shares are held as treasury shares at 31 December 2008 and 2009.

Other reserves

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

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

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

Share options

The Group operates an equity-settled share-based compensation plan. As per the stock option plan approved by the Shareholders and the Supervisory Board 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 Supervisory Board 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 2009, the option pool therefore amounts to 3,723,157 options (7.5% of 33,435,432 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 1,812,033 per 31 December 2009 (2008, 1,949,047 options issued and outstanding) of which 200,000 options have been granted to Theratechnologies on 26 September 2007 (Note 6) and all other options have been granted to employees and former employees of the Group.

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-month 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

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 granted until 31 December 2009 are exercisable from the grant date onwards. Employees that have exercised options and leave the Company during the vesting period are generally obliged to repay part of the proceeds ('the award') received.

The 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:

	2009		2008	
	Average exercise price in € per share	Number of options	Average exercise price in € per share	Number of options
At 1 January	3.33	733,547	3.34	794,815
Granted	-	-	-	-
Forfeited	2.82	(78,914)	3.38	(61,268)
Exercised	-	-	-	-
Lapsed	3.43	(58,100)	-	-
At 31 December	3.39	596,533	3.33	733,547

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
	2009	2009	2008	2008
2009	-	-	208,200	3.43
2010	46,994	2.70	10,000	2.70
2011	199,169	3.25	315,347	2.90
2014	150,370	3.05	-	-
2017	200,000	3.95	200,000	3.95
	596,533		733,547	

During 2009, two members of the Executive Board and some other managers left the Company. A few of these individuals retained (part of) their option rights under identical conditions, with the exception that the exercise period for some of the options was extended.

In March 2010, 1,537,290 options have been issued to OctoPlus personnel, as explained in detail in Note 32 and in the Remuneration report on page 32.

13 Corporate income taxes

OctoPlus N.V. is a fiscal unity for Dutch corporate income tax purposes with OctoShare B.V., OctoPlus Development B.V., OctoPlus Technologies B.V., OctoPlus Sciences B.V., Chienna B.V. and OctoPlus PolyActive Sciences B.V., all 100% subsidiaries of OctoPlus N.V. All members of the fiscal unity are severally liable for any corporate income tax due for the period they are part of this fiscal unity.

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 2009, this resulted in a corporate income tax rate of 25.5% (31 December 2008, 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 losses between $ 100,001 - $ 335,000 and 34% for all losses in excess of $ 335,000 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 2008 and 2009. As a consequence of the above, the Company did not record any deferred corporate income tax assets or liabilities and did not record a corporate income tax expense or income in the years presented.

Tax losses

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

	Tax losses carried forward	Deferred taxes	Deferred tax recog-nised	Deferred tax not-recog-nised
At 31 December 2009				
OctoPlus N.V. [1]	46,102	11,756	-	11,756
OctoPlus Inc	286	97	-	97
	46,388	11,853	-	11,853
At 31 December 2008				
OctoPlus N.V. [1]	43,369	11,059	-	11,059
OctoPlus Inc	181	58	-	58
	43,550	11,117	-	11,117

[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.

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	24	11,561
2007	126	14,410
2008	-	5,717
2009	136	2,733
Total tax losses carried forward	286	46,102

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

	2009	2008
Net result for the year	(2,957)	(6,209)
Effect of expenses that are not deductible in determining taxable profit	133	117
Effect of costs directly offset with proceeds of financing rounds	(946)	-
Effect of differences in depreciable lives, classification of leases and other	901	375
Tax result for the year	(2,869)	(5,717)

14 Pension liabilities

Until 31 January 2006, the Group operated a collective defined benefit plan. This plan was replaced on 1 February 2006 by a collective defined contribution plan. Under this new plan, the Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. No amounts have been recognised in the consolidated statement of financial position at year-end 2009 and 2008 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	2009	2008
Non-current portion	10,316	11,191
Current portion	951	930
Finance lease liabilities	11,267	12,121

Maturity analysis for non-derivative financial liabilities:

	2009	2008
Finance lease liabilities – minimum lease payments:		
No later than 1 year	1,798	1,819
Between 1 and 5 years	6,059	6,783
Later than 5 years	10,526	11,284
	18,383	19,886
Future finance charges on finance leases	(7,116)	(7,765)
Present value of finance lease liabilities	11,267	12,121
The present value of finance lease liabilities is as follows:		
No later than 1 year	951	930
Between 1 and 5 years	3,390	3,950
Later than 5 years	6,926	7,241
	11,267	12,121

Finance lease liabilities decreased to € 11,267 (2008, € 12,121) due to scheduled repayments on the different finance lease agreements.

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

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

Bank overdrafts

The bank overdraft of € 11 (2008, € 3,053) relates to a credit line facility with ABN Amro Bank N.V. for working capital and investment purposes. The initial maximum amount of the facility was € 2.0 million. This lending facility temporarily increased to € 3.75 million between December 2008 and January 2009 (see below) and decreased to a maximum of € 1.5 million in November 2009. The actual amount to be borrowed under the facility depends on a percentage of the total amount of eligible trade receivables pledged to ABN Amro Bank N.V. and amounted to € 1,097 at 31 December 2009.

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 transferred 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 credit line 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 2009, € 7,351 and 31 December 2008, € 7,379);
- Pledge on receivables (book value at 31 December 2009, € 2,135 and at 31 December 2008, € 1,728);
- 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 the total of the consolidated statement of financial position. There was no breach of this covenant at 31 December 2009.

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

In December 2009, the Company agreed on a contract with Fortis Bank (Nederland) N.V. for a new credit line facility up to € 2.0 million which will replace the credit line facility with ABN Amro Bank N.V. from early 2010 onwards. As collateral, OctoPlus N.V. and its subsidiaries will provide a pledge over their equipment, inventories, receivables and patents (with the exception of patents owned by PolyActive Sciences B.V.). In addition, the facility agreement contains a covenant that requires that OctoPlus N.V.'s consolidated tangible net worth shall equal at least 25% of the balance sheet total, adjusted for certain items.

Effective interest rates and borrowing facilities

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

	2009	2008
Bank overdrafts	9.9%	7.2%
Finance lease liabilities	8.6%	9.0%

The Group's only borrowing facility at 31 December 2009 is the credit line facility of OctoPlus Development B.V. with ABN Amro Bank N.V. referred to above. The interest charged on this facility is linked to EURIBOR. This facility was also in place at 31 December 2008. In addition, the Company obtained additional borrowing facilities through convertible bridge loans in 2008 (Note 16). The undrawn portion of the credit line facility at the balance sheet date was as follows:

	2009	2008
Undrawn borrowing facility (at floating rate) – up to maximum of facility	1,487	2,868
Undrawn borrowing facility (at floating rate) – available at end of period	1,084	161

16 Convertible loans

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

17 Trade and other payables

	2009	2008
Trade payables	2,136	3,222

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 € 3,222 to € 2,136, mainly as a result of a lower cost base in the Company caused by the change in strategy and a closer cost control.

In total € 7 (2008, € 186) of invoices received and outstanding related to property, plant and equipment.

Included in the Group's trade payable balance are creditors with a carrying amount of € 1,341 (2008, € 2,804) that are past due at the reporting date.

Ageing of past due	2009	2008
1-30 days	535	1,033
31-60 days	201	611
Over 60 days	605	1,160
Total overdue	1,341	2,804
Wage taxes and accrued social security costs	43	438
Social securities and other taxes	43	438
Subsidies received in advance (Note 19)	774	853
Deferred income	760	1,769
Collaterals from customers	1,538	1,394
Accrued expenses	1,718	2,087
Other amounts to be paid	151	231
Other current liabilities	4,941	6,334
Non-current portion:		
Deferred income	-	-
Other current and non-current liabilities	4,941	6,334

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

For a small portion of the $ 11.0 million up-front payment received from Biolex in October 2008 (Note 18), revenue recognition was deferred to future years (mainly 2009). During 2009, the Company provided development and manufacturing services for Biolex and as a result, deferred income decreased significantly in 2009.

Included under trade payables are related-party transactions for a total amount of € 115 at 31 December 2009 (2008, € 55) and included under accrued expenses are related-party transactions for a total amount of € 138 at 31 December 2009 (2008, € 305) (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 an equity interest in Biolex in October 2008. The Group is also eligible for additional milestone payments up to € 100 million and some additional Biolex non-voting common shares as well as royalties on future Locteron sales, all dependent upon certain pre-defined criteria with regard to the development, sale and / or out-licensing of Locteron being met.

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

As a result of these two agreements Biolex is the Company's largest customer since 2008, generating approximately 59% of total revenues in 2009 (2008, 58%).

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

	2009	2008
License revenues	357	264
Other revenues	13	7,896
	370	8,160

Other revenues in 2008 related to the sale of the Group's commercial Locteron rights to Biolex.

19 Income from subsidies

In 2004, in collaboration with the Thorax Centre of Erasmus University (Rotterdam, the Netherlands), the Group commenced a three-year research project for a novel approach to treat myocardial regeneration, which is now extended until 31 December 2010. 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' in the consolidated statement of financial position at 31 December 2008 and 31 December 2009 (Note 17).

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' in the consolidated statement of financial position at 31 December 2008 (Note 17). The project has ended in 2008 and the total subsidy amounted was determined in December 2009 at € 856, of which € 351 is allocated to the Group and € 505 allocated to Utrecht University. At 31 December 2009, a balance of € 274 to be repaid to SenterNovem is recorded under 'subsidies received in advance' under 'other current liabilities' in the consolidated statement of financial position and a balance of € 151 to be repaid to Utrecht University is recorded under 'other amounts to be paid' under 'other current liabilities' in the consolidated statement of financial position.

20 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 as well as costs related to external testing to retain the cGMP status for the Company's manufacturing facilities. 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 Group 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. The costs for external testing to retain the cGMP status for the Company's manufacturing facilities increased as a result of the new manufacturing facilities becoming operational in 2009.

	2009	2008
Raw materials	202	678
Cost of contracted work and other external charges	1,853	2,782
	2,055	3,460

21 Employee benefits

	2009	2008
Wages and salaries	8,101	7,925
Social security costs	573	601
Share options granted to employees (Note 12)	133	117
Pension costs – defined contribution plans	254	303
	9,061	8,946
Average number of employees for the period	148	158
Number of employees at 31 December	132	144

The number of employees decreased in 2008 from 170 employees at 1 January 2008 to 144 employees at 31 December 2008 and further decreased to 132 employees at 31 December 2009 due to a restructuring. Total employee benefits did increase slightly however, mainly due to restructuring charges incurred in the year 2009 (€ 0.7 million).

The wages and salaries are net of WBSO subsidies of € 523 (2008, € 522).

22 Other costs

	2009	2008
Housing costs	1,121	1,168
Production costs	1,880	1,446
Office expenses	239	290
Selling & Marketing costs	672	734
General expenses	1,056	2,094
Other personnel costs	1,992	1,501
	6,960	7,233

In the first half of 2009, the Company's new manufacturing facilities became operational,

resulting in an increase of production costs from € 1,446 in 2008 to € 1,880 in 2009. In the year 2008, significant expenditures were incurred for outside legal support related to the Biolex agreements signed in October 2008. Similar costs were not incurred in the year 2009 and as a result, general expenses decreased significantly from € 2,094 in 2008 to € 1,056 in 2009. Other personnel costs increased from € 1,501 in 2008 to € 1,992 in 2009 as a result of higher costs for temporary personnel in the first part of 2009. These employees were required in the period the new manufacturing facilities became operational. Other personnel costs have decreased significantly in the second half of 2009.

For leases where the Group is a lessee under operating leases, lease rentals amounting to € 267 (2008, € 284) are included in 'other costs' in the income statement.

The amount of inventories recognised as an expense in 2009 is € 1,158 (2008, € 838) 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:

	2009	2008
Audit services	159	203
Other assurance services	13	13
Tax advisory services	-	-
Other non-assurance services	38	65
	210	281

23 Research and development costs

Research and development costs were the costs incurred by the Group's former Products & Drug Delivery unit, which was responsible for the development of a product portfolio. As a result of the change in strategy towards the end of 2008, the activities of the Products & Drug Delivery were discontinued and in September 2009 the two business units were integrated and the complexity of the organisation was significantly reduced. As a consequence, both direct research and development costs (2008, € 7,580) and indirect research and development costs (2008, € 12.0 million) have significantly decreased and are not reported separately anymore in 2009.

24 Interest income and interest costs

	2009	2008
Interest income:		
- Bank deposits	18	7
Interest costs:		
- Bank borrowings, overdrafts and other debt	(70)	(330)
- Finance leases	(1,006)	(738)
- Interest on convertible loans	(102)	(458)
- Exchange gains and losses	3	(367)
	(1,175)	(1,893)
Finance costs – net	(1,157)	(1,886)

During most of 2008, a substantial part of the available credit line facility with ABN Amro Bank N.V. was used. Due to the private placements of February 2009 and December 2009, the Company only had to make use of the available credit line facility on an incidental basis in 2009. As a result, interest costs related to bank borrowings, overdrafts and other debt decreased significantly. The Company's extended office, laboratory and manufacturing facilities became available in March 2008. The increase in interest costs for finance leases reflects the full-year effect of the interest costs related to these new facilities. Two major Shareholders (Life Sciences Partners and S.R. One) and Biolex provided convertible bridge loans to the Company during a significant part of 2008. The convertible bridge loan received from Biolex was settled with the proceeds of the sale of the Locteron commercial rights to Biolex in October 2008. Life Sciences Partners and S.R. One converted their bridge loans into shares as part of the February 2009 private placement. As a result, the interest costs related to convertible loans decreased significantly in 2009. Finally, the Group realised a € 367 exchange loss on the repayment of the bridge loan to Biolex in 2008, 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.

	2009	2008
Result attributable to equity holders of the Company	(2,957)	(6,209)
Weighted average number of ordinary shares	28,227,128	16,207,076
Basic earnings per share (€ per share)	(0.10)	(0.38)

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.

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

	2009	2008
Additions according to Note 7	885	11,712
Non-cash transactions – additional office, laboratory and manufacturing facilities (Note 7)	-	(6,178)
Non-cash transactions – other finance lease contracts	(80)	-
Movement trade payables at year-end	179	1,628
Movement other current liabilities	460	(460)
Purchases of property, plant and equipment	1,444	6,702

28 Contingencies

Milestone payments and royalties

On 24 April 2007, the Group signed a contract with IsoTis to acquire the full rights to the PolyActive technology and its intellectual property in certain areas. As part of this contract, the 'amended and restated license assignment and cross license assignment' ('ACLA'), as signed in May 2003, was terminated. This ACLA outlines, among others, the commercial development milestone payments and the profit-sharing payments from the Group to IsoTis. As per the new contract, the Group is required to make certain royalty payments on received milestone payments and received royalty payments on the sales of Locteron during the patent terms and the sales on other pharmaceutical products based on the PolyActive technology during the patents terms. If and when these royalty payments have to be made is uncertain and dependent on the commercial success of Locteron and the pharmaceutical products developed based upon the PolyActive technology. The contracts signed with Biolex in October 2008 (Note 18) did not result in any payments to IsoTis so far, but will result in 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 Theratechnologies (Note 6), Theratechnologies is entitled to multiple development, regulatory and sales milestone payments for each product incorporating the licensed technology. The sum of these milestone payments amounts to € 35.7 million per product if all milestones are met, with the milestone payments increasing as the development of the product progresses. In 2009, the patents acquired from Theratechnologies were impaired, as the Group stopped development at its own risk and cost and believes that the probability of finding a license partner for a product which is based on the family of compounds licensed from Theratechnologies is low. As a result, it is unlikely that any payments will need to be made to Theratechnologies based upon this agreement.

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

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

Under certain conditions that relate to the progress of Locteron or the out-licensing of Locteron by Biolex, the Group is obliged to pay Mr. Holthuis, co-founder of OctoPlus, € 50.

Claims

One contingent liability has arisen as a result of a claim related to the activities of the Group with respect to the timing of the cancellation of an agreement. The directors believe, after legal advice, that the claim can be successfully defended and no losses are expected to be incurred.

29 Commitments

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.

	2009	2008
No later than 1 year	219	234
Later than 1 year and no later than 5 years	876	864
Later than 5 years	2,390	2,566
	3,485	3,664

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

Other operating commitments

The Group has made marginal other unconditional commitments amounting to € 224 (2008, € 185). Included under these commitments is a consultancy agreement worth € 90 for services to be provided by Mr. Holthuis, co-founder and former CEO of OctoPlus, in 2010.

Bank guarantees

As of 31 December 2008, the Company had bank guarantees amounting to € 1,866. A € 1,750 temporary bank guarantee was provided to ABN Amro Bank N.V. 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 bank guarantee related to the sale and lease back transaction was released and the Company provided a € 224 bank guarantee to the landlord for the new office, laboratory and manufacturing facilities the Company started occupying in 2008 (Note 7). As a result, the Company had bank guarantees amounting to € 340 at 31 December 2009.

30 Business combinations

There were no business combinations effected during the years ended 31 December 2008 and 2009.

31 Related-party transactions

a Shareholders

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

GlaxoSmithKline Plc is the ultimate parent company of S.R. One.

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

b Supervisory Board

The remuneration of the Supervisory Board amounted to € 188 (2008, € 143). The remuneration of the individual members of the Supervisory Board is set out in the table below:

	Base salary	Travel and accom-modation	2009 Total	2008 Total
H. Stellingsma (Chairman)	36	-	36	36
R. Kuijten	30	-	30	30
P. Toon	25	-	25	25
Ph. Smith	30	16	46	44
F. Eelkman Rooda	30	-	30	8
J. Gale	17	4	21	-
	168	20	188	143

On 6 November 2008, the AGM approved the proposal by the Supervisory Board to adjust the fixed annual remuneration to € 31 for the Chairman and € 25 for all other members of the Supervisory Board, all from 1 January 2008 onwards. In addition, € 5 remuneration is received by a member for each Supervisory Board committee participated in. Two members of the Supervisory Board waived the € 5 for the second committee they participated in 2008 and 2009.

Part of the remuneration and part of the expense claim reimbursements of the Supervisory Board

over the last few years (€ 253, 2008, € 156) was not reimbursed at year-end and is recorded under trade payables (€ 114, 2008, € 51) and other current liabilities (€ 138, 2008, € 105) in the consolidated statement of financial position.

b Executive Board

The Executive Board is defined as the Company's key management personnel. The remuneration of the Executive Board amounted to € 1,224 (2008, € 1,351) with the details set out in the table below:

	Base salary	Bonus	Pen-sions	Other	2009	2008
S.J. Sturge, CEO	375	295	-	26	696	357*
G. Moolhuizen, CBO	175	13	12	8	208	260
S.M. Swarte, CFO	65	7	4	2	78	-
J.J.M. Holthuis, CSO	174	-	13	2	189	308
J.C.H.L. Pauli, CFO	50	-	2	1	53	426
	839	315	31	39	1,224	1,351

* Mr. Sturge joined OctoPlus in September 2008.

On 6 November 2008, the AGM approved the proposal by the Supervisory Board to appoint Mr. Sturge as new CEO of the Company, replacing Mr. Holthuis who became the new Chief Scientific Officer ('CSO') of the Company as of the same date. Before his appointment as CEO, Mr. Sturge provided consultancy services for the Group. As consideration, Mr. Sturge received a € 175 fee, which is included as part of his 2008 remuneration in the table above.

The AGM also approved the proposal by the Supervisory Board 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.

On 1 August 2009, the Company's new CFO, Mrs. Swarte, started working for OctoPlus. She will be proposed for nomination as a new Executive Board member at the next Shareholders meeting.

Mr. Holthuis left OctoPlus on 31 August 2009. The Company will make use of his expert knowledge on a consultancy basis going forward. A commitment of € 90 as of 31 December 2009 has been made in this respect. In addition, Mr. Holthuis might receive a € 50 bonus depending on Locteron's development (Note 29).

Mr. Pauli left OctoPlus on 31 March 2009 and received a severance payment of € 200, which is included as part of his 2008 remuneration and is paid out in 2009. The Company paid Mr. Pauli an additional amount of € 10 for services performed in April and May 2009 related to the publication of the prospectus.

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

	2009	2008
Salaries and other short-term employee benefits	1,189	1,257
Post-employment benefits	31	43
Share-based payments	131	59
	1,351	1,359

Part of the expense claim reimbursements of the Executive Board (€ 1, 2008, € 4) was not reimbursed at 31 December 2009 and is recorded under trade payables in the consolidated statement of financial position.

Key management's interests in the Company

The current Executive Board consists of two members, Mr. Sturge (CEO) and Mr. Moolhuizen (CBO). Mrs. Swarte (CFO) will be nominated for appointment during the next General Meeting of Shareholders. The shares and options owned by the current Executive Board members are explained below.

S.J. Sturge

Mr. Sturge did not hold any shares in the Company until he participated in the February 2009 private placement (Note 12) and acquired 133,333 shares at a price of € 0.75 per share. There were no other share transactions by Mr. Sturge in 2009.
Mr. Sturge holds 1,215,500 conditional share options in the Company, as explained in detail in Note 12. Mr. Sturge does not hold any unconditional options at 31 December 2008 and 2009.

In March 2010, Mr. Sturge received 400,000 options as part of the Company's 2010 option plan, as explained in detail in Note 32.

G. Moolhuizen

Mr. Moolhuizen held 22,500 shares in the Company at 31 December 2008 and 2009. Mr. Moolhuizen unconditional share options rights in the Company are as follows:

	2009		2008	
	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	3.43	(10,000)		-
At 31 December	2.70	51,411	2.82	61,411

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

In March 2010, Mr. Moolhuizen received 334,000 options as part of the Company's 2010 option plan, as explained in detail in Note 32.

S.M. Swarte

In March 2010, Mrs. Swarte received 334,000 options as part of the Company's 2010 option plan, as explained in detail in Note 32.

Former Executive Board Member's interests in the Company

Two Executive Board members left the Company in 2009. Mr. Pauli (CFO) left the Company on 31 March 2009 and Mr. Holthuis (CSO) left the Company on 31 August 2009.

J.H.C.L Pauli, CFO

At 31 December 2008, Mr. Pauli owned 56,500 shares. During his 2009 employment, Mr. Pauli did not trade in OctoPlus shares. At 31 December 2008, Mr. Pauli owned 92,514 options at an average price of € 2.99 per option. Mr. Pauli maintained the option rights to 23,600 options after his departure, but these options lapsed on 29 December 2009. All other option rights forfeited at departure.

J.J.M. Holthuis, CSO

At 31 December 2008, Mr. Holthuis owned 3,092,400 shares which represented 19.1% of the total of issued and outstanding share capital as of that date. During his 2009 employment, Mr. Holthuis sold 94,356 OctoPlus shares. As a result, Mr. Holthuis owned 2,998,044 shares in the Company at the date of his departure. At 31 December 2008, Mr. Holthuis owned 150,370 options at an average price of € 3.05 per option. Mr. Holthuis maintained his option rights after his departure under identical conditions, except that the expiry date of all options was extended to 31 July 2014.

32 Events after balance sheet date

In February 2010, the Company granted 1,537,290 options to its personnel at an exercise price of € 1.41 per OctoPlus share (which is the closing price for the shares on 31 December 2009). 1,068,000 options were granted to members of the Executive Board; being 534,000 unconditional options and 534,000 conditional options. The number of unconditional options each person will receive from the conditional options granted depends on certain pre-defined performance criteria for each person in the years 2010, 2011 and 2012, with 1/3 of the conditional options related to each of the three years. The remaining 469,290 options were granted to other OctoPlus employees. All these options are unconditional. The options were granted under the 2006 Option Plan, which has a vesting period of five years starting immediately. At the next Annual General Meeting of Shareholders, it will be proposed to change the vesting period for these options granted to start after three years with a subsequent exercise period of two years.

On 16 March 2010 OctoPlus announced the publication of an abstract containing preliminary Locteron Phase IIb clinical results. The abstract was submitted by OctoPlus' licensee Biolex and has been accepted for an oral presentation at the 45th International Liver Congress on 16 April 2010 in Vienna, Austria. The preliminary results showed that Locteron induced 63% less flu-like symptoms than PEG-Intron (currently marketed interferon), with reduced injection frequency, and also a more rapid antiviral efficacy. The presentation at the conference will contain final results after 12 weeks of treatment in two Phase IIb studies.

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 2009	At 31 December 2008	At 1 January 2008
ASSETS				
Non-current assets				
Goodwill		243	243	243
Buildings		7,333	7,757	1,956
Financial assets carried at cost		1,299	1,299	-
Investments in subsidiairies	B	22,473	22,134	16,244
Long-term receivables from subsidiairies		-	-	908
		31,348	31,433	19,351
Current assets				
Short-term receivables from subsidiairies	C	7,610	3,828	2,712
Social securities and other taxes		1	9	3
Other receivables, prepayments and accrued income		401	446	600
Cash and cash equivalents		459	129	2,115
		8,471	4,412	5,430
Total assets		39,819	35,845	24,781
EQUITY				
Issued share capital	D	4,012	1,945	1,945
Share premium reserve	D	49,686	38,161	38,161
Other reserves	D	754	751	706
Accumulated deficit	D	(43,109)	(40,282)	(34,145)
Total equity		11,343	575	6,667
LIABILITIES				
Non-current liabilities				
Provisions for subsidiairies	E	18,021	17,330	6,867
Finance lease liabilities		8,030	8,251	2,370
		26,051	25,581	9,237
Current liabilities				
Current portion of finance lease liabilities		220	202	70
Convertible bridge loans		-	4,395	-
Trade payables		426	579	907
Payable to subsidiairies		1,059	3,838	7,403
Social securities and other taxes		18	-	17
Other current liabilities		702	675	480
		2,425	9,689	8,877
Total liabilities		28,476	35,270	18,114
Total equity and liabilities		39,819	35,845	24,781

The notes on pages 76 to 77 are an integral part of these company-only financial statements.

Income statement of OctoPlus N.V.

(In € x 1,000)

	Year ended 31 December	
	2009	2008
Result from subsidiaries after taxes	(2,863)	(4,825)
Other results of OctoPlus N.V. after taxes	(94)	(1,384)
Net result	(2,957)	(6,209)

Notes to the company-only financial statements

A General information

Corporate information

The company-only financial statements are part of the 2009 financial statements of OctoPlus N.V.

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

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

Basis of preparation

For setting the principles for the recognition and measurement of assets and liabilities and determination of the result for its company-only financial statements, OctoPlus N.V. makes use of the option provided in Section 2:362 (8) of the Netherlands Civil Code. This means that the principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as 'accounting policies') of the company-only financial statements of OctoPlus N.V. are the same as those applied for the consolidated IFRS financial statements. The consolidated IFRS financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU'). All standards and all interpretations issued by the International Accounting Standards Board (the 'IASB') and the International Financial Reporting Interpretations Committee (the 'IFRIC') effective for 2009 have been adopted by the EU. Please see the notes to the consolidated financial statements for a description of these principles.

Changes in accounting policies

In 2009, the Company changed its accounting policies with regard to (i) the treatment of land which forms part of a sale and lease back transaction and (ii) segment reporting. For further details, reference is made to Note 1.4 of the consolidated financial statements.

Investments in subsidiaries

In the company-only financial statements, investments in subsidiaries are stated at net asset value if the Company effectively exercises influence of significance over the operational and financial activities of these investments. The net asset value is determined on the basis of the accounting principles applied by the Company. In case the net asset value of an investment in subsidiaries is negative, a provision for subsidiaries has been set up.

B Investments in subsidiaries

	2009	2008
Balance at 1 January	22,134	16,244
Addition/(release)	(661)	1,760
Share capital contribution	1,000	4,130
Balance at 31 December	22,473	22,134

The share capital contribution in 2009 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 2009. The share capital contribution in 2008 related to a share capital contribution of € 1,000 of OctoPlus N.V. in OctoPlus Development B.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.

C Short-term receivables from subsidiairies

Short-term receivables from subsidiaries balance at 31 December 2009 included a provision of € 15,376 (2008, € 13,865 provision).

D Shareholders' equity

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

Note 12 of the consolidated financial statements. No part of the Company's equity is classified as legal reserves.

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

E Provisions for subsidiairies

	2009	2008
Balance at 1 January	17,330	6,867
Addition/(release)	691	12,233
Share capital contribution	-	(1,770)
Balance at 31 December	18,021	17,330

This resulted in an increase of the provision for subsidiaries with € 154 per 31 December 2008 related to long-term receivables from subsidiaries (2009, no impact) and a decrease of the provision for subsidiaries with € 1,511 per 31 December 2009 related to short-term receivables from subsidiaries (2008, increase of € 5,494).

F Remuneration of Executive Board and Supervisory Board

The remuneration of the Supervisory Board amounted to € 188 (2008, € 143). For further details, reference is made to Note 31 of the consolidated financial statements; section 'Supervisory Board'.

The remuneration of the Executive Board amounted to € 1,224 (2008, € 1,351). For further details, reference is made to Note 31 of the consolidated financial statements; section Remuneration report on page 32.

G Employee information

OctoPlus N.V. employed two employees at 31 December 2009 (31 December 2008, three employees). The average number of employees of OctoPlus N.V. in 2009 was 2.3 FTE (2008, 2.3 FTE). For further details on the number of employees of the Group, reference is made to Note 21 of the consolidated financial statements.

H Commitments

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

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

For any other operating commitments, reference is made to Note 29 of the consolidated financial statements.

L Signing of the financial statements

Executive Board

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

Supervisory Board

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

Leiden, the Netherlands, 2 April 2010

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Other information

Auditor's report

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

Auditor's report

Report on the financial statements

We have audited the accompanying financial statements 2009 of OctoPlus N.V., Leiden. The financial statements consist of the consolidated financial statements and the company-only financial statements. The consolidated financial statements comprise the consolidated statement of financial position as at 31 December 2009, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended and notes, comprising a summary of significant accounting policies and other explanatory information. The company-only financial statements comprise the company-only balance sheet as at 31 December 2009, the company-only income statement 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 management board report 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.

Auditor's 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 2009, 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 2009, 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 management board report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, the Netherlands, 2 April 2010

Deloitte Accountants B.V.
I.A. Buitendijk

Statutory arrangement concerning the appropriation of the result

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

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

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

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

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

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

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

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

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

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

Proposed result appropriation for the financial year 2009

The General Meeting of Shareholders will be proposed to add the loss for 2009 of € 2,957 to the accumulated deficit. The financial statements reflect this proposal.

Events after balance sheet date

For events after balance sheet date, reference is made to Note 32 of the consolidated financial statements.

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