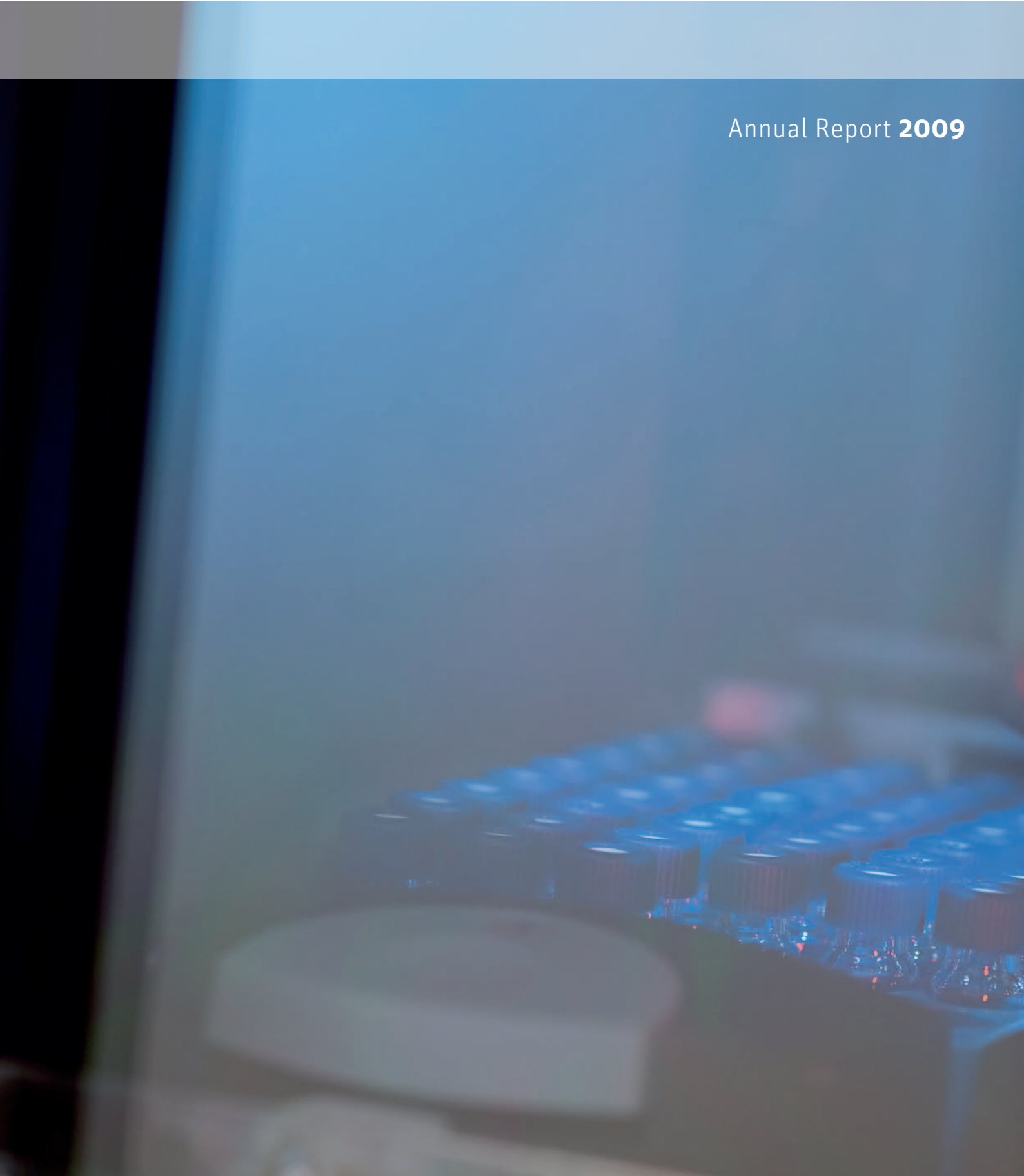




Annual Report **2009**



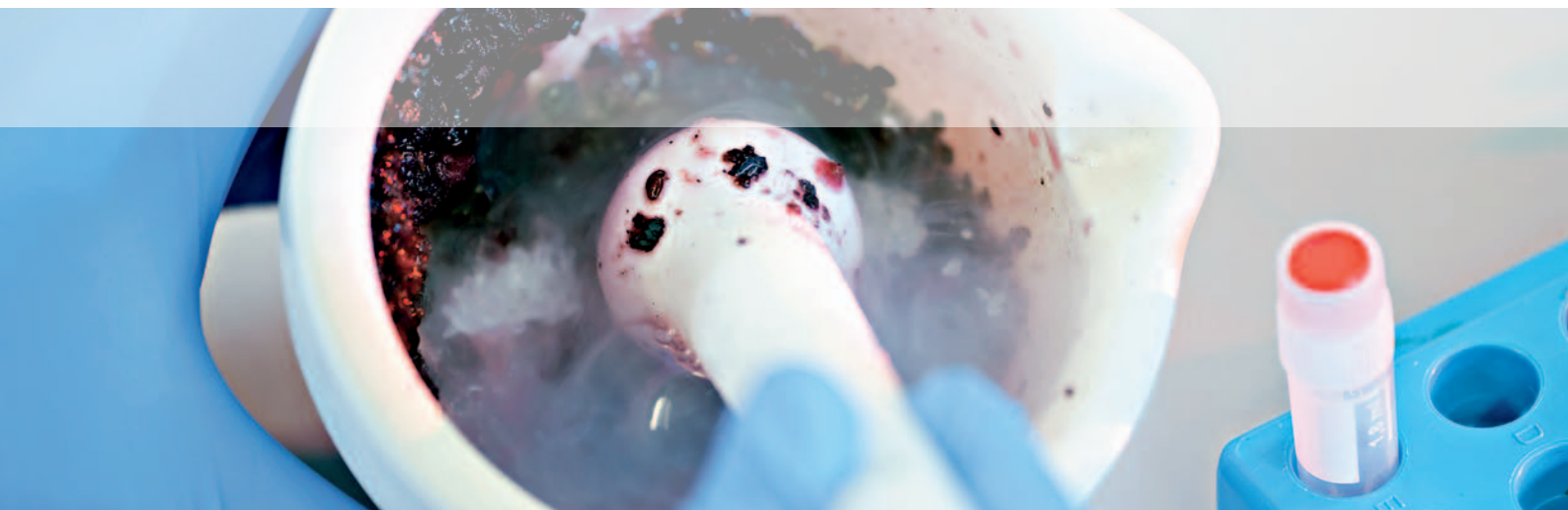
# 2009

This annual report contains certain forward-looking statements. These forward-looking statements may be identified by words such as “believes”, “expects”, “anticipates”, “projects”, “should”, “seeks”, “estimates”, “future” or similar expressions or by discussion of, among other things, strategy, goals, plans or intentions.

Various factors may cause actual results to differ materially from those reflected in the forward-looking statements contained in this annual report.

This annual report is available in English only. A German summary is available on request. Contact data can be found on the back cover.

Der vorliegende Geschäftsbericht ist nur auf Englisch erhältlich. Eine deutsche Zusammenfassung wird auf Wunsch zur Verfügung gestellt. Daten zu Kontaktpersonen finden sich auf der Rückseite des Berichts.



## Table of Contents

<b>Letter to Our Shareholders</b>	4
<b>The Evolva-Arpida Combination</b>	6
<b>Evolva's Stock and Financial Review</b>	8
<b>Company Strategy</b>	12
<b>Operations</b>	13
<b>Partnerships &amp; Business Model</b>	14
<b>Technology</b>	16
<b>Compound Development &amp; Pipeline</b>	20
<b>Corporate Governance</b>	26
<b>2009 Accounts</b>	40

# Letter to Our Shareholders

**Dear shareholder,**

2009 was a year of strong progress for Evolva.

Key operational highlights included:

- A 59% increase in annual revenues to CHF 18.9 million, versus CHF 11.9 million in 2008
- The strengthening of our technology platform on multiple fronts
- The entry of our most advanced cardio-renal compound into Phase I clinical studies
- Solid preclinical results on our most advanced antifungal and antiviral compounds
- The strengthening of our management team with the addition of Jutta Heim as Chief Technology Officer and Jessica Mann as Chief Medical Officer



**Prof. Dr. Erich Schlick**  
Chairman of the Board of Directors



**Neil Goldsmith**  
Managing director and CEO

Further at a corporate level, the last quarter of 2009 saw two major events:

- Evolva executed a financing round yielding CHF 45.6 million. In addition, we received a firm investment commitment totalling a further CHF 3.5 million for Evolva India. Thus in total Evolva strengthened its financial position by CHF 49 million.
- In December, Evolva SA completed a reverse-merger with Arpida Ltd., forming Evolva Holding SA. This transaction combined Arpida's stock market listing, cash and facilities with Evolva's technology platform, pipeline, revenues and capital.

Immediately after year-end 2009, we announced an R&D collaboration with Roche.

Combined, these achievements leave Evolva well placed for the future. We are an international, innovative biotech group with a world-class research platform. We have collaboration agreements with respected partners and a promising, if early, pipeline of novel, well-differentiated pharmaceutical product candidates that target significant unmet medical needs. Furthermore, Evolva has a strong balance sheet and recurring revenues, and our stock market listing on the Main Standard of the SIX Swiss Exchange opens the door to further growth in the mid- to longterm.

It would be unwise to assume everything in Evolva proceeds as smoothly in the future as it did in 2009. However, we firmly believe that Evolva has the capabilities, the assets and the mindset to prosper in the coming years, and to ultimately build a company with substantial and sustainable profits.

We look forward to the challenges ahead.

With best regards,

Erich Schlick  
Chairman  
of the Board of Directors

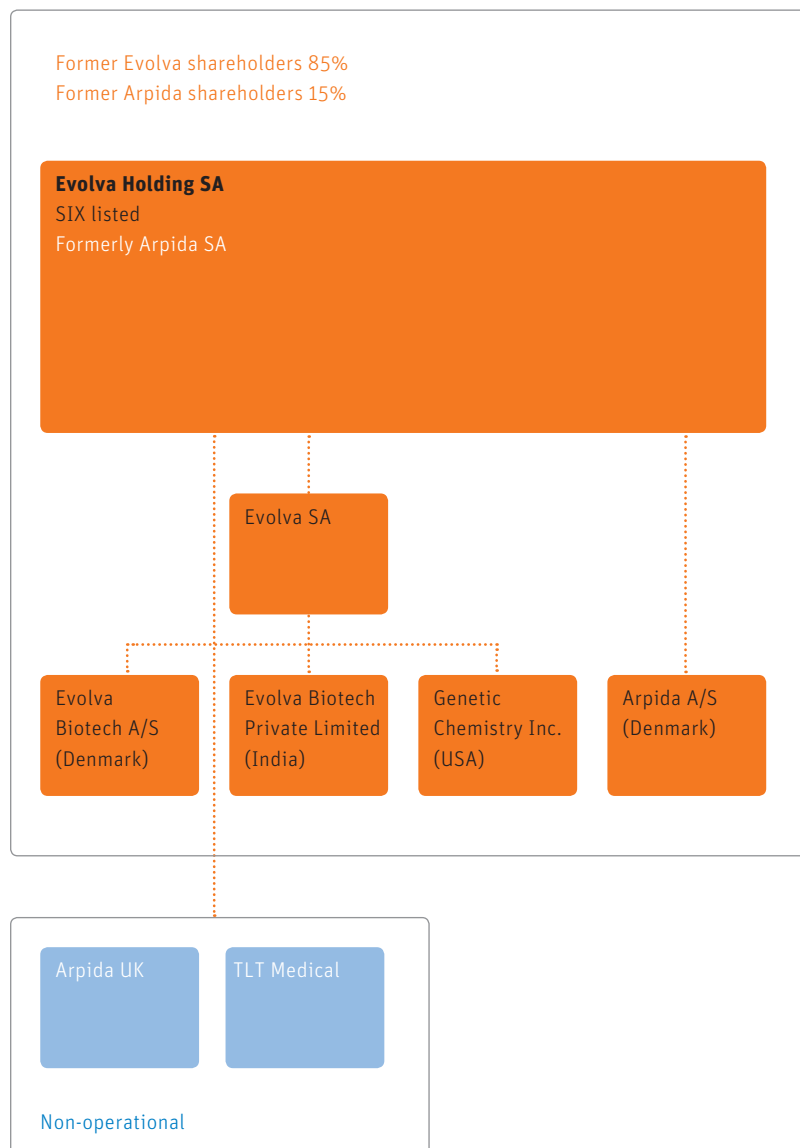
Neil Goldsmith  
Managing director and CEO

16 April 2010

# The Evolva-Arpida Combination

The transaction was completed on 11 December 2009. On that day, 117,836,490 registered shares of Arpida Ltd. were issued to the shareholders of Evolva SA in exchange for their shares in Evolva SA. Each share in Evolva SA (of CHF 20 nominal value) entitled the holder to 370 shares (of CHF 0.20 nominal value) in Arpida Ltd. On the same day, Arpida Ltd. changed its name to Evolva Holding SA.

After 11 December 2009



Apart from the name change, the transaction had no impact on the shares of Arpida Ltd. These remain listed on the Main Standard of SIX Swiss Exchange. The first day of trading in the shares under the name Evolva Holding SA was 14 December 2009.

### **Evolva SA**

Evolva SA was founded in 2004 based upon a proprietary discovery technology developed by the founders. The company has subsequently developed a pipeline of novel, differentiated pharmaceutical product candidates, targeted at significant unmet medical needs.

Evolva SA is headquartered in Allschwil/Basel and has an international presence with subsidiaries in Denmark, India and the USA. At the time of the merger with Arpida, Evolva SA employed 80 people worldwide, of which around 65 were directly involved in research and development and 31 were based in Allschwil.

Evolva has several partnerships with external organisations and companies, generating significant revenues and thereby reducing the company's dependence on external funding.

All of Evolva's assets, including the technology, the pipeline and the revenue-generating partnerships, were contributed to the new entity at the time of the transaction.

### **Arpida Ltd.**

Arpida Ltd. was founded in 1997 and focused on the discovery and development of novel drugs for the treatment of microbial infections. Marketing applications for its key compound (iclaprim) were rejected both in the USA and in the European Union.

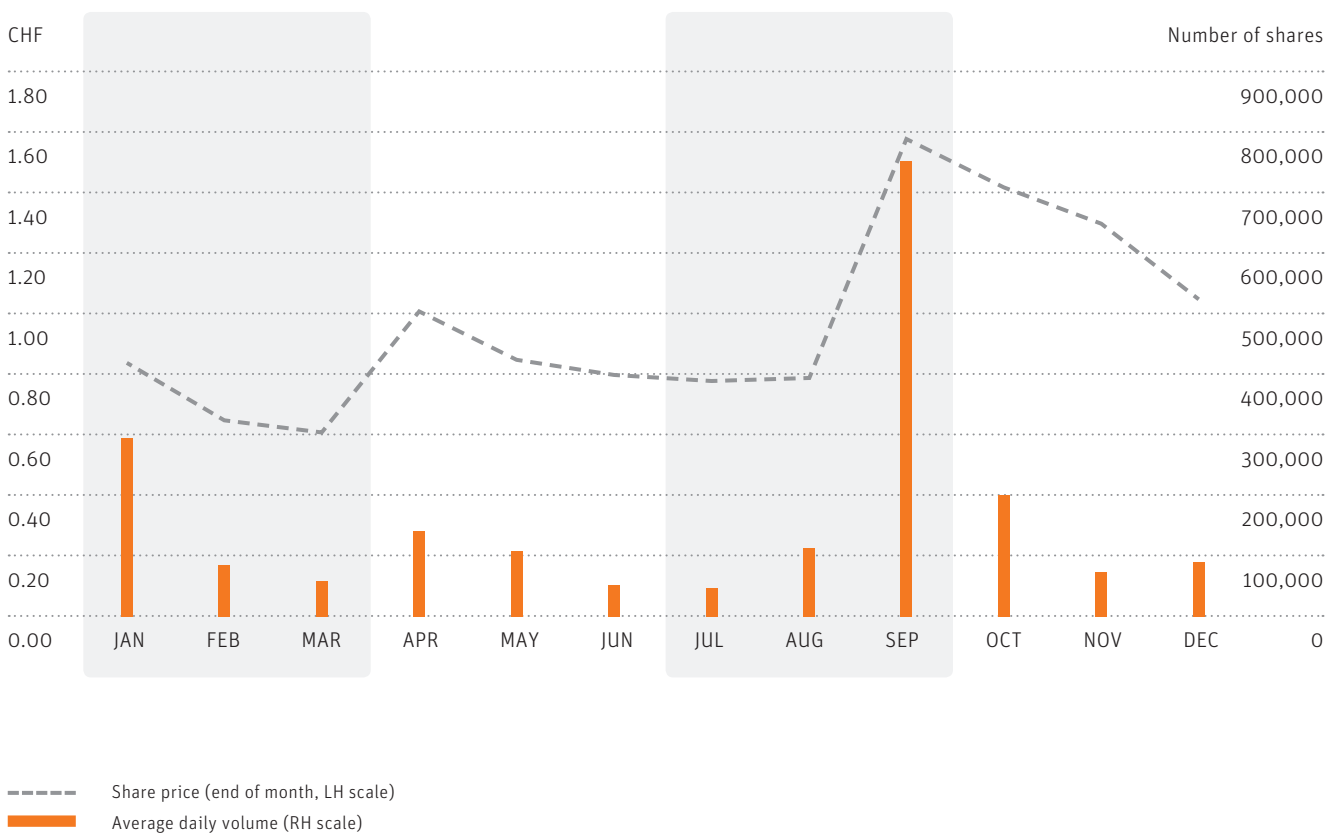
Starting at the end of 2008, Arpida substantially terminated or divested all research and development programmes. On 10 September 2009, the merger proposal with Evolva SA was announced. The Arpida shareholders approved the transaction in an Extraordinary General Meeting on 26 November 2009. In the same meeting, the disposal of the iclaprim-related assets was approved.

The only substantial Arpida assets to be integrated into the new entity were the SIX listing, the remaining financial resources and the lease of the Reinach facilities.

# Evolva's Stock and Financial Review

On 14 December 2009, following the combination of Arpida Ltd. with Evolva SA, the stock started trading under the name “Evolva Holding SA” (symbol: EVE). Arpida had been listed on the SIX Swiss Exchange since 4 May 2005.

Development of share price and trading volumes in 2009



## Stock review

The stock ended the year 2009 at CHF 1.04, compared with CHF 0.72 at the end of 2008. On average, some 170,000 shares were traded per day in 2009, compared with 116,500 in 2008.

During December 2009, the total number of common shares outstanding rose from 21.1 million to 139.2 million, primarily due to the transaction involving Evolva SA. As per year-end 2009, the stock market capitalisation was CHF 144.7 million on an undiluted basis.

As far as Evolva is aware, the following investors had holdings exceeding 3% as of 31 December 2009:

Shareholder	% of share capital
Sunstone Life Science Ventures Fund I K/S	12.5
Auriga Ventures III	8.8
Wellington Partners Ventures III Life Science Fund L.P./ Wellington Partners Ventures III Life Science Network Fund	8.5
Renaissance PME fondation Suisse d'investissement/ Mona Lisa Capital AG	8.5
Dansk Innovationsinvestering P/S	7.2
Aravis Venture I LP	7.0
Novartis Bioventures Ltd.	5.8
Entrepreneurs Fund General Partners Ltd.	5.5
Baltisches Haus Limited	3.9
BioMedInvest II LP	3.8
Symbion Capital I A/S	3.6
Astellas Venture Capital, LLC	3.5

The holdings of the investors listed in the above table are subject to a lock-up which expires on 14 December 2010. This also applies to the shares held by other former shareholders in Evolva SA, including management and employees. In total, 117,836,490 Evolva Holding SA shares are subject to the lock-up.

APIDC and Ventureast (minority shareholders in Evolva India) hold purchase positions for 10,997,880 shares (7.9% of the issued share capital) in Evolva Holding SA.

Evolva Holding has only registered common shares outstanding. A total of 4,507 shareholders, including nominees, were entered in the share register as per year-end 2009, representing 95% of the total outstanding capital. The geographical split of the shareholder base, identified via the register or via nominees at year-end 2009, was as follows:

	% of share capital	Number of shareholders
Switzerland	45.4	4,315
Scandinavia	25.7	29
France	9.6	36
UK	1.1	7
Rest of Europe	13.5	80
Asia	3.8	11
Americas	0.9	25
Rest of World	0.0	4
<b>Total</b>	<b>100.0</b>	<b>4,507</b>

NB The table shows the geographical location of the beneficial owners of the shares, which in some cases deviates from the location of the legal entity that formally reported the holding.

## Financial review

### Introduction

This review presents the financial development of Evolva SA and its subsidiaries until 11 December 2009 and the financial development of Evolva Holding SA and its subsidiaries (the "Evolva Group") from 11 December 2009 onwards. The review does not cover the financial development of Arpida Ltd. prior to the combination with Evolva SA in December 2009.

CHF Millions	2009	2008	2007
<b>Total revenues</b>	<b>18.9</b>	<b>11.9</b>	<b>7.2</b>
Technology and discovery expenses	-14.7	-9.9	-8.9
Compound development expenses	-6.5	-6.3	-2.4
General and administration expenses	-6.6	-3.8	-3.5
<b>Total operating expenses</b>	<b>-27.8</b>	<b>-20.0</b>	<b>-14.8</b>
<b>Operating gain (loss)</b>	<b>-8.9</b>	<b>-8.1</b>	<b>-7.6</b>
Financial result	-0.5	-0.4	-0.5
Taxes	-0.2	-0.2	-0.1
<b>Net result</b>	<b>-9.6</b>	<b>-8.7</b>	<b>-8.3</b>
<b>Cash at year-end</b>	<b>52.9</b>	<b>6.2</b>	<b>7.4</b>
<b>Equity at year-end</b>	<b>67.9</b>	<b>3.3</b>	<b>7.3</b>

## Overview

The Evolva Group made significant financial progress during 2009. Total revenues increased from CHF 11.9 million in 2008 to CHF 18.9 million in 2009. Operating expenses increased from CHF 20.0 million to CHF 27.8 million mainly due to higher activity in both discovery and compound development. Due to the growth in revenues, the net loss increased only slightly to CHF 9.6 million (from CHF 8.7 million in 2008).

Prior to the merger with Arpida Ltd., Evolva raised CHF 45.6 million in equity financing so that the consolidated group cash position on 31 December 2009 was CHF 52.9 million.

## Income statement

By far the largest part of group revenues came from discovery projects which are based on Evolva's technology. Two projects represented more than 80% of total revenues, both of which are based on multi-year contracts with agencies under the United States Department of Defence. Evolva had additional revenues from contracts with two corporate customers in the US and from government contracts in the EU. No revenue is recognised for 2009 from the contract with Roche that was signed at year-end.

Costs due to discovery activities increased significantly from CHF 9.9 million in 2008 to CHF 14.7 million in 2009. This increase in costs primarily reflects that Evolva's subsidiary in the US (Genetic Chemistry, Inc.) became fully operational during 2009. Costs due to compound development activities increased from CHF 6.3 million to CHF 6.5 million. The increase in general and administration costs reflects the full-year effect of the US subsidiary and transaction costs related to the equity financing and the combination with Arpida Ltd.

## Balance sheet and cash flow

The key changes in the group balance sheet during 2009 reflect the two corporate transactions that Evolva SA conducted at the end of the year: the equity financing and the merger with Arpida Ltd. During the 4<sup>th</sup> quarter, Evolva raised CHF 45.6 million from a group of existing and new investors while an additional CHF 3.5 million was committed by the minority shareholder in Evolva's Indian subsidiary. As a consequence of the merger with Arpida Ltd., the group cash position further increased by CHF 10 million. In total, the consolidated cash position increased from CHF 6.2 million at the end of 2008 to CHF 52.9 million at the end of 2009.

In line with IFRS accounting rules for reverse acquisitions, Evolva Holding SA recognised CHF 16.8 million in goodwill as of 11 December 2009. The goodwill amount represents the difference between the stock market value of Arpida Ltd. and the aggregate asset value of Arpida Ltd. at the time of the combination. The goodwill amount is not related to the actual terms of the combination. In future, the company will carry out an annual impairment test of the goodwill based on the market capitalisation of Evolva Holding SA.

## Outlook

The Evolva Group expects to generate substantial revenues (at least similar to 2009) from discovery projects in 2010. All but one of the major contracts (including the contract with Roche) are expected to continue through year end 2010. The actual development of revenues will depend on whether Evolva closes new partnering contracts during the year. Operating costs will increase as the compound development projects progress towards and through clinical trials and the (non-cash) impact of the incentive option program established at the end of 2009 will increase staff costs. The cash burn is expected to be approximately CHF 20 million in 2010. Based on projections for future revenues and costs, the current cash position is expected to cover activities for the next 2–3 years.

# Company Strategy

**Evolva seeks to become a sustainably profitable biotech company. The potential reward of successful product development is substantial, but so is the inherent risk. In order to mitigate the risk, we aim to commercialise early and use the strength of our technology platform to generate revenues.**

## **Building a balanced business, offsetting risk**

Ultimately Evolva seeks to become a sustainably profitable biotech company, with high quality revenues deriving from the sale of proprietary products by Evolva or our partners. Substantial, multi-year, high-margin revenue streams will only come our way if we (or our partners) can turn our technology into successful pharmaceutical and related products. Hence compound and product development has to be a key part of our business.

However, pharmaceutical product development is a complex, risky and capital-intensive endeavour. Whilst the financial rewards that can accrue from successful development of a novel pharmaceutical product are substantial, the costs and risks of failure during its development are correspondingly high. Every biotech company must develop its own strategy for how to “navigate through” this development landscape, deriving ideally from its own unique strengths.

Evolva aims to use the strengths of our technology platform and the ability of this platform to deliver innovative products, coupled with early commercialisation, to build a business that is somewhat more diverse, and hence less risky, than companies that focus on necessarily narrow late-stage clinical pipelines. We want to avoid “betting the company” on one single product or trial. Building a balanced product portfolio both inside and outside the pharmaceutical sector ultimately has the best potential to deliver strong returns to our shareholders.

Thus the overriding challenge for Evolva in the next few years will be to ensure that we have the right BALANCE in our activities – to successfully build a pipeline of potentially lucrative products from our technology, without over-committing on any one in particular, whilst at the same time further developing the technology engine that creates and renews this pipeline.

In pursuit of this overall theme – of building a balanced portfolio and offsetting risk – we will follow three main approaches:

- Focus on differentiated product candidates that target significant unmet needs
- Maintain and grow our technology platform
- Maintain and expand our discovery and development partnerships

Each of these approaches is further detailed in the following sections of this report.

# Operations

**Evolva is headquartered in Switzerland and has additional operations in the United States, Denmark and India.**

Evolva has operations in Switzerland, the United States, Denmark and India. This international approach provides significant benefits in terms of recruitment of talented people, a diversity of mindsets, cost savings, and access to customers and other networks. Whilst it of course increases operational complexity, the benefits clearly outweigh the costs. We have adopted a variety of methods to promote integration and coordination between the sites.

## **Basel, Switzerland**

In the Basel area, Evolva operates from two locations: Reinach (deriving from Arpida) and Allschwil (deriving from Evolva SA). Research takes place on the core technology as well as on partnership programmes. In addition, business development and compound development are concentrated in the Basel area. The headcount in Switzerland amounted to 31 at the end of 2009. During 2010, we intend to consolidate operations onto one site.

## **Palo Alto, USA**

Evolva's wholly-owned subsidiary, Genetic Chemistry Inc., is currently focused on anti-infective drug research, working on technology development, assay development, high-throughput screening, and analytical and medicinal chemistry. At the end of 2009, the headcount in Palo Alto amounted to 15, 13 directly employed in R&D. The Palo Alto site has established the technology platform on US soil and has successfully delivered on all milestones of its anti-bacterial programme.

## **Copenhagen, Denmark**

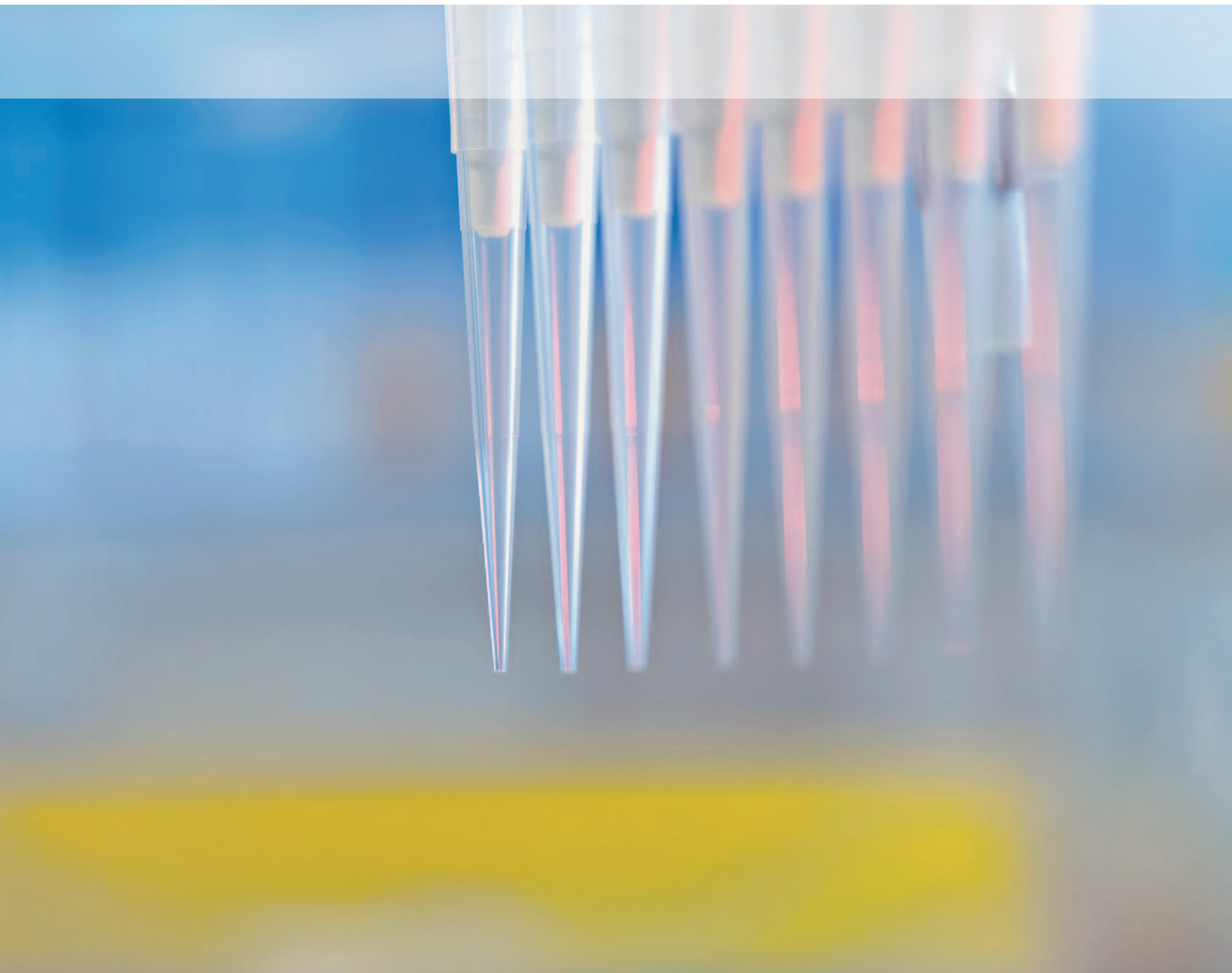
Our Copenhagen site works on assay construction, yeast technology and industrial applications of Evolva's technology. The site employed 14 staff at the end of 2009. During 2009, the Copenhagen site made significant contributions to several programmes such as an anti-viral project, an anti-cancer discovery project and a project involving biosynthetic pathway reconstruction.

## **Hyderabad, India**

Hyderabad works on the creation of gene libraries and synthetic and analytical chemistry. In addition, it works on industrial projects and informatics. At the end of 2009, Hyderabad employed 23 people.

# Partnerships & Business Model

Our partnership programmes proceeded on track in 2009. Early in 2010, we announced the enlargement of our partnership portfolio by a discovery collaboration with Roche. Partnerships are a key element of Evolva's strategy.



## Overall strategy

Entering and succeeding in partnerships around our technology and compounds is a key part of Evolva's strategy, since partnerships have multiple benefits to Evolva:

- They help us build a balanced portfolio of product candidates.
- They provide us with revenues that reduce our overall burn rate.
- They provide additional skills and capabilities outside Evolva's core competencies.
- They provide us with a better understanding of the needs of current and future customers (whether companies, payers, doctors, patients or consumers).

We have already entered into a number of partnerships around our technology, and will continue to do so in the future. Given the nature of our technology, we have, and will do so in the future, also entered partnerships outside the pharmaceutical sector – for example in areas such as biodefense, pharmaceutical intermediates, nutrition, agriculture and industrial chemicals. We will also seek to partner in order to reduce the cost and risk of clinical development (particularly the cost of late stage clinical trials) and access marketing capabilities. Such partnerships may enable Evolva to commercialise certain of our products without developing our own sales force.

## Progress in 2009

During 2009, our three most important partnerships were with:

### The US Defense Threat Reduction Agency

Evolva is engaged in the Transformational Medical Technologies Initiative (TMTI) of the US Defense Threat Reduction Agency in a programme to apply Evolva's technology to create compounds that modulate aspects of the human innate immune system and that hence provide individuals with the ability to better "resist" infections from a variety of pathogens. Products deriving from this programme are owned by Evolva (in some cases jointly with partners). The programme proceeded on track during the year. EV-075 results from this programme.

### Functional Genetics Inc.

Evolva is partnered with Functional Genetics in a TMTI-funded programme to create compounds that block certain interactions between pathogenic viruses and human proteins that are essential for the virus to propagate within a human. Products deriving from this programme are jointly owned by Evolva and Functional Genetics. The programme proceeded on track during the year.

### The US Army Research Office

Evolva's US subsidiary has a contract with the US Army Research Office to discover molecules that inhibit the growth of the pathogen *Burkholderia pseudomallei*. This is a highly infectious Gram-negative bacterial pathogen that causes the disease of *melioiodosis*. The disease is endemic in South East Asia and some neighbouring countries. The programme also has relevance to other bacterial pathogens. Products deriving from this programme are owned by Evolva. The programme proceeded on track during the year.

### Other partnerships

In addition, during 2009 Evolva had four smaller third party funded programmes that applied our technology to:

- Selected anti-cancer targets
- Selected anti-bacterial targets
- The glycosylation of certain compounds
- The reconstruction of certain biosynthetic production routes

All programmes proceeded on track during the year. The anti-cancer programme terminated (as planned) at year-end, and Evolva will pursue the further development of certain discovery-stage compounds arising from it.

## Expectations for 2010

With regard to existing programmes, the partnership with Functional Genetics is scheduled to end during 2010. All the other programmes are expected to continue through year-end 2010.

We expect to enter new partnerships during 2010.

In January 2010, Evolva announced a new partnership with **Roche**. The aim is to create compounds with activity on targets in oncology and anti-infectives, using Evolva's technology platform. Roche will pay Evolva an up-front technology access fee and ongoing research fees. Roche will have responsibility to take forward any compounds discovered during the collaboration and will potentially pay Evolva research and clinical milestone fees as well as royalties on any products that result from the collaboration. Evolva will have the first right to any compounds not taken forward, or subsequently deprioritised by Roche.

# Technology

Evolve has a distinctive technology platform, falling under the general heading of “synthetic biology”. Our approach differs from that of the mainstream in the pharmaceutical and chemical industries and can be applied across a broad range of areas.



## Overall strategy

Evolva has a distinctive technology platform with multiple applications and benefits in the pharmaceutical sector and related areas. Successfully maintaining and advancing our technology leadership will provide us with a lasting competitive advantage.

Evolva will therefore continue to invest in, and leverage, our technology – not only to expand our own product pipeline, but also to attract partners interested in using the technology in areas of importance to them.

## The rationale for our technology

Evolva uses biosynthetic and evolutionary technologies to artificially create and optimise small-molecule compounds and their production routes. Our approach falls under the general heading of “synthetic biology” and contrasts with the prevailing approach of the existing pharmaceutical and chemical industries which rely almost exclusively on synthetic chemistry (chemists making compounds in fume hoods) or protein engineering.

This ability to artificially create and optimise biosynthetic pathways and their resultant compounds is important, as many of the world’s most important drugs (statins, most antibiotics, aspirin, taxol, etc.) and other compounds (food ingredients, fragrances, lubricants, agrochemicals, etc.) have their origins in biosynthesis. The properties of such biosynthetic compounds are different from – and sometimes superior to – compounds originating from synthetic chemistry. Until recently, the only way to obtain such compounds was through conventional “bio-prospecting” from nature. But as the easy natural sources have become “tapped out” (to use an analogy with the oil industry), this has become increasingly difficult and the approach has been de-emphasised by most large companies – leaving a valuable chemistry space largely untapped.

Advances in molecular biology and related disciplines now allow new approaches to this chemistry space to be adopted. Just as molecular biology has, over the last 20 years, revolutionised the field of protein-based drugs, so it potentially can do the same for small-molecule-based drugs and industrial products in the future.

## Evolva’s approach

Our technology can be deployed in a wide variety of different formats depending on the needs of particular programmes and customers. However most programmes embody three core sequential steps, as described below.

### **1. The creation of large numbers of single-cell chemistry factories**

We create large (f.x  $10^6 - 10^9$ ) populations of cells, where each cell potentially encodes for and contains novel chemistry. To do this we first construct large gene libraries by sourcing or synthesising large numbers of genes. We then synthesise artificial chromosomes from these gene libraries and introduce these chromosomes into baker's yeast, such that each yeast cell receives a different set of chromosomes. By this means we give each yeast cell its own distinctive additional "mini-genome" that potentially allows it to make new biosynthetic pathways (encoded for by the new genes on the new chromosomes), and hence make new biosynthetic compounds.

### **2. The selection of those chemistry factories that have interesting activity**

We determine which (if any) of the single-cell factories contain interesting chemistries. To do this, an assay is either introduced to, or placed alongside each individual cell. This assay is designed such that those cells that contain chemistry that acts on the assay in the desired manner survive or otherwise show a selectable phenotype whilst the other cells do not. The cells are then screened and those cells that "hit" on the assay are selected from the rest of the population, leaving us with a small "pool" of cells that contain interesting chemistry.

### **3. The identification of the compounds and/or genes that confer the activity**

We analyse the interesting cells. Active cells are grown up and then taken into analytical chemistry and/or gene sequencing to identify the compounds that confer the activity and the genes that encode for them. By turning on and off the activity of the genes we have introduced, we can see which compounds correlate with the observed activity and by this means narrow down to a few "candidate active" compounds. These compounds are then purified and re-screened to confirm their activity.

From this point forward, a range of approaches can then be taken, depending on the programme needs and desires. For example:

- Active compounds can be prioritised according to relevant criteria and taken into further in-vitro or in-vivo studies.
- Active compounds can be synthetically or biosynthetically analogued to improve their properties.
- Active cells can be combined ("bred") with other cells to create new combinations of the genes that conferred the initial activity – leading in turn to variations in the original compound.
- The genes that encode for the biosynthetic pathway can be themselves analogued to make variant structures, or improve the yield of the compounds that have been made.

## Technology benefits

Amongst the benefits of our approach are that it can:

- Create distinctive compounds (natural and unnatural biosynthetic compounds, compounds with “human” characteristics, rigid compounds with interesting stereo-chemistries).
- Select compounds using complex criteria, using a wide range of assay formats that can select for whole cell effects, pathway effects, target effects or desired structural classes.
- Optimise on function, not affinity and simultaneously optimise on multiple properties.
- Select against toxic compounds and compounds with poor stability or distribution.
- Combine genes from multiple species and synthetic sources to create completely novel pathways.
- Optimise the pathway as a whole – identifying the “best gene combination” for a particular pathway with automatic selection for “non toxic yield”.
- Create and optimise pathways – by selecting for the pathway endpoint and then analysing those cells that achieve the endpoint to establish how they achieve it.
- Use baker’s yeast as host cell, which has GRAS status (Generally Regarded As Safe).

## Progress during 2009

During 2009, we advanced our technology on multiple fronts. Selected highlights are that we:

- Obtained compounds from a new assay format that uses mammalian cells to report on yeast cell activity. This allows our technology to be applied to a wide range of additional targets.
- Successfully used structure-guided screens – such that we can create desired structures even when a biological read-out is not readily available.
- Made step-change productivity improvements in two key cell library creation steps.
- Created our first hybrid compounds (compounds that derive from combining synthetic and biosynthetic chemistries).
- Derived several new chemistry classes from our programmes.
- Published our first peer-reviewed paper on the technology.
- Received approval and submitted several new patent applications in the USA, Europe and other markets.

We anticipate further advances during 2010.

# Compound Development & Pipeline

Evolve focuses on differentiated product candidates that target significant unmet needs. In the pharmaceutical field, we emphasise small-molecule compounds that can be delivered orally. We have one compound in Phase I clinical trials and two in late preclinical studies.



## Overall strategy

Evolva will focus on differentiated product candidates that target significant unmet needs. Such products provide both greater choice for the patient or consumer and better pricing potential for the supplier.

In the pharmaceutical sector, Evolva is particularly interested in cardio-renal and infectious disease indications because:

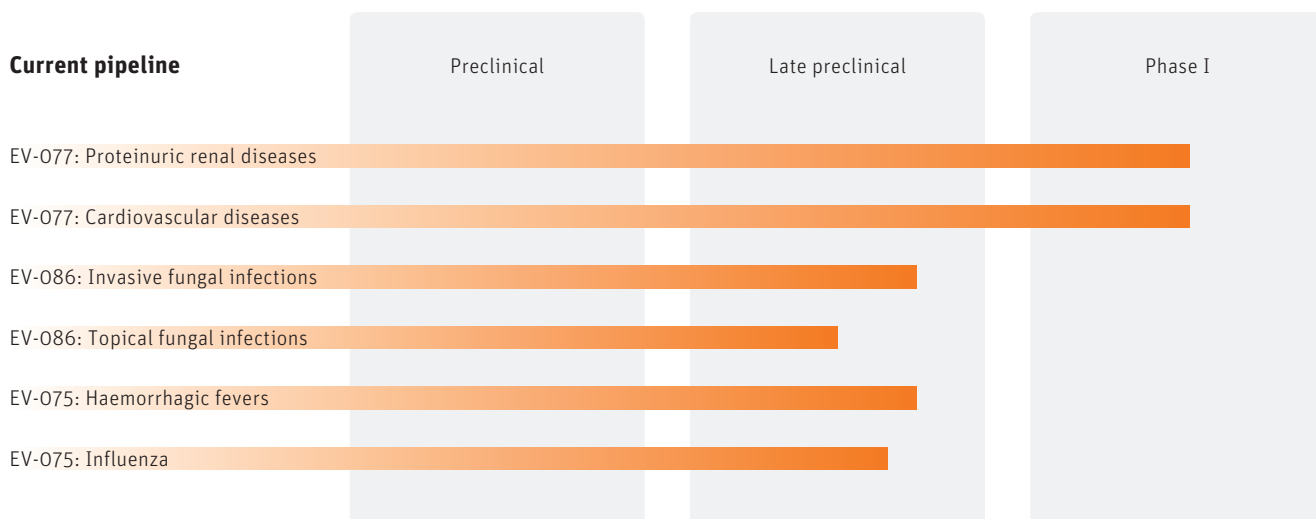
- together they cause 43% of all deaths in OECD countries, and 51% of all deaths worldwide. Consequently, they are both large markets with important unmet medical needs;
- compounds created by Evolva's technology have similar structural characteristics to natural products, which have a strong track record in these market sectors;
- they are especially important sectors in emerging pharmaceutical markets such as India and China, and hence are likely to have favourable growth dynamics in the future; and
- the world's top 20 pharmaceutical companies are all active in one of these two sectors, providing multiple opportunities to partner.

We emphasise small-molecule compounds that can be delivered orally. Oral administration is normally the most convenient administration route for patients and the most cost-effective for society. In most cases, small molecules are also cheaper to manufacture than biologics.

Although many of our potential products will be partnered in later clinical development, Evolva may take certain products to market on its own in selected indications compatible with its overall resources (e.g. orphan indications, products sold to specialists, products with low development costs and risks).

## Current pipeline

The status of Evolva's leading compounds can be summarised as below.



## EV-077

### Compound summary

EV-077 is an oral, small-molecule compound. It is a thromboxane receptor antagonist & thromboxane synthase inhibitor. It belongs to a novel structural class of drugs.

Evolva has prioritised the development of EV-077 for:

- 1) proteinuric renal diseases;
- 2) cardiovascular patients who do not respond adequately to existing anti-clotting agents.

Other potential applications of EV-077 include its use in renal transplant patients and the prevention of vascular graft occlusion in haemodialysis patients.

Evolva owns all rights to EV-077. Multiple patent applications have been filed regarding the composition and properties of EV-077.

### EV-077 in proteinuric renal disease

Healthy kidneys filter waste products out of the blood and leave in the elements the body needs, like albumin and other proteins. However, if the kidney's filtration system (the "glomeruli") becomes damaged, proteins from the blood can leak into the urine – leading to proteinuria (protein in the urine).

Damage to the glomeruli can result from many causes, including inflammatory damage in the kidneys. Often, this inflammation is mediated via chronic activation of the thromboxane receptor. Unchecked, the damage is cumulative, eventually reducing kidney function to the point where dialysis or transplantation is required.

Amongst the potential benefits of EV-077 as a treatment for proteinuria are that it:

- Has the potential to prevent and/or reduce "inflammatory" damage to the glomeruli and by so doing to preserve their structure and function.
- Could lead to a reduction of the amount of protein eliminated in the urine in individuals with impaired renal function and proteinuria.
- Could help afflicted individuals slow the progression of their disease (and possibly even stabilise it) and hence delay or reduce their eventual need for dialysis or transplants.
- Has the potential to reduce the elevated risk of cardiovascular events and mortality in these individuals.

Currently, more than 10 million people in the developed world have been diagnosed with diabetic nephropathy. Furthermore, some 120,000 people in the developed world have Adult Nephrotic Syndrome. Both diseases are increasing in incidence.

### EV-077 in arterial thrombosis

Some 29% of deaths worldwide result from cardiovascular ("CV") disease. One of the most common causes of cardiovascular morbidity and mortality is arterial thrombosis with approximately 13 million people dying every year from complications related to blood clots.

Patients at risk of arterial thrombosis typically receive aspirin, clopidogrel or similar drugs and these compounds are efficacious in a large percentage of individuals. However, a significant number of individuals (estimates vary, but between 10 and 30% of the at risk population) either cannot take these compounds or do not respond well to them. Most notably, many diabetics are not very effectively protected as diabetes can lead to increased production of certain prostanoid metabolites. These metabolites in turn activate the thromboxane receptor, and this increases the risk of platelet aggregation and thrombosis (clotting) for these individuals. Evolva has shown that EV-077 prevents many of the prostanoid metabolites from activating the thromboxane receptor.

Amongst the potential benefits of EV-077 as a treatment for arterial thrombosis are that it:

- May offer non-responders or poor-responders to existing drugs a new treatment option that may reduce their risk of thrombosis and of cardiovascular events.
- May allow for a reduced variability in individual response to the compound (EV-077 is not a pro-drug) hence broadening the number of patients responding to treatment.
- Has a very fast onset of action – hence providing rapid protection in emergency settings.
- Has a fully reversible mechanism of action. This potentially offers physicians a rapid way to reverse its anti-clotting action, enabling individuals to be put on and taken off medication quickly and invasive procedures and/or surgery to be performed as soon as required.

### Progress

During 2009, we conducted a Phase I single ascending dose study on EV-077. This study was a single-centre, double-blind, randomised, placebo-controlled study with ascending single oral doses of EV-077. A total of 55 subjects were included in the study, and seven doses of EV-077 were tested. This study showed that:

- EV-077 is a potent inhibitor of platelet aggregation.
- EV-077 has a very fast onset of action (compared to existing anti-platelet drugs) that might allow it to provide rapid protection from clotting.

- The action of EV-077 on the platelets is reversible (platelet function is restored when the compound is removed from the bloodstream).

During 2010, Evolva intends to perform a multiple ascending dose study, which will further assess the safety and tolerability, pharmacokinetics and pharmacodynamics of EV-077. Results are expected towards the end of 2010.

## EV-086

### Compound summary

EV-086 is a broad spectrum antifungal compound. It represents a new structural class and has a new mechanism of action compared to existing antifungals. It can be delivered orally, by infusion or topically. Against most medically relevant fungi EV-086 is more potent than the existing antifungal drugs.

Evolva has prioritised the development of EV-086 for:

- 1) treatment of invasive fungal infections via intravenous infusion and oral administration;
- 2) topical treatment of nail fungus.

Other potential uses of EV-086 include vaginal and oral *candidiasis*, lung *aspergillosis*, fungal induced *sinusitis*, *tinea capitis*, *tinea pedis* and ringworm.

Evolva owns all rights to EV-086. Multiple patent applications have been filed regarding the composition and properties of EV-086.

### EV-086 in invasive fungal infections (IFIs)

The human body is naturally exposed to various species of fungi. The immune system of the healthy individual efficiently protects the body from these microorganisms. However, in individuals with a weakened immune system invasive fungal infections can occur, with very high mortality rates. Conditions that compromise the function of the immune system include the immunosuppressive drugs associated with transplantations, cancer and cancer chemotherapy and AIDS. Furthermore, the elderly and the very young typically lack fully functional immune systems.

Invasive fungal infections are involved in 6% of hospital deaths and have a poor prognosis, with mortality rates from 30 to 80% (with treatment). Resistance to existing drugs is starting to become an issue.

Amongst the potential benefits of EV-086 as a systemic treatment for invasive fungal infections are that it:

- Could reduce the high levels of mortality associated with invasive fungal infections.

- Could treat patients with infections that are resistant to the existing antifungal drugs.
- Is synergistic (in-vitro) with certain existing antifungals and hence administration of EV-086 on top of standard treatment may offer higher efficacy with reduced toxicity.
- Does not inhibit human drug metabolising enzymes, such as CYP450s, at concentrations predicted to be efficacious in humans – thus potentially leading to fewer drug-drug interactions.

In preclinical in-vivo studies EV-086 has been shown to be efficacious in models of invasive and vaginal candidiasis, as well as models of topical fungal infections.

### EV-086 in nail fungus

Topical fungal infections are common and increasing in frequency. One of the most prevalent topical fungal infections is *Onychomycosis* (fungal infection of the nail). This infects up to 1 in 8 adults. *Onychomycosis* is characterised by nail discoloration and thickening and separation of the nail plate from the nail bed. Normally it is not life-threatening, but it can cause social embarrassment and, in some cases, pain. Diabetic patients and other risk groups have a greater risk of serious complications from the disease, sometimes necessitating limb amputations.

Amongst the potential benefits of EV-086 as a topical treatment for nail fungus are that it:

- Has a very high potency against dermatophytes – which should mean that less compound will need to be delivered across or around the nail to achieve a given level of efficacy compared to current products.
- Is fast-acting and cidal (i.e., it kills the fungus rather than just inhibiting its growth).
- May enable shorter dosing regimens, providing easier compliance and a lower relapse rate.
- May offer an efficacious topical treatment regime – providing an alternative to the existing oral treatments, but without their associated risk of toxicity.

### Progress

EV-086 is in late preclinical development for both invasive and topical infections. Good laboratory practice (GLP) toxicity studies on an oral formulation were completed during 2009 and we are currently conducting GLP infusion toxicity studies. We also designed several prototype topical formulations.

During 2010, Evolva plans to submit a clinical trial application for a first-in-man study using an intravenous infusion formulation, as well as a clinical trial application for a topical formulation.

## EV-075

### Compound summary

EV-075 is an oral, small-molecule compound being developed for the prevention and potential treatment of viral diseases. It has a different mechanism of action from existing anti-virals and has shown efficacy against a range of viral infections in preclinical studies.

Currently prioritised indications for EV-075 are:

- 1) the prevention and treatment of haemorrhagic fevers (in particular those caused by the Ebola virus);
- 2) the prevention and treatment of influenza.

EV-075 has potential utility against a range of other pathogens.

Evolva owns all rights to EV-075. Multiple patent applications have been filed regarding the composition and properties of EV-075. Development of EV-075 is currently funded by the US Defense Threat Reduction Agency.

### EV-075 in haemorrhagic fevers

Haemorrhagic fevers are a group of illnesses, caused by viruses such as Ebola, Lassa and Marburg that are characterised by a high fever and internal and external bleeding. Ebola itself is a very contagious virus that is normally fatal in humans. Its very lethality restricts its spread under normal conditions. There is no available vaccine or therapeutic. The primary market for an anti-Ebola treatment would be for stockpiling as part of biodefence strategies by the US and other national governments.

In preclinical studies, the prophylactic treatment of Ebola infections with EV-075 resulted in a survival rate of approximately 60–80% (compared to a 0% survival rate without treatment). In humans, this effect could provide individuals at risk of contracting Ebola with significant protection. It may also provide the basis for effective treatment of individuals who have contracted Ebola.

### EV-075 in influenza

Influenza is a viral infection that affects mainly the nose, throat, bronchi and, occasionally, lungs. Most infected people recover within one to two weeks without requiring medical treatment. However, in the young, the elderly, and those with other serious medical conditions, infection can lead to severe complications of the underlying condition, pneumonia and death.

Influenza epidemics occur yearly during autumn and winter in temperate regions. In some tropical countries, influenza viruses circulate throughout the year with one or two peaks during rainy seasons. Worldwide, these annual epidemics result in about three to five million cases of severe illness, and about 250,000 to 500,000 deaths. Most deaths associated with influenza in industrialised countries occur among people aged 65 or older.

Amongst the potential benefits of EV-077 as a treatment for influenza are that it:

- Could potentially reduce the risk of catching influenza when given as prophylaxis.
- May reduce the severity of the infection once caught.
- May be less prone to the development of drug resistance (a major issue with flu-like viruses) given its mechanism of action.
- May reduce the complications (such as lung function impairment) seen in influenza.

### Progress

EV-075 entered preclinical development during 2009. Multiple efficacy studies in a variety of preclinical models were performed and amongst other results showed EV-075 to be superior to Tamiflu™ in reducing the level of lung damage caused by infection. GLP studies on an oral formulation are ongoing.

## Other compounds

Evolva has several other compounds at earlier stages of development. These include:

- EV-021 – in early preclinical development. Preclinical studies conducted during 2009 have shown that EV-021 confers protection against both E. coli and Anthrax.
- EV-009 – in early preclinical development. Studies on EV-009 during 2009 have shown it to have activity against both viral and bacterial organisms, and to be well tolerated.
- EV-050 – a potent antifungal that has shown activity against plant pathogens such as Botrytis cinerea.

In addition, we have earlier stage compounds arising from the various discovery programmes mentioned in the technology section, as well as analogs to our three lead compounds.

## The terminated Arpida programmes

All research and development activities regarding Arpida's compounds and therapies were discontinued in the course of 2009 prior to the merger of Evolva and Arpida. In respect of Arpida's two most advanced programmes:

**Iclaprim** – All assets, data and intellectual property rights relating to the antibiotic iclaprim were sold to Acino Holding AG for CHF 2.1 million in cash.

**TLT** – Arpida acquired this antifungal therapy via the purchase of TLT Medical Ltd. in August 2007. The clinical programme was terminated in 2009. Evolva is evaluating options for TLT Medical Ltd. which could include liquidation.

Currently there are no active research or development programmes based on Arpida compounds.

Evolva is evaluating the potential of Arpida's remaining early-stage compounds.

# Corporate Governance

Evolve Holding SA is a Swiss stock corporation established under the laws of Switzerland with registered office in Reinach (Basel-Landschaft). Its business purpose is to engage in the research, development and commercialisation of pharmaceutical products and other biotechnology activities. The Company is listed on the SIX Swiss Stock Exchange and is therefore subject to the rules of the SIX, including the Directive on Information relating to Corporate Governance. Evolve Holding SA applies the Swiss Code of Best Practice for Corporate Governance.



## Group structure and shareholders

### Group structure

The Company was previously operating under the name of Arpida Ltd. (“Arpida”). On 11 December 2009, Arpida acquired the entire share capital of Evolva SA, a biotech company with registered office in Allschwil (Canton of Basel-Landschaft). At the same time, the Company changed its name to Evolva Holding SA, the Board of Directors was partially replaced and the management of Evolva SA took over the management of the Company.

As of 31 December 2009, the Evolva group (“Evolva”) consisted of Evolva Holding SA as holding company and the following non-listed direct or indirect subsidiaries:

Name	Country	Issued share capital	Shareholder	% of equity held
Evolva SA	Switzerland	CHF 6,369,540	Evolva Holding SA	100
Arpida UK Ltd.	UK	GBP 1,000	Evolva Holding SA	100
Arpida A/S	Denmark	DKK 4,311,583	Evolva Holding SA	100
TLT Medical Ltd.	Switzerland	CHF 308,751	Evolva Holding SA	100
Evolva Biotech A/S	Denmark	DKK 1,118,071	Evolva SA	100
Evolva Biotech Private Ltd.	India	INR 168,860	Evolva SA	59
Genetic Chemistry, Inc.	USA	USD 100	Evolva SA	100

The operational activities of the Evolva group are carried out by Evolva SA and its subsidiaries.

The US subsidiary of Arpida, Arpida Inc., was sold to its management on 30 November 2009 for a symbolic amount.

## Shareholder structure

As of 31 December 2009, the Company had 4,507 registered shareholders representing 95% of the total share capital.

The following shareholders had holdings of over 3% at year-end 2009:

Shareholder	% of share capital	Located
Sunstone Life Science Ventures Fund I K/S	12.5	Denmark
Auriga Ventures III	8.8	France
Wellington Partners Ventures III Life Science Fund L.P./ Wellington Partners Ventures III Life Science Network Fund	8.5	Channel Islands
Renaissance PME fondation Suisse d'investissement/ Mona Lisa Capital AG	8.5	Switzerland
Dansk Innovationsinvestering P/S	7.2	Denmark
Aravis Venture I LP	7.0	Cayman Islands
Novartis Bioventures Ltd.	5.8	Bermuda
Entrepreneurs Fund General Partners Limited	5.5	Channel Islands
Baltisches Haus Limited	3.9	Lithuania
BioMedInvest II LP	3.8	Channel Islands
Symbion Capital I A/S	3.6	Denmark
Astellas Venture Capital, LLC	3.5	USA

All shareholders listed above were previously shareholders in Evolva SA and became shareholders in Evolva Holding SA through the acquisition by Evolva Holding SA (formerly Arpida Ltd.) of Evolva SA on 11 December 2009.

The holdings of the shareholders listed above are subject to a lock-up which expires on 14 December 2010. This lock-up also applies to shares held by other former shareholders in Evolva SA, including management and employees. In total, 117,836,490 Evolva Holding SA shares are subject to the lock-up.

APIDC and Ventureast hold options for 10,997,880 shares (7.9% of the issued share capital) in Evolva Holding SA.

During the year under review, the following investors reported that their holdings had fallen below the minimum reportable threshold of 3%:

- Deutsche Bank AG, Frankfurt, Germany (DWS Investment GmbH)
- Fidelity International Limited, Hamilton, Bermuda
- Capital Group Companies, Los Angeles, USA
- MKM Longboat Multi-Strategy Master Fund Ltd., George Town, Cayman Islands, British West Indies

A detailed list of all changes in significant shareholdings is available on the website of SIX ([www.six-swiss-exchange.com](http://www.six-swiss-exchange.com), symbol: EVE).

## Cross-shareholdings

As of 31 December 2009, no cross-shareholdings existed.

## Capital structure

### Issued share capital

As of 31 December 2009, 139,178,594 registered common shares were issued and outstanding with a nominal value of CHF 0.20 each, representing a nominal share capital of CHF 27,835,718.80. All shares are fully paid up. As of 31 December 2009, Evolva holds 1,591,370 shares in treasury.

### Conditional capital for incentive option plans

As of 31 December 2009, conditional capital of CHF 4,253,535.00 was available for the issuance of 21,267,675 shares under the incentive option plan to employees of the Company or its subsidiaries, Board members and other key persons. For details regarding the terms and conditions of such options, please refer to the Notes to the Consolidated Financial Statements on page 59–62.

### Authorised capital

As of 31 December 2009, authorised capital of CHF 500,000 was available for the issuance of up to 2,500,000 shares in the framework of a potential stabilisation related to the listing of new shares in December 2009. This authorisation expired on 28 February 2010 and was not used.

As of 31 December 2009, authorised capital of CHF 399,330 was available for the issuance of up to 1,996,650 shares in the framework of a restructuring of the Group. This authorisation will expire on 30 June 2010.

### Capital for financing purposes

The Annual General Meeting of shareholders on 7 May 2008 approved the creation of conditional capital of CHF 640,000 (3,200,000 shares), available for the exercise of options in relation with convertible bonds, bonds with options rights and similar forms of financing. The Extraordinary General Meeting on 26 November 2009 increased this conditional capital to CHF 2,800,000 (14,000,000 shares).

The Annual General Meeting of shareholders on 7 May 2008 also approved the creation of authorised capital of CHF 640,000 (3,200,000 shares) which expires on 8 May 2010. The Extraordinary General Meeting on 26 November 2009 increased this authorised capital to CHF 2,800,000 (14,000,000 shares). The authorised capital created on 26 November 2009 expires on 26 November 2011.

The following restrictions apply to the conditional capital as well as to the authorised capital created on 7 May 2008 and 26 November 2009: The available conditional capital is reduced by the amount used as authorised capital. The available authorised capital is reduced by the amount used as conditional capital.

As per year-end 2009, the additional capital that was approved in the general meetings on 7 May 2008 and 26 November 2009 had not yet been used.

For detailed information regarding the capital structure, reference is made to the Articles of Association which are available on the Evolva website ([Articles of Association](#)).

### Changes in capital

The number of common shares outstanding at year-end 2006 amounted to 17,183,232, representing a nominal share capital of CHF 3,436,646. For changes in capital that took place prior to 2007, reference is made to the 2007 annual report.

During 2007, the total number of common shares outstanding rose by 2,310,872 to 19,494,104, with a total nominal value of CHF 3,898,820 as of 31 December 2007. The increase is largely due to the placing of March 2007, involving 1,700,000 new shares. In addition, 558,052 shares were issued due to the exercise of staff options and another 52,820 in conjunction with the closing of the TLT acquisition in August 2007. In the share placing of March 2007, 1.7 million registered common shares from authorised capital were placed with institutional investors via an accelerated book-building transaction.

During 2008, the total number of common shares outstanding rose by 1,600,000 to 21,094,104 with a total nominal value of CHF 4,218,820 as of 31 December 2008. The increase is due to the placing of 1 April 2008, involving 1,600,000 new shares from authorised capital.

In 2009, the total number of common shares outstanding rose by 118,084,490 to 139,178,594 with a nominal value of CHF 27,835,718.80 as of 31 December 2009. The increase is caused by the combination with Evolva SA (issuance of 117,836,490 shares to the shareholders of Evolva SA in exchange for the contribution in kind of all shares in Evolva SA to the Company) and by the exercise of employee incentive options (248,000 shares).

### Description of the shares

As of 31 December 2009, the Company had only common shares outstanding. No bearer shares or participation certificates have been issued. All shares have a nominal value of CHF 0.20. Each share carries one vote at the shareholders' meetings of the Company – subject to limitations as described below. The shareholders' meeting may at any time convert registered shares into bearer shares and bearer shares into registered shares through an amendment of the Articles of Association.

### Limitations on transferability and nominee registration

A transfer of shares is effected by a corresponding entry in the books of a bank or depository institution following an assignment in writing by the selling shareholder and notification of such assignment to the Company by the bank or the depository institution. A transfer of shares further requires that a shareholder file a share registration form in order to be registered in the share register of the Company with voting rights. Failing such registration, a shareholder may not vote at or participate in a shareholders' meeting. A purchaser of shares will be recorded in the Company's share register as a shareholder with voting rights if the purchaser discloses its name, citizenship or registered office and address and gives a declaration that it has acquired the shares in its own name and for its own account.

The Articles of Association (Art. 5) provide that a person or entity not explicitly stating in its registration request that it will hold the shares for its own account ("Nominee") may be entered as a shareholder in the share register with voting rights for shares up to a maximum of 5% of the outstanding nominal share capital. Shares held by a Nominee that exceed this limit are only registered in the share register with voting rights if such Nominee declares in writing to disclose name, address and shareholding of any person or legal entity for whose account it is holding 1% or more of the outstanding nominal share capital. The limit of 5% shall apply correspondingly to Nominees who are related to one another through capital ownership or voting rights or have a common management or are otherwise interrelated.

The Company has Nominee Agreements with two Nominees. This should facilitate shareholder identification and the voting procedure for shareholders' meetings.

A share being indivisible, the Company will only recognise one representative for each share. Furthermore, shares may only be pledged to the bank that administers the bank entries of such shares for the account of the pledging shareholders; in such case, the Company must be notified.

## Convertible bonds and options

As of 31 December 2009, the Company did not have any convertible bonds or warrants outstanding.

Evolva Holding SA has established several incentive option plans in order to attract, motivate and retain key staff and thus enhance the value of the Company by giving key people an opportunity to become shareholders of the Company.

The terms of the incentive option plans are determined by the Board of Directors.

At year-end 2009, conditional capital for the issuance of 21,267,675 shares under option plans remains. The majority of the incentive options vest over a period of five years and in case of termination of contract, non-vested options are forfeited. Pre-emptive subscription rights of the shareholders are excluded in case of exercise of the options. For further information about the incentive option plans, reference is made to the Notes to Consolidated Financial Statements on page 59–62.

In addition, APIDC and Ventureast hold purchase positions for 10,997,880 shares (7.9% of the issued share capital) in Evolva Holding SA.

## Board of Directors

The Articles provide that the Board of Directors (Verwaltungsrat) of the Company (the Board of Directors) may consist of a minimum of five directors and a maximum of eleven directors. As of 31 December 2009, the Board of Directors consisted of seven directors.

Directors are appointed to and removed from the Board of Directors by a shareholders' resolution. The maximum term of office for a member of the Board of Directors is three years. A year means, in this context, the period running between one ordinary shareholders' meeting (Generalversammlung) and the next. Re-election is allowed. The various terms of office are expected to be fixed in a way to ensure that approximately one-third of all members are newly elected or re-elected each year. New members elected during the year continue in office until the end of their predecessor's term.

The Board of Directors is entrusted with the ultimate direction of the Company's business and the supervision of the persons entrusted with the Company's management. It represents the Company towards third parties and manages all matters which have not been delegated to another body of the Company by law, the Articles or by other regulations. The Board of Directors' non-transferable and irrevocable duties include the ultimate direction of the Company and the power to issue the necessary directives in this regard; the determination of the organisation of the Company; the administration of its accounting system, its financial controls as well as its financial planning; the appointment and removal of the persons entrusted with the management and representation of the Company, as well as the determination of their signatory power; the ultimate supervision of the Management of the

Company, in particular with respect to their compliance with the law, the Articles, regulations and directives; the preparation of the annual report and the shareholders' meeting, including the execution of its resolutions; the notification of the judge in case of over-indebtedness; the passing of resolutions confirming increases of the share capital and the respective amendments of the Articles; the examination of the professional qualifications of the auditors; and the non-delegable and inalienable duties and powers of the Board of Directors pursuant to the Federal Act on Merger, Demerger, Transformation and Transfer of Assets (the "Swiss Federal Merger Act") and any other applicable law.

In accordance with Swiss law, the Articles and the Organisational Regulations, the Board of Directors has delegated Evolva's executive management to the chief executive officer of the Company (the "CEO") who is supported by the Group Management Team (as defined below).

The Board of Directors constitutes itself. It elects from among its members a Chairman and, if necessary, one or several Vice-Chairmen. It further appoints a secretary who need not be a member of the Board of Directors. According to the Company's Board Regulations (Organisationsreglement) enacted by the Board of Directors and revised most recently on 11 December 2009, the Board of Directors meets at the invitation of the Chairman or the secretary as often as required, but in any event at least four times per year. In 2009, the Board of Evolva SA convened ten times, of which six times by way of conference calls. The new Board of Evolva Holding SA, elected in the Extraordinary General Meeting on 26 November 2009, convened once in 2009.

The agenda for the meetings is prepared by the secretary of the Board of Directors in close consultation with the Chairman and the CEO. In general, the main agenda items are the progress of the research and development pipeline, the financial situation, the risks and the Company's strategic opportunities. The Board of Directors receives an extensive reporting set ahead of each meeting, consisting of activity reports and financial reports. In most cases, the CEO, the CFO and other members of the Group Management, are present at the Board of Directors' meeting, except for those where the Board of Directors reviews the management's performance. The Board of Directors can ask for additional information and can consult external experts if deemed necessary.

Resolutions of the Board of Directors are passed by way of simple majority of the votes cast. In the case of a tie, the Chairman has the casting vote. To validly pass a resolution, a majority of the members of the Board of Directors must attend the meeting. Absent members cannot be represented. No quorum is required for confirmation resolutions and amendments of the Articles in connection with capital increases pursuant to articles 652g and 653g of the CO as well as approvals pursuant to articles 23 and 70 of the Swiss Federal Merger Act in case the transferred assets do not exceed 10% of the total assets of the Company.

## Board committees

The Board of Directors has established an Audit Committee and a Nomination and Compensation Committee to strengthen the Company's corporate governance.

### Audit Committee

As of 31 December 2009, the Audit Committee consisted of Jean-Philippe Tripet (chairman) and Prof. Dr. Erich Schlick.

The Audit Committee assists the Board of Directors in fulfilling its duties of supervision of the management. It is responsible for the guidelines for the Company's risk management and internal control system, the review of the compliance system, the review of the auditors' audit plans, the review of annual and interim financial statements, the monitoring of the performance and independence of external auditors (including the authorising of non-audit services by the auditors and their compliance with applicable rules), the review of the audit results and the monitoring of the implementation of the findings by management. After examination by the Audit Committee, the (interim) accounts are approved and recommended for approval by the Board of Directors.

### Nomination and Compensation Committee

As of 31 December 2009, the Nomination and Compensation Committee consisted of the following non-executive members: Dr. Jacques Mallet, Mr. Michel Pettigrew (chairman) and Ms. Ingelise Saunders.

The Nomination and Compensation Committee assists the Board of Directors in nomination and compensation related matters. It provides the Board of Directors with recommendations on the nomination and compensation of members of the Board of Directors and the CEO, policies for the nomination and compensation of the Group Management Team and the Group's other employees and the basic principles for the establishment, amendment and implementation of incentive plans.

### Members of the Board of Directors

The following table sets forth the name, function and committee membership of each member of the Board of Directors as of 31 December 2009.

The members of the Board of Directors elected at the Extraordinary General Meeting of shareholders, held on 26 November 2009, have been elected for an interim-term ending at the Annual General Meeting in 2010. The term of the other two members of the Board of Directors elected at earlier general meetings of shareholders, will also end at the Annual General Meeting 2010.

Name	Function	Born	First elected	End of current period	Nomination and compensation committee	Audit Committee
Prof. Dr. Erich Schlick	Chairman	1952	2009*	2010		Member
Jean-Philippe Tripet	Vice-Chairman	1963	2009*	2010		Chairman
Neil Goldsmith	Managing director and CEO	1963	2009*	2010		
Dr. André Lamotte	Member	1948	1997	2010		
Dr. Jacques Mallet	Member	1960	2009*	2010	Member	
Michel Pettigrew	Member	1953	2007	2010	Chairman	
Ingelise Saunders	Member	1949	2009*	2010	Member	

\* Elected at the Extraordinary General Meeting of shareholders of 26 November 2009.

The business address for each member of the Board of Directors is Duggingerstrasse 23, 4153 Reinach, Switzerland.

All Board members, except for Neil Goldsmith, are non-executives. Other than disclosed below, none of the non-executive directors have any significant business connections with the Company or its subsidiaries.



**Prof. Dr. Erich Schlick**  
Chairman of the Board of Directors



**Jean-Philippe Tripet**  
Vice-Chairman of the Board  
of Directors



**Neil Goldsmith**  
Member of the Board of Directors  
and CEO



**Dr. André Lamotte**  
Member of the Board of Directors

**Prof. Dr. Erich Schlick**, German national, born in 1952. Prof. Dr. Erich Schlick has been member and Chairman of the Board of Directors since 11 December 2009.

Prof. Dr. Schlick has over 25 years of experience in the health-care sector. He spent five years at the US National Cancer Institute, and over 15 years with BASF Pharma, including ten years as the executive board member responsible for worldwide R&D. Prof. Dr. Schlick established BASF Pharma's immunology business, and its US biotech centre specialising in immunology and monoclonal antibodies. From 2001 to September 2005, Prof. Dr. Schlick worked for 3i, where his last position was Head of 3i's Healthcare Team in Germany and as Deputy Head of 3i Healthcare Worldwide. In September 2005, Prof. Dr. Schlick joined Wellington Partners as a General Partner of the Wellington Life Science Fund, which is a principal shareholder in the Company. Prof. Dr. Schlick is a qualified medical doctor (University of Heidelberg) and a professor of immune pharmacology at the University of Heidelberg. His other board memberships include Immatics (Germany), Sensimed (Switzerland), Symetis (Switzerland) and Zentralinstitut für Seelische Gesundheit Mannheim, University of Heidelberg (University Center for Psychiatry). Prof. Dr. Schlick's past board memberships include the German companies Paion, Trigen, BMDSys and Elara.

**Jean-Philippe Tripet, CFA**, Swiss national, born in 1963. Jean-Philippe Tripet has been a member and Vice-Chairman of the Board of Directors since 11 December 2009.

Mr. Tripet has over 15 years of experience in healthcare venture capital. He is the Chairman and Managing Partner of Aravis Venture, a leading Swiss venture capital firm, which he founded in 2001 and which is a principal shareholder in the Company. Previously, Mr. Tripet served as Senior Executive Vice-President of Lombard Odier & Cie, where he headed Equity Asset Management and Research worldwide and also co-founded and headed the Lombard Odier Immunology Fund. Prior to that, he was Vice-President of Equity Research at Union Bank of Switzerland, Zurich and London. Mr. Tripet received his Master in Business Administration from the University of Geneva. Mr. Tripet's other board memberships include: Omeros (USA), Merlion (Singapore), S Bio (Singapore), Symetis (Lausanne, Switzerland), Telomedix (Lugano, Switzerland), Synosia (Basel, Switzerland) and Fondation Fournier-Majoie pour L'innovation (Belgium). He was previously a director of Combinature (Germany), Borean (Denmark), ESBATech (Switzerland) and Athelas (Switzerland).

**Neil Goldsmith**, British national, domiciled in Switzerland, born in 1963. Neil Goldsmith has been a member of the Board of Directors and the Chief Executive Officer of the Company since 11 December 2009. He co-founded Evolva SA and has been a member of the Board of Directors of Evolva SA and its Chief Executive Officer since April 2004.

Mr. Goldsmith has a 22-year track record in building successful biotech companies from the ground up. He was a co-founder of TopoTarget A/S and Personal Chemistry AB (now called Biotage AB), which are now listed on the Copenhagen and Stockholm exchanges, respectively. Prior to that, Mr. Goldsmith was Chief Executive Officer of Auda Pharmaceuticals (acquired by Phytera Inc.), GX Biosystems and PNA Diagnostics (acquired by Boehringer Mannheim). Previously, he was VP Business Development for Pharmacia Biosensor (later BIAcore AB), and a Board Member of Quadrant Healthcare. Mr. Goldsmith started his career in biotech at Scientific Generics in Cambridge, UK, after a short spell in consumer marketing. He received a First Class Honours BA Degree in Zoology from Balliol College, University of Oxford, and is a graduate of the New Enterprise Programme at the Scottish Enterprise Foundation, University of Stirling. Mr. Goldsmith does not hold any significant board memberships.

**Dr. André Lamotte**, Swiss national, born in 1948. Dr. André Lamotte has been a member of the Board of Directors since co-founding Arpida Ltd. in 1997. He was Chairman of the Board of Directors until 11 December 2009.

Dr. Lamotte is an entrepreneur who founded, co-founded or seed financed as well as led follow-up financing rounds for 18 pharmaceutical and biotech companies (Acambis-Oravax, Axovan, Creagen-Neurex, de Code genetics, Diatide, ICAgen, Inspire Pharmaceuticals, Paion, Targacept, Vernalis), medtech companies (Cryocath) and medical service companies (Laser Vision, Worldcare). He has been acting as a private entrepreneur and investor since 1996. Dr. Lamotte was also partner of NMT/HBM and the Harvard Medical School Venture Fund, general manager of Pasteur Merieux US operations and marketing manager at Sandoz. He has a Ph.D. in chemical engineering from MIT, an MBA from Harvard and is a graduate from Ecole Centrale Paris. Dr. Lamotte is a member of the Board of Directors of the following firms: ICAgen and MSPI. Dr. Lamotte was previously on the board of URRMA.



**Dr. Jacques Mallet**  
Member of the Board of Directors



**Michel Pettigrew**  
Member of the Board of Directors



**Ingelise Saunders**  
Member of the Board of Directors

**Dr. Jacques Mallet**, French national, born in 1960. Dr. Jacques Mallet has been a member of the Board of Directors since 11 December 2009.

Dr. Mallet started his career in 1989 as a Management Consultant for Andersen Consulting Paris, specialised in Healthcare and Pharmaceuticals. In 1996, he joined HMR/Aventis as Senior Director for Portfolio and Project Management based in Bridgewater (NJ, USA). In 2000, Dr. Mallet moved to the Monitor Group as Vice-President, where he conducted a wide variety of strategy consulting engagements for the Life Sciences industry. Initially based in New York, he transferred to the Paris office in 2001. Dr. Mallet joined Auriga Partners in January 2006, where he is responsible for investments in the Life Sciences sector. Auriga Partners is a principal shareholder of the Company. Dr. Mallet is an MD from Paris University, was an intern at Assistance Publique/Hôpitaux de Paris, and also holds a BS from the American University in Paris. Dr. Mallet's other board memberships include: Alchimedics, Theraptosis and SuperSonic Imagine. Dr. Mallet's previous board memberships include Tigenix and Implanet Partners.

**Michel Pettigrew, MBA**, Canadian national, domiciled in Switzerland, born in 1953. Michel Pettigrew has been a member of the Board of Directors since 2007.

Mr. Pettigrew started his career in 1976 at Procter & Gamble Inc. in Canada, where he worked in various financial functions. In 1980, he joined the global pharmaceutical company Bristol-Myers Squibb, where he worked for units in Canada and the United States, as well as in Europe and Asia. Initially, his responsibilities were in Finance, but these rapidly grew to include full business accountability as General Manager of several subsidiaries in different parts of the world. In 2001, Mr. Pettigrew moved to Ferring Pharmaceuticals, a privately owned research-driven speciality biopharmaceutical company. He is currently President, Executive Board & Chief Operating Officer of Ferring Pharmaceuticals, overseeing all sales, marketing and manufacturing activities around the world. Mr. Pettigrew has a Bachelor of Commerce degree from McGill University in Montreal, Canada, and an MBA from York University in Toronto, Canada.

**Ingelise Saunders**, Danish national, born in 1949. Ingelise Saunders has been a member of the Board of Directors since 11 December 2009.

Ms. Saunders has more than 30 years of experience in the biotech/pharmaceutical industry. She is currently President and Chief Executive Officer of TD Vaccines A/S and CEO of Action Pharma A/S. Previously, she was President and Chief Executive Officer of ACE BioSciences (DK) for five years. Prior to that, Ms. Saunders was the Chief Executive Officer for three years of Celltech Pharmaceuticals plc (UK) with global commercial responsibility, and spent 16 years with Novo Nordisk in a number of top level executive management positions both in Denmark and in the UK. Ms. Saunders has a Cand.Pharm. degree from the University of Copenhagen, Royal Danish School of Pharmacy, and a Bachelor of Commerce degree in Marketing. Her other board memberships include: Scandinavian Life Science Invest AB, Topotarget A/S, ALK-Abello A/S and Nordic Vaccine A/S (Chairman).

### Information and control instruments

Evolve Holding SA employs an extensive reporting framework in order to secure an efficient management information and risk management. Risk management is applied in all functional areas but particularly in the areas of discovery, clinical development and financial management.

Management information is secured via weekly updates on the status of all R&D projects and detailed project plans are discussed at least on a monthly basis. From each subsidiary and on a group basis, Management receives liquidity updates on a weekly basis and monthly, quarterly and annual P&L reports. Deviations from budgets are analysed by the Company's financial staff and, if necessary, adjustments to operating budgets are made.

Management reports usually monthly on the overall progress, to the Board of Directors. At the meetings of the Board of Directors, detailed reports of the various functional areas are discussed.

External auditors review Evolve Holding SA's risk management and financial reporting systems on a regular basis and recommend changes if required.

## Executive management

In accordance with Swiss law, the Articles and the Organisational Regulations, the Board of Directors has delegated the executive management of the Company to the CEO.

The CEO heads the executive management team of Evolva (the “Group Management Team”), which comprises the senior executive officers of the Company, the Chief Executive Officer of Genetic Chemistry, Inc. (the Company’s US subsidiary), and the Chief Executive Officer and Managing Director of Evolva Biotech Private Limited (the Company’s Indian subsidiary). Under the control of the Board of Directors, the Group Management Team conducts the operational management of Evolva pursuant to the Organisational Regulations and reports to the Board of Directors on a regular basis. The CEO is also a member of the Board.

### Composition of the Group Management Team

The following table sets forth the name and principal position of each member of the Group Management Team, followed by a short description of each member’s age, nationality, business experience, education and activities. All members of the Group Management Team were appointed on 11 December 2009. Years in brackets indicate when the individual entered the management team of Evolva SA or one of its subsidiaries.

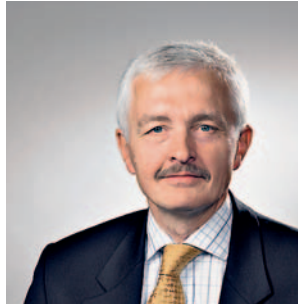
<b>Name</b>	<b>Born</b>	<b>Appointed</b>	<b>Position</b>
Neil Goldsmith	1963	2009 (2004)	Chief Executive Officer and Managing Director
Jakob Dynnes Hansen	1955	2009 (2007)	Chief Financial Officer
Prof. Dr. Jutta Heim	1951	2009 (2009)	Chief Technology Officer
Dr. Jessica Mann	1956	2009 (2009)	Chief Medical Officer
Dr. Pascal Longchamp	1962	2009 (2005)	Vice-President, Business Development
Dr. Alexandra Santana Sorensen	1970	2009 (2004)	Vice-President, Compound Development
Dr. Melya Hughes Crameri	1964	2009 (2005)	Chief Executive Officer of Genetic Chemistry, Inc.
Dr. Panchapagesa Murali	1961	2009 (2006)	Chief Executive Officer and Managing Director of Evolva Biotech Private Limited

Dr. Mann is acting as the Chief Medical Officer of the Company pursuant to a consulting contract dated 1 November 2009, between the Company (as assignee of Evolva SA) and CVDC GmbH, a consulting company owned by Dr. Mann. Under such consulting contract, Dr. Mann is expected to work the equivalent of three to four days per week for the Company, against payments to CVDC GmbH from Evolva of approximately CHF 340,000 per year.

The business address for each member of the Group Management Team is Duggingerstrasse 23, 4153 Reinach, Switzerland.



**Neil Goldsmith**  
Chief Executive Officer



**Jakob Dynnes Hansen**  
Chief Financial Officer



**Prof. Dr. Jutta Heim**  
Chief Technology Officer



**Dr. Jessica Mann**  
Chief Medical Officer

**Neil Goldsmith**, please refer to “Board of Directors” on page 32.

**Jakob Dynnes Hansen, MBA**, Danish national, domiciled in Switzerland, born in 1955. Jakob Dynnes Hansen has been the Chief Financial Officer of the Company since 11 December 2009. Mr. Hansen has been the Chief Financial Officer of Evolva SA since September 2007.

Mr. Hansen has more than 20 years of experience in biotech/ pharmaceuticals and finance. Prior to joining Evolva SA, he was CFO of Nuevolution A/S and Zealand Pharma A/S, where he executed five financing rounds raising a total of CHF 68 million and three partnership agreements with a potential value of USD 1 billion in the aggregate. Prior to his work at Zealand, Mr. Hansen was Senior Vice-President, Corporate Finance, at Unibank (now Nordea), where he was involved in a total of 50 corporate finance transactions, including IPOs, secondary offerings and mergers and acquisitions. Before his work at Unibank, Mr. Hansen was Head of Market Research at Novo Nordisk and worked for the United Nations (UNIDO) in Jakarta, Indonesia. Mr. Hansen is an MSc in Economics from University of Copenhagen, and an MBA from Insead. Mr. Hansen does not hold any significant board memberships.

**Prof. Dr. Jutta Heim**, German national, born in 1951. Prof. Dr. Jutta Heim has been the Chief Technology Officer of the Company since 11 December 2009. She has been the Chief Technology Officer of Evolva SA since August 2009. Prof. Dr. Heim was also a member of the Board of Directors of Evolva SA from April 2005 until November 2009.

Until 2009, Prof. Dr. Heim was Chief Scientific Officer of Basilea Pharmaceutica AG, a Swiss biopharmaceutical company, where she was in charge of all anti-infective, dermatology and oncology discovery activities. Prior to joining Basilea Pharmaceutica, Prof. Dr. Heim worked for 22 years in Switzerland and the United States for Ciba-Geigy/Novartis, where she was involved in the successful development and launch of biopharmaceutical antithrombotic and fibrinolytic products, initiated a molecular genetics department in oncology and became Novartis' Senior Scientific Expert in Molecular Biology and a member of the Research Management Board. Most recently, she headed the Novartis Lead Discovery Center with worldwide responsibility. Prof. Dr. Heim has

published numerous papers in the areas of natural products, recombinant proteins and applied molecular biology, in particular in the area of oncology. She received a Ph.D. from the University of Tübingen in 1981 and holds a professorship in Biotechnology at the Biocenter of the University of Basel. Prof. Dr. Heim is a member of the advisory board of “Jubiläumsstiftung Universität Zürich”. Previously, Prof. Dr. Heim held Scientific Advisory Board memberships until 2004 of PamGene (NL) and SpinX (CH) until 2009. She was a member of the executive management team of Basilea Pharmaceutica from 2004 to 2009. Prof. Dr. Heim does not hold any significant board memberships.

**Dr. Jessica Mann**, German national, domiciled in Switzerland, born in 1956. Dr. Jessica Mann has been the Chief Medical Officer since 11 December 2009. She was appointed Chief Medical Officer of Evolva SA in November 2009. Dr. Mann is acting as the Chief Medical Officer of the Company pursuant to a consulting contract dated 1 November 2009, between the Company (as assignee of Evolva SA) and CVDC GmbH, a consulting company owned by Dr. Mann.

Dr. Mann has long-standing experience in drug development. She was previously the Medical Director and a member of the management group of Speedel AG, which was sold to Novartis in 2008 for USD 880 million. Prior to that, Dr. Mann worked at Roche, where she was a Senior Clinical and Licensing Liaison, and Novartis, where she was International Clinical Leader for Diovan™ (Novartis' top selling drug as of year-end 2008). Before joining Novartis, Dr. Mann held a lecturer position in Cardiovascular Pathology at St. Georges Hospital Medical School in London and, prior to that, worked as a cardiologist and cardiovascular pathologist at the National Institutes of Health in Bethesda, Maryland (USA). She has an MD from the University of Buenos Aires and a Ph.D. from the University of London. Dr. Mann does not hold any significant board memberships.



**Dr. Pascal Longchamp**  
Vice-President,  
Business Development



**Dr. Alexandra Santana Sorensen**  
Vice-President,  
Compound Development



**Dr. Melya Hughes Crameri**  
Chief Executive Officer  
of Genetic Chemistry



**Dr. Panchapagesa Murali**  
Chief Executive Officer and  
Managing Director of  
Evolva Biotech Private Limited

**Dr. Pascal Longchamp**, Swiss national, born in 1962. Dr. Pascal Longchamp has been the Vice-President, Business Development, of the Company since 11 December 2009. Dr. Longchamp has been the Vice-President, Business Development, of Evolva SA since March 2005.

Dr. Longchamp has spent over 14 years in the biotechnology and pharmaceutical industries, covering R&D, Management and Business Development positions on the West Coast (USA) and in Switzerland. Previously, he was the Director of Business Development at Phyllo (2003), and a part of Maxygen's successful IPO. At Maxygen, Dr. Longchamp was in charge of two corporate alliances and promotion of its gene shuffling platform technology to third parties. At Phistem, Maxygen and Phyllo, Dr. Longchamp was responsible for corporate development, strategic alliances, in- and out-licensing, leading international research collaboration and US government contract with the Department of Defense. He received a Ph.D. in Genetics and Microbiology from the University of Lausanne, followed by postdoctoral researches at UC Berkeley in Molecular Biology and at Lawrence Berkeley National Laboratory in Biodefense. Dr. Longchamp has an MBA from HEC Business School, Lausanne. Dr. Longchamp is a founder and Chairman of the Board of Phistem sarl (2009).

**Dr. Alexandra Santana Sorensen**, Portuguese national, domiciled in Switzerland, born in 1970. Dr. Alexandra Santana Sorensen has been the Vice-President, Compound Development, of the Company since 11 December 2009. A co-founder of Evolva SA, she was Vice President, Research and Development of Evolva SA from March 2005 until August 2009, and has been Vice-President, Compound Development of Evolva SA since August 2009.

Dr. Sorensen has spent over 13 years in the biotech sector. Prior to founding Evolva SA, she worked for the US biotech, Phytera Inc., where she was involved in anti-bacterial discovery, early stages of compound development and in-licensing, and for the Danish biotech, Auda, where she researched into novel combinatorial chemistry approaches to natural products synthesis and optimisation. In her academic life, she researched on synthesis & profiling of natural, semi-synthetic and synthetic anti-cancer compounds. Dr. Sorensen is a visiting Scientist at École Nationale de Chimie de Mulhouse, France. She received a Ph.D. in Medicinal Chemistry, University of Liverpool, UK, and a first degree in Chemistry from University of Coimbra, Portugal. Dr. Sorensen does not hold any significant board memberships.

**Dr. Melya Hughes Crameri**, British and Swiss national, born in 1964. Dr. Melya Hughes Crameri has been a member of the Group Management Team since 2005. She has been the Chief Executive Officer of Genetic Chemistry, Inc., the Company's US subsidiary, since 2007.

Dr. Crameri has spent over 20 years in the biotechnology and pharmaceutical industries. She joined Evolva in 2005 after heading Licensing & Patents at the Novartis Research Foundation (FMI) in Switzerland, where she developed and successfully executed business strategies to generate revenues for all technology areas (metabolic disease, oncology, neurosciences, epigenetics and agribusiness). Previously, Dr. Crameri was at Geron Corp., a public company and world leader in stem-cell-based therapeutics, where she was responsible for all intellectual property related matters and assisted in the acquisition of stem cell technologies; she also served as an expert advisor in mergers and acquisitions, in-licensing and funding due diligence as a member of the Life Sciences Group at Cooley Godward LLP. As a researcher at both Merck, Italy and Ciba-Geigy (FMI), Switzerland, she has published numerous peer-reviewed papers and chapters, and has a Ph.D. in Biochemistry from the University of Basel, Switzerland. Dr. Crameri does not hold any significant board memberships.

**Dr. Panchapagesa Murali**, Indian national, born in 1961. Dr. Panchapagesa Murali has been the Chief Executive Officer and Managing Director of Evolva Biotech Private Limited, the Company's Indian subsidiary, since September 2006.

Dr. Murali has over 20 years of experience in Pharmaceutical & Healthcare R&D, including management of more than ten clinical trials, in particular in respiratory diseases. Previously, he was Founder and Director (for 16 years) of Dalmia Centre for Research and Development, developing and launching natural-product-based therapeutics, and Founder and Chairman of MLC & Netpeople group of IT & Telecom companies (Networking solutions, Banking Security and communication services). Dr. Murali is a former Indo-US scientist at Battelle-Kettering, Ohio and fellow of Unilever India. He received a Ph.D. in Microbiology and Microbial technology from Madurai Kamaraj University. Dr. Murali is currently General Secretary of the Association of Biotechnology Led enterprises in India. Dr. Murali does not hold any significant board memberships.

## Compensation, shareholdings and loans

Evolva's remuneration system is governed by the Board of Directors, upon recommendation of the Nomination and Compensation Committee.

The framework is designed to offer a package to (potential) employees that can compete with packages of companies in our peer group.

The Nomination and Compensation Committee evaluates the system on a regular basis in the light of changes occurring in the sector.

The compensation of the Group Management Team consists of a base salary plus a variable cash bonus of up to 20% of the base salary (and more in exceptional circumstances) and incentive options, both of which are related to performance.

Performance is measured in terms of the achievement of predefined goals such as discovery breakthroughs, development milestones, revenues and cost control. The performance measures are chosen to ensure that the interests of management are aligned with those of the shareholders. The long vesting period of the incentive options is meant to retain valuable talent and to secure a focus on the medium to longer term. The performance and reward system is currently being reviewed by the Nomination and Compensation Committee and changes for the year 2010 will be recommended to the Board of Directors.

Options are a tool for incentivising and retaining people with the right professional and personal skills. Options have so far been granted to all full-time employees. In general, options vest over a period of five years.

The compensation of the non-executive members of the Board of Directors includes a fixed monetary amount per year and a fixed monetary amount per attended meeting. These monetary amounts are equal for all Board members with the exception of the chairman, who receives a higher compensation.

The average level of the variable part of compensation of the eight members of the Group Management Team in 2009 was 28% of their base salary (2008: 0%). In addition, 11,580,000 options were granted to the Group Management Team members (2008: 0).

The option grant of 2009 is high as this concerns a one-off allocation to replace the previous schemes of Evolva SA. Grants in subsequent years will be at a much lower level.

Extensive information regarding compensation and shareholdings of the Board of Directors and the Group Management Team for the years 2009 and 2008 is available in the Notes to the Statutory Accounts on page 71–73.

## Shareholders' participation

### Voting rights

In principle, each share carries one vote. The only limitation to this rule is the one described under "Limitations on transferability and nominee registration". Each shareholder may authorise in writing another shareholder, a Company representative, a specially designated independent shareholder representative or a depositary representative to represent him or her at the shareholders' meeting. A shareholder wanting to vote at a shareholders' meeting has to be entered in the register no later than seven days before the meeting takes place.

### Quorum

The Articles of Association do not prescribe a quorum for shareholders' meetings. Unless the law requires otherwise, the general meeting of shareholders passes resolutions and elections with a simple majority of the votes represented at the shareholders' meeting. Swiss law requires a two-thirds majority of the votes represented for resolutions concerning:

- changes to the Company's business purpose
- the creation of shares with privileged voting rights
- restrictions on the transferability of registered shares
- an authorised or conditional increase in the share capital
- an increase in the share capital by way of capitalisation of reserves, against contribution in kind for the acquisition of assets or involving the grant of special privileges
- the restriction or elimination of pre-emptive rights of shareholders
- a relocation of the registered office
- the dissolution of the Company other than by liquidation (for example, by way of merger)

The introduction or abolition of any provision in the Articles introducing a majority greater than that required by law must be resolved in accordance with such greater majority.

### Convocation

Under Swiss law, an annual ordinary shareholders' meeting must be held within six months after the end of the Company's financial year. Shareholders' meetings may be convened by the Board of Directors or, if necessary, by the Company's Auditors. The Board of Directors is further required to convene an extraordinary shareholders' meeting if so resolved by a shareholders' meeting or if so requested by holders of shares holding in aggregate at least 10% of the nominal share capital. A shareholders' meeting is convened by publishing a notice in the Swiss Official Gazette of Commerce (Schweizerisches

Handelsamtsblatt) at least 20 days prior to such a meeting. In addition, holders of registered shares may be informed by a letter sent to the address indicated in the share register.

### Agenda

Shareholders holding shares representing the lower of 10% of the share capital or a nominal value of CHF 1 million have the right to request that a specific proposal be discussed and voted upon at the next shareholders' meeting, setting forth the item and proposal. According to the Articles of Association, the request to put an item on the agenda has to be made at least 45 days prior to the meeting.

## Changes of control and defence measures

### Duty to make an offer

A shareholder that, either directly, indirectly or acting in concert with third parties, controls 33 ⅓ % of the voting rights (whether exercisable or not), is obliged to make an offer to acquire all listed shares. Swiss law allows a corporation to deviate from this rule in its Articles of Association. The Company has opted not to use this possibility.

### Clauses on changes of control

The Company has no special arrangements taking effect in the event of a change of control, other than the customary clauses concerning the exercise of stock options.

## Auditors

The monitoring of the performance and independence of external auditors (including the authorising of non-audit services by the auditors and their compliance with applicable rules) is the responsibility of the Audit Committee. This committee reviews the external auditor's audit plan and oversees its execution. The external auditor (PwC) was present in both meetings of the Audit Committee in 2009.

PricewaterhouseCoopers AG (PwC), Basel, Switzerland, has been Group Auditor and Statutory Auditor for the former Arpida Ltd. since 1997. The lead auditor since 2001 was Mr Th. Brüderlin. In the year under review, PwC charged CHF 21,500 in audit fees, CHF 16,000 for tax consulting and CHF 297,821 for services mainly related to the merger between Arpida and Evolva.

At the Extraordinary General Meeting on 26 November 2009, the shareholders elected Ernst & Young AG (EY), Basel, Switzerland as auditors of the Company starting from the business year 2009 with effect on 11 December 2009. The reason of the change of auditors was the merger of Arpida and Evolva. Ernst & Young had been auditors to Evolva SA since 2005. The lead auditor is Mr Jürg Zürcher. **He is the lead auditor since 2009.** In the year under review, EY charged CHF 160,800 in audit fees, CHF 25,200 for tax consulting and CHF 398,060 for services related to the merger between Arpida and Evolva.

## Information policy

The Company puts much weight on keeping its shareholders informed. Many different channels are used, including the twice-yearly financial results releases, ad hoc news releases, the annual report, the website, shareholders' meetings, roadshows, conferences and press contacts. The website ([www.evolva.com](http://www.evolva.com)) offers interested parties the possibility to subscribe to the Company's news releases. The Company is at the shareholders' service to respond to questions or requests. The Company's website offers the possibility to subscribe to press releases via email distribution.

## 2009 Accounts

Evolva Holding SA came into existence on 11 December 2009 through the combination of Evolva SA and Arpida Ltd. In the last quarter of 2009, Evolva SA substantially strengthened its financial position.



## Consolidated Balance Sheets

CHF	Note	31 December 2009	31 December 2008
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	14,574,409	9,501,416
Intangible assets	11	17,061,636	131,109
Rent deposits		2,211,650	38,763
Deferred tax assets	9	-	13,362
<b>Total non-current assets</b>		<b>33,847,695</b>	<b>9,684,649</b>
<b>Current assets</b>			
Inventory		68,402	31,836
Prepayments and accrued income	12	603,066	1,545,118
Other receivables	13	1,462,032	350,675
Trade receivables	14	4,045,726	3,249,631
Cash and cash equivalents	15	52,870,034	6,223,092
<b>Total current assets</b>		<b>59,049,260</b>	<b>11,400,351</b>
<b>Total assets</b>		<b>92,896,955</b>	<b>21,085,001</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital	16	27,835,718	2,231,780
Treasury shares		-	(260,100)
Share premium		37,432,955	8,261,147
Other reserves (share-based payments)		2,500,424	746,538
Cumulative translation differences		125,006	271,192
Accumulated loss		(324,749)	(7,820,798)
<b>Total equity attributable to equity holder of the parent before NCI</b>		<b>67,569,354</b>	<b>3,429,758</b>
Non-controlling interests (NCI)		365,397	(137,981)
<b>Total equity</b>		<b>67,934,751</b>	<b>3,291,777</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	9	317,523	133,537
Pension liabilities	20	382,094	368,550
Provisions		28,818	-
Mortgage loans	24	4,916,000	5,104,000
Preferred redeemable shares	18	2,517,429	1,209,076
Long-term lease liabilities		4,104,362	-
<b>Total non-current liabilities</b>		<b>12,266,226</b>	<b>6,815,163</b>
<b>Current liabilities</b>			
Trade accounts payables		2,470,799	2,145,126
Accrued and other current liabilities	21	4,387,302	2,747,922
Deferred income	22	5,376,793	5,897,012
Short-term portion of mortgage loans	24	188,000	188,000
Short-term portion of lease liabilities		273,083	-
<b>Total current liabilities</b>		<b>12,695,978</b>	<b>10,978,060</b>
<b>Total equity and liabilities</b>		<b>92,896,955</b>	<b>21,085,001</b>

The accompanying notes form an integral part of these consolidated financial statements.

## Consolidated Statements of Operations

CHF	Note	Period from 1 January 2009 to 31 December 2009	Period from 1 January 2008 to 31 December 2008
Income from services		18,759,968	11,533,363
Other income		166,719	361,000
<b>Total income</b>	6	<b>18,926,687</b>	<b>11,894,363</b>
Research and development expenses	7	(21,171,245)	(16,221,514)
General and administrative expenses		(6,621,857)	(3,752,575)
<b>Total operating expenses</b>		<b>(27,793,102)</b>	<b>(19,974,090)</b>
<b>Operating loss</b>		<b>(8,866,415)</b>	<b>(8,079,727)</b>
Financial income	8	483,695	675,830
Financial expenses	8	(987,850)	(1,035,594)
<b>Net loss before tax</b>		<b>(9,370,570)</b>	<b>(8,439,490)</b>
Income tax (expenses)	9	(238,337)	(222,737)
<b>Net loss for the period</b>		<b>(9,608,907)</b>	<b>(8,662,227)</b>
Attributable to:			
Shareholders of the parent		(9,738,801)	(8,600,757)
Non-controlling interests		129,894	(61,470)
<b>Basic and diluted loss per share attributable to ordinary shareholders of parent</b>	17	<b>(0.15)</b>	<b>(0.39)</b>

## Consolidated Statements of Comprehensive Income

CHF	Period from 1 January 2009 to 31 December 2009	Period from 1 January 2008 to 31 December 2008
<b>Net loss for the period</b>	<b>(9,608,907)</b>	<b>(8,662,227)</b>
Translation differences	(146,186)	218,204
<b>Other comprehensive income/(loss)</b>	<b>(146,186)</b>	<b>218,204</b>
<b>Total comprehensive loss</b>	<b>(9,755,093)</b>	<b>(8,444,023)</b>
Attributable to:		
Shareholders of the parent	(9,884,987)	(8,382,553)
Non-controlling interests	129,894	(61,470)

The accompanying notes form an integral part of these consolidated financial statements.

## Consolidated Statements of Cash Flows

CHF	Note	Period from 1 January 2009 to 31 December 2009	Period from 1 January 2008 to 31 December 2008
<b>Operating activities</b>			
Net loss for the period		(9,608,907)	(8,662,227)
<b>Non-cash adjustments to reconcile net loss for the period to net cash flows</b>			
• Changes in deferred tax assets		13,362	16,040
• Changes in deferred tax liabilities		183,986	133,537
• Depreciation on tangible assets	10	2,082,161	1,217,219
• Depreciation on intangible assets	11	18,071	18,072
• Interest income	8	(49,990)	(81,137)
• Interest expenses	8	328,440	287,493
• Share-based payment charges	19	896,634	461,526
• Change in current assets		272,405	(2,837,296)
• Change in current liabilities		138,204	5,947,901
• Change in provisions		28,818	-
• Change in pension liabilities / prepaid pension	20	(48,801)	79,357
• Interest payments received		49,990	80,120
• Interest expenses paid		(238,029)	(233,400)
<b>Net cash flow from operating activities</b>		<b>(5,933,657)</b>	<b>(3,572,797)</b>
<b>Investing activities</b>			
Purchases of property, plant and equipment		(2,536,646)	(2,574,433)
Financial investments (rent deposit)		(9,758)	(34,442)
<b>Cash flow from investing activities</b>		<b>(2,546,404)</b>	<b>(2,608,875)</b>
<b>Financing activities</b>			
Finance lease payments		-	(61,671)
Cash in-flow from acquisition of Arpida		10,052,422	-
Acquisition of non-controlling interests – Evolva Biotech A/S <sup>1</sup>		(921,254)	-
Exercise of stock options		166,160	-
Proceeds from issuance of ordinary shares		44,418,110	3,754,499
Proceeds from issuance of preferred shares by Evolva Biotech (India)		915,867	286,058
Proceeds from interest-bearing loans		1,218,337	1,302,760
Amortisation of mortgage loans		(188,000)	-
Capital increase costs		(569,673)	(97,215)
<b>Cash flow from financing activities</b>		<b>55,091,969</b>	<b>5,184,430</b>
<b>Net change in cash position</b>		<b>46,611,908</b>	<b>(997,242)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>46,611,908</b>	<b>(997,242)</b>
Exchange gains/(loss) on cash and cash equivalents		35,034	(183,648)
Cash and cash equivalents, beginning of period		6,223,092	7,403,982
<b>Cash and cash equivalents, end of period</b>		<b>52,870,034</b>	<b>6,223,092</b>

<sup>1</sup> The Group acquired 100% of the shares of Evolva Biotech A/S on 9 October 2009.

The accompanying notes form an integral part of these consolidated financial statements.

CHF	Note	Share capital	Share premium paid In	Total capital	Treasury shares	Other reserves (share-based payments)	Cumulative translation differences	Accumulated loss	Total	Non-controlling interests	Total equity
<b>At 1 January 2008</b>		<b>1,386,080</b>	<b>30,093,071</b>	<b>31,479,151</b>	<b>(260,100)</b>	<b>285,012</b>	<b>52,988</b>	<b>(24,065,084)</b>	<b>7,491,967</b>	<b>(161,035)</b>	<b>7,330,932</b>
Loss for the period		-	-	-	-	-	-	(8,600,757)	(8,600,757)	(61,470)	(8,662,227)
Translation differences		-	-	-	-	-	218,204	-	218,204	-	218,204
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>218,204</b>	<b>(8,600,757)</b>	<b>(8,382,553)</b>	<b>(61,470)</b>	<b>(8,444,023)</b>
Set-off of share premium with general reserves		-	(24,643,508)	(24,643,508)	-	-	-	24,643,508	-	-	-
Equity component of preferred share issuance – Evolva India	18	-	-	-	-	-	-	201,534	201,534	84,524	286,058
Capital increase – Evolva SA		845,700	2,908,799	3,754,499	-	-	-	-	3,754,499	-	3,754,499
Equity funding costs		-	(97,215)	(97,215)	-	-	-	-	(97,215)	-	(97,215)
Effects of share-based payments		-	-	-	-	461,526	-	-	461,526	-	461,526
<b>At 31 December 2008</b>		<b>2,231,780</b>	<b>8,261,147</b>	<b>10,492,927</b>	<b>(260,100)</b>	<b>746,538</b>	<b>271,192</b>	<b>(7,820,798)</b>	<b>3,429,758</b>	<b>(137,981)</b>	<b>3,291,777</b>
Loss for the period		-	-	-	-	-	-	(9,738,801)	(9,738,801)	129,894	(9,608,907)
Translation differences		-	-	-	-	-	(146,186)	-	(146,186)	-	(146,186)
<b>Total comprehensive loss</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(146,186)</b>	<b>(9,738,801)</b>	<b>(9,884,987)</b>	<b>129,894</b>	<b>(9,755,093)</b>
Equity component of preferred share issuance – Evolva India	18	-	-	-	-	-	-	542,382	542,382	373,485	915,867
Capital increase – Evolva SA		4,137,760	40,280,350	44,418,110	-	-	-	-	44,418,110	-	44,418,110
Equity funding costs		-	(569,673)	(569,673)	-	-	-	-	(569,673)	-	(569,673)
Acquisition of non-controlling interests (Evolva Biotech A/S)		-	-	-	260,100	-	-	(1,445,259)	(1,185,159)	-	(1,185,159)
Reverse acquisition of Arpida	5	21,416,578	(10,655,429)	10,761,149	-	857,252	-	18,137,727	29,756,128	-	29,756,128
Effects of share-based payments		-	-	-	-	896,634	-	-	896,634	-	896,634
Exercise of stock options		49,600	116,560	166,160	-	-	-	-	166,160	-	166,160
<b>At 31 December 2009</b>		<b>27,835,718</b>	<b>37,432,955</b>	<b>65,268,673</b>	<b>-</b>	<b>2,500,424</b>	<b>125,006</b>	<b>(324,749)</b>	<b>67,569,353</b>	<b>365,397</b>	<b>67,934,751</b>

The accompanying notes form an integral part of these consolidated financial statements.

## 1. The company

Evolva Holding SA (the “Company”) together with its subsidiaries (collectively “Evolva” or the “Group”) is a biotech company focused on discovery and development of novel, differentiated drugs that address significant unmet clinical needs.

The Company evolves small molecule drugs using its proprietary discovery technology (called Genetic Chemistry). Based on this technology, the Company has established a number of drug discovery contracts with partners in the USA and Europe which generate substantial revenues to Evolva. In parallel, the Company has developed a portfolio of drug candidates which it aims to bring – through preclinical and clinical development – towards commercialisation, either alone or in collaboration with partners.

Evolva Holding SA (formerly Arpida AG) is incorporated in Switzerland and is the ultimate parent company of the Evolva Group since 11 December 2009. The Group comprises the following subsidiaries: Evolva SA (Allschwil, Switzerland), Genetic Chemistry Inc. (Palo Alto, USA), Evolva Biotech Private Ltd. (Hyderabad, India), Evolva Biotech A/S (Copenhagen, Denmark); plus three inactive entities: Arpida UK (London, UK), Arpida A/S (Copenhagen, Denmark) and TLT Medical AG (Reinach, Switzerland). All four operative companies contribute significantly to the Group’s discovery activities.

On 11 December 2009, Arpida AG (subsequently renamed Evolva Holding SA) acquired Evolva SA in a share exchange. For accounting purposes, the legal acquiree Evolva SA was determined to be the acquirer in this reverse acquisition and consequently these consolidated financial statements represent the continuation of the financial statements of Evolva SA with the exception of the capital structure, which has been adjusted to reflect the capital structure of Evolva Holding SA. Refer to Note 5, “Reverse Acquisition”, for further details of the transaction.

As of 31 December 2009, the total staff in the four companies amounts to 83 employees (2008: 73), of which about 66 (2008: 63) are directly involved in R&D work while the remaining staff are employed with managerial, commercial and administrative tasks.

The Company was first registered in the commercial register on 18 August 1997. The Company is subject to the provisions of the articles of incorporation and to article 620 et seq. of the Swiss Code of Obligations, which describes the legal requirements for limited companies (“Aktiengesellschaften”).

The legal domicile of the Company is:

Evolva Holding SA  
Duggingerstrasse 23  
4153 Reinach  
Switzerland

These consolidated financial statements were authorised for public disclosure in accordance with a resolution of the Board

of Directors of the Company dated 16 April 2010. They are subject to approval by the shareholders at the Annual General Meeting on 10 June 2010.

## 2. Summary of significant accounting policies

### Basis of preparation

The financial statements of Evolva are prepared in accordance with the historical cost convention except for the revaluation to fair value of certain financial assets and liabilities and comply with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) as well as with the following significant accounting policies. The financial statements are presented in Swiss francs (CHF) and all values are rounded to the nearest CHF 1 except where otherwise stated.

### Critical accounting estimates and judgements

The preparation of the financial statement requires management to use certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. Such estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Actual outcomes could differ from those estimates. The following areas involve assumptions and estimates that can have a significant impact on the consolidated financial statements:

- Evolva measures the cost of equity-settled transactions with employees by referencing to the fair value of the equity instruments at the date at which they are granted and subtracting any payment by the employee. Estimating fair value requires determining the most appropriate valuation model for a grant of equity instruments, which is dependent on the terms and conditions of the grant. In case of options, this also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility and dividend yield and making assumptions about them. The assumptions and models used are disclosed in Note 20.
- Actuarial valuations in connection with defined benefit pension plans where various assumptions (i.e. discount rates, expected return on assets and mortality rates) bear significant uncertainties due to the long-term nature of the plans (see Note 20, “Employee Benefits and Compensation”).
- In connection with the reverse acquisition of Arpida AG and the preliminary purchase price accounting in accordance with IFRS 3R, Evolva had to establish the fair value of the acquired assets and liabilities using management assumptions and estimates. Refer to Note 5.

- Evolva is subject to income taxes in several jurisdictions. Judgement is required in determining the current and deferred assets and liabilities for income taxes. The assessment as to whether deferred tax assets relating to tax loss carryforwards and temporary differences have to be recognised requires significant judgement.

The following areas involve a higher degree of judgment or complexity and can have a significant impact on the consolidated financial statements.

- The Company assesses the combination with Arpida AG (reverse acquisition) as a business combination under IFRS 3R. The acquired business of Arpida comprised inputs (cash, lease agreement, laboratory equipment and in-process R&D) as well as processes in relation to the intellectual property acquired.
- Since 2008, the financial statements of Evolva Biotech A/S (Denmark) have been fully consolidated as Evolva SA had control over the operational and financial policies of Evolva Biotech A/S. Following the acquisition of non-controlling interests on 9 October 2009, Evolva Biotech A/S is a fully owned subsidiary of Evolva SA.

### Principles of consolidation

Subsidiaries in which the Company has a controlling interest, directly or indirectly, are consolidated. Control is defined as the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. Control is normally evidenced when the Company owns, either directly or indirectly, more than 50% of the voting rights or potential voting rights of a company's share capital that are currently exercisable.

The consolidation commences from the date on which control is transferred to the Company and subsidiaries are no longer consolidated from the date that control ceases. The consolidated financial statements include the accounts of Evolva Holding SA (formerly Arpida AG – acquired on 11 December 2009); Evolva SA, Genetic Chemistry Inc. (founded 2007), a company located in the USA; Evolva Biotech A/S (founded 2001), a company located in Denmark; Evolva Biotech Private Ltd. (founded 2005), a company located in India; TLT Medical AG (acquired on 11 December 2009), a company located in Switzerland; Arpida UK (acquired on 11 December 2009), a company located in the UK, and Arpida A/S (acquired on 11 December 2009), a company located in Denmark.

Intercompany balances and transactions between Group companies are eliminated. Intercompany transactions result from one company providing services to another Group company or from the transfer of assets within the Group.

In connection with the first-time adoption of IFRS, the Group early adopted IAS 27 (R), and total comprehensive income is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. In connection with the early adoption of IAS 27 (R), Evolva also applied IFRS 3R – Business Combination.

### Changes in the scope of consolidation

On 11 December 2009, the Group acquired Evolva Holding SA (formerly Arpida AG) plus its three inactive subsidiaries Arpida UK (London, UK), Arpida A/S (Copenhagen, Denmark) and TLT Medical AG (Reinach, Switzerland).

In 2008, there was no change in the scope of consolidation.

### Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit and loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of consideration transferred, non-controlling interests and the acquirer's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

### Reverse acquisition

On 11 December 2009, a combination with Arpida AG took place in the form of a share exchange in which Arpida AG issued new shares in exchange for all shares in Evolva SA. IFRS 3R – Business Combinations requires one of the combining entities to be identified as the acquirer being the entity that obtains control of the acquiree. Due to the fact that the

former shareholders of Evolva obtained the clear majority of shares of the combined company upon completion of the transaction, Evolva's shareholders gained control over the combined entity. Therefore, according to IFRS 3R, Evolva (the legal acquirer) qualifies as the accounting acquirer while Arpida is treated as the accounting acquiree. Such a combination is called a reverse acquisition.

Please refer to Note 5 for a detailed description of this transaction.

The reverse acquisition has a number of consequences for the accounting and presentation in these consolidated financial statements:

- **Recognition and disclosure of the transaction and presentation of comparative information:**  
The acquisition is accounted for as if Evolva had acquired Arpida AG and as a consequence the comparative figures represent those of Evolva Group.
- **Loss per share:**  
For the purpose of calculating the weighted average number of ordinary shares outstanding during the period in which the reverse acquisition occurs, the number of ordinary shares outstanding from the beginning of that period to the acquisition date is computed on the basis of the weighted average number of ordinary shares of the legal subsidiary (accounting acquirer, i.e. Evolva SA) outstanding during the period multiplied by the share exchange ratio established in the Combination Agreement. Loss per share for the comparative period before the acquisition date is restated and presented in analogy to the method described above.
- **Determination of the purchase price**  
For the determination of the purchase consideration under the reverse acquisition accounting, the number of shares must be computed which Evolva SA would have had to issue in order for the former shareholders of Arpida AG to hold the same economic values after the acquisition as before the acquisition. The consideration transferred has been measured as of 11 December 2009 based on the market price of the listed Arpida shares and the fair value of outstanding share options under the former employee incentive plan of Arpida. Also refer to Note 5, "Reverse Acquisition".

## Goodwill

Goodwill represents the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised. Goodwill is carried at cost less accumulated impairment losses. The carrying amount of goodwill will be tested annually (as at 31 December) for impairment or when events or changes in circumstances indicate that the carrying amount is not recoverable. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of

cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (higher of value in use or fair value less cost to sell) is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

## Foreign currency translation

The consolidated financial statements are expressed in Swiss francs (CHF). Each company in the Group uses its corresponding functional currency, and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated in the functional currency using the exchange rate at the reporting date. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

At the reporting date, the assets and liabilities of all subsidiaries reporting in foreign currency are translated into the presentation currency of Evolva (Swiss francs) using the exchange rate at the reporting date. Their statements of operations and cash flow statements are translated at the average exchange rates of the respective month in which the transactions have taken place. The exchange differences arising on the translation into Swiss francs are recognised in the statement of comprehensive income. On disposal of a foreign operation, the deferred cumulative amount recognised within equity relating to that particular foreign operation is recognised in the statement of operations as gain or loss on sale of that foreign operation.

## Revenue recognition

Revenue from rendering of services is based on the stage of completion by services performed to date as a percentage of total services to be performed.

Revenues received from clients as payment for access to Evolva's technology is recognised over the period during which the client has access to the technology.

Funding received from clients as compensation for Evolva's purchase of assets are presented in the balance sheet as deferred income and released over the period during which the Company is providing the services for which the particular asset is being applied. The assets in question are being capitalised and depreciated over the useful life.

Public discovery grants (from the European Union, national governments) are recognised as "Other income" over the relevant project period to match the related costs which they are intended to compensate, on a cost-to-cost basis.

Public grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to

match the grant on a systematic basis to the costs that it is intended to compensate.

Interest income is recognised on a time proportion basis using the effective interest method.

### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits held at call with banks and other short-term highly liquid investments which are readily convertible to known amounts of cash (and which are subject to insignificant risk of changes in value) and have a maturity of three months or less from the date of acquisition. This definition is also used for the definition of cash and cash equivalents in the cash flow statement.

### Financial assets and liabilities

Financial instruments carried on the balance sheet include cash and cash equivalents, receivables, financial investments (rent deposits), trade accounts payable, and certain accrued and other current liabilities.

Cash and cash equivalents, accounts receivables, other receivables, and rent deposits represent financial assets classified as loans and receivables, whereas trade accounts payable, certain accrued and other current liabilities are financial liabilities at amortised cost, respectively, with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides or receives money, goods or services directly to a debtor or from a creditor, respectively, with no intention of trading the receivable or payable. They are included in current assets and current liabilities, except for maturities longer than twelve months after the balance sheet dates in which case they are classified as non-current assets and non-current liabilities and shown separately in the balance sheet. Non-current assets/liabilities are measured at amortised cost, i.e., the amount at which the financial asset or liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount.

The Company assesses at each balance sheet date whether there is objective evidence that the financial assets are impaired. Impairment losses are recognised in the statement of operations.

### Plant and equipment

Plant and equipment are recorded at cost and are stated at historical cost less accumulated depreciation. Depreciation expense is recorded utilising the straight-line method over the estimated useful life of the assets or, if shorter, the term for the leasehold improvements. Assets are written down to their estimated residual value, which usually is determined as zero. The useful lives are summarised as follows:

Group of assets	Useful life (years)
Buildings	50
Leasehold and building improvements	5–20
Furniture and fixtures	5–8
Laboratory equipment	4–6
Office and IT equipment	3–8

Subsequent costs are included in the assets' 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 Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to the statement of operations during the financial period in which they are incurred.

### Intangible assets

Costs of purchasing intellectual property rights are capitalised as intangible assets. Costs of applying for patents for internally developed products, costs of defending existing patents and costs of challenging patents held by third parties where these are considered invalid, are considered discovery expenses and are expensed as incurred.

Intangible assets (other than goodwill) are initially valued at cost and or, if acquired within the context of a business combination, recorded at fair value. Generally, intangible assets are amortised over their useful lives on a straight-line basis. Intellectual property on acquired in-process R&D is amortised on a straight-line basis once commercialisation of related products starts.

### Inventory

Inventory consists of consumables and is measured at weighted average cost.

### Impairment of long-lived assets

Property, plant and equipment and intangible assets (other than goodwill) are reviewed for impairment whenever events or changes in circumstance indicate that the balance sheet carrying amount of the asset may not be recoverable. When the recoverable amount of the long-lived asset, being the higher of its fair value less costs to sell or its value in use, is less than its carrying amount, then an impairment in the carrying amount is recorded. Evolva estimates its value in use based on the future cash flows expected to result from the use of the asset. For purposes of assessing impairment, assets are grouped at the lowest level at which cash inflow can be separately identified.

## Leases

Leases where 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 statement of operations on a straight-line basis over the period of the lease.

Leases of tangible fixed assets are classified as finance lease if Evolva has substantially all the risks and rewards of ownership. Finance leases are capitalised at the lease commencement at the lower of the fair value of the leased asset and the present value of 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 other short-term and other long-term payables. The interest element of the finance cost is charged to the statement of operations over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The asset acquired under finance lease is depreciated over the shorter of the useful life of the asset and the lease term.

## Provisions

Evolva recognises provisions when it has a present legal or constructive obligation to transfer economic benefits as a result of past events, reasonable estimate of the obligation can be made and an outflow of resources is probable.

## Share-based compensation

As part of an incentive plan, Evolva SA issued Class A shares (common shares) at a fixed price to members of the Board of Directors, employees of the Evolva Group as well as to certain of the Company's advisors. The fair value of these incentive shares is estimated at the grant date. The expense is charged to the appropriate statement of operations heading within operating expenses, and a corresponding increase is recorded in equity.

Since December 2009, all full-time employees of Evolva participate in an incentive option plan. The fair value of these equity-settled compensation awards is estimated at the grant date and recorded as an expense over the vesting period. The expense is charged to the appropriate statement of operations heading within the operating expenses, and a corresponding increase is recorded in equity. At each reporting date, the Company revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the statement of operations and a corresponding adjustment to equity. Any subsequent cash flows from exercises of vested awards are recorded as an increase in 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.

## Treasury shares

Own equity instruments which are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in the statement of operations on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration received or paid is recognised in equity.

## Employee benefits

In accordance with employment contracts, certain of the Evolva companies pay a monthly contribution to private pension plans. Contributions are recognised as employee benefit expenses when they are due.

For the defined benefit plan in Switzerland, the pension liability is calculated regularly by an independent actuary using the projected unit credit method. The defined benefit obligation is measured at the present value of the estimated future cash flows using a discount rate based on the interest rate of high-quality corporate bonds. The charge for such pension plans, representing the net periodic cost, is included in the staff costs. Plan assets are recorded at their fair values. Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions are recognised over the average remaining service lives of the related employees, where these differences exceed 10% of the higher amount of the present value of the defined benefit obligation and the fair value of plan assets at the beginning of the year (corridor method).

## Research and development expenses

The expenses for research and development comprise:

- **Technology and discovery expenses:** Salary and other compensation to discovery staff; internal lab costs and other expenses directly related to the technology and discovery activities, including corresponding depreciation of property and equipment.
- **Compound development expenses:** Salary and other compensation to development staff and consultants; costs related to preclinical and clinical trials of Evolva's drug candidates, including the costs of manufacturing the drug candidates; expenses for services under collaboration agreements as well as outsourced development at contract research institutions and the corresponding depreciation of property and equipment.

Research and development expenses are fully charged to the statement of operations as incurred. Evolva considers that regulatory and other uncertainties inherent in the development of its compounds preclude it from capitalising development costs under IFRS. Costs incurred related to products which have achieved regulatory approval, by the US Food and Drug Administration or comparable regulatory body, will be capitalised because it is probable that the costs will give rise to future economic benefits.

Laboratory buildings and equipment included in plant and equipment are depreciated over their estimated useful lives.

## General and administrative expenses

General and administrative expenses consist of salary and other compensation to general and administrative staff; costs related to business development, investor relations, legal services, auditing, tax and financial advice; and other expenses related to general and administrative functions.

## Deferred income taxes

Deferred taxes are provided using the liability method for all temporary differences between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, except for those temporary differences related to investments in entities where the timing of their reversal can be controlled and it is probable that the difference will not reverse in the foreseeable future. Deferred tax assets relating to the carry-forward of unused tax losses and other deductible temporary differences are recognised to the extent that future taxable profit is expected to be available. The recognition and utilisation of deferred tax assets is assessed on an annual basis. Deferred taxes are based on tax rates currently enacted or substantially enacted and which are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

## Earnings/(loss) per share

Basic earnings/(loss) per share is calculated by dividing the net profit/(loss) attributable to ordinary shareholders of the parent by the weighted average number of shares outstanding during the period. Diluted earnings/(loss) per share is calculated by dividing the net profit/(loss) attributable to the ordinary shareholders of the parent by the weighted average number of shares outstanding during the period adjusted for the conversion of all dilutive potential ordinary shares.

## Borrowing costs

Borrowing costs which are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset are capitalised. All other borrowing costs are recognised as expenses in the period in which they are being incurred.

## Dividends payable

The Company may declare dividends upon the recommendation of the Board of Directors and the approval of shareholders at their Annual General Meeting. The Company has not paid any dividends since its inception and does not anticipate paying dividends in the foreseeable future.

## Segment reporting

In 2008, Evolva early adopted IFRS 8 – Operating Segments. The standard requires an entity to adopt the “management approach” to reporting on the financial performance of its operating segments. Generally, the information to be disclosed is what management uses internally for evaluating segment performance and deciding how to allocate resources. Evolva operates in one segment of drug discovery and drug development. The Board of Directors and the Group Management being the chief operating decision makers assess the performance of the operating segment and allocate resources on a consolidated level. Evolva generates revenue from rendering discovery services and the Company expects to generate revenues from partnering of its development projects in future.

## Changes in accounting policies

The accounting policies applied are consistent with those of the previous year except for the following new, amended and revised standards and interpretations adopted in 2009:

The adoption of the following standard has had an effect on the presentation and disclosures of the financial reporting:

- *IAS 1 (revised)*  
Presentation of Financial Statements: The revised standard requires that gains and losses recognised outside profit and loss are presented separately from the “Consolidated Statement of Changes in Equity” in the “Consolidated Statement of Comprehensive Income”.
- *IFRS 7*  
Financial Instruments – Disclosures: The amended standard requires additional disclosure about fair value measurement and liquidity risk. In respect of financial assets held at fair value through profit or loss, the fair value measurements are to be disclosed by source of inputs using a three-level hierarchy for each class of financial instrument. In addition, reconciliation between the beginning and the ending balance for Level-3 fair value measurements is now required, as well as significant transfers between Level-1 and Level-2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. The fair value measurement and the liquidity risk disclosures for the Group are not significantly impacted by the amendments, as Evolva has no significant financial assets measured at fair value. At the reporting date there were no significant financial assets allocated to the category at fair value through profit or loss.

The adoption of the following standards has had an effect on accounting policies:

- *IFRS 2*  
Share-based Payment: The standard has been amended to clarify the definition of vesting conditions and to prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.

- *IAS 23*  
Borrowing Costs: The standard has been revised to require capitalisation of borrowing costs on qualifying assets, and the Group has amended its accounting policy accordingly. In accordance with the transitional requirements of the standard, this has been adopted as a prospective change. Therefore, borrowing costs will be capitalised on qualifying assets with a commencement date on or after 1 January 2009. No qualifying assets have been identified for which borrowing costs can be capitalised.

The adoption of the following standards and interpretations had neither an effect on the disclosure of the financial reporting nor on accounting policies:

- *IAS 32 and IAS 1*  
Financial Instruments:  
Presentation and Presentation of Financial Statements –  
Puttable Financial Instruments and Obligations Arising on  
Liquidation
- *IFRIC 9*  
Reassessment of Embedded Derivatives, and IAS 39  
Financial Instruments: Recognition and Measurement
- *IFRIC 13*  
Customer Loyalty Programs
- *IFRIC 16*  
Hedges of a Net Investment in a Foreign Operation
- *IFRIC 18*  
Transfers of Assets from Customers

IFRS additionally issued a number of improvements to its standards in order to eliminate inconsistencies and clarify some wording. The adoption of these improvements did not result in impacts on the financial position but some accounting policies.

The following new or revised/amended standards and interpretations will be adopted when becoming effective (the Group is currently evaluating the impact of these amendments):

- *IFRS 2*  
Share-based Payment (effective for annual periods beginning on or after 1 January 2010)
- *IFRS 5*  
Non-current Assets Held for Sale and Discontinued Operations (effective for annual periods beginning on or after 1 July 2009)
- *IFRS 8*  
Operating Segments (effective for annual periods beginning on or after 1 January 2010)
- *IFRS 9*  
Financial Instruments (effective for annual periods beginning on or after 1 January 2013)
- *IAS 24*  
Related Parties (effective for annual periods beginning on or after 1 January 2011)

- *IAS 32*  
Financial Instruments – Presentation (effective for annual periods beginning on or after 1 February 2010)
- *IAS 36*  
Impairment of Assets (effective for annual periods beginning on or after 1 January 2010)
- *IAS 39*  
Financial Instruments – Recognition and Measurement: amended (effective for annual periods beginning on or after 1 July 2009)
- *IFRIC 17*  
Distributions of Non-cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009)

### 3. Risk management

The Group regularly evaluates its identified financial and operating risks in regard to their probability and potential impact. With the consent of the Board of Directors, appropriate measures are taken to eliminate or to mitigate the risks identified. The remaining risks for the Group are monitored. The Board of Directors reviews the Group's risk management on a regular basis.

### 4. Financial risk management

#### Financial risk factors

Financial risk management is governed by policies and guidelines approved by management. These policies cover foreign exchange risk, interest rate risk, liquidity risk and credit risk.

#### Liquidity risk

Evolva's objective when managing its liquidity is to secure sufficient funding for its discovery and development projects, to ensure the Company's ability to continue as going concern and to preserve capital on the required statutory level. Management monitors the Group's cash position and regularly updates the expected cash flow to enable the Group companies to finance its discovery, development and commercialisation activities for at least one year. To date, Evolva has financed its cash requirements partly from revenues and partly from equity and debt financing.

The interest rates on the mortgage loans are fixed to maturity. Standard mortgage covenants have been agreed with the bank. The Group is in compliance with the bank covenants as at 31 December 2009 and for the year ended 31 December 2008.

CHF	Less than 3 months	Between 3 months and 1 year	Between 1 year and 5 years	Over 5 years	Total	Carrying amount
<b>31 December 2008</b>						
Lease liabilities	-	-	-	-	-	-
Accrued and other current liabilities	1,033,982	-	-	-	1,033,982	1,033,982
Trade accounts payables	2,145,126	-	-	-	2,145,126	2,145,126
Mortgage loans	-	375,220	5,684,545	-	6,059,765	5,292,000
Preferred redeemable shares	-	-	-	1,968,648	1,968,648	1,209,076
<b>Total</b>	<b>3,179,108</b>	<b>375,220</b>	<b>5,684,545</b>	<b>1,968,648</b>	<b>11,207,521</b>	<b>9,680,184</b>
<b>31 December 2009</b>						
Lease liabilities	126,625	379,875	2,026,000	3,504,303	6,036,803	4,377,445
Accrued and other current liabilities	617,269	-	-	-	617,269	617,269
Trade accounts payables	2,470,799	-	-	-	2,470,799	2,470,799
Mortgage loans	-	368,640	5,299,245	-	5,667,885	5,104,000
Preferred redeemable shares	-	-	-	4,130,415	4,130,415	2,517,429
<b>Total</b>	<b>3,214,693</b>	<b>748,515</b>	<b>7,325,245</b>	<b>7,634,718</b>	<b>18,923,171</b>	<b>15,086,942</b>

The table above analyses Evolva's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances as the impact of discounting is not significant.

#### Market risk

Foreign exchange risk: The Evolva Group sources supplies of materials as well as discovery, development, consulting and other services in several countries and operates three foreign subsidiaries performing discovery activities. The Group is therefore exposed to foreign currency movements affecting its net loss and financial position, as expressed in Swiss francs. Evolva monitors its currency exposures by regularly assessing future spending plans in foreign currencies.

At 31 December 2009, if the US dollar had weakened/strengthened by 10% against the Swiss franc with all other variables held constant, the pre-tax loss for the period would have been CHF 178,672 (2008: CHF 78,849) higher/lower, mainly as a result of foreign exchange losses/gains on translation of USD-denominated cash and cash equivalents, receivables, accounts payables and deferred income.

At 31 December 2009, if the euro had weakened/strengthened by 5% against the Swiss franc with all other variables held constant, the pre-tax loss for the period would have been CHF 478 (2008: CHF 114,345) higher/lower, mainly as a result of foreign exchange losses/gains on translation of EUR-denominated cash and cash equivalents, receivables and accounts payables.

Interest rate risk: Interest rate risk arises from movements in interest rates, which could have adverse effects on Evolva's net result or financial position. Loans secured by property have long-term fixed interest rates. Other than cash and time deposits, the Group has no other material assets or liabilities subject to interest income or expense.

#### Credit risk

Credit risk stems from a counterparty's failure to meet its obligation. The major part of the Group's revenues is derived from government contracts and contracts with major companies under which the credit risk is limited. Cash and cash equivalents are held with financial institutions with BBB- or better rating (Standard & Poor's long-term credit rating).

#### Fair value estimate of financial assets and liabilities

The carrying amount of the financial assets such as account receivables and other receivables as well as the financial liabilities such as trade accounts payables and accruals and other liabilities are recorded at cost-approximating fair value due to the short-term nature.

#### Capital management

The key objective of the Group's capital management is to ensure that it has funding for the key activities planned on a mid-term basis, typically 2 to 3 years. To maintain or adjust the capital structure, the Group may issue new shares, obtain convertible loans or extend existing loans. Until now, the Company has been almost exclusively financed with equity. In future, a major part of new funding is also expected to come as equity but the Company will pursue other types of financing if it finds the conditions attractive.

No changes were made in the objectives, policies or processes during the years ending on 31 December 2009 and 31 December 2008. Net debt includes interest bearing loans and borrowings, loan from venture partners, trade and other payables, less cash and cash equivalents. Capital includes convertible preference shares, equity attributable to the equity holders of the parent less the net unrealised gains reserve.

## 5. Reverse acquisition

On 30 October 2009, Evolva SA entered into a Combination Agreement with Arpida AG, pursuant to which the two companies agreed to effect a combination by way of a contribution in kind of all shares in Evolva for newly issued shares in Arpida AG, subject to and in accordance with the terms and conditions set forth in the listing prospectus dated 11 December 2009. The combination was consummated on 11 December 2009 whereupon Evolva SA became a direct wholly owned subsidiary of Arpida AG.

Evolva's primary reasons for the business combination were to gain access to public capital markets through the SIX listing, the remaining financial resources and the lease of the facilities in Reinach, Switzerland.

Upon completion of the transaction, Arpida AG changed its name to Evolva Holding SA and the management team of Evolva replaced Arpida's executive team. The existing Arpida shares remained and the new shares were listed on the SIX Swiss Exchange under Evolva Holding SA.

IFRS 3R – Business Combinations requires one of the combining entities to be identified as the acquirer being the entity that obtains control of the acquiree. Due to the fact that the former shareholders of Evolva obtained the clear majority of shares of the combined company upon completion, Evolva's shareholders gained control over the combined entity. Therefore, according to IFRS 3R, Evolva qualifies as the acquirer while Arpida is treated as the acquiree. Such combination is called a reverse acquisition according to IFRS 3R.

Based on the terms of the Combination Agreement, former Arpida shareholders held 15.2% of the total shares of the combined company. For the determination of the purchase consideration under the reverse acquisition assumption, the number of shares has to be determined which Evolva SA would have to issue to provide the same percentage ownership interest of the combined entity to the owners of Arpida AG as they have as a result of the reverse acquisition. Prior to the combination, Evolva had a total of 318,477 shares outstanding. Evolva would have had to issue 57,011 Evolva shares (equivalent to 21,094,070 shares of the combined company according to the exchange ratio determined in the Combination Agreement) to grant the Arpida shareholders the same economic value. The fair value of these shares is most reliably measured using the market value of the Arpida shares at the date of the closing (CHF 1.37). In addition, there were 1,654,714 fully vested options outstanding in relation to the Arpida incentive option plan with a fair value of CHF 857,252 as at the date of closing (refer to Note 19.2), which Evolva was obliged to replace. As these options were already fully vested, all of the fair value was considered as part of the consideration transferred.

In 2009, the Group expensed through the statement of operations a total of CHF 1,582,000 as acquisition-related costs.

The fair value of the identifiable assets and liabilities of the acquired company at the date of acquisition were provisionally determined as follows:

### Provisional Purchase Price Allocation

	Fair value recognised on acquisition	Previous carrying value in accordance with IFRS
Cash and cash equivalents	10,052,422	10,052,422
Trade receivables	1,274,372	1,274,372
Financial investments (rent deposits)	2,163,129	2,163,129
Furniture and fixtures	405,872	405,872
Laboratory equipment	280,710	-
Leasehold improvements under finance lease	4,400,000	-
In-process research and development	100,000	-
Trade accounts payables	(340,861)	(340,861)
Other payables	(565,249)	(565,249)
Short term portion of finance leases	(271,768)	-
Accruals and deferred income	(400,520)	(400,520)
Pension liabilities (IAS 19)	(62,345)	(62,345)
Long-term portion of finance lease	(4,128,232)	-
Provision for onerous lease contract	-	6,432,684
<b>Fair value of net assets acquired</b>	<b>12,907,530</b>	
Goodwill arising on acquisition	16,848,598	
<b>Total purchase consideration</b>	<b>29,756,128</b>	
Fair value of shares transferred	28,898,876	
Fair value of options ex Arpida (Note 19.2)	857,252	
<b>Total consideration transferred</b>	<b>29,756,128</b>	

This provisional purchase price allocation has been determined based on an initial analysis performed by Evolva's management. The main adjustments in the purchase price allocation as illustrated above are:

#### Recording of finance lease, reversal of impairment and provision of onerous contract

In October 2005, Arpida entered into a rental contract for office and laboratory space in the TechCenter Reinach in Reinach, Switzerland, starting 1 December 2006. Certain elements of the contract qualify as a finance lease. As a result of the restructuring in 2008, the lease accounting was discontinued and a provision to cover the cost associated with the early termination of the lease agreement was recorded. In course of the purchase price allocation, the lease assets have been recognised at fair value being CHF 4.4 million. Furthermore the lease liabilities were also recognised at fair value and the provision to cover the cost associated with the early termination of the lease agreement was released, as the leased asset is deemed to create economic benefit for a market participant.

#### Fair value adjustment in relation to laboratory equipment

During 2008, Arpida recorded – as a result of the restructuring – an impairment on the laboratory equipment. Based on interim analyses, the fair value of the existing and still usable equipment has been determined and a fair value adjustment has been considered in the purchase price allocation.

#### Purchase of intellectual property

In Arpida's pipeline there are two preclinical projects (AR-709 and AR-2474) for which the fair value was provisionally assessed at CHF 100,000.

#### Goodwill

The reverse takeover is accounted for using the acquisition method in accordance with IFRS 3R. Goodwill is recognised as an asset from the acquisition date and is measured as the excess of the consideration transferred over the interest in the net fair value of the identifiable net assets acquired. This purchase price allocation is deemed to be provisional. The goodwill is based on the accounting rules in relation to the measurement of the consideration transferred, which is derived from the share price of Arpida at the closing of the transaction. None of the goodwill is expected to be deductible for tax purposes.

## 6. Segment and geographical information

The Group has identified one segment, namely research and development of new, safer and more efficacious drugs for the prevention and treatment of various diseases.

The geographical breakdown of total income below reflects the location where invoices are generated:

CHF	2009	2008
Switzerland	10,532,397	9,054,561
United States	8,161,661	2,733,213
Other countries	232,629	106,589
<b>Total revenues</b>	<b>18,926,687</b>	<b>11,894,363</b>

Until now, Evolva has generated the majority of its revenues from contracts with 2 agencies under the US Department of Defence. In 2008 and 2009, revenues from the Department of Defence amounted to about 85% of total revenues (2008: 80%).

The geographical analysis of non-current assets (excluding deferred tax assets and financial assets) is as follows:

CHF	2009	2008
Switzerland	27,827,842	6,726,040
Outside Switzerland	3,808,203	2,945,248
<b>Total non-current assets</b>	<b>31,636,045</b>	<b>9,671,288</b>

## 7. Research and development

The research and development expenses include the following functions:

CHF	2009	2008
Technology and discovery	14,676,416	9,888,364
Compound development	6,494,829	6,333,150
<b>Total research and development</b>	<b>21,171,245</b>	<b>16,221,514</b>

## 8. Financial result

CHF	2009	2008
Charges related to bank accounts	(27,210)	(87,636)
Interest expenses	(301,230)	(199,857)
Foreign exchange losses	(659,411)	(748,101)
<b>Total financial expenses</b>	<b>(987,850)</b>	<b>(1,035,594)</b>
Interest income	49,990	81,137
Foreign exchange gains	433,704	594,694
<b>Total financial income</b>	<b>483,695</b>	<b>675,830</b>
<b>Net financial result</b>	<b>(504,155)</b>	<b>(359,764)</b>

## 9. Income taxes

Income tax (expenses)/benefits comprise:

CHF	2009	2008
Current income tax (expense)/benefit	(24,189)	(70,570)
Deferred income tax (expense)/benefit	(214,148)	(152,167)
<b>Total income tax expenses/benefit</b>	<b>(238,337)</b>	<b>(222,737)</b>

The deferred tax assets recognised as per 31 December relate to:

CHF	2009	2008
Unused tax loss carry forwards	-	-
Property, plant and equipment	-	13,362
<b>Total deferred tax assets</b>	<b>-</b>	<b>13,362</b>

The deferred tax liabilities recognised as per 31 December relate to:

CHF	2009	2008
Property, plant and equipment	(21,916)	(29,043)
Asset purchases in relation to deferred revenue	(295,607)	(104,494)
<b>Total deferred tax liabilities</b>	<b>(317,523)</b>	<b>(133,537)</b>

The movement of the net deferred income tax asset and liability position is as follows:

CHF	
<b>1 January 2008</b>	<b>29,402</b>
Expenses to the statement of operations	(152,167)
Translation effect	2,590
<b>31 December 2008</b>	<b>(120,175)</b>
Expenses to the statement of operations	(214,148)
Translation effect	16,800
<b>31 December 2009</b>	<b>(317,523)</b>

Evolva has tax loss carryforwards, which are available to offset future taxable income. The loss carryforwards with their expiry dates are as follows:

CHF	2009	2008
Within one year	1,309,814	-
Later than one year and not later than five years	45,421,804	17,170,237
More than five years	87,028,483	17,388,741
<b>Total tax loss carryforwards</b>	<b>133,760,101</b>	<b>34,558,978</b>

As part of the reverse acquisition, the Group has taken over additional loss carryforwards in the amount of CHF 91,959,021. It is uncertain if the Group will be able to offset these losses with future tax income, and therefore the amounts are not included in the table above.

The unrecognised tax loss carry forwards and deductible temporary differences would give rise to deferred tax assets of CHF 13,568,985 in 2009 and CHF 8,592,671 in 2008.

The main elements contributing to the difference between the Company's overall expected tax rate (as a weighted average of the tax rates in the tax jurisdictions in which Evolva operates) and the effective income tax expense are:

CHF	2009	2008
Expected income tax rate (benefit)	(24.1%)	(25.6%)
Share-based payments	8.9%	5.5%
Non-tax-deductible expenses	-	(0.6%)
Effect of changes in unrecognised deferred taxes	17.4%	22.5%
<b>Effective income tax rate expense</b>	<b>2.4%</b>	<b>2.7%</b>

## 10. Property, plant and equipment

CHF	Laboratory equipment	Furniture and fixtures	Office and IT equipment	Leasehold improvements	Buildings	Land	Other	Total
<b>Historical cost</b>								
<b>1 January 2008</b>	<b>3,486,228</b>	<b>193,914</b>	<b>687,715</b>	<b>367,647</b>	<b>4,874,694</b>	<b>445,500</b>	<b>150,000</b>	<b>10,205,697</b>
Additions	2,466,948	17,012	114,883	-	-	-	15,482	2,614,325
Disposals	(34,312)	(3,371)	(3,431)	-	-	-	-	(41,114)
Translation effects	(94,742)	(8,353)	(62,877)	(68,728)	-	-	-	(234,700)
<b>31 December 2008</b>	<b>5,824,122</b>	<b>199,201</b>	<b>736,289</b>	<b>298,918</b>	<b>4,874,694</b>	<b>445,500</b>	<b>165,482</b>	<b>12,544,207</b>
<b>Accumulated depreciation</b>								
<b>1 January 2008</b>	<b>(1,004,479)</b>	<b>(67,343)</b>	<b>(265,831)</b>	<b>(26,791)</b>	<b>(431,592)</b>	<b>-</b>	<b>(60,000)</b>	<b>(1,856,036)</b>
Depreciation for year	(677,745)	(34,704)	(190,549)	(64,559)	(218,372)	-	(31,290)	(1,217,219)
Disposals	168	559	495	-	-	-	-	1,222
Translation effects	13,575	1,200	14,466	-	-	-	-	29,240
<b>31 December 2008</b>	<b>(1,668,482)</b>	<b>(100,287)</b>	<b>(441,420)</b>	<b>(91,350)</b>	<b>(649,964)</b>	<b>-</b>	<b>(91,290)</b>	<b>(3,042,792)</b>
<b>Net book value</b>								
<b>at 31 December 2008</b>	<b>4,155,640</b>	<b>98,915</b>	<b>294,870</b>	<b>207,568</b>	<b>4,224,730</b>	<b>445,500</b>	<b>74,192</b>	<b>9,501,416</b>
<b>Historical cost</b>								
<b>1 January 2009</b>	<b>5,824,122</b>	<b>199,201</b>	<b>736,289</b>	<b>298,918</b>	<b>4,874,694</b>	<b>445,500</b>	<b>165,482</b>	<b>12,544,207</b>
Additions	1,765,044	11,883	54,659	70,000	-	-	169,879	2,071,466
Disposals	(5,580)	-	-	-	-	-	-	(5,580)
Acquisition through business combinations	280,710	405,872	-	4,400,000	-	-	-	5,086,582
Transfers	14,285	-	(14,285)	-	-	-	-	-
Translation effects	(28,189)	537	19,085	(81,506)	-	-	(823)	(90,896)
<b>31 December 2009</b>	<b>7,850,392</b>	<b>617,493</b>	<b>795,748</b>	<b>4,687,413</b>	<b>4,874,694</b>	<b>445,500</b>	<b>334,538</b>	<b>19,605,778</b>
<b>Accumulated depreciation</b>								
<b>1 January 2009</b>	<b>(1,668,482)</b>	<b>(100,287)</b>	<b>(441,420)</b>	<b>(91,350)</b>	<b>(649,964)</b>	<b>-</b>	<b>(91,290)</b>	<b>(3,042,792)</b>
Depreciation for year	(1,559,146)	(38,452)	(128,978)	(76,766)	(218,372)	-	(60,447)	(2,082,161)
Disposals	433	-	-	-	-	-	-	433
Transfers	-	-	-	-	-	-	-	-
Translation effects	4,189	(300)	(2,069)	91,350	(19)	-	-	93,151
<b>31 December 2009</b>	<b>(3,223,005)</b>	<b>(139,038)</b>	<b>(572,467)</b>	<b>(76,766)</b>	<b>(868,355)</b>	<b>-</b>	<b>(151,737)</b>	<b>(5,031,370)</b>
<b>Net book value at</b>								
<b>31 December 2009</b>	<b>4,627,387</b>	<b>478,455</b>	<b>223,281</b>	<b>4,610,646</b>	<b>4,006,339</b>	<b>445,500</b>	<b>182,801</b>	<b>14,574,409</b>

Land and buildings with a carrying amount of CHF 4,451,839 (2008: CHF 4,670,230) are pledged as security for bank loans.

The Group recorded depreciation expenses in 2009 of CHF 1,912,534 (2008: CHF 1,051,359) as part of technology and discovery expenses, CHF 67,977 (2008: CHF 47,868) as compound development expenses and CHF 101,650 (2008: CHF 117,990) as part of general and administrative expenses in the statement of operations.

## 11. Intangible assets

Evolva has acquired certain rights to intellectual property that has been developed by other companies but which can be used in combination with Evolva's technology platform ("IP assets"). They are amortised over a period of ten years.

On 11 December 2009, Evolva recognised goodwill of CHF 16,848,598 in relation to the reverse acquisition of Arpida (refer to Note 5, "Reverse Acquisition").

CHF	IP assets	Goodwill	Total
<b>Historical costs</b>			
1 January 2008	180,717	–	180,717
Additions	–	–	–
31 December 2008	180,717	–	180,717
<b>Accumulated amortisation</b>			
1 January 2008	(31,536)	–	(31,536)
Amortisation of the year	(18,072)	–	(18,072)
31 December 2008	(49,608)	–	(49,608)
<b>Net book value at 31 December 2008</b>	<b>131,109</b>	<b>–</b>	<b>131,109</b>

CHF	IP assets	Goodwill	Total
<b>Historical costs</b>			
1 January 2009	180,717	–	180,717
Additions	–	–	–
Acquisitions through business combinations	100,000	16,848,598	16,948,598
<b>31 December 2009</b>	<b>280,717</b>	<b>16,848,598</b>	<b>17,129,315</b>
<b>Accumulated amortisation</b>			
1 January 2009	(49,608)	–	(49,608)
Amortisation of the year	(18,071)	–	(18,071)
31 December 2009	(67,679)	–	(67,679)
<b>Net book value at 31 December 2009</b>	<b>213,038</b>	<b>16,848,598</b>	<b>17,061,636</b>

All depreciation expenses for intangible assets are recorded under technology and discovery expenses.

### Impairment testing of goodwill

Goodwill is tested for possible impairment annually on Group level. Management deems the Group with its technology platform as one CGU. Evolva performed the impairment test determining the recoverable amount based on the CGU's fair value less costs to sell represented by the market capitalisation. As at 31 December 2009, Evolva's market capitalisation is higher than the carrying value of cash generation unit resulting in no impairment.

### Sensitivity analyses

Depending on the future development of the market price of the shares, Evolva may be required to record an impairment charge to write down the goodwill. If, based on the share price at year-end (CHF 1.04), the share price was to drop more than 50%, an impairment of the goodwill position would be required.

## 12. Prepayments and accrued income

CHF	2009	2008
Prepayments	211,701	246,217
Unbilled receivables	387,289	1,293,738
Other accruals	4,076	5,163
<b>Total prepayments and accrued income</b>	<b>603,066</b>	<b>1,545,118</b>

## 13. Other receivables

CHF	2009	2008
Withholding tax	35,989	30,686
VAT	1,400,354	200,880
Other receivables	25,689	119,109
<b>Total other receivables</b>	<b>1,462,032</b>	<b>350,675</b>

## 14. Trade receivables

No trade receivables are overdue and no allowance for bad debt has been recognised as at 31 December 2009 and 31 December 2008. The receivables from governmental or related institutions follow the official governmental payment procedures (see also Note 6). Usually these invoices are paid within 30 days. The Group has not experienced significant delays in payment by its corporate clients.

## 15. Cash and cash equivalents

CHF	2009	2008
Cash at bank and in hand	51,412,559	6,223,092
Short term bank deposits	1,457,475	–
<b>Total cash and cash equivalents</b>	<b>52,870,034</b>	<b>6,223,092</b>

The effective interest rate on cash and cash equivalents amounts to 0.5 % in 2009 and 1.19% in 2008.

Cash and cash equivalents in the amount of CHF 65,725 (2008: CHF 65,842) are pledged as security for credit card debts.

## 16. Share capital

The development of issued share capital over the past two years is as follows:

	Total number of shares Evolva SA	CHF	Total number of shares Evolva Holding SA (formerly Arpida AG)	CHF
<b>1 January 2008</b>	<b>69,304</b>	<b>1,386,080</b>	<b>19,494,104</b>	<b>3,898,820</b>
Share issue from conditional capital	5,917	118,340	–	–
Share issue from authorised capital	–	–	1,600,000	320,000
Share issue from capital increase	36,368	727,360	–	–
<b>31 December 2008</b>	<b>111,589</b>	<b>2,231,780</b>	<b>21,094,104</b>	<b>4,218,820</b>
Share issue from conditional capital	1,735	34,700	248,000	49,600
Share issue from capital increase	205,153	4,103,060	–	–
<b>Total shares Evolva SA prior to transaction<sup>1</sup></b>	<b>318,477</b>	<b>6,369,540</b>		
Share-for-share exchange, contribution in kind Evolva SA to Evolva Holding SA <sup>1</sup>			117,836,490	23,567,298
<b>31 December 2009</b>			<b>139,178,594</b>	<b>27,835,718</b>

<sup>1</sup> Arpida AG issued 117,836,490 shares in exchange of 318,477 Evolva SA shares, in accordance with the exchange ratio (1:370) as stipulated in the Combination Agreement.

Since the combination of Evolva and Arpida qualifies as a reverse acquisition of Arpida by Evolva, the shareholders' equity of the former Evolva Group forms the basis of shareholders' equity of the new Evolva Group. However, the capital structure of the new Evolva Group must represent the number of shares and share capital of Evolva Holding AG (formerly Arpida AG), the acquirer of Evolva SA for legal purposes. Accordingly, to reconcile the legal capital structure of the former Evolva Group with the legal capital structure of the new Evolva Group post combination, the difference resulting from the conversion of shares is presented under "contribution in kind Evolva SA".

The development of conditional and authorised capital over the past two years is as follows:

### Evolva Holding SA

Value per share of CHF 0.20	Number conditional	Number authorised	CHF conditional	CHF authorised
<b>1 January 2008</b>	<b>1,665,675</b>	<b>1,647,180</b>	<b>333,135</b>	<b>329,436</b>
Approved by AGM 2008	3,200,000	3,200,000	640,000	640,000
Issued	–	(1,600,000)	–	(320,000)
<b>31 December 2008</b>	<b>4,865,675</b>	<b>3,247,180</b>	<b>973,135</b>	<b>649,436</b>
Approved by EGM 2009	35,515,675	18,496,650	7,103,135	3,699,330
Issued	(248,000)	–	(49,600)	–
<b>31 December 2009</b>	<b>40,133,350</b>	<b>21,743,830</b>	<b>8,026,670</b>	<b>4,348,766</b>

The development of treasury shares held by the Group over the past two years is as follows:

CHF	2009	2008
<b>Beginning of 2008</b>	<b>14,530</b>	<b>260,100</b>
Additions and disposals	-	-
<b>End of 2008</b>	<b>14,530</b>	<b>260,100</b>
Additions and disposals	-10,229	-260,100
<b>As per 11 December 2009</b>	<b>4,301</b>	<b>0</b>
Conversion to Evolva Holding shares	multiplied by 370	-
<b>End of 2009</b>	<b>1,591,370</b>	<b>0</b>

## 17. Loss per share

Basic loss per share is calculated by dividing the net loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year. For the calculation of diluted loss per share, profit and loss and the weighted average number of ordinary shares are adjusted for the effects of all dilutive potential ordinary shares outstanding during the year.

	2009	2008
Net loss attributable to shareholders of the parent (CHF)	(9,738,801)	(8,600,757)
Weighted average number of shares outstanding (adjusted due to the reverse acquisition)*	67,025,033	22,211,883
Basic and diluted loss per share (CHF)	(0.15)	(0.39)

\* The weighted average number of shares takes into account the weighted average effect of changes in treasury shares transactions during the year.

For the years ended 31 December 2009 and 31 December 2008, basic and diluted loss per share is based on the weighted average number of shares issued and outstanding, and excludes shares to be issued upon the exercise of options or conversion of preferred shares as these potential ordinary shares would be anti-dilutive. In case Evolva shows a profit in the future, the options may have a dilutive effect on the net profit per share and will need to be considered for the purpose of this calculation.

The comparative weighted average number of shares outstanding were converted into Evolva Holding SA shares to represent the legal acquiree's historical weighted average number of ordinary shares outstanding multiplied by the exchange ratio of 370:1 established in the Combination Agreement.

## 18. Preferred redeemable shares

Evolva Biotech (India) received financing in 2005, 2007 and 2009 from a local investor. At each investment, the investor has been issued with convertible preference shares that are redeemable after ten years unless they have been converted to shares in Evolva Holding SA. Based on the terms of the preference shares and a discount rate of 6%, part of these compound instruments has been recognised as long-term debt while the remainder has been recognised as part of equity/non-controlling interests. In 2007, the investor provided an additional financing of CHF 830,000 of which 55% has been recognised as long-term debt while the remainder has been accounted for as equity/non-controlling interests in 2008, after the shares were issued. In 2009, the investor provided additional financing of CHF 1,960,000 of which 55% has been recognised as long term debt while the remainder has been accounted for as an increase in equity/non-controlling interests in 2009.

## 19. Incentive share and option programme

### 19.1. Option plan Evolva Holding SA (EVE I)

The Board of Directors administers the stock option plans. The granting to employees and members of the Board of Directors is, according to the stock option plan regulation, under the discretion of the Plan Administrator, who is elected by the Board of Directors of the Company.

#### Plan EVE I

In December 2009, the stock option plan, EVE I was issued in Evolva SA. Options under this equity-settled plan were granted on 8 December 2009, i.e. prior to the combination with Arpida AG. Based on the decision of the Board of Directors on 11 December 2009, the options in Evolva SA will be replaced with options in Evolva Holding SA using the exchange ratio established in the Combination Agreement. The options vest with various vesting schemes over five years.

Based on the decision of the Board of Directors of Evolva Holding SA, the options outstanding under the plan as of 31 December 2009 are as follows:

Year of grant	Weighted average exercise price (CHF)	Number of options outstanding	Weighted average years remaining contractual live
2009	0.33	16,718,450	9.92
<b>Total</b>	<b>0.33</b>	<b>16,718,450</b>	<b>9.92</b>

A summary of the options granted, exercised, cancelled and outstanding for the above plans is as follows:

	Number of options 2009	Number of options 2008	Weighted average exercise price (CHF) 2009	Weighted average exercise price (CHF) 2008
Outstanding at 1 January	-	-	-	-
Granted	16,718,450	-	0.33	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Expired	-	-	-	-
<b>Outstanding at 31 December</b>	<b>16,718,450</b>	<b>-</b>	<b>0.33</b>	<b>-</b>
<b>of which exercisable</b>	<b>401,050</b>	<b>-</b>	<b>0.33</b>	<b>-</b>

In 2009, the following share-based payment expenses for EVE I were recorded in the Company's statements of operations:

	2009
Technology and discovery expenses	372,985
Compound development expenses	121,001
General and administrative expenses	402,648
<b>Total</b>	<b>896,634</b>

The fair values of the grants were determined by using a binomial option pricing model. The resulting expenses are recognised over the vesting period. The key parameters in the valuation model were as follows:

	EVE I
Grant date	8 December 2009
Expiration date	7 December 2019
Share price	CHF 1.35
Exercise price	CHF 0.33
Volatility	60.0%
Expected dividend yield	0.0%
Risk-free interest rate	1.888%
Fair value per option	CHF 0.98

The exercise price is set by the Board of Directors. The volatility is based on the industry-specific historical volatility. The risk-free interest rate is based on the CHF swap rate for the expected life of the option.

## 19.2 Option programme ex Arpida

In relation with the restructuring of Arpida AG prior to the combination, the Board of Directors of Arpida decided that all employees required to leave the Company would retain the unvested options resulting in an immediate vesting of the options concerned for accounting purposes. The vesting of these options resulted in an increase of equity of CHF 857,252, which is part of the consideration transferred (refer to Note 5).

The acquisition date fair values of the Arpida grants were determined by using a binomial option pricing model. The resulting fair value charge is recognised as part of the consideration transferred in the purchase price allocation. The significant inputs into the option pricing model were as follows:

	Plan D	Plan E	Plan F	Plan G
Original grant date	31 December 2005 – 1 May 2006	31 December 2006 – 1 January 2007	31 December 2007 – 1 May 2008	31 December 2008 – 1 January 2009
Expiration date	31 December 2016 – 30 April 2017	31 December 2017	31 December 2018 – 30 April 2019	31 December 2019 – 1 January 2020
Share price at acquisition date (11 December 2009)	CHF 1.37	CHF 1.37	CHF 1.37	CHF 1.37
Exercise price	CHF 10.00	CHF 22.00	CHF 22.00	CHF 0.67
Volatility	60%	60%	60%	60%
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	1.888%	1.888%	1.888%	1.888%
Number of options outstanding at acquisition date (11 December 2009)	215,494	465,420	343,800	630,000
Fair value per option at acquisition date (11 December 2009)	CHF 0.26–0.29	CHF 0.17	CHF 0.22–0.24	CHF 1.02

The exercise prices were set by the Board of Directors of Arpida AG. The volatility is based on a industry-specific historical volatility. The risk-free interest rate is based on the CHF swap rate for the expected life of the option.

### Number of options ex Arpida 2009

Outstanding at 11 December 2009	1,654,714
Granted	–
Exercised	(248,000)
Forfeited	–
Expired	–
<b>Outstanding at 31 December</b>	<b>1,406,714</b>
<b>of which exercisable</b>	<b>1,406,714</b>

The weighted average strike price of the exercised options was CHF 0.67.

### 19. 3. Incentive share plan ex Evolva SA

As part of the company's incentive plan, Evolva SA issued in 2006 and 2008 common shares (incentive shares) at a fixed price (CHF 20 per share) to members of the Board of Directors, employees as well as to certain of the Company's advisors. The Company issued 4,270 incentive shares in 2006 and 5,917 incentive shares in 2008. The shares vested immediately after the purchase. In 2008, the income charge was CHF 461,526.

The fair value of the incentive shares was estimated at the grant date. The estimated value was based on the projected future value of the Company under various exit scenarios discounted to present value. The difference between purchase price and the fair market value is charged to operating expenses, and a corresponding increase is recorded in equity

In 2005, Evolva SA issued 1,735 options to one of its investors as compensation for financial advice in connection with the foundation of the Company. The options could be converted into A shares at the nominal value (CHF 20 per share). The options were exercised prior to the combination with Arpida.

All shares mentioned above have been converted to Evolva Holding SA shares.

### 20. Employee benefits and compensation

Evolva maintains retirement plans covering its employees in Switzerland and Denmark. The plan for Evolva Biotech A/S (DK) is considered to be a defined contribution plan and therefore no actuarial calculations under IAS 19 have been performed. Expenses of CHF 73,711 and CHF 65,892 were recognised in 2009 and 2008 respectively for the Danish plan.

The Swiss plan is considered a defined benefit plan in accordance with IAS 19. The plan is structured according to the principles of the Swiss Occupational Benefits Law (BVG) and is substantially identical to the BVG programme except that the Company plan also covers salaries above the salary limit of the BVG. The Company and its employees pay retirement contributions, which are defined as a percentage of the employees' insured salaries, to a collective pension fund operated by an insurance company. Interest is credited to the employees' accounts at the minimum rate provided in the plan, payment of which is guaranteed by the insurance contract. Additionally, the plan provides benefits on the death or long-term disability of plan participants.

For accounting purposes, this insurance contract represents the sole asset of the plan. The fair value of plan assets is the estimated cash surrender value at the respective balance sheet date.

The amounts recognised in the balance sheet for the Swiss plan are determined as follows:

#### Change in present value of defined benefit obligation

CHF	2009	2008
<b>Benefit obligation at 1 January</b>	<b>1,728,308</b>	<b>1,274,647</b>
Current service costs	168,284	280,624
Employee contribution	165,814	162,600
Interest costs	80,095	43,850
Benefits paid / transfers in/out	1,654,871	(13,461)
Business combinations	329,547	-
Actuarial (gains)/losses	(137,103)	(19,952)
<b>Benefit obligation at 31 December</b>	<b>3,989,816</b>	<b>1,728,308</b>

#### Change in plan assets

CHF	2009	2008
<b>Fair value at 1 January</b>	<b>1,164,360</b>	<b>872,419</b>
Expected return on plan assets	65,746	31,612
Actuarial gains/(losses)	(138,071)	(102,315)
Employer contributions	233,654	213,504
Employee contributions	165,814	162,600
Benefits paid / transfers in/(out)	1,654,871	(13,461)
Business combinations	267,202	-
<b>Fair value at 31 December</b>	<b>3,413,577</b>	<b>1,164,360</b>

#### Funding status

CHF	2009	2008
Fair value of plan assets	3,413,577	1,164,360
Defined benefit obligation	3,989,816	1,728,308
<b>Over-/ (under) funding</b>	<b>(576,239)</b>	<b>(563,949)</b>
Unrecognised actuarial (gains)/losses	194,145	195,399
<b>Net recognised asset/(liability)</b>	<b>(382,094)</b>	<b>(368,550)</b>

#### The net periodic costs recognised in the statements of operations

CHF	2009	2008
Service costs	168,284	280,624
Interest costs	80,095	43,850
Expected return on plan assets	(65,746)	(31,612)
Amortisation of actuarial losses	2,221	-
<b>Net periodic cost</b>	<b>184,854</b>	<b>292,861</b>

Of the total charge, CHF 79,278 (2008: CHF 125,599), CHF 43,047 (2008: CHF 68,199) and CHF 62,529 (2008: CHF 99,064) were included in technology and discovery, compound development, and general and administrative expenses, respectively. The actual return on pension plan assets is presented below:

CHF	2009	2008
Expected return on plan assets	65,746	31,612
Actuarial loss on assets	(138,071)	(102,315)
<b>Actual return on plan assets</b>	<b>(72,325)</b>	<b>(70,703)</b>

## Future contributions

In 2010, the Company expects to contribute approximately CHF 295,000 to the plan.

## Overview and experience adjustments

CHF	2009	2008	2007	2006
Plan assets	3,413,577	1,164,360	872,419	312,796
Defined benefit obligation	3,989,816	1,728,308	1,274,647	478,962
<b>Over-/ (under)funding</b>	<b>(576,239)</b>	<b>(563,949)</b>	<b>(402,228)</b>	<b>(166,165)</b>
Experience adjustments				
• Fair value of plan assets	65,746	31,612	17,732	5,817
• Defined benefit obligation	(268,627)	(19,952)	92,838	5,390

The principal actuarial assumptions used for the Swiss plans were as follows:

	2009	2008
Discount rate	3.00%	3.25%
Expected return on plan assets	3.00%	3.00%
Future salary increases	2.00%	2.00%
Future pension increases	0.00%	0.00%

Assumptions regarding the mortality experience are based on published statistics (BVG 2005).

## Staff Costs

CHF	2009	2008
Wages and salaries	7,353,745	5,241,083
Share-based compensation	896,634	746,538
Social-security costs	529,970	524,391
Pension costs	288,847	458,232
Other staff-related costs	278,186	382,385
<b>Total staff-related costs</b>	<b>9,347,382</b>	<b>7,352,630</b>

## 21. Accrued and other current liabilities

CHF	2009	2008
Accrued vacation	(490,105)	(322,228)
Accrued salaries and social security	(1,313,488)	(62,323)
Prepayments	(1,586,184)	(1,329,389)
Other	(617,269)	(1,033,982)
Capital taxes	(380,255)	-
<b>Total</b>	<b>(4,387,302)</b>	<b>(2,747,922)</b>

## 22. Deferred income

Under certain of its discovery contracts, Evolva receives funding from clients as compensation for purchase of lab equipment that will be used for the respective project. The funding is presented in the balance sheet as deferred income and released over the period during which the Company is providing the services (see also Note 6).

## 23. Finance lease

In October 2005, Evolva Holding SA (formerly Arpida AG) entered into a rental contract for office and laboratory space in the TechCenter Reinach in Reinach, Switzerland, starting 1 December 2006. Certain elements of the contract qualify as a finance lease. The rental period is 15 years unless it is terminated earlier or extended. The elements qualifying for finance lease are incorporated in the table below. The Company has the option to extend the rental term for an additional period of five years.

In January 2007, Evolva Holding SA (formerly Arpida AG) entered into an additional rental contract in the same building for office space, starting 1 December 2007. The rental period is 14 years unless it is terminated earlier or extended.

The elements not qualifying for finance lease are disclosed in Note 27, "Commitments and Contingencies". The Company has the option to extend the rental term for an additional period of five years.

## Finance lease commitments

CHF	<b>2009</b>	<b>2009</b>	<b>2008</b>	<b>2008</b>
	Future minimum lease payments	Present value of future minimum lease payments	Future minimum lease payments	Present value of future minimum lease payments
Within one year	506,500	480,733	–	–
Between one and five years	2,026,000	1,690,495	–	–
More than five years	3,504,303	2,206,217	–	–
<b>Total minimum lease payments</b>	<b>6,036,803</b>	<b>4,377,445</b>	<b>–</b>	<b>–</b>
Less amounts representing financing charges	(1,659,358)	–	–	–
<b>Total at 31 December</b>	<b>4,377,445</b>	<b>–</b>	<b>–</b>	<b>–</b>

In case Evolva terminates the rental contract in Reinach, Switzerland, after the fixed period which lasts until 30 November 2011, an amount of up to CHF 4,031,796 will become payable for leasehold improvements. This amount gradually reduces to CHF 0 by 30 November 2021. There were no financial leases in 2008.

## 24. Mortgage loan

The position comprises of mortgage loans that have been obtained for the purchase and refurbishment of the lab and office building in Allschwil, Switzerland. The part of the loans that is repayable within one year is disclosed as current liabilities. The interest rates on the mortgage loans are fixed to maturity. The average interest rate in 2009 was 3.6% (2008: 3.7%).

CHF	<b>2009</b>	<b>2008</b>
Current (short-term)	188,000	188,000
Non-current	4,916,000	5,104,000
<b>Total</b>	<b>5,104,000</b>	<b>5,292,000</b>

## 25. Related parties

Since 2007, Evolva has received discovery services from a subcontractor in which a member of the Group management owns about 10% of the share capital. The expenses related to the discovery received from the subcontractor amounted to CHF 621,617 in 2009 and CHF 570,000 in 2008. The terms of the subcontract have been established at arm's length and represent market conditions.

## 26. Management and board compensation

The total remuneration for the management team during 2008 and 2009 was as follows:

### Compensation to management team

CHF	<b>2009</b>	<b>2008</b>
Short-term employee benefits (net salary)	2,402,914	1,270,090
Post-employment benefits (pension fund)	231,000	148,605
Other long-term benefits	–	–
Termination benefits	–	–
Share-based payments	300,861	450,305
<b>Total compensation</b>	<b>2,934,775</b>	<b>1,869,000</b>

Group management includes the management of Evolva Holding SA plus the CEOs of Evolva USA and Evolva India.

Short-term employee benefits comprise salaries, bonus payments, social security and expense allowance. During 2009, a member of the Board was paid a total of CHF 35,000 (2008: CHF 40,300) for advisory work.

## 27. Commitments and contingencies

### Operating lease commitments

The future minimum lease payments under non-cancellable operating leases that are not accounted were as of year-end:

CHF	2009	2008
Within one year	1,343,299	365,178
Later than one year and not later than five years	4,544,561	817,713
Later than five years	7,234,060	
<b>Total</b>	<b>13,121,920</b>	<b>1,182,891</b>

### Collaboration agreements

As part of its R&D operations, Evolva has entered into agreements with pharma/biotech firms that either

- give Evolva access to the partners' intellectual property rights, or
- provide for these firms to conduct discovery or development work at their risk.

Under these agreements, Evolva will be due to make certain milestone payments to the firms depending on whether the Company decides to progress certain of its compounds to defined clinical or marketing milestones. Until the end of 2012, the potential milestone payments due under these agreements amount in total to max. USD 4 million. The major part of the potential milestone payments will only fall due if the Company receives client funding to cover the relevant payments. In the event that some of the compounds reach market, Evolva will have to pay 1.5 to 12% royalty on net sales of the respective compounds.

The key agreements where milestone payments are likely to become due until 2012 are described below:

#### Eli Lilly/Phytera

The Company has entered into an agreement with Eli Lilly and Co. and Phytera Inc. (the company at which the founders of Evolva were employed prior to the creation of Evolva). Under the agreement, the Company has acquired all rights to the EV-86 compound. In exchange, the Company shall make certain clinical milestone payments to the two companies up to a total of USD 1.7 million. If EV-86 becomes a marketed product, the Company shall pay the two companies certain marketing milestone payments and royalty of 1.5 to 4% on net sales.

#### Biologand A/S

The Company has entered into an agreement with Biologand relating to EV-77 (regarding which compound Biologand provided certain CRO type services at risk). Biologand is entitled to receive a milestone payment at the start of clinical phase III. If EV-77 becomes a marketed product Biologand shall receive a royalty of 1.5% of net sales.

### Other commitments

The Company has entered into various purchase commitments for services and materials as part of its ordinary business. These commitments are not in excess of current market prices and reflect normal business operations.

## 28. Legal proceedings

As at 31 December 2009 and 31 December 2008, there are no filed legal actions against the group.

## 29. Events subsequent to the 31 December 2009 balance sheet date

In February 2010, Evolva India received CHF 1,000,000 from its minority shareholder as partial payment of a remaining investment commitment of CHF 3,500,000.

## Report of the Statutory Auditor on the Consolidated Financial Statements



To the General Meeting of  
Evolva Holding SA, Reinach

### Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the accompanying consolidated financial statements of Evolva Holding SA, Reinach, which comprise the consolidated balance sheet, consolidated statement of operations, consolidated statement of comprehensive income, consolidated statement of cash flows, consolidated statement of equity and notes (pages 41 to 65) for the year ended 31 December 2009.

#### *Board of Directors' responsibility*

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness

of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the consolidated financial statements for the year ended 31 December 2009 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with IFRS and comply with Swiss law.

#### **Report on other legal requirements**

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

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

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

Ernst & Young Ltd.

Jürg Zürcher  
Licensed audit expert  
(Auditor in charge)

David Haldimann  
Licensed audit expert

Basel, 16 April 2010

## Swiss Statutory Balance Sheets of Evolva Holding SA

CHF	31 December 2009	31 December 2008
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	10,159,068	12,947,990
Fixed deposit	-	13,000,000
Other receivables		
• Subsidiaries	297,650	2,083,689
• Third parties	1,014,800	655,773
Prepayments	-	259,534
<b>Total current assets</b>	<b>11,471,518</b>	<b>28,946,986</b>
<b>Non-current assets</b>		
Plant and equipment	405,872	597,172
Investment in subsidiaries	62,873,426	25,141,198
Loans to subsidiaries	-	6,088,584
Financial investments (rent deposit)	2,150,000	2,150,000
Intangible assets		
• Research and development costs	-	-
<b>Total non-current assets</b>	<b>65,429,298</b>	<b>33,976,954</b>
<b>Total assets</b>	<b>76,900,816</b>	<b>62,923,940</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Trade accounts payables		
• Subsidiaries	20,349,775	22,090,940
• Third parties	292,801	772,401
Accrued expenses and other current liabilities	565,246	12,793,943
<b>Total current liabilities</b>	<b>21,207,822</b>	<b>35,657,284</b>
<b>Non-current liabilities</b>		
Provisions	360,000	5,645,805
<b>Total non-current liabilities</b>	<b>360,000</b>	<b>5,645,805</b>
<b>Shareholders' equity</b>		
Share capital	27,835,719	4,218,820
Legal reserves		
• Agio (share premium)	37,432,952	207,243,508
• Accumulated loss		
– Loss carried forward		
– Net loss for the period	(9,935,681)	(189,841,477)
<b>Total shareholders' equity</b>	<b>55,332,994</b>	<b>21,620,851</b>
<b>Total liabilities and shareholders' equity</b>	<b>76,900,816</b>	<b>62,923,940</b>

## Swiss Statutory Statements of Operations of Evolva Holding SA

CHF	Period from 1 January 2009 to 31 December 2009	Period from 1 January 2008 to 31 December 2008
<b>Income from services</b>		
• Subsidiaries	-	785,610
• Third parties	-	424,404
<b>Total operating income</b>	<b>-</b>	<b>1,210,014</b>
Research and development costs	(4,405,438)	(22,384,706)
Staff costs	(6,256,914)	(12,749,289)
Rent and maintenance expenses	(1,833,366)	(2,227,819)
Administrative expenses	(2,435,946)	(3,530,825)
Restructuring	(-)	(12,689,349)
Depreciation plant and equipment	(191,300)	(948,824)
Impairment of capitalised research and development costs	(-)	(140,324,348)
Impairment subsidiaries	(3,715,375)	(5,316,462)
Reimbursement subsidiaries	(365,070)	(5,447,597)
<b>Total operating expenses</b>	<b>(19,203,409)</b>	<b>(205,619,219)</b>
Release accruals	7,398,031	-
Sale of Adipra (iclaprim)	2,000,000	-
Financial expenses	(123,199)	(916,308)
Financial income	252,896	1,982,607
<b>Loss before tax</b>	<b>(9,675,681)</b>	<b>(188,591,477)</b>
Taxes	(260,000)	(1,250,000)
<b>Net loss for the period</b>	<b>(9,935,681)</b>	<b>(189,841,477)</b>

## Proposed appropriation of accumulated losses

The Board of Directors proposes to compensate the accumulated loss of CHF 9,935,681 with an equal amount of share premium in the legal reserves.

CHF	2009	2008
Loss carried forward as of 1 January	-	-
Net loss for the period	(9,935,681)	(189,591,477)
<b>Accumulated loss as of 31 December</b>	<b>(9,935,681)</b>	<b>(189,591,477)</b>
Appropriation to legal reserves (share premium)	9,935,681	189,591,477
<b>Loss to be carried forward</b>	<b>-</b>	<b>-</b>

## Notes to the Swiss Statutory Financial Statements of Evolva Holding SA

Evolva Holding SA is the continuing company resulting from the combination (as of 11 December 2009) of Arpida Ltd., Reinach, Basel-Land, and Evolva SA, Allschwil, Basel-Land.

The statutory accounts for Evolva Holding SA for 2009 represent the financial development and status of Arpida Ltd. until 11 December 2009 and the financial development and status of Evolva Holding SA after 11 December 2009.

Notes in accordance with article 663b of the Swiss Code of Obligations.

### 1. Lease commitments not recorded in the balance sheet

Lease commitments not recorded in the balance sheet	2009	2008
CHF	4,377,445	133,526

### 2. Fire insurance value of plant and equipment

Fire insurance value of plant and equipment	2009	2008
CHF	6,000,000	6,000,000

### 3. Conditional and authorised capital

Conditional and authorised capital	2009	2008
Conditional capital* CHF	7,053,535	973,135
Authorised capital* CHF	3,699,330	649,436

\* The Annual General Meeting of shareholders of 7 May 2008 approved the creation of conditional capital of CHF 640,000 (3,200,000 shares), available for the exercise of options in relation with convertible bonds, bonds with options rights and similar forms of financing. The Extraordinary General Meeting of 26 November 2009 increased this conditional capital to CHF 2,800,000 (14,000,000 shares).

The Annual General Meeting of shareholders of 7 May 2008 also approved the creation of authorised capital of CHF 640,000 (3,200,000 shares), which expires on 8 May 2010. The Extraordinary General Meeting of 26 November 2009 increased this authorised capital to CHF 2,800,000 (14,000,000 shares). The authorised capital created on 26 November 2009 expires on 26 November 2011.

The following restrictions apply to the conditional capital as well as to the authorised capital created on 7 May 2008 and 26 November 2009: The available conditional capital is reduced by the amount used as authorised capital. The available authorised capital is reduced by the amount used as conditional capital.

As per year-end 2009, the additional capital that was approved in the General Meetings of 7 May 2008 and 26 November 2009 had not yet been used.

### 4. Liabilities to pension fund

Liabilities to pension fund	2009	2008
CHF	45,025	38,606

## 5. Subsidiaries

Name	Location	Nominal capital	Holding	Purpose
Arpida UK Ltd. (inactive)	UK	GBP 1,000	100%	Trade
Arpida A/S	DK	DKK 4,311,583	100%	R&D
Evolva SA	CH	CHF 6,369,540	100%	R&D
TLT Medical Ltd.	CH	CHF 308,751	100%	R&D

## 6. Major shareholders

As far as Evolva Holding SA is aware, the following shareholders had holdings exceeding 3% as at 31 December 2009.

Shareholder	Location	% of share capital
Sunstone Life Science Ventures Fund I K/S	Denmark	12.5
Auriga Ventures III	France	8.8
Wellington Partners Ventures III Life Science Fund L.P. / Wellington Partners Ventures III Life Science Network Fund	Channel Islands	8.5
Renaissance PME fondation Suisse d'investissement / Mona Lisa Capital AG	Switzerland	8.5
Dansk Innovationsinvestering P/S	Denmark	7.2
Aravis Venture I LP	Cayman Islands	7.0
Novartis Bioventures Ltd.	Bermuda	5.8
Entrepreneurs Fund General Partners Limited	Channel Islands	5.5
Baltisches Haus Limited	Lithuania	3.9
BioMedInvest II LP	Channel Islands	3.8
Symbion Capital I A/S	Denmark	3.6
Astellas Venture Capital, LLC	USA	3.5

## 7. Risk management

The Company regularly evaluates its identified financial and operating risks in regard to their probability and potential impact. With the consent of the Board of Directors, appropriate measures are taken to eliminate or to mitigate the risks identified. The remaining risks for the Company are monitored appropriately. The Board of Directors reviews the Company's risk management on a regular basis.

## 8. Compensation and shareholdings

The total compensation of the members of the Board of Directors in 2009 is as follows:

CHF	Base compensation		Variable compensation		Other compensation <sup>1</sup>	Total compensation
	Cash	Shares/options <sup>2</sup>	Cash	Shares/options <sup>2</sup>		
Dr Erich Schlick <sup>3</sup> , Chairman	0	0	0	0	0	0
Jean-Philippe Tripet <sup>3</sup> , Vice-Chairman	0	0	0	0	0	0
Ingelise Saunders <sup>3</sup>	0	0	0	0	0	0
Dr Jacques Mallet <sup>3</sup>	0	0	0	0	0	0
Neil Goldsmith <sup>3/6</sup>	0	0	0	0	0	0
Dr André Lamotte	37,308	2,068	25,000	0	3,800	68,176
Michel Pettigrew, MBA	28,356	2,068	10,000	0	2,139	42,563
Dr Hans Fünfschilling <sup>4</sup>	28,357	2,068	12,500	0	2,291	45,216
Prof. Dr Axel Kleemann <sup>5</sup>	10,000	862	5,000	0	908	16,770
Elmar Schnee <sup>4</sup>	18,904	2,068	10,000	0	1,567	32,539
Dr Matthias Staehelin <sup>4</sup>	18,904	2,068	12,500	0	1,718	35,190
<b>Total</b>	<b>141,829</b>	<b>11,202</b>	<b>75,000</b>	<b>0</b>	<b>12,423</b>	<b>240,454</b>

<sup>1</sup> Includes employers' contributions to pension plans, social security, life insurances etc.

<sup>2</sup> Based on the grant date fair value of stock options granted in 2007 using a binominal assessment model

<sup>3</sup> Board membership: 11 December – 31 December 2009

<sup>4</sup> Board membership: 1 January – 11 December 2009

<sup>5</sup> Board membership: 1 January – 30 June 2009

<sup>6</sup> Compensation shown under executive payment

The total compensation of the members of the Board of Directors of the former Arpida AG in 2008 was as follows:

CHF	Base compensation		Variable compensation		Other compensation <sup>4</sup>	Total compensation
	Cash	Shares/options <sup>3</sup>	Cash	Shares/options <sup>3</sup>		
Dr André Lamotte, Chairman	40,000	2,160	40,000	–	4,658	86,818
Dr Hans Fünfschilling, Vice-Chairman	20,000	2,160	22,500	–	2,390	47,050
Prof. Dr Nam-Hai Chua <sup>1</sup>	6,667	–	–	–	404	7,071
Dr Khalid Islam <sup>2</sup>	–	–	–	–	–	–
Prof. Dr Axel Kleemann	20,000	888	22,500	–	2,571	45,959
Michel Pettigrew, MBA	20,000	2,160	22,500	–	2,390	47,050
Dr Jürgen Raths <sup>1</sup>	6,667	–	2,500	–	373	9,540
Elmar Schnee	15,000	2,160	20,000	–	1,936	39,096
Dr Matthias Staehelin, MAES	20,000	2,160	15,000	–	1,936	39,096
<b>Total</b>	<b>148,334</b>	<b>11,688</b>	<b>145,000</b>	<b>–</b>	<b>16,658</b>	<b>321,680</b>

<sup>1</sup> Prof. Dr Nam-Hai Chua and Dr Jürgen Raths resigned from the Board of Directors in May 2008.

<sup>2</sup> Dr Islam was appointed to the Board of Directors of Arpida Ltd. in May 2008.

<sup>3</sup> Based on the grant date fair value of stock options granted in 2008 using a binominal assessment model

<sup>4</sup> Includes employers' contributions to pension plans, social security, life insurances etc.

The total compensation of the senior executive officers and the highest total compensation paid in 2009 by Evolva Holding SA and by the former Arpida AG respectively are as follows:

CHF	Base compensation		Variable compensation		Other compensation <sup>1</sup>	Total compensation
	Cash	Shares/ options <sup>2</sup>	Cash	Shares/ options <sup>2</sup>		
Neil Goldsmith, CEO	280,365	–	129,294	3,712,921	53,052	4,175,632
Other senior executive officers <sup>3</sup>	1,600,017	–	393,238	7,409,363	177,948	9,580,566
<b>Total senior executive officers</b>	<b>1,880,382</b>	<b>–</b>	<b>522,532</b>	<b>11,122,285</b>	<b>231,000</b>	<b>13,756,198</b>
Dr Jürgen Raths, CEO (former Arpida AG)	614,678	–	–	35,686	1,512,928	2,163,292
Other senior executive officers (former Arpida AG)	479,638	–	–	23,790	721,637	1,225,065
<b>Total senior executive officers of the former Arpida AG</b>	<b>1,094,316</b>	<b>–</b>	<b>–</b>	<b>59,476</b>	<b>2,234,565</b>	<b>3,388,357</b>

<sup>1</sup> Includes contractual exit payment and employers' contributions to pension plans, social security, life insurances etc.

<sup>2</sup> The options were granted in 2009 and are subject to vesting over five years. As of 31 December 2009, less than 1% of the options have vested (see below). The valuation is based on the grant date fair value using a binominal assessment model.

<sup>3</sup> Comprises seven senior executive officers

The total compensation of the senior executive officers and the highest total compensation paid in 2008 by Evolva SA and by the former Arpida AG respectively were as follows:

CHF	Base compensation		Variable compensation		Other compensation <sup>1</sup>	Total compensation
	Cash	Shares/ options <sup>2</sup>	Cash	Shares/ options <sup>2</sup>		
Neil Goldsmith, CEO	263,270	0	0	143,510	33,512	440,742
Other senior executive officers <sup>3</sup>	1,006,820	0	0	306,795	113,085	1,426,700
<b>Total senior executive officers</b>	<b>1,270,090</b>	<b>0</b>	<b>0</b>	<b>450,305</b>	<b>146,597</b>	<b>1,867,442</b>
Dr Khalid Islam CEO until 1 May 2008	548,904	–	–	–	138,082	686,986
Dr Jürgen Raths, CEO starting 1 May 2008	375,840	–	–	40,868	95,950	512,658
Other senior executive officers	947,040	–	140,000	–	270,863	1,357,903
<b>Total senior executive officers of the former Arpida AG</b>	<b>1,871,784</b>	<b>–</b>	<b>140,000</b>	<b>40,868</b>	<b>504,895</b>	<b>2,557,547</b>

<sup>1</sup> Includes employers' contributions to pension plans, social security, life insurances etc.

<sup>2</sup> Based on the grant date fair value of stock options granted in 2008 using a binominal assessment model

<sup>3</sup> Comprises five senior executive officers

In the year under review, the Company did not issue or assume any guarantees for any shareholder or member of the Board of Directors or the management. No shareholder and no member of the Board of Directors or the management have received any loans from the Company.

The number of Evolva Holding shares and options held by senior executive officers and members of the Board of Directors at the end of 2009 was as follows:

	Shares <sup>1</sup>	Vested	Share options unvested	Total options
<b>Board of Directors</b>				
Prof. Dr Erich Schlick	-	-	-	-
Jean-Philippe Tripet	5,920	-	-	-
Neil Goldsmith	-	-	-	-
Dr André Lamotte	5,976	24,000	-	24,000
Dr Jacques Mallet	-	-	-	-
Michel Pettigrew	3,000	24,000	-	24,000
Ingelise Saunders	-	-	-	-
<b>Total</b>	<b>14,896</b>	<b>48,000</b>	<b>-</b>	<b>48,000</b>
<b>Senior executive officers</b>				
Neil Goldsmith	1,511,450	0	3,811,000	3,811,000
Other senior executive officers	2,328,410	109,890	7,659,110	7,769,000
<b>Total</b>	<b>3,839,860</b>	<b>109,890</b>	<b>11,470,110</b>	<b>11,580,000</b>

<sup>1</sup> Includes shares owned by family members

## Report of the statutory auditor on the financial statements



To the General Meeting of  
Evolva Holding SA, Reinach

### Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of Evolva Holding SA (formerly Arpida AG), which comprise the balance sheet, statement of operations and notes pages 67 to 73 for the year ended 31 December 2009. The prior period financial statements were audited by another auditor whose report dated 20 February 2009 expressed an unqualified opinion on those financial statements.

#### *Board of Directors' responsibility*

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

#### *Auditor's responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes

evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Opinion**

In our opinion, the financial statements for the year ended 31 December 2009 comply with Swiss law and the company's articles of incorporation.

#### **Report on other legal requirements**

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

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

We further confirm that the proposed appropriation of accumulated losses complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd.

Jürg Zürcher  
Licensed audit expert  
(Auditor in charge)

David Haldimann  
Licensed audit expert

Basel, 16 April 2010

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