# FINANCIAL STATEMENTS
# 2010

BIOTIE
THERAPIES

## Contents

# I. Report of the board of directors

**Key events after the reporting period: Acquisition of Synosia Therapeutics, reporting positive results from nalmefene studies by Lundbeck, and completion of share offering**

After the reporting period, Biotie has undergone significant changes that have transformed the nature of its operations and its financial status. Most notably, in February 2011, Biotie acquired Synosia Therapeutics, a drug development specialist with key operations in the US and a strategic alliance with pharma company UCB. Early January 2011 Biotie was informed by its licensing partner H. Lundbeck A/S positive study results regarding nalmefene for the treatment of alcohol dependence. In March, Biotie raised EUR 27 million in a directed share issue to institutional and strategic investors, thus strengthening its financial position. The company today employs approximately 40 people and is exclusively focused on the development of its promising pipeline of clinical-stage drug candidates having operations in Finland, the United States and Switzerland.

**Key events for the full year 2010**

**- In Q4, Biotie announced a major restructuring plan, shifting focus of the company exclusively on clinical development projects**

As part of the restructuring process, all employees and all pre-clinical assets of Biotie Therapies GmbH (Biotie's subsidiary in Radebeul, Germany) were transferred into a new company, biocrea GmbH, in which Biotie become a minority shareholder. Furthermore, the workforce was reduced by 15 employees in Finland, bringing the group's headcount down to 23 employees at the end of 2010, all located at its Finnish site in Turku. Commercial agreements with Roche in relation to Biotie's small molecule SSAO program and with Pfizer in relation to its discovery program for novel PDE10 inhibitors were both terminated in 2010.

**- Biotie reported positive clinical data for its VAP-1 antibody BTT-1023, retaining commercial rights in other territories than Asia-Pacific**

In January and September, respectively, Biotie reported the results of two clinical trials conducted in 24 rheumatoid arthritis and 26 psoriasis patients. The compound demonstrated a favourable safety profile and showed promising signals of clinical activity, especially in the higher doses of the rheumatoid arthritis study. These data support further clinical development of the product. The compound is licensed to Seikagaku Corporation of Japan for Asia-Pacific (Japan, Korea, Taiwan, Australia and New Zeeland). In April, Roche, which had an option to obtaining an exclusive license for the product for all territories ex Asia-Pacific, notified Biotie that it would not exercise its option. The rights to the product in this territory thereby remain with Biotie.

**- Biotie announced positive data from a clinical study with its oral PDE4 inhibitor ronomilast (previously known as ELB353)**

In a dose-escalating, repeated dose clinical study with 48 healthy volunteers, the compound showed to be well tolerated and demonstrated clear pharmacological activity as measured by biomarker response. The compound is well suited for once daily oral administration. The data in altogether 126 subjects supports further clinical development.

**- In separate instances, Biotie reported the conveyance of a total of 2 967 542 shares against cash payments under a standby equity distribution agreement ("SEDA") to US investor Yorkville**

On the basis of the authorization by the General Meeting of Shareholders of Biotie held on 15 April 2010, Biotie issued 17 251 371 shares to the company itself without consideration for fundraising purposes. A prospectus concerning this share issue was published in October. In different instances in August, November and December, a total of 2 967 542 treasury shares were conveyed to Yorkville against cash payments totalling EUR 1 050 000. The offers were made in order to strengthen Biotie's working capital and to provide further financing for the company's R&D programs. At the end of the year, Biotie held 14 747 084 own shares in treasury.

**- Financial review 2010**

Due to the implementation of the restructuring plan, income statement and cash flow line items and the remaining liability on the balance sheet related to the disposed pre-clinical development operations have been reclassified and presented as discontinued operations.

Revenues for continuing operations in January – December amounted to EUR 2.0 million (EUR 3.1 million in 2009) and EUR 1.0 million for discontinued operations (EUR 2.5 million in 2009). Net loss for continuing operations in January – December was EUR 8.5 million (EUR 8.1 million in 2009) and EUR 13.1 million for discontinued operations (EUR 8.0 million in 2009). Basic earnings per share amounted to EUR -0.06 for the continuing operations (EUR -0.06 for 2009) and EUR -0.09 for the discontinued operations (EUR -0.05 for 2009).

Cash flow from operations in January - December amounted to EUR -7.9 million for continuing operations (EUR -9.7 million in 2009) and EUR -7.0 million for discontinued operations (EUR -3.6 million in 2009).

As of 31 December 2010, liquid assets amounted to EUR 4.1 million (EUR 19.7 million as of 31 December 2009).

At the closing date 31 December 2010 the group did not have sufficient funds to finance its operations over the next 12 months. In March 2011 the company executed a private placement of shares and subsequently the group´s cash, cash equivalents and short term investments amounted to over EUR 45 million. This liquidity secures financing of the group's operations for over the next 12 months.

**Key events after the reporting period**

**- In March 2011, Biotie raised EUR 27 million from institutional and strategic investors – increasing its cash position to over EUR 45 million.**

Biotie Therapies Corp. announced the successful completion of a private placement of shares, raising EUR 27 million. The offering was successfully placed with new and existing institutional and strategic investors. 35 230 000 newly issued and 14 747 084 treasury shares were included in the offering and subscribed at a subscription price of EUR 0.54 per share.

**- In February 2011, Biotie announced the successful completion of the acquisition of Synosia Therapeutics Holding AG ("Synosia")**

On 1 February 2011, the Extraordinary General Meeting of Biotie held on 1 February 2011 passed resolutions necessary for the completion of the acquisition of Synosia Therapeutics Holding AG ("Synosia"), deciding on the issue of 161 448 371 new Biotie shares to the shareholders and warrant holders of privately-owned Synosia in exchange for the entire issued share capital and outstanding warrants of Synosia.

Through the acquisition, Biotie gained access to six additional clinical-stage drug candidates. The combined entity now has a promising pipeline of nine clinical-stage drug candidates; a significant international presence with operations in Finland, The United States and Switzerland, and a strengthened management team and Board of Directors.

**- In January 2011, Biotie announced positive results from the first two of the three phase 3 studies with nalmefene in alcohol dependence, carried out by Lundbeck**

Biotie's partner, Lundbeck announced that it has completed two of the three phase 3 clinical trials evaluating nalmefene for the treatment of alcohol dependence (*ESENSE1, SENSE*). Lundbeck expects to complete the third study, a further efficacy study (*ESENSE2*), in 2Q 2011 and is on track to file a marketing authorization application (MAA) in Europe in 2H 2011, depending on the outcome of the final study. Lundbeck plans to submit detailed efficacy and safety data for presentation at scientific and medical meetings after all three trials have been completed. The data from these studies is consistent with the profile of nalmefene observed in previous clinical studies.

**Outlook for 2011**

Following the completion of the acquisition of Synosia Therapeutics Holding AG ("Synosia"), Biotie will focus on the development of its broadened product portfolio, including drug candidates for neurodegenerative and psychiatric disorders and inflammatory diseases.
Biotie will continue to support its licensing partner Lundbeck in the development of nalmefene for the treatment of alcohol dependence. Final clinical data from the ongoing phase 3 study is expected in the second quarter of 2011; a possible marketing authorization submission in the EU is anticipated in the second half of 2011.

SYN115 for the treatment of Parkinson's disease is globally licensed to UCB Pharma and a phase 2b study is currently being initiated, which is intended to be completed in the first half of 2013. SYN118, also for the treatment of Parkinson's disease, is currently in a phase 2a clinical study and data from this study is expected to become available second quarter of 2011. UCB Pharma has an option to license this product after the clinical data is available for their review.

SYN120, for the treatment of cognitive disorders associated with Alzheimer's disease and schizophrenia is expected to enter a phase 1 PET ("positron emission tomography") imaging study second quarter of 2011.The study is scheduled to be completed early in 2012. Roche has an option to license this compound from Biotie.

Biotie will announce development plans of its proprietary VAP-1 antibody later this year. While the rights to the product in Japan, Taiwan, Singapore, Australia and New Zealand have been granted to Seikagaku, Biotie retains ownership in the rest of the world and will be looking for additional collaboration opportunities.

Biotie will announce development plans of ronomilast for the treatment of COPD later this year. Biotie will also be looking for potential collaboration opportunities for this product.

SYN117 for the treatment of Post Traumatic Stress Disorder (“PTSD”) is currently being developed through an externally funded phase 2 study by the US Department of Defense. It is assumed that no data from this study will become available before 2013.

Biotie will announce development plans for SYN111 for the treatment of mood disorders and for treatment of bipolar disorder later this year.

At the closing date 31 December 2010 the group did not have sufficient funds to finance its operations over the next 12 months. In March 2011 the company executed a private placement of shares and subsequently the cash, cash equivalents and short term investments of the group amounted to over EUR 45 million. This liquidity secures financing of the group’s operations for over the next 12 months.

**About Biotie**

**Post the acquisition of Synosia Therapeutics and completion of share offering**

Biotie today is a specialized drug development company focused on the development of drugs for neurodegenerative and psychiatric disorders (Parkinson's disease, Alzheimer's disease and other cognitive disorders, bipolar disorder, addictions and drug dependence) and inflammatory diseases (rheumatoid arthritis, psoriasis, chronic obstructive pulmonary disease and others).

It has several innovative small molecule and biological drug candidates at different stages of clinical development. Biotie's products address diseases with high unmet medical need and significant market potential.

Some of its development programs have been validated through licensing agreements for development and commercialization with top-tier pharmaceutical partners including H. Lundbeck A/S, UCB Pharma S.A., and Seikagaku Corporation. The most advanced product, nalmefene for alcohol dependence, is currently in phase 3 clinical development by licensing partner H. Lundbeck A/S.

**Drug development projects and operations:**

**Nalmefene, a new treatment paradigm for alcohol dependence.** Nalmefene builds on a novel principle of treating alcohol dependence. Unlike existing therapies, the treatment with Nalmefene is not aimed at keeping the patients from drinking. Nalmefene instead removes the desire to drink, thereby controlling and limiting the intake of alcohol. Nalmefene distinguishes itself by being available as an oral tablet formulation to be taken on an as needed basis.

Biotie's partner Lundbeck announced in January 2011 that it had completed two phase 3 clinical trials evaluating nalmefene for the treatment of alcohol dependence (*ESENSE1, SENSE*). The data from these studies was consistent with the profile of nalmefene observed in previous clinical studies and demonstrated nalmefene to be safe and efficacious in helping patients to reduce drinking. Lundbeck expects to complete a further efficacy study (*ESENSE2*) in 2Q 2011 and is on track to file a marketing authorization application (MAA) in Europe in 2H 2011, depending on the outcome of the final study. Lundbeck plans to submit detailed efficacy and safety data for presentation at scientific and medical meetings after all three trials have been completed. Launch of the product in the EU is expected H2 2012. Biotie is participating in financing some of the clinical development costs. Biotie has granted worldwide rights for nalmefene to Lundbeck.

**SYN115** is a potent and selective inhibitor of the adenosine A2a receptor, which modulates the effect of dopamine, glutamine and serotonine in specific regions of the brain. In preclinical models of Parkinson's disease A2a inhibition reverses motor deficits and potentiates the effects of L-DOPA and dopamine agonists without inducing dyskinesias (involuntary movements). SYN115 also displays activity in preclinical models of depression, cognition and anxiety. Recently there has been clinical validation of the target in improving motor symptoms. The company has completed a phase 2a study in Parkinson's patients with SYN-115 showing functional activity in relevant regions of the brain assessed using fMRI and positive effects on clinical measures of motor function and cognition. Biotie is planning to start a phase 2b study in Q2 2011. SYN115 is licensed to UCB on a worldwide exclusive basis.

**Nitisinone (SYN118)** is a potent and selective inhibitor of hydroxyphenylpyruvate dioxygenase (HPPD), an enzyme responsible for the catabolism of tyrosine, the precursor of the neurotransmitter dopamine. Preclinical studies have shown that Nitisinone is active in animal models of Parkinson's disease. Clinical studies and patient experience with Nitisinone have shown pronounced and predictable elevations in the circulating concentrations of tyrosine. The company has completed an open label, proof-of-mechanism study with Nitisinone for Parkinson's disease and a proof-of-concept trial in restless legs syndrome. The encouraging efficacy and safety results from these studies provide a strong rationale for moving this program forward. Results from a randomised, placebo controlled phase 2a study in Parkinson's disease patients are expected in Q2/2011. UCB has an option to obtain an exclusive license to this product.

**SYN120** is an orally bioavailable potent and selective antagonist of the 5-HT6 receptor. The 5-HT6 receptors are exclusively located in the brain and antagonism of the receptor modulates the release of acetylcholine and glutamate, two neurotransmitters known to be involved with memory function. Cognitive deficits are an important component of many CNS diseases especially Alzheimer's and schizophrenia. SYN120 has completed a single and multiple ascending dose phase 1 clinical studies. Biotie plans to initiate a PET imaging study for SYN120 in Q2 2011. The compound was originally licensed from Roche and Roche has an option to reacquire this program after the results of the planned study have been obtained.

**VAP-1 antibody, a high value biologic for inflammatory diseases in clinical development.** VAP-1 has been shown to play a key role in chronic inflammatory diseases such as COPD, rheumatoid arthritis, psoriasis and diabetes. Biotie has significant know-how and strong intellectual property position around this target and is developing a fully human monoclonal antibody, BTT-1023, which blocks VAP-1 function. Biotie has in 2010 reported successful completion of clinical trials with BTT-1023 in 24 rheumatoid arthritis and 26 psoriasis patients, demonstrating the safety, tolerability, and pharmacokinetics of repeated doses of intravenously administered antibody. The compound has demonstrated a favorable safety profile in a total of 83 study subjects and showed promising signals of clinical activity, especially with higher doses in the rheumatoid arthritis study. The data support further clinical development of the product. Biotie has granted a license to Seikagaku Corporation for the commercial rights to the product in Japan, Taiwan, Singapore, New Zealand, and Australia.

**Ronomilast, an oral PDE4 inhibitor for COPD in clinical development.** Ronomilast is a once-daily, oral phosphodiesterase 4 (PDE4) inhibitor with therapeutic potential in chronic inflammatory disorders, particularly in chronic obstructive pulmonary disease (COPD), a serious respiratory disorder with major unmet medical need. In three clinical studies with a total of 126 study subjects ronomilast has been demonstrated to be safe and well tolerated at all tested doses up to 100mg once daily. No serious or severe adverse events were reported in any of the study subjects. Robust and statistically highly significant biomarker responses confirmed the pharmacological activity of well tolerated doses of ronomilast in man. The data support further clinical development .

**Nepicastat (SYN117)** is a potent, competitive, and selective inhibitor of the enzyme dopamine β-hydroxylase. The inhibition of this enzyme has been shown to raise dopamine levels in the central nervous system (CNS). Nepicastat is available as an oral treatment and has been well-tolerated in preclinical models at doses significantly above the expected therapeutic range for the current central nervous

system (CNS) indications under investigation. A phase 2 study of nepicastat in post traumatic stress disorder funded by the US Department of Defense is ongoing.
**Rufinamide (SYN111)** is a potent, specific, and orally bioavailable sodium channel blocker with proven anti-epileptic activity. The compound is marketed in the EU and the US as adjunctive therapy in Lennox Gastaut Syndrome (LGS), a severe form of epilepsy. Biotie, which holds rights in medical indications outside of LGS is currently assessing options for evaluating rufinamide in the treatment of bipolar disorder.

**Financial review**

**Revenues:** Revenues for continuing operations for the financial year 2010 amounted to EUR 2.0 million (EUR 3.1 million in 2009), and EUR 1.0 million for the discontinued operations (EUR 2.5 million in 2009). Revenues consisted of income from the research collaboration with Pfizer and periodization of previously received up-front payments from licensing agreements that the company has in place with several licensing partners.

**Financial result:** Net loss for continuing operations for the financial year 2010 was EUR 8.5 million (EUR 8.1 million in 2009) and net loss for discontinued operations was EUR 13.1 million (EUR 8.0 million in 2009). Research and development costs from continuing operations for the reporting period amounted to EUR 5.5 million (EUR 7.7 million in 2009) and EUR 6.7 million (EUR 13.4 million in 2009) for discontinued operations.

**Financing:** Cash and cash equivalents totaled EUR 4.1 million on December 31 2010 (EUR 19.7 million on 31 December, 2009).
Biotie has a standby equity distribution agreement (SEDA) with US fund Yorkville in place. Yorkville is obliged to subscribe and pay for ordinary no-par Biotie shares up to a total value of EUR 20 million during the period until September 2012 at Biotie's discretion (Biotie option). The purpose of this arrangement is to have an option to secure the financing of Biotie's working capital in the short and medium term. Biotie has made use of this arrangement three times since August 2010 and has raised a total amount of EUR 1.1 million.

**Shareholder's equity:** The shareholders' equity of the group amounts to EUR -29.5 million (IFRS). Biotie's equity ratio was -263.0 % on 31 December 2010 (-28.4% on 31 December 2009).

**Capital loans**

***Non-convertible capital loans from Tekes***

The Finnish Funding Agency for Technology and Innovation (TEKES) has capital loans of EUR 19.7 million. The total amount has been paid to the Company by the end of the financial year. The accumulated unpaid interest of capital loans is EUR 4.7 million.
The total loan period is 8 to 10 years and the interest rate is the base rate set by the Ministry of Finance minus 1 %, however, at least 3%. The loans are instalment-free for four to five years, after that loans will be paid in equal shares. Capital loans have been granted to a defi nite product development project and the loan covers a contract based share of the project's R&D expenses. Capital loans have been drawn between 1998 and 2008.

***Convertible capital loans***

The company has convertible capital loans of EUR 1.7 million. The subscription period that permits subscription of a total of 828 000 company shares began on June 1, 2000, and will end on December 31, 2005, or provided that the loan capital will not be paid by then, until the loan capital has been paid or converted into shares of the company. The interest rate is 10% pa. The accumulated unpaid interest of convertible capital loans is EUR 2.7 million at December 31, 2010.

The repayment of capital loans and its interest is governed by a restrictive condition, according to which the capital must only be returned if the restricted equity of the parent company and the group for the last financial period is fully covered. Interest on the convertible capital loans shall be paid only if the parent company and the group has sufficient funds for profit distribution as per the adopted balance sheet for the most recently ended fiscal year. The loans shall also yield interest from the fiscal years in which the financial statements to be adopted do not present funds available for profit distribution.

Capital loans have been specified on Notes to the Consolidated Financial Statements number 23.

**Investments and cash flow:** Cash flow from continuing operating activities was EUR -7.9 million for the financial year 2010 (EUR -9.7 million in 2009) and EUR -7.0 million for discontinuing operating activities (EUR -3.6 million in 2009). The group's investments during the reporting period amounted to EUR 270 thousand (EUR 475 thousand in 2009).

**Personnel**

During the reporting period January - December 2010, the average number of employees amounted to 70 (81 during January - December, 2009) and at the end of the reporting period, after implementation of the restructuring plan, Biotie employed 23 people (82 on 31 December, 2009). After the acquisition of Synosia, the total number of employees amounts to approx.40.

**Changes in the management team**

As part of the restructuring process completed in Q4 2010, Thomas Kronbach, Biotie's Chief Scientific Officer left Biotie to become CEO of spin-off company biocrea GmbH. He is no longer member of the management team of Biotie. After the reporting period in January 2011, Biotie announced that its CFO Thomas Taapken will leave the company as of 31 March 2011. He will be replaced *ad interim* by Biotie's VP Finance & Administration Ms. Ulla Sjöblom. In connection with the acquisition of Synosia Therapeutics, Steve Bandak replaced Antero Kallio as Chief Medical Officer and Ian Massey joined as Chief Operating Officer and President of US Operations in February 2011.

**Changes in the board of directors**

***Current composition of the Board of Directors (Extraordinary General Meeting 1 February 2011)***

The number of the members of the Board of Directors was resolved to be ten. Bradley J. Bolzon, William M. Burns, Peter Fellner, Merja Karhapää, Bernd Kastler, Ismail Kola, Guido Magni, Andrew J. Schwab, Piet Serrure and James S. Shannon, were elected as the members of the Board of Directors.
At the organization meeting of the new Board of Directors, which convened after the Extraordinary General Meeting in February 2011, Peter Fellner was elected as the Chairman of the Board of Directors and Bradley J. Bolzon as the deputy chairman.

**Option rights**

Biotie has issued option rights to certain of its employees and managers pursuant to two different option programs in 2006 and 2009. The total number of granted options on 31 December 2010 amounts to 9 768 800, which represents 5.55% of the total amount of shares as of 31 December 2010.

**Shares and options held by management**

At the end of financial year 2010 the amount of company's shares held by the Board of Directors and the company's management and their controlled companies amounted to 1 682 588 shares and 6 181 980 option rights of which 1 250 000 options are conditional achieving certain set targets.

**Share capital and shares**

Biotie shares are all of the same class and have equal rights. Each share entitles the holder to one vote at the general meeting of shareholders. All shares are freely transferable and are quoted on NASDAQ OMX Helsinki Ltd (Small cap, Healthcare).
Biotie´s share capital (registered on 31 December, 2010) was EUR 52 056 678.10 (FAS), the total number of shares amounted to 176 003 931. Of these shares, 14 747 084 were owned by Biotie Therapies Corp.

In three separate instances during 2010, Biotie reported the conveyance of a total of 2 967 542 treasury shares against cash payments under a 2009 standby equity distribution agreement (“SEDA”) to US investor YA Yorkville Global Master SPV Ltd (“Yorkville”). These three offers were made in order to strengthen Biotie's working capital and to provide further financing for the company's R&D programs. The subscription price of the new shares was registered in its entirety to the share capital of Biotie.

In August, Biotie conveyed 114 233 treasury shares to Yorkville against cash payment of EUR 50,000 at a subscription price of EUR 0.44.

In October, Biotie reported on an issue of 17 251 371 shares to itself without consideration for fundraising purposes. A prospectus concerning Biotie’s issue of shares to the company itself has been published on that day**.** The shares were issued pursuant to the authorization by the General Meeting of Shareholders of Biotie held on 15 April 2010.

In November, Biotie reported the conveyance of 1 359 434 treasury shares to Yorkville against cash payment of EUR 500 000 at a subscription price of EUR 0.37.

In December, Biotie reported the conveyance of 1 493 875 treasury shares to Yorkville against cash payment of EUR 500 000 at a subscription price of EUR 0.33.

After the reporting period and as described in more detail in Biotie's stock exchange releases issued on 2 February 2011, Biotie's Extraordinary General Meeting has on 1 February 2011 passed resolutions necessary for the completion of the acquisition of Synosia Therapeutics Holding AG, and the company has issued 161 448 371 shares to the shareholders and warrant holders of Synosia as consideration for the entire issued share capital and outstanding warrants of Synosia. In connection with this transaction, the company also issued 14 912 155 new shares to Synosia to be held in treasury and used to fulfil the requirements of future potential exercise of Synosia's options. The new shares have been registered on 3 February 2011. Furthermore, Biotie announced the successful placement of 35 230 000 new shares and 14 747 084 treasury shares to institutional investors in 11 March 2011.

On March 18, 2011 the registered number of shares in Biotie Therapies Corp. is 387 594 457. Of these shares 14 912 155 are held by the company or its group companies. The share capital of Biotie is EUR 165 919 181.95

**Market capitalization and trading**
At the end of financial year 2010 the share price was EUR 0.50, the highest price during the financial year was EUR 0.65, the lowest was EUR 0.30, and the average price was EUR 0.48. Biotie's market capitalization at the end of financial year 2010 was EUR 88.0 million.

The trading volume on NASDAQ OMX Helsinki during the financial year 2010 was 90 049 678 shares, corresponding to a turnover of EUR 43 061 486.

**Changes in ownership**
During the financial year 2010, Biotie made three announcements on according to Chapter 2, Section 10 of the Finnish Securities Market Act.

Information on notices of changes in ownership and a monthly updated list of Biotie's major shareholders is available on the company's website at www.biotie.com/investors.

**Group structure**

The parent company of the group is Biotie Therapies Corp. The domicile of the company is Turku, Finland. The company has two non-operational subsidiaries named Biotie Therapies GmbH, located in Radebeul, Germany and Biotie Therapies International Ltd in Finland.

After the acquisition of Synosia Therapeutics completed in February 2011, the company now also has a holding subsidiary, Biotie Therapies Holding AG, located in Basel, Switzerland, which has two operative subsidiaries, Biotie Therapies AG, located in Basel, Switzerland and Biotie Therapies, Inc. located in South San Francisco, California.

**Shareholders' meetings held during the financial year 2010**
The Annual General Meeting of Biotie Therapies Corp. was held on 15 April 2010.

*Adoption of financial statements for the financial year 1 January - 31 December 2009 and booking of the loss of the financial year*

The General Meeting of Shareholders adopted the financial statements for the financial year 1 January - 31 December 2009. The General Meeting resolved in accordance with the proposal of the Board of Directors that the loss of the financial year shall be transferred to the unrestricted equity and no dividend shall be paid. The General Meeting discharged the members of the Board of Directors and the President and CEO from liability concerning the financial year from 1 January - 31 December 2009.

*The Board of Directors and auditors*

The number of the members of the Board of Directors was resolved to be seven. Peter Fellner, Merja Karhapää, Bernd Kastler, Pauli Marttila, Riku Rautsola, Pierre Serrure and James S. Shannon were elected as the members of the Board of Directors.
The General Meeting resolved that the remuneration payable to the Chairman of the Board of Directors be EUR 4,000 per month and to other Board members EUR 3,000 per month. In addition, reasonable travel expenses for the meetings shall be compensated.

PricewaterhouseCoopers Oy, Authorized Public Accountants**,**and Janne Rajalahti, Authorized Public Accountant, were re-elected as auditors of the company.

At the organization meeting of the new Board of Directors, which convened immediately after the Annual General Meeting, Peter Fellner was elected as the Chairman of the Board of Directors and Pauli Marttila as the deputy chairman. Bernd Kastler was elected as the Chairman and Merja Karhapää, Riku Rautsola and Pierre Serrure as the members of the Board's Audit Committee and in addition Peter Fellner as the Chairman and Pauli Marttila and James S. Shannon as the members of the Nomination and Remuneration Committee. Based on the evaluation of independence, the Board concluded that all Board members are independent of the company and of its significant shareholders.

*Authorization of the Board of Directors to decide on the issuance of shares as well as the issuance of options and other rights entitling to shares*

The General Meeting authorized the Board of Directors to resolve on one or more issues which contains the right to issue new shares or dispose of the shares in the possession of the company and to issue options or other rights to the shares pursuant to chapter 10 of the Companies Act. The authorization consists of up to 80 000 000 shares in aggregate. The authorization does not exclude the Board of Directors' right to decide on a directed share issue. The authorization may be used for material arrangements from the company's point of view, such as financing or implementing business arrangements or investments or for other such purposes determined by the Board of Directors in which case a weighty financial reason for issuing shares, options or other rights and possibly directing a share issue would exist.

The Board of Directors was authorized to resolve on all other terms and conditions of a share issue, options and other share entitlements as referred to in chapter 10 of the Companies Act, including the payment period, determination grounds for the subscription price and subscription price or allocation of shares, option or other rights free of charge or that the subscription price may be paid besides in cash also by other assets either partially or entirely.

The authorization is effective until 30 June 2011 and it supersedes earlier authorizations.

**Short-term risks and uncertainties**

Biotie's strategic risks are predominantly related to the technical success of the drug development programs, regulatory issues, strategic decisions of its commercial partners, ability to obtain and maintain intellectual property rights for its products, launch of competitive products and the development of the sales of its products. The development and success of Biotie's products depends to a large extent on third parties. Any adverse circumstance in relation to any of its R&D programs might impair the value of the asset and thus, represent a severe risk to the company. Such adverse events could happen on a short term notice and are not possible to foresee.

The key operational risks of Biotie's activities include the dependency on key personnel, assets (especially in relation to intellectual property rights) and dependency on its license partners' decisions.

Furthermore, significant financial resources are required to advance the drug development programs into commercialized pharmaceutical products. To fund the operations, Biotie relies on financing from two major sources: income from its license partners and raising equity financing in the capital markets.

The company relies on capital markets to raise equity financing from time to time. There can be no assurance that sufficient funds can be secured in order to permit the company to carry out its planned activities. Current capital market conditions are very volatile. While after the reporting period, in March 2011, the company was able to raise a significant amount of cash from a share issue to fund its operations in the mid-term future, there can be no assurance that the company can secure equity financing in the future if and when it needs it.

Although Biotie has currently active license agreements in place, the termination of any such agreement would have a negative effect on the short to medium term access to liquidity for the company. While income generated from commercial agreements with third parties relating to its clinical programs might significantly improve Biotie's financial position, a forecast on possible income from future licensing arrangements cannot be provided reliably. Therefore it is possible that Biotie will need to secure additional financing from share issues in the future.

The group can influence the amount of capital used in its operations by adapting its cost base according to the financing available. The restructuring measures announced in Q4 2010 highlight such an approach. Management monitors the capital and liquidity on the basis of the amount of equity and cash funds. These are reported to the Board on a monthly basis.

**IFRS and accounting principles**

The 2010 consolidated financial statement has been prepared in accordance with the IFRS recognition and measurement principles and applying the same accounting policies as for the 2009 consolidated financial statements with the exception of new and amended standards and Interpretations effective as of 1 January 2010 which are described more in detail in the note 1 accounting principles of the financial statement.

In addition, as a result of the restructuring measures undertaken in 2010 comprising of the disposal of the pre-clinical development activities, Biotie has applied the following accounting policies in its 2010 consolidated financial statements:

Investment property:
Biotie has applied IAS 40 to a property held by its German subsidiary. Such a property has been transferred from owner-occupied property included in "Property, Plant and Equipment" to investment property at book value as Biotie holds it mainly for the purpose of earning rental income and Biotie has selected to apply the cost model to account for investment properties.

Assets held for sale and discontinued operations:
The pre-clinical operations were classified as held for sale in Biotie's interim report for the period ended 30 September 2010 as the carrying amount of the assets were to be recovered through a sale transaction rather than continuing use. The disposal group was valued at the lower of their carrying amount and fair value less costs to sell. As the disposal group represented a separate major line of business it has been treated as discontinued operations in the consolidated financial statements.

**Corporate Governance Statement**

Biotie Therapies Corp. will publish its Corporate Governance Statement 2010 on March 25, 2011 together with the 2010 Financial Statement. The statement will be published separately from the Board of Directors´ report and it will be available on Biotie´s website www.biotie.com

**The Board of Directors proposal for handling of the loss**

The Board of Directors proposes that no dividend from the financial year 2010 will be paid, and that the loss of the parent company for the financial year EUR -10.7 million (FAS) will be carried forward to shareholders' equity.

**Annual General Meeting**

Biotie's Annual General Meeting will be held at the auditorium of Mauno Koivisto Centre in Turku on Friday, May 6, 2011 at 10.00 a.m.

**Financial situation**
Incl. both continuing and discontinued operations

| *1 000 €* | *2010* | *2009* | *2008* |
|---|---|---|---|
| Revenue | 2 928 | 5 628 | 5 127 |
| Operating profit | -20 720 | -17 631 | -5 121 |
| Operating profit, % of revenue | -707.65 | -313.27 | -99.9 |
| Equity ratio % | -263.0 | -28.4 | 0.3 |

**Personnel**

| | | | |
|---|---|---|---|
| Average number of personnel | 70 | 81 | 42 |
| Number of personnel, end of period | 23 | 82 | 80 |
| Personnel costs (wages and salaries) | 5 321 | 5 253 | 2 257 |

# II. Consolidated financial statements (IFRS)

The notes are an integral part of these consolidated financial statements.

## A. Consolidated statement of comprehensive income

| 1 000 € | Note | 2010 | 2009 |
|---|---|---|---|
| Continuing operations | | | |
| Revenue | 3 | 1 955 | 3 138 |
| | | | |
| Research and development expenses | 4,5,7 | -5 538 | -7 745 |
| General and administrative expenses | 5,6,7 | -4 216 | -3 434 |
| Other operating income | 8 | 166 | 242 |
| Operating profit / loss | | -7 633 | -7 799 |
| | | | |
| Financial income | 9 | 101 | 611 |
| Financial expenses | 9 | -930 | -932 |
| Profit / loss before taxes | | -8 462 | -8 120 |
| | | | |
| Taxes | 11,27 | 0 | 0 |
| Net income / loss, continuing operations | | -8 462 | -8 120 |
| | | | |
| Discontinued operations | | | |
| Net income / loss, discontinued operations | | -13 111 | -7 963 |
| | | | |
| Net income / loss | | -21 573 | -16 083 |
| Comprehensive income / loss | | -21 573 | -16 083 |
| | | | |
| Distribution of net income/loss to parent company shareholders | 12 | -21 573 | -16 083 |
| Distribution of total comprehensive income/loss to parent company shareholders | 12 | -21 573 | -16 083 |
| | | | |
| Earnings per share (EPS) basic & diluted, EUR, continuing operations | | -0.06 | -0.06 |
| | | | |
| Earnings per share (EPS) basic & diluted, EUR, discontinued operations | | -0.09 | -0.05 |

The notes are an integral part of these consolidated financial statements.

## B. Consolidated statement of financial positions

| 1 000 € | Note | 2010 | 2009 |
|---|---|---|---|
| ASSETS | | | |
| **Non-current assets** | | | |
| Intangible assets | 13 | 4 042 | 7 186 |
| Goodwill | 13 | 0 | 379 |
| Property, plant and equipment | 14 | 365 | 2 666 |
| Investment property | 15 | 1 468 | 0 |
| Other shares | 16 | 10 | 10 |
| | | 5 885 | 10 241 |
| **Current assets** | | | |
| Available for sale investment | 17 | 0 | 34 |
| Accounts receivables and other receivables | 18 | 1 261 | 1 507 |
| Financial assets at fair value through profit or loss | 19 | 0 | 8 853 |
| Cash and cash equivalents | 20 | 4 059 | 10 891 |
| | | 5 320 | 21 285 |
| **Total assets** | | 11 205 | 31 526 |
| **EQUITY AND LIABILITIES** | | | |
| **Shareholders' equity** | | | |
| Share capital | 21 | 43 378 | 43 057 |
| Share issue | | 500 | 0 |
| Reserve for invested unrestricted equity | | 1 180 | 1 180 |
| Retained earnings | | -52 951 | -37 092 |
| Net income / loss | | -21 573 | -16 083 |
| | | -29 466 | -8 938 |
| **Non-current liabilities** | | | |
| Provisions | 22 | 0 | 160 |
| Non-current financial liabilities | 23 | 25 640 | 25 597 |
| Pension benefit obligation | 24 | 430 | 543 |
| Other non-current liabilities | 25 | 7 442 | 6 729 |
| Non-current deferred revenues | 26 | 368 | 1 375 |
| | | 33 880 | 34 404 |
| **Current liabilities** | | | |
| Provisions | 22 | 589 | 594 |
| Pension benefit obligation | 24 | 16 | 17 |
| Current financial liabilities | 28 | 144 | 217 |
| Current deferred revenues | 29 | 1 006 | 1 953 |
| Accounts payable and other current liabilities | 30 | 2 637 | 3 279 |
| Liability related to discontinued operations | 10 | 2 400 | 0 |
| | | 6 791 | 6 060 |
| **Total liabilities** | | 40 671 | 40 464 |
| **Total equity and liabilities** | | 11 205 | 31 526 |

The notes are an integral part of these consolidated financial statements.

## C. Consolidated statement of changes in shareholders' equity

| 1 000 € | Note | Attributable to equity holders' of the parent company<br>Shares (1,000 pcs) | Share capital | Share issue | Reserve for invested unrestricted equity | Own shares | Retained earnings | Shareholders' equity total |
|---|---|---|---|---|---|---|---|---|
| Balance at 1.1.2009 | | 144 321 | 36 361 | 0 | 980 | -15 | -37 215 | 110 |
| Comprehensive income / loss for the period | | | | | | | -16 083 | -16 083 |
| Options granted | 21, 34 | | | | | | 339 | 339 |
| Share issue | 21 | 14 432 | 7 216 | | | | | 7 216 |
| Cost of share issue | | | -520 | | | | | -520 |
| Reissue of own shares pursuant to SEDA agreement | | | | | 200 | | -200 | 0 |
| | | 14 432 | 6 696 | 0 | 200 | 0 | -15 944 | -9 048 |
| Balance at 31.12.2009 | | 158 753 | 43 057 | 0 | 1 180 | -15 | -53 160 | -8 938 |
| Comprehensive income / loss for the period | | | | | | | -21 573 | -21 573 |
| Options granted | | | | | | | 108 | 108 |
| SEDA costs | 21 | | | | | | 116 | 116 |
| Share issue to the company itself without consideration | | 17 251 | | | | | | 0 |
| Directed issue of treasure shares | 21 | | 550 | 500 | | | | 1 050 |
| Cost of share issue | | | -229 | | | | | -229 |
| | | 17 251 | 321 | 500 | 0 | 0 | -21 349 | -20 528 |
| Balance at 31.12.2010 | | 176 004 | 43 378 | 500 | 1 180 | -15 | -74 509 | -29 466 |

The notes are an integral part of these consolidated financial statements.

## D. Consolidated statement of cash flows

| 1 000 € | Note | 2010 | 2009 |
|---|---|---|---|
| Cash flow from operating activities | | | |
| Continuing operations | | | |
| Net income / loss | | -8 462 | -8 120 |
| Adjustments: | | | |
| Non-cash transactions | 31 | -1 287 | -2 654 |
| Addition/disposal (-) due to revaluation of financial assets at fair value through profit or loss | | 0 | -53 |
| Interest expenses and other financial expenses | | 930 | 931 |
| Interest income | | -101 | -582 |
| Change in working capital: | | | |
| Change in accounts receivables and other receivables | | 626 | 280 |
| Change in accounts payable and other liabilities | | 436 | 527 |
| Change in mandatory provisions | | -25 | 34 |
| Interest paid | | -42 | -74 |
| Interest received | | 68 | 31 |
| Cash flow from operating activities, continuing operations | | -7 856 | -9 681 |
| Cash flow from operating activities, discontinued operations | | -7 011 | -3 645 |
| Cash flow from operating activities | | -14 867 | -13 326 |
| | | | |
| Cash flow from investing activities | | | |
| Continuing operations | | | |
| Change in financial assets at fair value through profit or loss | 19 | | |
| Additions | | 0 | -9 000 |
| Disposals | | 8 886 | 200 |
| Change in investments held to maturity | | | |
| Additions | | 0 | -900 |
| Disposals | | 0 | 20 142 |
| Investments | | -54 | -35 |
| Net cash used in investing activities, continuing operations | | 8 832 | 10 406 |
| Net cash used in investing activities, discontinued operations | | -1 587 | -130 |
| Net cash used in investing activities | | 7 245 | 10 277 |
| | | | |
| Cash flow from financing activities | | | |
| Continuing operations | | | |
| Payments from share issue | | 1 050 | 7 216 |
| Share issue costs | | -229 | -520 |
| Proceeds from borrowings | | 6 | 231 |
| Repayment of loans | | -40 | -40 |
| Repayment of lease commitments | | -177 | -86 |
| Net cash from financing activities, continuing operations | | 610 | 6 801 |
| Net cash from financing activities, discontinued operations | | 180 | 401 |
| Net cash from financing activities | | 791 | 7 202 |
| | | | |
| Change in cash and cash equivalents | | -6 832 | 4 153 |
| Cash and cash equivalents at the beginning of the period | | 10 891 | 6 738 |
| Cash and cash equivalents at the end of the period | 20 | 4 059 | 10 891 |

## E. Notes to the consolidated financial statements

All figures in the notes to the financial statements have been rounded to thousand Euros, unless otherwise stated which may result in immaterial rounding differences.

## 1. Accounting principles

### A) General information

Biotie Therapies (hereafter “Biotie” ,”the group” or “the company”) is a specialized drug development company focused on the development of drugs for neurodegenerative and psychiatric disorders (e.g. Parkinson’s disease, Alzheimer’s disease and other cognitive disorders, bipolar disorder, addictions and drug dependence) and inflammatory diseases (rheumatoid arthritis, psoriasis, chronic obstructive pulmonary disease and others). It has several innovative small molecule and biological drug candidates at different stages of clinical development. Biotie's products address diseases with high unmet medical need and significant market potential.
Some of its development programs have been validated through licensing agreements for development and commercialization with top-tier pharmaceutical partners including H. Lundbeck A/S, UCB Pharma S.A. and Seikagaku Corporation. The most advanced product, nalmefene for alcohol dependence, is currently in phase 3 clinical development by licensing partner H. Lundbeck A/S.

Shares are listed on NASDAQ OMX Helsinki Ltd.

The Board of Directors approved the publication of the financial statements on March 25, 2011.

### B) Basis of preparation

Biotie's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC Interpretations issued by the International Accounting Standards Board (IASB) and as adopted by the European Union (IFRS).These policies have been consistently applied to all the years presented, unless otherwise stated. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, share based compensation plans and financial assets at fair value through profit and loss.

The preparation of financial statements under IFRS requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the end of the reporting period as well as the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from them. Management's estimates are explained in more detail in chapter U.

At the closing date 31 December 2010 the group did not have sufficient funds to finance its operations over the next 12 months. In March 2011 the company executed a private placement of shares and subsequently the cash, cash equivalents and short term investments amounted to over EUR 45 million (cf. note 35, Events after the reporting date). This liquidity secures financing of the group’s operations for over the next 12 months. Therefore, Biotie’s financial statements have been prepared assuming that the company will continue as a going concern. It is the intention of the company to continue the development of the products to the point where they can be either licensed at attractive terms to internationally active pharmaceutical companies who have the means to further develop these products, or to develop the products in-house until receipt of marketing approval from the relevant regulatory agencies. After such approval, Biotie would seek to commercialize these products using its own commercial efforts, or to co-promote and co-market products with strong local distributors of pharmaceutical products in markets in which Biotie can or will not be actively selling such products. In such partnerships, Biotie will typically grant licenses to products in exchange for contractually agreed payments, license fees and royalties on future product sales. In some cases, one element of such agreements may include a collaboration in which Biotie or its affiliates will also receive funding for R&D services provided at a cost plus basis. Biotie primarily relies upon financing its activities through equity capital, research collaboration agreements, license agreements, R&D loans and grants.

#### (1) Changes in accounting policy and disclosures

In preparing these financial statements, the group has followed the same accounting policies as in the annual financial statements for 2009 except for the following new and amended IFRS and IFRIC interpretations effective as of 1 January 2010.

##### (a) New and Amended Standards and Interpretations effective as of 1 January 2010

- IFRS 3 (revised), ‘Business combinations’, and consequential amendments to IAS 27, ‘Consolidated and separate financial statements’, IAS 28, Investments in associates’, and IAS 31, ‘Interests in joint ventures’, are effective prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net assets. All acquisition-related costs should be expensed. IAS 27 requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses.

The standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit or loss. The group did not have any acquisitions during 2010 but will apply this new standard to the acquisition discussed in note 35 Events after the reporting date.

- Amendment to IFRS 2,'Share based payments – Group cash-settled payment transactions' (effective 1 January 2010). These amendments provide a clear basis to determine the classification of share based payment awards in both consolidated and separate financial statements. This amendment has no impact on the accounting policies, financial position or performance of the group.
- Amendment to IAS 39,'Financial instruments: Recognition and measurement', on 'Eligible hedged items' (effective 1 July 2009). The amendment makes two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges. This amendment has no impact on the group accounting policies, financial position or performance of the group.
- Annual Improvements to IFRSs (2009) (effective 1 January 2010) is a collection of amendments to 12 standards as part of the IASB program of annual improvements. These improvements did not have a material impact on the financial position or performance of the group.
- The following IFRIC interpretations have been adopted by the group effective 1 January 2010, but did not have any impact on accounting policies, financial position or performance of the group.
  - IFRIC 12, Service concession arrangements' ,
  - IFRIC 15, 'Agreements for construction of real estates',
  - IFRIC 16,'Hedges of a net investment in a foreign operation',
  - IFRIC 17, 'Distributions of non-cash assets to owners',
  - IFRIC 18, 'Transfer of assets from customers

**(b) New and Amended Standards and Interpretations effective after 31 December 2010 and endorsed by EU**

The following standards, amendments and interpretations have been issued and endorsed by the EU but are not effective until after 31 December 2010. These changes are not expected to have a material impact on the accounting policies, financial position or performance of the group.

- Amendment to IAS 32, 'Financial instruments: Presentation',-classification of rights issues, addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer.
- Amendment to IAS 24,'Related party disclosures' removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities.
- IFRIC 19, 'Extinguishing financial liabilities with equity instruments' clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the borrower issuing its own equity instruments to the lender.
- Amendment to IFRIC 14,'Prepayments of a minimum funding requirement' only applies to entities that are required to make minimum funding contributions to a defined benefit pension plan and removes an unintended consequence of IFRIC 14 related to voluntary pension pre-payments.

**(c) New and Amended Standards and Interpretations not yet endorsed by EU**

The following standards and interpretations have not yet been endorsed by the EU. The group is currently assessing the potential impact on the accounting policies, financial position and performance of the group.

- Annual improvements 2010.
- Amendments to IFRS 7,'financial instruments: Disclosures' on derecognition.
- Amendment to IAS 12, *Income taxes', on deferred tax
- IFRS 9,'financial instruments'-classification and measurement.

## C) Group accounting

**(1) Subsidiaries**

Subsidiaries are all entities over which the group has an interest of more than half of the voting rights or otherwise has the power to govern the financial and operating policies. Subsidiaries are consolidated from the date on which control is transferred to the group and are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for subsidiaries of the group. Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the loss is due to impairment. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

**(2) Associated companies**

Investments in associated companies are accounted for using the equity method of accounting and are initially recognised at cost. Associated companies are entities over which the group has significant influence but no control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of an asset transferred. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

**(3) Foreign currency translation**

The consolidated financial statements are presented in Euro, which is also the parent company's and subsidiaries' functional currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rate are recognized in the income statement. Foreign exchange gains and losses are related to operative operations and are therefore recognized above the operating profit. The group does not have non-monetary assets or liabilities in foreign currencies.

## D) Segment reporting

The chief operating decision maker, who is responsible for allocating resources, assessing the performance and making strategic decisions of the business, has been identified as the Board of Directors. The Board of Directors manage the group as one integrated business, being the discovery and development of pharmaceutical products. Therefore, the group has only one operating and reportable segment which is the group as a whole.

## E) Business Combinations

Business combinations are accounted for using the acquisition method. The costs of an acquisition are measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination management decides to measure the non-controlling interest either at fair value or at the proportionate share of the identifiable net assets. Acquisition costs incurred are expensed and included in general and administrative expenses.

If the business combination is achieved in stages, the fair value of the previously held equity interest is remeasured to fair value with any resulting gain or loss recognised through profit or loss or as a change to comprehensive income.

Contingent consideration is recognised at fair value at acquisition date with subsequent changes to the fair value recognised in accordance with IAS 39 either through profit or loss or through comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identificable assets acquired and liabilities assumed.

## F) Revenue recognition

Revenues from research collaboration and license agreements with pharmaceutical company clients include one-off license payments, research funding on a cost-plus basis as well as additional payments upon reaching certain milestones. The granting of licensing options to certain products, which can be exercised at a later date, also generates revenue. All such amounts paid are non-refundable. Currently the group does not have royalty income but expects to have in the future.

### (1) Recognition of revenue from upfront and option payments

Upfront license fees and option payments are usually paid when a license or option is granted and are recorded as sales revenues when (i) a license or option has indeed been granted, (ii) no further performance obligations exist above and beyond the granting of the license or option, and (iii) it will be possible to collect these receivables with reasonable assurance. Upfront or option payments are recorded as deferred revenue upon receipt, and is subsequently recognized in income on a straight line basis over the estimated period of the associated development collaboration agreement or option period.

### (2) Recognition of revenue from milestone payments, research funding and royalties

Revenues from non-refundable milestone payments are recognized when (i) a milestone has been verifiably reached (evidenced by customer acceptance), (ii) Biotie has no further performance obligations, and (iii) it will be possible to collect these receivables with reasonable assurance.

Research funding income is recognized once (i) research services have been provided according to the respective agreement, (ii) Biotie has no further performance obligations, and (iii) it will be possible to collect these receivables with reasonable assurance.

Revenues from royalties on sales will be recognized when the company gains reliable knowledge of the amount of product sales revenues realized by the licensee. No revenues have yet been generated from royalties on sales.

### (3) Government grants

Government grants to support certain research projects are posted as grant revenues in other operating income when management has reasonable assurance that the group will comply with the conditions attached to those grants and that such grants will be received. If, at balance sheet date, the conditions are believed to be fulfilled and the related grant payments are outstanding, grant receivables are shown in the balance sheet. Grants for the acquisition of tangible assets are deducted from the asset's acquisition price.

## G) Cost of goods sold

Due to nature of income and operations of a drug development company like Biotie, the presentation of cost of sales in the statement of comprehensive income is not applicable and all costs related to the research and development activities are presented under the caption research and development expenses.

## H) Property, plant and equipment

Property, plant and equipment comprise mainly land, buildings and equipment used in research and development. They are stated at historical cost less depreciation and any impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the items.
Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate each item's acquisition cost or impaired amount to its residual value during its estimated useful life, as follows:

| Asset group | Lifetime |
|---|---|
| Machinery and technical equipment | 4 – 12 years |
| Other equipment | 4 – 8 years |
| Buildings | 3 – 20 years |

The residual value and the useful life of an asset are reviewed, and adjusted if appropriate, at each balance sheet date. Gains and losses on the disposals are included in operating profit/loss. Repair and maintenance expenses for tangible assets are recorded as expenses during the fiscal year of their occurrence.

## I) Investment property

Investment properties are land and buildings which are held to earn rental income or for capital appreciation or for both.

Investment properties are initially recorded at cost, including transaction costs, and after initial recognition stated at historical cost less depreciation (at straight-line) and any impairment losses. The fair values for the investment properties are disclosed in note 15. The fair values are assessed using internationally accepted valuation methods, such as taking comparable properties as a guide to current market prices or by applying the discounted cash flow method.

Transfer to or from investment property is made when there is a change in use of the property. The commencement of owner-occupation for the property results in a transfer at book value of the investment property to owner-occupied property included in “Property, Plant and Equipment”. Accordingly, at the end of owner-occupation of a property would result in a transfer from the owner-occupied property included in Property, Plant and Equipment to “Investment Properties”.

## J) Intangible assets

### (1) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group’s share of the net identifiable assets of the acquired subsidiary at the date of the acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units of the group that are expected to benefit from the business combination in which the goodwill arose.

### (2) Research and development expenses

Research and development costs include salaries and costs directly attributable to the group's research and development programmes. Furthermore, costs attributable to supporting the research and development activities, including costs covering rent and leasing, are included as well. Research and development costs are expensed as incurred because management considers that the uncertainties inherent in developing pharmaceutical products prohibit the capitalisation of internal research & development expenses as an intangible asset until marketing approval has been received from the relevant regulatory agencies. Costs expensed during prior accounting periods are not capitalised retrospectively. Capitalised development costs are amortized on a straight-line basis over their estimated economic lives from the date the related products are launched. So far, the group's drug development projects are in the research and development phase, and therefore they have not yet met the IAS 38 criteria for capitalization.

### (3) Other intangible assets

Intangible assets include in process research and development acquired in a business combination, purchased licenses, capitalized costs for production licences, purchased patents and similar rights and computer software. These are capitalised on the basis of the costs incurred and amortised using straight line depreciation over their estimated useful lives.

In-process research and development projects acquired in a business combination or purchased from third parties, are capitalised with their fair value at the date of acquisition. They are amortized from the date when the resulting products are launched in the market place. Prior to that, acquired in-process research and development projects are not amortized, but subject to annual impairment testing or when there is an indicator of impairment.

Depreciation periods are:

| | |
|---|---|
| Production licences | 17 - 20 years |
| Computer software | 3 - 4 years |
| Purchased patents and similar rights | 8 - 17 years |

## K) Impairment of tangible and intangible assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation but are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the

carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The value in use represents the discounted future net cash flows expected to be derived from an asset or cash-generating unit. The discount rate used is interest before tax that reflects markets' time value for money as well as appropriate risk premiums regarding the asset (or cash-generating unit) in question. Non-financial assets, other than goodwill, that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

## L) Financial assets

The group classifies its financial assets in the following categories:
at fair value through profit or loss
loans and receivables
held-to-maturity financial assets
available for sale.

The classification depends on the purpose for which the financial assets were acquired and in which they were classified at initial recognition. The group applies a consistent policy in recognizing an asset based on the settlement date, which is the date that the group commits to buy or sell the asset. Financial assets are initially recognised at fair value, transaction costs are included in the fair value unless the asset is recognised at fair value through profit or loss.

### (1) Financial assets at fair value through profit and loss

Financial assets are classified as *at fair value through profit and loss,* when they are either acquired for trading purposes or when the management designates them initially as at fair value through profit or loss. Financial assets are classified as held for trading if acquired principally for the purpose of selling or repurchasing in the short-term. Assets held for trading are classified as current assets. All other group's financial assets in this category, being investments in money market funds are designated by the management. Financial assets at fair value through profit and loss are measured based on fair value. The fair values are based on quoted bid prices. Realized and unrealized gains and losses arising from changes in their fair value are recognized in profit and loss in financial items when they occur.

### (2) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and not held by the company for trading. Accounts receivable and other receivables are included in this category. These are initially measured at cost. Impairment is made for doubtful receivables based on individual assessment of potential identified credit risk. Interest income is recognised using the effective interest method and recorded in financial income.

### (3) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the group's management has the positive intention and ability to hold to maturity. Financial assets in this category are valued at amortised cost using the effective interest rate method.

### (4) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories. They are recognised at fair value or when the fair value is not reliably measured, at cost. Changes in fair value of securities classified as available for sale are recognised in other comprehensive income. When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments in other comprehensive income are recycled through profit and loss.

Available- for-sale financial assets are investment funds that were pledged to employees in early retirement programs in order to secure their claims in case of insolvency (Biotie GmbH, required by German legislation). Sales of investments are allowed only in accordance with a sales schedule, which matches the payments to employees, or with the consent of the respective employee.

Financial assets will be derecognized from the balance sheet when the group has lost its contractual right to cash flow or when it has transferred a significant part of risks and return outside the group. The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment test is made for loans and receivables and available-for-sale financial assets if there is objective evidence that the estimated future cash flows have been negatively impacted by a loss event. The cumulative loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. Fair value movements previously recognised in other comprehensive income are recycled through profit and loss. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts according to the original terms of the receivables. Credit losses are recognized in the income statement.

## M) Leases

### (1) Group companies as the lessee

Leases of tangible assets, where the group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the finance charge and the reduction of the outstanding liability so as to achieve a constant rate on the finance balance outstanding. Lease obligations are included in current and non-current financial liabilities net of finance charges. The interest element of the payments is expensed. An asset recognised under a finance lease is depreciated over its useful life. Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are

classified as other operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

#### (2) Group companies as the lessor

Leases in which the group has not transferred substantially all the risks and rewards of ownership are classified as operating leases. Rental payments received are recorded in other operating income on a straight-line basis over the lease term.

### N) Cash and cash equivalents

Cash and cash equivalents comprises cash at hand, deposits held at call with banks and other short-term, highly liquid investments with original maturities of less than 3 months.

### O) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds of the share issue. When the group purchases company's shares (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effect, is included in the equity attributable to the company's equity holders.

Reserve for invested unrestricted equity is credited with other equity inputs as well as that part of the subscription price of the shares that according to the explicit decision is not to be credited to the share capital.

### P) Financial liabilities

Financial liabilities are recognized initially at fair value including transaction costs. Financial liabilities are included in current and non-current liabilities and they can be interest-bearing or non-interest-bearing. After initial recognition financial liabilities are measured at amortised cost using the effective interest method. The fair value of the liability portion of a convertible bond is determined at inception using a market interest rate for the equivalent non-convertible bond. Based on the fair value calculation, there is no separable equity portion in the current convertible capital loans and the whole capital loans are presented under liabilities. Loans from Tekes (The Finnish Funding Agency for Technology and Innovation) are measured at cost in accordance with IAS 20, because the interest rate on those loans is below market rate and the loans are drawn before 1 January, 2009. Loans from Tekes that are drawn after that date are initially measured at fair value in accordance with IAS 39. Interest costs are usually expensed as they occurred. However, borrowing costs directly attributable to the acquisition or construction of assets that necessarily take a substantial amount of time to get ready for their intended use are capitalised as part of the cost of the related asset.

### Q) Taxes

Income tax expense consists of current and deferred taxes. The income tax effects of items recognized in other comprehensive income or directly in equity are similarly recognized in other comprehensive income or equity. The current income tax charge is calculated on the basis of the tax laws enacted in the countries where the group companies operate and generate taxable income. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Temporary differences arise primarily from depreciation on property, plant and equipment, and revaluation of certain investments, finance leases, tax losses deducted for subsequent periods and the difference between the fair value and taxable value of net assets resulting from purchase. Deferred tax assets are recorded up to the amount that represents probable taxable income received in the future and against which temporary differences can be utilized. Deferred taxes are determined using a tax rate enacted by the date of the financial statements in the respective countries. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

### R) Employee benefits

#### (1) Pension obligations

The group has both defined contribution and defined benefit plans.

##### (a) Defined contribution plans

A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

##### (b) Defined benefit plans

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans classify an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value

of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. Actuarial gains and losses are charged or credited to income statement in the period in which they arise. Past-service costs are recognised immediately as an expense, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

#### (2) Share-based payments

The group operates a number of equity-settled, share-based compensation plans and one cash-settled share-based payment program.

#### (a) Option rights

The group has established option rights plans under which the entity receives services from employees as consideration for equity instruments (options) of the company. Option rights have been measured at their fair value at the grant date, recognized as an expense in the income statement and divided into even increments during the vesting period. The expenses defined at the moment of granting the options are based on the group's estimate of the quantity of options to which rights are expected to vest at the end of the vesting period. The fair value is defined on the basis of the Black–Scholes option pricing model. At each reporting period end, the group updates the expected final quantity of options that are expected to vest. Changes to estimates are recorded in the income statement. When the options are exercised, the company issues new shares. Option rights that were exercised before the new Companies Act (21.7.2006/624) was in force are recorded to share capital and to the share premium account, whereas option rights exercised after the new Companies Act are recognised in the reserve for invested unrestricted equity.

#### (b) Cash-settled share-based payment transactions

The group's cash-settled share-based payment transactions consist of stock appreciation rights (SAR) issued in one program from 2003 to 2005. The SARs are recognised as an expense over the vesting period with a related increase in liabilities. The fair value of the liability is measured at each reporting date based on the share price with estimated departures of plan participates taken into account. The change in the fair value of the liability from one reporting date to another is recorded as expense through profit and loss. A provision is also recorded for the related social charges payable by the group.

### S) Provisions and contingent liabilities

Provisions are recognized when Biotie has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Biotie recognizes a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract. The provisions for onerous contracts recognized in the balance sheet are related to the sublease of premises. Restructuring provisions are recognised when the group has prepared a detailed restructuring plan and has started to carry out the restructuring measures or has announced its intentions to carry out the restructuring. Contingent liabilities are possible obligations arising from past events and whose existence will be confirmed only by occurrence or non-occurrence of uncertain future event not wholly within the control of the group. Contingent liabilities are also present obligations that arise from past events but are not recognised because it is not probable that an outflow of recourses embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

### T) Assets held for sale and discontinued operations

Assets or disposal groups are classified as held for sale when it is highly probable that the carrying amount of the asset will be recovered through a sale transaction rather than continuing use. Non-current assets classified as held for sale are valued at the lower of their carrying amount and fair value less costs to sell and the assets are not depreciated or amortised. Disposal groups representing separate major lines of businesses have been treated as discontinued operations in the consolidated financial statements. A single amount is shown on the face of the statement of comprehensive income comprising the post-tax result of discontinued operations and the post-tax loss recognized on the remeasurement to fair value less costs to sell and on disposal of the discontinued operation. That is, the income and expenses of the discontinued operations are reported separately from the continuing operations of the group. The statement of comprehensive income for comparative period has been restated to conform to this style of presentation.

### U) Critical accounting estimates and judgments

The preparation of financial statements requires management to makes judgements, estimates and assumptions concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Uncertainty about these assumptions and estimates could result in outcomes which could require a material adjustment in the future.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### (1) Revenue recognition

The revenues of biotechnology and drug development companies usually comprise of upfront payments, milestone payments and royalties from the sales of products agreed on in collaboration agreements made with drug companies.

Non-refundable upfront payments are reported as deferred income and recognised as income over the estimated period of the collaboration. Any change in the estimated development period may lead to an adjustment of the recognition amount and time. In case

the estimated development schedule were to be delayed, the annual income would lessen since the amount of the total revenue would be allocated over a longer period of time.

Milestone payments are recognised as income after achievement of the milestones as defined in the respective agreements. As there are no additional obligations other than the achievement related to the milestone payments, they are not considered under revenue recognition estimates.

**(2) Share-based payments**

Option rights have been measured at their fair value at the grant date, recognized as an expense in the income statement and recognized over the vesting period. The expenses defined at the moment of granting the options are based on the group's estimate of the quantity of options to which rights are expected to arise at the end of the vesting period. Each fiscal year, the group updates the expected final quantity of options on the date of the financial statements. Possible changes to estimates are recorded in the income statement. There were no SARs remaining to vest or exercisable at 31 December 2010.

**(3) Impairment of intangible assets, goodwill and property, plant and equipment**

The group has significant investments in intangible assets, goodwill and property, plant and equipment which are tested for impairment in accordance with the accounting policies above. The recoverable amounts of cash generating units have been determined based on discounted estimated future cash flows. These estimates require management to make assumptions related to future expectations. Key assumptions regarding intangible assets and property, plant and equipment impairment testing, are discussed in note 13 and note 14, respectively.

In-process R&D projects are annually tested for impairment. Should it be required to recognize impairments due to the result of impairment testing, this would have a material effect on the group's results and balance sheet position.

**(4) Borrowings**

The fair values of the liabilities of the convertible capital loans will be determined at the moment of their conversion by comparing the market value of a corresponding loan without conversion rights attached to it. So far, the equity portions of convertible capital loans have not been separated from the loans and the entire capital has been presented as long-term liabilities.

**(5) Pension benefits**

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 24.

## 2. Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. The reports provided by management to the Board of Directors used for strategic decision making, predominantly contain information about the research and development projects of the group which are advanced by contribution of the group organisation as a whole, irrespective of any further segmentation regarding geographic or organizational aspects. Therefore, Biotie operates in one single business segment, which is the development of pharmaceutical products as an integrated operation with similar risks and opportunities.

## 3. Revenues

| | 2010 | 2009 |
|---|---|---|
| H Lundbeck license agreement | 1 771 | 2 135 |
| F. Hoffman La Roche option agreement | 62 | 746 |
| Seikagaku license agreement | 122 | 122 |
| Somaxon license agreement | 0 | 92 |
| Marketing and distribution agreements | 0 | 43 |
| Total | 1 955 | 3 138 |

The revenue for the financial years 2009 and 2010 consisted of income from periodization of the execution fee of the licensing agreement signed with Lundbeck that entered into force in May 2007, periodization of the option fee of the option agreement signed with Roche in 2006 as well as periodization of the signing fees of the licensing agreements signed with Seikagaku Corporation in 2003 and with Somaxon Pharmaceuticals in 2004. In addition revenue included the periodization of upfront payments of marketing and distribution agreements.

## 4. Research and development expenses

| | 2010 | 2009 |
|---|---|---|
| Outsourced services | 3 315 | 5 854 |

| | | |
|---|---|---|
| Internal research and development expenses | 1 082 | 546 |
| Personnel costs | 1 010 | 1 193 |
| Depreciation | 131 | 152 |
| Total | 5 538 | 7 745 |

## 5. Personnel expenses

| | **2010** | **2009** |
|---|---|---|
| Salaries | 2 200 | 1 700 |
| Other obligatory personnel expenses | 152 | 73 |
| Other voluntary personnel expenses | 3 | 94 |
| Pension expenses - contribution-based pension plans | 245 | 215 |
| Pension expenses - benefit-based pension plans | 18 | -17 |
| Options granted | 108 | 338 |
| Total | 2 726 | 2 403 |
| | | |
| Personnel costs by operation | | |
| Research and development personnel costs | 1 294 | 1 323 |
| Administration personnel costs | 1 432 | 1 030 |
| Total | 2 726 | 2 403 |

The average number of employees in 2010 was 70 (2009: 81)
The stock options are reviewed in more detail in note 21 and under management benefits in note 34.

## 6. Auditors' fees

| | **2010** | **2009** |
|---|---|---|
| Statutory audit | 66 | 84 |
| Acquisition of Synosia and listing | 190 | 0 |
| Tax services | 3 | 13 |
| Other services | 49 | 13 |
| Total | 309 | 110 |

## 7. Depreciation

| Depreciation by asset | **2010** | **2009** |
|---|---|---|
| Intangible assets | 55 | 131 |
| Buildings | 145 | 123 |
| Machinery and equipment | 164 | 144 |
| Total | 364 | 398 |
| | | |
| Depreciation by operation | | |
| Research and development | 322 | 368 |
| Administration | 42 | 31 |
| Total | 364 | 398 |

## 8. Other operating income

| | **2010** | **2009** |
|---|---|---|
| Rent* | 138 | 167 |
| Other | 28 | 75 |
| Total | 166 | 242 |

*Rent from subleased premises, (cf. Accounting principles, S. Provisions and note 22)

## 9. Financial income and expenses

| Financial income | **2010** | **2009** |
|---|---|---|
| Interest income from overnight and fixed term deposits | 69 | 540 |
| Realized gains from assets recorded at fair value in profit and loss account | 32 | 7 |
| Unrealized gains from assets recorded at fair value in profit and loss account | 0 | 53 |
| Other financial income | 0 | 11 |
| Total | 101 | 611 |
| | | |
| Financial expenses | | |
| Interest on Tekes loans | -632 | -744 |
| Interest on convertible capital loans | -168 | -168 |
| Interest on finance leases | -15 | -19 |

| | | |
|---|---|---|
| SEDA costs | -115 | 0 |
| Total | -930 | -932 |

## 10. Discontinued operations

On 28 October 2010, the Board of Directors of Biotie announced the company's intention to dispose of its pre-clinical operations in Germany and in Finland with an aim to focus its business exclusively on clinical development activities. The results of the pre-clinical operations have been reported separately as discontinued operations in the company's consolidated financial statements as the pre-clinical operations represented a separate major line of development activities.

As part of the disposal, all employees and all pre-clinical assets of the German company were transferred in a management buy-out transaction into a new company, biocrea GmbH, in which Biotie became a minority shareholder and the disposal transaction was completed in November 2010.The net loss for the discontinued operations during the financial year amounted to EUR 13 111 thousand including impairment losses of intangible assets amounting to EUR 3 479 thousand resulting from the remeasurement of the disposal group's net asset values to fair value less cost to sell. As part of the disposal transaction, Biotie committed to provide the initial funding of biocrea in the maximum amount of EUR 4 800 thousand, of which EUR 2 400 thousand has been paid at the balance sheet date and which consisted of a EUR 1 400 thousand of equity investment and EUR 973 thousand of funding. The remaining financing obligation related to the disposal transaction amounting to EUR 2 400 thousand has been recorded as a liability and presented separately in the balance sheet at 31 December 2010 and the total commitment has been expensed and included in the net loss for discontinued operations in the consolidated income statement.

Biotie's initial acquisition cost of the 19.9% investment into biocrea GmbH amounted to EUR 5 thousand. The fair value of the investment at the balance sheet is approximated to equal to zero due to the uncertainties related to the cash flows of the development projects of biocrea.

The results of the discontinued operations as described above which have been included in the consolidated income statements are as follows:

| | **2010** | **2009** |
|---|---|---|
| Revenue | 973 | 2 490 |
| Research and Development expenses | -6 691 | -13 364 |
| General and administrative expenses | -711 | -334 |
| Other operating income | 1 419 | 1 376 |
| Impairment losses and loss on sale of discontinuation | -8 077 | 0 |
| Operating profit (loss) | -13 087 | -9 832 |
| | | |
| Financial income | 2 | 16 |
| Financial expenses | -26 | -6 |
| Profit (loss) before taxes | -13 111 | -9 822 |
| | | |
| Taxes | 0 | 1 859 |
| Net income (loss) | -13 111 | -7 963 |

In the consolidated cash flow statement, the cash flows related to the discontinued operations have been separated from the continuing operations and reported as a single line item for each of operating, investing and financing activities.

## 11. Taxes

| | **2010** | **2009** |
|---|---|---|
| Deferred tax | 0 | 0 |
| Total | 0 | 0 |
| | | |
| Loss before tax | -8 462 | -8 120 |
| Tax calculated at domestic tax rates applicable to profits/losses in the respective countries | 2 350 | 2 304 |
| Tax effects of: | | |
| Expenses not deductible for tax purposes | -154 | -1 |
| Tax losses for which no tax asset was recognised | -2 196 | -2 303 |
| Tax charge | 0 | 0 |

## 12. Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by Biotie and held as treasury shares.

| | **2010** | **2009** |
|---|---|---|

| | | |
|---|---|---|
| Net profit attributable to shareholders | -21 573 | -16 083 |
| Average weighted number of outstanding shares (thousands) | 147 172 | 144 993 |
| Earnings per share (basic) (€ per share) | -0.15 | -0.11 |
| Earnings per share (diluted) (€ per share) | -0.15 | -0.11 |

Share options have a dilutive effect only when the fair value of the share is higher than the subscription price of the option and when their conversion to ordinary shares would increase loss per share from continuing operations. Dilutive effect is the number of shares that is issued without consideration, as the proceeds from the use of share options do not allow the company to issue an equal number of shares at fair value. The company has two kinds of diluted instruments augmenting the number of common shares: stock options and convertible capital loans.

Instruments with a possible dilutive effect to earnings per share:

| Adjustments: | **2010** | **2009** |
|---|---|---|
| - convertible capital loans (thousands) | 828 | 828 |
| - stock options (thousands) | 9 769 | 9 769 |
| Total | 10 597 | 10 597 |

## 13. Intangible assets

### A) Intangible assets & goodwill

| Financial year ending on 31.12.2009 | In process R&D projects | Purchased licenses | Patents & similar rights | Production licenses | Software | Goodwill | Intangible rights total |
|---|---|---|---|---|---|---|---|
| Book value on 1.1 | 8 535 | 1 047 | 80 | 682 | 8 | 379 | 10 731 |
| Acquisition of subsidiary | 2 400 | 0 | 0 | 0 | 0 | 0 | 2 400 |
| Additions | 0 | 0 | 0 | 0 | 13 | 0 | 13 |
| Disposals | -4 435 | -1 014 | 0 | 0 | 0 | 0 | -5 449 |
| Depreciation | 0 | -33 | -53 | -38 | -7 | 0 | -131 |
| Book value on 31.12. | 6 500 | 0 | 27 | 644 | 14 | 379 | 7 564 |
| | | | | | | | |
| 31.12.2009 | | | | | | | |
| Acquisition cost | 6 500 | 0 | 4 132 | 762 | 173 | 379 | 11 946 |
| Accumulated depreciation | 0 | 0 | -4 105 | -118 | -159 | 0 | -4 382 |
| Book value on 31.12. | 6 500 | 0 | 27 | 644 | 14 | 379 | 7 564 |

| Financial year ending on 31.12.2010 | In process R&D projects | Purchased licenses | Patents & similar rights | Production licenses | Software | Goodwill | Intangible rights total |
|---|---|---|---|---|---|---|---|
| Book value on 1.1 | 6 500 | 0 | 27 | 644 | 14 | 379 | 7 564 |
| Additions | 0 | 0 | 0 | 0 | 41 | 0 | 42 |
| Depreciation | 0 | 0 | -27 | -38 | -12 | 0 | -77 |
| Disposals | -3 100 | 0 | -542 | 0 | -291 | -379 | -3 486 |
| Disposals of accumulated depreciation | 0 | 0 | 542 | 0 | 284 | | 826 |
| Book value on 31.12. | 3 400 | 0 | 0 | 606 | 36 | 0 | 4 042 |
| | | | | | | | |
| 31.12.2010 | | | | | | | |
| Acquisition cost | 10 935 | 1 058 | 4 132 | 762 | 215 | 379 | 17 481 |
| Accumulated depreciation | -7 535 | -1 058 | -4 132 | -156 | -179 | -379 | -13 438 |
| Book value | 3 400 | 0 | 0 | 606 | 36 | 0 | 4 042 |

In process R&D consists of the ronomilast project. Production license consists of acquired license on VAP1 antibody provided in 2006.

### B) Impairment of intangible assets and goodwill

Intangible assets, especially in-process R&D, licenses pertaining to production and research projects, as well as intellectual property rights and goodwill, were tested for impairment. Where applicable, NPV calculations of future discounted cash flows were used as basis to assess whether intangible assets were subject to impairment.

Values for in-process R&D projects and production license totalling EUR 7 144 thousand at the beginning of the year 2010 were assessed through DCF models. The main factors affecting carrying values are discount rate (15%), time to commercialization, expected market penetration and expected development costs. A sensitivity analysis modulating these parameters was performed and as result it

was concluded that the clinical development project ronomilast as well as the production license acquired from Bristol-Myers (Medarex) for the VAP1 antibody projects were not subject to impairment losses.

Biotie announced in October 2010 its intention to focus exclusively on clinical development of nalmefene, ronomilast and VAP-1 antibody and implemented a restructuring plan leading to transfer of all operations to its headquarters in Finland and a sale of pre-clinical development operations in Germany to biocrea GmbH, which was completed in November 2010, see note 10. Accordingly, the disposal of group's assets and liabilities were treated as held-for sale in Biotie's third quarter interim report in 2010. In connection with completing the plan for disposal and making the decision to dispose of the pre-clinical operations, Biotie performed an impairment review on these assets which resulted in an impairment loss of EUR 3 479 thousand as the fair value less cost to sell was below the book value of the disposal group's net assets. The impairment loss comprised of the values of the PDE10 development project as well as the carrying amount of goodwill. As the disposal group was a component of Biotie comprising of a major line of business, the pre-clinical development activities that were to be discontinued through the disposal, it was classified as discontinued operations. As a result, the impairment loss recognised prior to the disposal and classification as held-for-sale, has been included in the statement of comprehensive income line item for discontinued operations.

In 2009 research and development activities relating to the Immuno-suppression and Buprenorphine depot projects were abandoned, and as a result, these assets were subject to impairment. In addition, the collaboration for the HCV project was terminated by Gilead Inc., leading to impairment of its carrying value. The following impairment losses were recorded in 2010 and 2009 on intangible assets:

| | **2010** | **2009** |
|---|---|---|
| PDE10 | 3 100 | 0 |
| Goodwill | 379 | 0 |
| HCV project | 0 | 2 400 |
| Buprenorphine depot project | 0 | 2 035 |
| Immuno-suppression | 0 | 1 014 |
| Total | 3 479 | 5 449 |

## 14. Property, plant and equipment

| | Machinery and equipment | Buildings |
|---|---|---|
| Financial year 2009 | | |
| Book value on January 1 | 1 066 | 1 726 |
| Additions | 462 | 0 |
| Disposals | -4 | 0 |
| Depreciation | -461 | -123 |
| Book value December 31 | 1 063 | 1 603 |
| | | |
| December 31, 2009 | | |
| Acquisition cost | 3 890 | 1 747 |
| Accumulated depreciation | -2 827 | -144 |
| Book value | 1 063 | 1 603 |
| | | |
| Financial year 2010 | | |
| Book value on January 1 | 1 063 | 1 603 |
| Additions | 219 | 0 |
| Depreciation | -440 | 0 |
| Disposals | -4 658 | 0 |
| Disposals of accumulated depreciation | 4 181 | 0 |
| Reclassifications | 0 | -1 603 |
| Book value on 31.12. | 365 | 0 |
| | | |
| December 31, 2010 | | |
| Acquisition cost | 4 109 | 0 |
| Accumulated depreciation | -3 744 | 0 |
| Book value on 31.12. | 365 | 0 |

Biotie's buildings in Radebeul Germany were previously occupied mainly by Biotie Therapies GmbH. After the MBO spin-off in November 2010 most of the premises have been rented to third parties and therefore are presented as investment property (see note 15).

In 2010 no new finance leases were made. The table includes assets the group has leased through finance lease, comprising equipment used in research and development as follows:

| | **2010** | **2009** |
|---|---|---|
| Acquisition cost – capitalized on the basis of finance lease | 1 763 | 1 763 |
| Accumulated depreciation | -1 439 | -1 290 |
| Book value | 324 | 473 |

Finance lease agreements are typically made for 2 to 3 years. Monthly lease payment is a fixed sum. The finance leases include options for redemption, which correspond approximately to the volume of one month's lease payment.

## 15. Investment property

| | **2010** |
|---|---|
| Book value January 1 | 0 |
| Transfer from owner-occupied property | 1 603 |
| Additions | 10 |
| Depreciation | -145 |
| Disposals | 0 |
| Book value December 31 | 1 468 |

The fair values of investment properties are measured using internationally accepted valuation procedures, such as taking comparable properties as a guide to current market prices or the discounted cash flow method. The carrying value of the investment property EUR 1 468 thousand is a reasonable approximation of its fair value.

## 16. Investments in associated companies and subsidiaries

| Subsidiaries: | Country | Share of ownership % |
|---|---|---|
| Biotie Therapies GmbH | Germany | 100.0 % |
| Biotie Therapies International Ltd | Finland | 100.0 % |

## 17. Available for sale investment

Available for sale investment is comprised of restricted investments.

| | **2010** | **2009** |
|---|---|---|
| At January 1 | 34 | 131 |

| | | |
|---|---|---|
| Additions | 0 | 4 |
| Acquisition | 0 | 0 |
| Sell | 34 | 101 |
| At December 31 | 0 | 34 |

Fair values of available for sale financial assets are based on market prices at the balance sheet date.

## 18. Accounts receivables and other receivables

| | 2010 | 2009 |
|---|---|---|
| Accounts receivable | 82 | 42 |
| Receivables from Pfizer research collaboration | 0 | 436 |
| Other grant receivable | 848 | 664 |
| VAT receivables | 142 | 101 |
| Income tax receivable | 6 | 44 |
| Other receivables | 116 | 0 |
| Prepaid expenses and accrued income | 66 | 220 |
| Total | 1 261 | 1 507 |

Fair values of current accounts receivables and other receivables correspond to their carrying values, as the effect of discounting is not considered material due to the short maturity.

## 19. Financial assets at fair value through profit or loss

| | 2010 | 2009 |
|---|---|---|
| Money market funds, short term | 0 | 8 853 |

Financial assets at fair value through profit and loss, consisting mainly of investments to money market funds are measured at their fair value based on quoted bid prices at the balance sheet date.

## 20. Cash and cash equivalents

| | 2010 | 2009 |
|---|---|---|
| Bank accounts | 4 059 | 1 791 |
| Short term fixed deposits | 0 | 9 100 |
| Total | 4 059 | 10 891 |

The represented amounts are the best approximation of the maximum credit risk linked to this position. There are no significant credit risk concentrations.

## 21. Equity and stock options

### A) EQUITY

Biotie shares are all of the same class and have equal rights. Under Biotie Therapies' Articles of Association the company's share does not have a par value. The share capital of the company may be increased or reduced without amending the Articles of Association.

Reserve for invested unrestricted equity is credited with other equity inputs as well as that part of the subscription price of the shares that according to the explicit decision is not to be credited to the share capital.

On the basis of the authorization by the General Meeting of Shareholders of Biotie held on 15 April 2010, Biotie issued 17 251 371 shares to the company itself without consideration for fundraising purposes. A prospectus concerning this share issue was published in October. In different instances in August, November and December, a total of 2 967 542 treasury shares were conveyed to Yorkville against cash payments totalling EUR 1 050 thousand. The offers were made in order to strengthen Biotie's working capital and to provide further financing for the company's R&D programs. At the end of the year, Biotie held 14 747 084 own shares in treasury. The market value of the shares (EUR 0.50 per share) at balance sheet date was EUR 7 374 thousand.

Relating to the company's option programs, the company has signed a stock lending agreement with EVLI Bank. Pursuant to this program, the number of the company's own shares in its possession may vary.

Changes in shareholders' equity during the period are shown in the statement of changes in shareholders' equity and relate to the share issue to the company itself without consideration in October 2010 and the directed offers of treasure shares in August, November and December. All shares were issued pursuant to the authorisation by the General Meeting of Shareholders of Biotie held on 15 April 2010.

### B) STOCK OPTION RIGHTS

Biotie had two option plans in operation during the period. The plans were approved by Biotie annual general shareholders' meetings in 2006 and 2009 as part of the company's incentive scheme. The stock options have a term up to 5 years from the grant date. The options are forfeited in case the employee leaves the group before the options vest. In addition, a part of the 2009 options include additional business related criteria decided by the Board of Directors in order for the options to vest. After the beginning of the share subscription period, the vested options may be freely transferred or exercised.

No options were exercised by subscribing Biotie shares during the fiscal year. The total number of Biotie stock options outstanding 31 December 2010 was 9 768 800, of which the company held 2 088 540. The dilutive effect of the new shares potentially subscribed with all outstanding stock options the after share capital increase amounted to 5.26 %, at maximum. The dilutive effect of those options not in possession of the company on 31 December 2009 amounted to a maximum of 4.18 %.

Biotie has applied IFRS 2 to all grants after 7 November 2002 and that were unvested as of January 2005. The fair value of the options is determined at the grant date by using Black–Scholes valuation method and expensed over the vesting period.

Key characteristics and terms of Biotie option schemes are listed in the table below.

| | **Option Plan 2006** | | | **Option Plan 2009** | | | |
|---|---|---|---|---|---|---|---|
| **2010<br>31.12.2010** | **2006A** | **2006B** | **2006C** | **2009A** | **2009B** | **2009C** | **Total** |
| The General Meeting of Shareholders date | 30.3.2006 | 30.3.2006 | 30.3.2006 | | | | |
| Grant date | 30.3.2006<br>21.9.2007 | 30.3.2006<br>21.9.2007 | 30.3.2006<br>21.9.2007 | 12.6.2009 | 12.6.2009 | 12.6.2009 | |
| Maximum number of stock options | 1 000 000 | 1 000 000 | 1 000 000 | 2 000 000 | 2 500 000 | 2 500 000 | 10 000 000 |
| The number of shares subscribed by one option | 1 | 1 | 1 | 1 | 1 | 1 | |
| Initial exercise price, € * | 0,60 € | 0,66 € | 0,71 € | 0,40 € | 0,70 € | 1,00 € | |
| Premium | 10 % | 20 % | 30 % | 138 % | 241 % | 345 % | |
| Dividend adjustment | Yes | Yes | Yes | Yes | Yes | Yes | |
| Exercise price Dec. 31, 2010, € | 0,60 € | 0,66 € | 0,71 € | 0,40 € | 0,70 € | 1,00 € | |
| Beginning of exercise period, date (vesting) | 1.1.2007 | 1.1.2008 | 1.1.2009 | 1.1.2010 | 1.1.2011 | 1.1.2012 | |
| End of exercise period, date (expiration) | 31.12.2011 | 31.12.2011 | 31.12.2011 | 31.12.2013 | 31.12.2013 | 31.12.2013 | |
| Maximum life as of grant date | 5,8 | 5,8 | 5,8 | 4,6 | 4,6 | 4,6 | |
| Remaining contractual life Dec. 31, 2010, years | 1,0 | 1,0 | 1,0 | 3,0 | 3,0 | 3,0 | |
| Number of persons Dec. 31, 2010 | no longer binding | no longer binding | no longer binding | no longer binding | 4 | 4 | |
| Vesting conditions | Service until beginning of the exercise period | | | Service until beginning of the exercise period | | | |

* Subscription price for option rights 2006 is the weighted average price of Biotie Therapies share from January 1st 2006 to March 31st 2006 added with a premium.
* Subscription price for option rights 2009 is the weighted average price of Biotie Therapies share from January 1st 2009 to March 31st 2009 added with a premium.

| | Option Plan 2006 | | | Option Plan 2009 | | | | |
|---|---|---|---|---|---|---|---|---|
| **Number of options at Jan. 1, 2010** | **2006A** | **2006B** | **2006C** | **2009A** | **2009B** | **2009C** | **Total** | **Weighted average exercise price** |
| Granted | 1 000 000 | 857 230 | 857 230 | 1 950 000 | 1 950 000 | 2 100 000 | 8 714 460 | 0,69 € |
| Returned | 0 | 0 | 53 000 | 0 | 0 | 0 | 53 000 | 0,71€ |
| Invalidated | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Exercised | 231 200 | 0 | 0 | 0 | 0 | 0 | 231 200 | 0,60 € |
| Outstanding | 768 800 | 857 230 | 804 230 | 1 950 000 | 1 950 000 | 2 100 000 | 8 430 260 | 0,69 € |
| Non-distributed | 0 | 142 770 | 195 770 | 50 000 | 550 000 | 400 000 | 1 338 540 | 0,76 € |
| Exercisable | 768 800 | 1 000 000 | 1 000 000 | 2 000 000 | 2 500 000 | 2 500 000 | 9 768 800 | 0,55 € |
| | | | | | | | | |
| **Changes during the period** | | | | | | | | |
| Granted | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Returned | 0 | 0 | 0 | 75 000 | 325 000 | 350 000 | 750 000 | 0,81 € |
| Invalidated | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Exercised | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Weighted average price of share during the exercise period, € | 0,43 € | 0,43 € | 0,43 € | | | | | - |
| Expired | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| | | | | | | | | |
| **Number of options at Dec. 31, 2010** | | | | | | | | |
| Granted | 1 000 000 | 857 230 | 857 230 | 1 950 000 | 1 950 000 | 2 100 000 | 8 714 460 | 0,69 € |
| Returned | 0 | 0 | 53 000 | 75 000 | 325 000 | 350 000 | 803 000 | 0,80 € |
| Invalidated | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Expired | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| Exercised | 231 200 | 0 | 0 | 0 | 0 | 0 | 231 200 | 0,60 € |
| Outstanding | 768 800 | 857 230 | 804 230 | 1 875 000 | 1 625 000 | 1 750 000 | 7 680 260 | 0,68 € |
| Non-distributed | 0 | 142 770 | 195 770 | 125 000 | 875 000 | 750 000 | 2 088 540 | 0,79 € |
| Exercisable | 768 800 | 1 000 000 | 1 000 000 | 2 000 000 | 2 500 0000 | 2 500 000 | 9 768 800 | 0,70 € |

### C) Determination of fair value

Stock options 2009 B and C were still unvested during the period. Total effect of stock option plan 2009 on the company's earnings was EUR 108 thousand (2009: EUR 339 thousand). The fair value of stock options has been determined by using Black–Scholes valuation model. The most significant inputs used to estimate the fair value of the stock options expensed during the period are presented on the table below.

| **Option plans - Granted 2009** | **2009B** | **2009C** |
|---|---|---|
| Share price at grant date | 0,34 € | 0,34 € |
| Subscription price | 0,70 € | 1,00 € |
| Volatility * | 50.00 % | 50.00 % |
| Maturity, years | 4.56 | 4.56 |
| Risk free interest rate | 2.96 % | 2.96 % |
| Expected dividends | 0 | 0 |
| Valuation model * | BS | BS |
| Option fair value, € | 0,08 € | 0,06 € |
| Effect on earnings 2010, 1000€ | 83 | 35 |

* Black–Scholes

### D) STOCK APPRECIATION RIGHTS (SAR)

The accrued liability in connection with the remaining SARs based on a program from June 2003 has already been derecognized in the past, and since no triggering event for the exercise of any SARs has occurred in 2010, all outstanding SAR has been forfeited.

| Number of SAR: | **2010** | **2009** |
|---|---|---|
| SAR outstanding on January 1st | 4 475 | 4 475 |
| SAR forfeited during the period | -4 475 | 0 |
| SAR outstanding on December 31st | 0 | 4 475 |
| | | |
| Weighted average of remaining contractual life on December 31st (Years) | 0 | 0.5 |

## 22. Provisions

| | Unprofitable leases | Restructuring | Additional social benefits | Other | Total |
|---|---|---|---|---|---|
| January 1, 2010 | 47 | 0 | 140 | 566 | 754 |
| Used during the fiscal year | 24 | 0 | 3 | 0 | 27 |
| Additions | 0 | 0 | 0 | 0 | 0 |
| Disposals | 0 | 0 | 137 | 0 | 137 |
| December 31, 2010 | 23 | 0 | 0 | 566 | 589 |

| | Unprofitable leases | Restructuring | Additional social benefits | Other | Total |
|---|---|---|---|---|---|
| January 1, 2009 | 14 | 55 | 128 | 566 | 762 |
| Used during the fiscal year | 14 | 55 | 6 | 0 | 75 |
| Additions | 47 | 0 | 19 | 0 | 67 |
| December 31, 2009 | 47 | 0 | 140 | 566 | 754 |

| Division of total provisions: | **2010** | **2009** |
|---|---|---|
| Long term | 0 | 161 |
| Short term | 589 | 593 |
| Total | 589 | 754 |

In other provisions, the maximum repayment obligation of EUR 566 thousand arising from capital investment subsidies ("Investitionszulage") is recognized as current provision since the company might potentially be in violation of the granting conditions which were linked to certain employment levels in the German subsidiary.

Unprofitable leases relate to subleased premises at Pharmacity (758m2) which have been rented until Nov. 30, 2011. The rent for these premises amounts to EUR 157 thousand (2009: EUR 155 thousand). The minimum rent for the subleases concluded amounts to EUR 133 thousand (2009: EUR 132 thousand). The group has a provision of EUR 23 thousand for these subleases.

## 23. Non-current financial liabilities

| | **2010** | **2009** |
|---|---|---|
| Non-convertible capital loans from Tekes | 19 663 | 19 663 |
| Long-term R&D loans from Tekes | 4 179 | 4 032 |

| | | |
|---|---|---|
| Convertible capital loans | 1 682 | 1 682 |
| Lease liabilities | 116 | 221 |
| Total | 25 640 | 25 598 |

The value of debts on the balance sheet is considered to reflect their fair value, because the discount rate used is considered as remaining unchanged after the loans have been granted.

| Capital loans and R&D loans are due as follows: | **2010** | **2009** |
|---|---|---|
| Under 1 year | 20 609 | 16 606 |
| 1–5 years | 3 871 | 7 043 |
| Over 5 years | 1 083 | 1 768 |
| Total | 25 563 | 25 417 |

EUR 20 609 thousand of the capital loans are due for repayment in less than one year. Nonetheless, the repayment of capital loans and accrued interest is governed by a restrictive condition, according to which the capital must only be returned if the restricted equity of the parent company and the group for the last financial period is fully covered. Interest on the non-convertible capital loans shall be paid only if the parent company and the group has sufficient funds for profit distribution as per the adopted balance sheet for the most recently ended fiscal year. The loans shall also yield interest from the fiscal years in which the financial statements to be adopted do not present funds available for profit distribution. All capital loans are therefore classified as long-term debt.

### A) Non-convertible capital loans from Tekes

The Finnish Funding Agency for Technology and Innovation (TEKES) has granted a total of 18 non-convertible capital loans to the company, comprising an aggregate amount of EUR 19 663 thousand. The total amount has been drawn down by the Company by the end of the year 2008. The total loan periods are set from 8 to 10 years from draw down. The interest rate for these loans is the base rate set by the Ministry of Finance minus 1 %, however, at least 3%. Repayment of these loans shall be initiated after 4 or 5 years, thereafter loan principals shall be paid back in equal instalments over the remaining loan period. The repayment of capital loans and accrued interest is governed by a restrictive condition, according to which the capital must only be returned if the restricted equity of the parent company and the group for the last financial period is fully covered. Interest on the non-convertible capital loans shall be paid only if the parent company and the group has sufficient funds for profit distribution as per the adopted balance sheet for the most recently ended fiscal year. The loans shall also yield interest from the fiscal years in which the financial statements to be adopted do not present funds available for profit distribution. No interest payments on capital loans were made so far but are instead recorded as expenses in the financial statement and as increase of other non-current liabilities in the balance sheet. The accumulated interest on non convertible capital loans amounts to EUR 4 713 thousand.

### B) Convertible capital loans

The company has received convertible capital loans in the aggregate amount of EUR 1 682 thousand. The original subscription period for a total of up to 828,000 shares of the company began on June 1, 2000, and ended on December 31, 2005. The interest rate is 10% pa. The repayment of capital loans and its interest is governed by a restrictive condition, according to which the capital must only be returned if the restricted equity of the parent company and the group for the last financial period is fully covered. Interest on the convertible capital loans shall be paid only if the parent company and the group has sufficient funds for profit distribution as per the adopted balance sheet for the most recently ended fiscal year. The loans shall also yield interest from the fiscal years in which the financial statements to be adopted do not present funds available for profit distribution. Accumulated interest on convertible capital loans amount to EUR 2 730 thousand and are recorded in other non-current liabilities in the balance sheet. The convertible capital loans can also be converted into shares of the company under the terms of the agreement.

### C) R&D loans

At the end of the financial year, Biotie had EUR 4 218 thousand of R&D loans granted by Tekes. R&D loans are granted to a defined product development project and cover a contractually defined portion of the projects' R&D expenses. The interest rate for these loans is the base rate set by the Ministry of Finance minus three (3) percentage points, however, at least 1%. Repayment of these loans shall be initiated after 5 years, thereafter loan principals shall be paid back in equal instalments within 5 years. More information on repayment schedule is provided in the note 32 Financial risk management.

### D) Lease liabilities

| Finance lease debts - minimum lease payments | **2010** | **2009** |
|---|---|---|
| Under 1 year | 104 | 177 |
| 1–5 years | 116 | 221 |
| Total | 220 | 398 |
| Finance charges from leases to be accrued in the future | 8 | 23 |

Non-current lease liabilities of EUR 116 thousand (2009: EUR 221 thousand) consist of secured leasing debts which are secured through collateral on the leased property.
The carrying amounts of finance leases are reasonable approximations of their fair value.

## 24. Pension benefit obligations

Pension benefit obligations are recognized for certain employees in Biotie Therapies GmbH. The calculations are based on the Heubeck Mortality Charts RT 2005G. Pension obligations are recognized as expenses and are assigned to research and development or to SG&A costs, as applicable.

**A) Principal actuarial assumptions for calculation of pension benefit obligations:**

| | 2010 | 2009 |
|---|---|---|
| Discount rate | 5.3 % | 5.5 % |
| Future salary increases | 1.1 % | 1.1 % |
| Future pension increases | 2.0 % | 2.0 % |
| Rate of fluctuation of employees | 2.0 % | 2.0 % |

**B) Liabilities in the balance sheet:**

| | 2010 | 2009 |
|---|---|---|
| Present value of unfunded pension obligations; equal to net liability in the balance sheet | 446 | 559 |

**C) Personnel expenses recognised in the income statement from defined benefit obligations:**

| | 2010 | 2009 |
|---|---|---|
| Current service cost | 11 | 8 |
| Interest on obligation | 23 | 34 |
| Net actuarial gains/(losses) recognised | 15 | -61 |
| Pension payments | -13 | -6 |
| Total pension expenses | 36 | -25 |

**D) Changes in the present value of the defined pension obligation:**

| | 2010 | 2009 |
|---|---|---|
| Opening defined pension obligation | 559 | 584 |
| Service cost | 11 | 8 |
| Interest cost | 23 | 34 |
| Disposals (MBO-contract) | -149 | 0 |
| Actuarial losses(/gains) | 15 | -61 |
| Benefits paid | -13 | -6 |
| Closing defined pension obligation | 446 | 559 |

For the year 2010 pension expenses of EUR 37 thousand are expected, thereof EUR 6 thousand for service costs.

## 25. Other non-current liabilities

| | 2010 | 2009 |
|---|---|---|
| Interest debts | 7 442 | 6 684 |
| Obligations from early retirement agreements | 0 | 36 |
| Payroll and related accrued expenses | 0 | 9 |
| Total | 7 442 | 6 729 |

Interest debts include mainly unpaid interest debts from capital loans. Interest on the non-convertible capital loans shall be paid only if the parent company and the group has sufficient funds for profit distribution as per the adopted balance sheet for the most recently ended fiscal year. The carrying values of other non-current liabilities are reasonable approximations of their fair values.

## 26. Non-current deferred revenues

The signing fees on licensing agreements are recorded as revenue during the entire duration of the contract. The duration is revaluated annually.

| | 2010 | 2009 |
|---|---|---|
| Deferred revenues from upfront payments of license agreements | 368 | 1 375 |

## 27. Deferred taxes

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same tax jurisdiction) during the period is as follows:

| Deferred tax assets 2010 | 1.1. | Charged/credited to the income statement | Charged directly to equity | 31.12. |
|---|---|---|---|---|
| Pension benefit obligations | 0 | 130 | | 130 |
| Finance lease | 103 | -103 | | 0 |
| Tax loss carry-forwards | 1 996 | -1 110 | | 886 |
| Total deferred tax assets | 2 099 | -1 083 | 0 | 1 016 |
| | | | | |
| Deferred tax liabilities 2010 | | | | |
| Intangible assets | 1 950 | -936 | | 1 014 |

| | | | | |
|---|---|---|---|---|
| Fair valuation of financial assets | 15 | -15 | | 0 |
| Valuation of patents | 5 | -5 | | 0 |
| Finance lease | 123 | -123 | | 0 |
| Pension benefit obligations | 6 | -4 | | 2 |
| Total deferred tax liabilities | 2 099 | -1 083 | 0 | 1 016 |
| Net tax assets | | | | 0 |

| Deferred tax assets 2009 | 1.1. | Charged/credited to the income statement | Charged directly to equity | 31.12. |
|---|---|---|---|---|
| Revenue recognition | 7 | -7 | | 0 |
| Pension benefit obligations | 30 | -30 | | 0 |
| Grant receivables | 39 | -39 | | 0 |
| Finance lease | 65 | 38 | | 103 |
| Tax loss carry-forwards | 150 | 1 846 | | 1 996 |
| Total deferred tax assets | 291 | 1 808 | 0 | 2 099 |
| | | | | |
| Deferred tax liabilities 2009 | | | | |
| Intangible assets | 1 950 | 0 | | 1 950 |
| Fair valuation of financial assets | 0 | 15 | | 15 |
| Valuation of patents | 5 | 0 | | 5 |
| Finance lease | 72 | 51 | | 123 |
| Other accruals | 123 | -123 | | 0 |
| Pension benefit obligations | 0 | 6 | | 6 |
| Total deferred tax liabilities | 2 150 | -51 | 0 | 2 099 |
| Net tax liabilities | | | | 0 |

Deferred income tax assets are recognised to the extent that the realisation of the related tax benefit is probable. Due to uncertainty in realisability the group did not recognise deferred income tax assets of EUR 34 439 thousand (2009: EUR 28 840 thousand) in respect of losses amounting to EUR 126 330 thousand (2009: EUR 141 233 thousand) that can be carried forward against future taxable income. Losses of the parent company expire in 2011 – 2020, whereas losses of the German subsidiary do not expire. The group did not recognise deferred tax asset resulting to temporary differences of EUR 8 458 thousand (2009: EUR 3 818 thousand) in respect of costs deducted in bookkeeping but not in taxation amounting to EUR 32 530 thousand (2009: EUR 14 686 thousand).

## 28. Current financial liabilities

| | **2010** | **2009** |
|---|---|---|
| Tekes, R&D loan | 40 | 40 |
| Lease liabilities | 104 | 177 |
| Total | 144 | 217 |

Fair values of the current financial liabilities correspond to their carrying values.

## 29. Current deferred revenues

| | **2010** | **2009** |
|---|---|---|
| Deferred revenues from upfront payments of license agreements | 1 006 | 1 953 |

## 30. Accounts payable and other current liabilities

| | **2010** | **2009** |
|---|---|---|
| Accounts payable | 712 | 930 |
| Liabilities for loss compensation from restructuring | 2 400 | 0 |
| Debts related to payroll, social security costs and to other tax-like charges | 395 | 468 |
| Accrued expenses and prepaid income | 1 530 | 1 881 |
| Total | 2 637 | 3 279 |

Fair values of accounts payables and other current liabilities correspond to their carrying values.

## 31. Adjustment of cash flow from operating activities

| | 2010 | 2009 |
|---|---|---|
| Net income (loss) | -8 462 | -8 120 |
| Adjustments: | | |
| Non-cash transactions | | |
| Deferred revenue | -1 955 | -3 138 |
| Depreciation | 364 | 72 |
| Options granted | 108 | 338 |
| Other adjustments | 196 | 74 |
| Addition/disposal (-) due to revaluation of financial assets at fair value through profit or loss | 0 | -53 |
| Interest expenses and other financial expenses | 930 | 931 |
| Interest income | -101 | -582 |
| Changes to working capital: | | |
| Change in accounts receivable and other receivables | 626 | 280 |
| Change in accounts payable and other liabilities | 436 | 527 |
| Change in mandatory provisions | -25 | 34 |
| Interest paid | -42 | -74 |
| Interest received | 68 | 31 |
| Net cash flow from operating activities | -7 856 | -9 681 |

## 32. Financial risk management

### A) Principles and processes of financial risk management

The operations of the company and its subsidiaries expose them to several financial risks caused by, for example, the following factors: changes to market prices in debt and capital markets, fluctuation of exchange rates and interest rates.
Biotie's risk management principles focus on the unpredictability of the financial markets and aims at minimizing any undesired impacts on the group's financial result. The Board of Directors defines the general risk management principles and provides operational guidelines concerning specific areas including but not limited to foreign exchange risk, interest rate risk, credit risk, use of derivatives and investment of the group's liquid assets.

### B) Market risk

#### (1) Foreign exchange risk

The group operates internationally and is exposed to foreign exchange risks between several currencies and the Euro, in which the group reports its financial statements. Exposure to the US dollar is the most important, but there is also certain exposure to the Pound Sterling and to the Swiss Franc. Management follows considerable foreign currency positions regularly. Significant net positions in foreign currency may be hedged by foreign exchange forward contracts if needed. In 2010 no such contracts were in place.

| Accounts payables of the group by currency | 2010 | 2009 |
|---|---|---|
| EUR | 632 | 1 186 |
| USD | 24 | 4 |
| GBP | 56 | 18 |
| Accounts payable total | 712 | 1 208 |

| Accounts receivables of the group by currency | 2010 | 2009 |
|---|---|---|
| EUR | 82 | 42 |
| USD | 0 | 436 |
| Accounts receivable total | 82 | 478 |

#### (2) Interest rate risk

Biotie´s loans from Tekes are mainly tied to the base rate defined by the Finnish Ministry of Finance. Management follows the interest rate positions regularly and may use interest rate derivates if necessary. Considerable interest rate fluctuations affecting the company or its subsidiaries will be reported to the Board of Directors.

#### (3) Sensitivity analysis

Due to the nature of its operations the group is exposed to risks delineated above. The following sensitivity analysis table describes the impact that exchange rate and interest rate changes have to group's income statement. Changes do not impact other comprehensive income or equity. The financial instruments that are sensitive to these risks are: cash and cash equivalents, accounts receivable, financial liabilities as well as accounts payable.

The following assumptions were made when calculating the sensitivity to changes in EUR/USD and EUR/GBP exchange rate:

- the variation EUR/USD and EUR/GBP is assumed to be +/-10%,

- the position includes cash and cash equivalents and receivables in USD as well as liabilities i.e. accounts receivable, accounts payable and currency bank accounts

The following assumptions were applied when calculating the sensitivity to changes in interest rate:

- the variation of interest rate is assumed to be +/- 1%,
- position includes financial liabilities with floating interest rate

| Sensitivity to market risks arising from financial instruments | **2010** | **2009** |
|---|---|---|
| - 10 % change in EUR/USD exchange rate | +118 / -124 | +249 / -217 |
| - 10 % change in EUR/GBP exchange rate | +3 / -4 | +3 / -3 |
| - +1% change in base rate | -235 | -217 |
| - -1% change in base rate | 4 | 109 |

### C) Capital risk management and liquidity risks

Significant financial resources are required to advance the drug development programs into commercialised pharmaceutical products. The group relies on its ability to fund the operations of the group through three major sources of financing. Entering into commercialisation, collaboration and licensing agreements with larger pharmaceutical companies entitles the company and its subsidiaries to receive up-front-, milestone dependent- and royalty payments from these partners. Activities in the area of business development are targeted at securing such agreements. These activities are integral part of the duties of the management and are monitored by the Board of Directors, which ultimately decides on entering into such agreements.

In addition, the group relies on different sources of research and development grants and loans. These funds, which are provided through regional, national or EU level institutions with the aim of fostering economic and technological progress in the region in which the group operates, have been historically available to the group at substantial levels. Biotie and its subsidiaries strictly comply with all rules and legal obligations pertaining to these funding programs and are in regular contact with the funding agencies providing these. Availability of such funds in the future cannot be guaranteed and thus this poses a potential risk to the income situation of the group in the future.

In addition to the sources of funding described above, funding of the group's operations is largely based on equity financing through its parent company Biotie. There can be no assurance that sufficient funds can be secured in order to permit the company to carry out its planned activities. Current capital market conditions are very volatile. While after the reporting period, in March 2011, the company was able to raise EUR 27.0 million from a share issue to fund its operations in the mid-term future, there can be no assurance that the company can secure equity financing in the future if and when it needs to do so. The current financial market situation and the repercussions to the overall investor's sentiment pose a severe risk of not being able to secure additional financing in the future. To manage this risk, Biotie has secured an option to rise up to EUR 20 million through an equity facility with a reputable US investor group until September 2012. In addition, management is in constant dialogue with financial investors, investment banks and other market participants.

There can be no assurance that sufficient financing can be secured in order to permit the company and its subsidiaries to carry out its planned activities. To protect the continuity of the group's operations, sufficient liquidity and capital has to be maintained. The group aims to have funds to finance at least one year's operations at all times. The group can influence the amount of capital by adapting its cost basis according to the financing available. The restructuring measures implemented in Q4 2010 highlight such an approach. Management monitors liquidity on the basis of the amount of funds. These are reported to the Board on a monthly basis.

Biotie's Board of Directors approves the operational plans and budget. The Board follows up the implementation of these plans and the financial status of the group on a monthly basis.

| The group had low risk securities, fixed period deposits and bank accounts as follows: | **2010** | **2009** |
|---|---|---|
| Low risk securities | 0 | 8 853 |
| Fixed period deposits | 0 | 9 100 |
| Bank deposits | 4 059 | 1 791 |
| Total | 4 059 | 19 744 |

As of December 31, 2010 the contractual maturity of loans and interests was as follows:

| Capital loans * | **2011** | **2012** | **2013** | **2014** | **Total** |
|---|---|---|---|---|---|
| - repayment of loans | -20 079 | -1 266 | | | -21 345 |
| - interest expenses | 7 304 | -19 | | | -7 323 |
| R&D loans | | | | | |
| - repayment of loans | -530 | -491 | -491 | -2 707 | -4 218 |
| - interest expenses | -35 | -30 | -25 | -17 | -108 |
| Financial leasing | | | | | |
| - repayment of loans | 104 | 116 | | | 220 |
| - interest expenses | 6 | 2 | | | 8 |

As of December 31, 2009 the contractual maturity of loans and interests was as follows:

| Capital loans * | 2010 | 2011 | 2012 | 2013- | Total |
|---|---|---|---|---|---|
| - repayment of loans | -16 566 | -3 513 | -1 266 | | -21 345 |
| - interest expenses | -6 651 | -38 | -19 | | -6 708 |
| R&D loans | | | | | |
| - repayment of loans | -40 | -530 | -491 | -3 010 | -4 071 |
| - interest expenses | -40 | -35 | -30 | -63 | -168 |
| Financial leasing | | | | | |
| - repayment of loans | 177 | 108 | 112 | | 397 |
| - interest expenses | 15 | 6 | 3 | | 24 |

* See note 23

### D) Credit risk

Trade receivables as well as deposit and security receivables from the banks expose the group to credit risk. Biotie and its subsidiaries preferentially work with partners with good credit ratings. Management monitors the sufficiency of the liquid assets and exposure to credit risk regularly. Biotie and its subsidiaries currently derive a significant proportion of their collaborative income from a small group of partners. This risk of concentration of creditors is partly mitigated by the fact that the group's collaboration partners are typically large and internationally reputable pharmaceutical companies which are financially solid. These collaborations are governed by contractual relationships that typically address and describe remedies for situations in which interests of Biotie and the partner are not longer in line. In addition, the group aims to collaborate on different development programs with as many partners as possible in order to spread the risk of creditor concentration. The company's revenues and accounts receivable are subject to credit risk as a result of customer concentrations. Furthermore, such grant revenue is recognized, based on management's reasonable assessment that the conditions of the grant are met and that the grants will be received.

| Analysis of trade receivables by age at closing date | 2010 | 2009 |
|---|---|---|
| Undue receivables | 80 | 463 |
| Overdue receivables | 2 | 15 |
| Total | 82 | 478 |

Banks used by the group for its deposits are among Europe's most reputable financial institutions. The group invests liquid assets in low risk securities and interest bearing bank accounts.

### E) Fair value hierarchy

The company is classifying fair value measurements for financial assets and liabilities using a three level fair value hierarchy that reflects the significance of the inputs used in making the measurements. The levels are as defined below:
Level 1: Financial assets and liabilities quoted with unadjusted prices in active markets for identical assets or liabilities.
Level 2: Financial assets and liabilities at other than quoted prices included within level 1, but based on market information data that that is observable for the asset or liability, either directly as prices or indirectly derived from prices.
Level 3: Financial assets and liabilities included here are not based on observable market data, the fair values used were calculated using own assumptions.
The company has summarized the classified fair values of financial instruments in the following table:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets | | | | |
| Financial assets at fair value through profit or loss | 0 | 0 | 0 | 0 |
| Available-for-sale financial assets | 0 | 0 | 0 | 0 |
| Financial assets total | 0 | 0 | 0 | 0 |
| | | | | |
| Financial liabilities | | | | |
| Financial liabilities at fair value through profit or loss | 25 784 | 0 | 0 | 25 784 |
| Financial liabilities total | 25 784 | 0 | 0 | 25 784 |

No transfers from one level to another have occurred in 2010, Biotie has no level 3 instruments.

## 33. Contingent liabilities

| | 2010 | 2009 |
|---|---|---|
| Operating lease commitments | 159 | 137 |
| Due within a year | 70 | 88 |
| Due later | 88 | 49 |
| | | |
| Rent commitments | 243 | 382 |
| Due within a year | 243 | 237 |
| Due later | 0 | 145 |

The group leases motor vehicles, machines and equipment with leases of 3 to 5 years. The operating leases do not include options for redemption or for extension. Rent commitments include premises in the Pharmacity building in Turku until 30 November 2011.

The group has received significant subsidies for several research projects. In addition, the group has also received capital investment subsidies. All these subsidies are subject to various terms and conditions. If these conditions are consistently not met by the company, future repayment obligations could arise. The amount and timing of potential repayments can presently not be estimated. Currently, the company has no indication that any claims by the granting authorities will be made.

According to the Finnish Act on the Right to Employees' Inventions and to the German employee inventor's law ("*Arbeitnehmererfindergesetz*"), group employees are eligible to receive compensation derived from future income related to intellectual property invented partly or in total by these employees. This could amount up to a maximum of 2.5% of the income generated by the respective invention.

On December 31, 2010 Biotie had outstanding contractual payment obligations (contracted commitments), primarily for contract research work services related to ongoing clinical development programs, totalling EUR 2 052 thousand (on December 31, 2009: EUR 6 918 thousand).

## 34. Transactions with related parties

### A) Loans from related party

| | 2010 | 2009 |
|---|---|---|
| Loans from Dreadnought Finance Ltd. | 673 | 673 |
| Interest accrued on loans | 827 | 759 |
| Total | 1 500 | 1 432 |

The two loans from Dreadnought Finance Ltd is a convertible capital loan. The repayment conditions are stated under note 23; interest rate is 10%. EUR 336 thousand was drawn from the loan on May 13, 1998 and EUR 336 thousand on January 26, 1999. The interest on the loan has been recorded under other long term liabilities and is included in the table above. Dreadnought Finance Ltd is controlled by a person, who was a member of the Board of Directors until April, 2010.

### B) Management benefits

| | 2010 | 2009 |
|---|---|---|
| Salaries and other short-term employee benefits | 1 013 | 783 |
| Share-based payments (share of management in the option expenses) | 108 | 339 |
| Termination benefits, payment-based | 111 | 146 |
| Total | 1 232 | 1 268 |

Biotie group has a management team consisting of Timo Veromaa (President and CEO), Thomas Taapken (Chief Financial Officer), Antero Kallio (Chief Medical Officer) and Chris Piggott (Chief Business Officer).

### C) Stock options awarded to management

No stock options were awarded during 2010 (during 2009: 6 000 000). At the end of the fiscal year, the number of outstanding options granted to management amounted to 6 181 980 (at the end of the fiscal year 2009: 7 181 980).

| Compensation paid to the Managing Director is presented in the table below: | 2010 | 2009 |
|---|---|---|
| Salary and other short-term employee benefits | 233 | 195 |
| Share-based payments | 43 | 113 |
| Termination benefits | 40 | 78 |
| Total | 316 | 386 |

The Managing Director contract may be terminated by the company with a six month notice period and by the Managing Director with a three month notice period. If the company terminates the contract with the Managing Director, the Managing Director is, in addition to his salary during the notice period, entitled to a severance pay corresponding to 12 months of salary.

### D) Board of Directors

| Annual compensation paid to the members of the Board of Directors | 2010 | 2009 |
|---|---|---|
| Peter Fellner | 45 | 6 |
| Ann Hanham | 12 | 36 |
| Juha Jouhki | 12 | 36 |
| Merja Karhapää | 26 | 0 |
| Bernd Kastler | 36 | 36 |
| Krish Krishnan | 0 | 15 |
| Pauli Marttila | 31 | 18 |
| Riku Rautsola | 36 | 36 |

| | | |
|---|---|---|
| Christoph Schröder | 12 | 36 |
| James S. Shannon | 26 | 0 |
| Piet Serrure | 36 | 36 |

## 35. Events after the reporting date

### A) Acquisition of Synosia Therapeutics Holding AG

Biotie entered into a combination agreement with Synosia Therapeutics Holding AG (”Synosia”) on 10 January 2011. The acquisition was subject to the necessary resolutions passed by Biotie’s shareholders at the Extraordinary General Meeting which was held on 1 February 2011. Biotie issued 161 448 371 new shares to the shareholders and warrant holders of Synosia to acquire the entire issued share capital and outstanding warrants of Synosia. In addition, 14 912 155 shares were issued to Synosia and are held in treasury to satisfy future potential exercise of Synosia’s options in accordance with the terms of the existing option plans. The fair value of the shares issued as the consideration paid for Synosia is based on the published share price on 1 February 2011. Synosia is a biopharmaceutical company focused on developing and commercializing innovative and clinically differentiated products for neurodegenerative and psychiatric disorders. As a result of the combination, Synosia is a wholly-owned subsidiary of Biotie and will be consolidated into Biotie’s consolidated financial statements from the acquisition date 1 February 2011 onwards.

Details of net assets acquired and goodwill are as follows:

| | |
|---|---|
| Purchase consideration | |
| Shares related to the Transaction (pcs) | 161 448 371 |
| EUR per share | 0,60 |
| **Shares total** | **96 869** |
| | |
| Consideration provided under Synosia option-plan | 6 192 |
| **Total consideration transferred** | **103 061** |

Fair value of assets acquired (see below)

**Goodwill**
Direct cost relating to the acquisition – charged in P&L

The assets and liabilities arising from the acquisition, provisionally determined, are as follows:

| | **Fair value** |
|---|---|
| In process research and development projects IPRD (Intangible assets) | 82 479 |
| Property, plant and equipment | 80 |
| Investments held-to-maturity | 3 |
| Accounts receivables and other receivables | 1 130 |
| Financial assets at fair value through profit and loss | 6 916 |
| Cash and cash equivalents | 16 335 |
| Deferred tax liability (net) | -10 149 |
| Accounts payable and other current liabilities | -2 533 |
| **Net assets acquired** | **94 261** |
| Goodwill | 8 800 |

Fair values of net assets acquired are determined provisionally. Based on the preliminary fair valuation, in process research and development projects (”IPRD”) have been valued at EUR 82 479 thousand. The development projects are not amortized until the start of commercialization and they are subject to an annual impairment test.

A preliminary goodwill, EUR 8 800 thousand, arises from expected synergy benefits in different areas of drug development as well as from the competent personnel and the integration of functions. Expected synergy benefits will be gained from the possibility to create new drug development projects corresponding to the needs of international pharmaceuticals companies and from the possibility to utilize new knowledge and new technologies for the development of the existing businesses. Furthermore, access to the very important US market and established relationships to the regulatory authorities (FDA) is gained through the existing operations of Synosia in the US.

Synosia’s result will be consolidated into Biotie’s consolidated financial statements from the acquisition date of 1 February 2011.
The total acquisition-related costs are estimated to approximate EUR 1 213 thousand. Acquisition-related costs of EUR 376 thousand are included in general and administrative expenses in the consolidated income statements for the year ended 31 December 2010. Acquisition-related costs to be included in general and administrative expenses in the consolidated income statements for the year ending 31 December 2011 are estimated to amount to EUR 837 thousand.

## B) Directed share issue in March 2011

In March 2011 Biotie announced that it had executed a private placement of shares (the "Offering") in the amount of EUR 27 million that had been fully subscribed for. The shares were allocated to Finnish and international institutional and strategic investors. A total of 35,230,000 newly issued and 14 747 084 treasury shares were offered in the Offering at a subscription price of EUR 0.54 per share. Subsequent to the completion of the Offering, Biotie's cash, cash equivalents and short term investments amount to over EUR 45 million. As a result of the issue of new shares and the sale of the treasury shares, the share capital of Biotie was increased by EUR 26 987 625.36.

After March 18, 2011 after the registration of the new shares with the Finnish Trade Register and the registration of the share capital increase related to the new shares and the sale of the treasury shares, the share capital of Biotie is EUR 165 919 181.95, the total number of shares amounts to 387 594 457, and the number of votes outstanding is 372 682 302 (taking into consideration the treasury shares held by Biotie and its subsidiaries).

## F. Key figures

Incl. both continuing and discontinued operations

### Consolidated company

| 1.1.-31.12. | IFRS 2010 12 months | IFRS 2009 12 months | IFRS 2008 12 months | IFRS 2007 12 months | IFRS 2006 12 months |
|---|---|---|---|---|---|
| Business development | | | | | |
| Revenue | 2 928 | 5 628 | 5 127 | 7 895 | 1 118 |
| Personnel on average | 70 | 81 | 42 | 36 | 37 |
| Personnel at the end of the period | 23 | 82 | 80 | 37 | 35 |
| Research and development costs | 12 229 | 21 109 | 8 730 | 9 053 | 7 970 |
| Capital expenditure | 270 | 475 | 116 | 287 | 819 |
| Profitability | | | | | |
| Operating profit (loss) | -20 720 | -17 631 | -5 121 | -1 769 | -8 361 |
| as percentage of revenue, % | -707.65 | -313.27 | -99.90 | -22.40 | -747.60 |
| Profit (loss) before taxes | -21 573 | -17 942 | -5 553 | -1 726 | -8 958 |
| as percentage of revenue, % | -736.78 | -318.80 | -108.30 | -21.90 | -800.90 |
| Balance sheet | | | | | |
| Cash and cash equivalent | 4 059 | 19 744 | 25 238 | 28 243 | 31 763 |
| Shareholder's equity | -29 466 | -8 938 | 110 | -11 117 | -10 807 |
| Balance sheet total | 11 205 | 31 526 | 42 804 | 30 075 | 33 233 |
| Financial ratios | | | | | |
| Return on equity, % | - | - | - | - | - |
| Return on capital employed, % | -341.5 | -86.0 | -18.3 | -7.2 | -113.5 |
| Equity ratio, % | -263.0 | -28.4 | 0.3 | -37.0 | -46.5 |
| Gearing, % | -73.7 | -67.9 | -148.5 | 40.8 | 76.1 |
| Per share data | | | | | |
| Earnings per share(EPS), € | -0.15 | -0.11 | -0.06 | -0.02 | -0.16 |
| Shareholders' equity per share, € | -0.17 | -0.06 | 0.0008 | -0.12 | -0.12 |
| Dividend per share , € | - | - | - | - | - |
| Payout ratio, % | - | - | - | - | - |
| effecting dividend yield, % | - | - | - | - | - |
| P/E ratio | - | - | - | - | - |
| Per share data | | | | | |
| - Lowest share price | 0.30 | 0.23 | 0.24 | 0.75 | 0.49 |
| - Highest share price | 0.65 | 0.67 | 0.94 | 1.22 | 2.39 |
| - Average share price | 0.48 | 0.42 | 0.51 | 0.98 | 1.10 |
| - 31.12. share price | 0.50 | 0.55 | 0.26 | 0.76 | 1.18 |
| Market capitalization, Meur | 88,0 | 87,3 | 37,5 | 68,6 | 105,6 |
| Trade of shares | | | | | |
| Number of shares traded | 90 049 678 | 51 471 584 | 15 350 613 | 35 093 743 | 32 470 230 |
| as percentage of all shares, % | 51.2 | 32.4 | 10.6 | 38.9 | 36.3 |
| Number of shares during the period | 161 919 250 | 144 992 735 | 96 734 553 | 90 003 192 | 54 995 830 |
| Number of shares at the end of the period | 176 003 931 | 158 752 560 | 144 320 560 | 90 211 860 | 89 530 660 |
| Number of shares during the period, fully diluted | 164 309 750 | 147 677 878 | 97 562 553 | 91 697 875 | 57 363 494 |
| Number of shares at the end of the period, fully diluted | 178 394 431 | 161 437 703 | 145 148 560 | 91 906 543 | 92 172 296 |

## Formulas for the calculation of the key figures

**Return on capital employed %**

$$\frac{\text{Profit (loss) before taxes + interest expenses and other financial expenses}}{\text{Balance sheet total - non-interest bearing liabilities}} \times 100$$

**Equity ratio %**

$$\frac{\text{Shareholders' equity}}{\text{Balance sheet total - advanced received}} \times 100$$

**Gearing %**

$$\frac{\text{Interest bearing liabilities - cash and cash equivalents}}{\text{Shareholders' equity}} \times 100$$

**Earnings per share (EPS)**

$$\frac{\text{Profit attributable to parent company shareholders}}{\text{Adjusted average number of outstanding shares during the period}}$$

**Shareholders' equity per share**

$$\frac{\text{Shareholders' equity}}{\text{Adjusted average number of shares at the end of the period}}$$

# III. Parent company financial statements (FAS)

## A. Parent company income statement

| 1 000 € | Note | 2010 | 2009 |
|---|---|---|---|
| Revenue | 2 | 1 771 | 2 135 |
| Gross profit | | 1 771 | 2 135 |
| Research and development expenses | | -7 536 | -9 228 |
| General and administrative expenses | | -3 499 | -3 294 |
| Other operating income | 6 | 166 | 243 |
| Operating profit (loss) | | -9 098 | -10 144 |
| Financial income and expenses | 7 | -1 587 | -194 |
| Profit (loss) before extraordinary items, appropriations and taxes | | -10 686 | -10 338 |
| Taxes | | 0 | 0 |
| Net income (loss) | | -10 686 | -10 338 |

## B. Parent company balance sheet

| 1 000 € | Note | 2010 | 2009 |
|---|---|---|---|
| ASSETS | | | |
| Non-current assets | | | |
| Intangible assets | 8 | 36 | 9 |
| Tangible assets | 8 | 31 | 43 |
| Investments | 9 | 26 006 | 24 005 |
| Receivables from group companies | 10 | 800 | 0 |
| | | 26 873 | 24 057 |
| Current assets | | | |
| Current receivables | 11 | 577 | 132 |
| Securities | 12 | 0 | 17 900 |
| Cash in hand and at banks | 12 | 3 833 | 703 |
| | | 4 410 | 18 735 |
| Total assets | | 31 283 | 42 792 |
| EQUITY AND LIABILITIES | | | |
| Shareholders' equity | 13 | | |
| Share capital | | 52 057 | 51 507 |
| Share issue | | 500 | 0 |
| Reserve for invested unrestricted equity | | 1 180 | 1 180 |
| Retained earnings | | -41 148 | -30 810 |
| Net income (loss) | | -10 686 | -10 338 |
| | | 1 903 | 11 539 |
| Mandatory provisions | 15 | 23 | 47 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Capital loans | 16 | 21 345 | 21 345 |
| Other long-term liabilities | 16 | 4 355 | 5 094 |
| | | 25 700 | 26 439 |
| Current liabilities | | | |
| Accounts payable and other current liabilities | 18 | 3 348 | 4 587 |
| Liabilities from group companies | 19 | 309 | 181 |
| | | 3 657 | 4 768 |
| Subtotal liabilities | | 29 357 | 31 206 |
| Equity and liabilities total | | 31 283 | 42 792 |

## C. Parent company cash flow statement

| 1 000 € | Note | 2010 | 2009 |
|---|---|---|---|
| Cash flow from operating activities | | | |
| Operating profit | | -9 098 | -10 144 |
| Depreciation | 5 | 39 | 31 |
| Change in mandatory provisions | 15 | -25 | 34 |
| Change in working capital | | -2 441 | -18 |
| Financial income and expenses | 7 | -182 | 6 |
| | | -11 707 | -10 091 |
| | | | |
| Cash flow from investing activities | | | |
| Capital expenditure | 9 | -54 | -35 |
| Investments in shares | | -3 405 | -2 010 |
| | | -3 459 | -2 045 |
| | | | |
| Cash flow before financing activities | | -15 167 | -12 136 |
| | | | |
| Cash flow from financing activities | | | |
| Share issue | 13 | 1 050 | 7 216 |
| Loans for subsidiaries | | -800 | 0 |
| Change in long-term debt | | 147 | 593 |
| | | 397 | 7 809 |
| | | | |
| Increase (+) or decrease (-) in cash and cash equivalents | | -14 770 | -4 327 |
| Cash and cash equivalents at the beginning of the period | | 18 603 | 22 931 |
| Cash and cash equivalents at the end of the period | | 3 833 | 18 603 |

## D. Notes to the parent company financial statements

All figures in the notes to the financial statements have been rounded to thousand Euros, unless otherwise stated which may result in immaterial rounding differences.

### 1. Accounting principles

Biotie Therapies Corporation's financial statements have been prepared in accordance with Finnish legislation (Finnish Accounting Standards, FAS), which in all material respects is based on the provisions of EU Directives 4 and 7 concerning treaty of companies' annual and consolidated accounts.

#### A) Research and development expenses

Research and development costs are charged as expenses during the year in which they occur.

#### B) Fixed assets

Fixed assets have been recorded in the balance sheet at their direct acquisition cost, and depreciated according to plan. Depreciation is based on estimated useful life of various assets as follows:

| Assets | Useful life in years | Depreciation method |
|---|---|---|
| Machinery and equipment | 4 | Straight-line depreciation |
| Software | 4 | Straight-line depreciation |
| Patents | 10 | Straight-line depreciation |
| Merger goodwill | 3 | Straight-line depreciation |

Software and equipment used exclusively for R&D purposes is fully depreciated during the year they are acquired in accordance with the Act on Taxation of Business Income.

#### C) Leasing

Leasing payments are charged to rental expense. The company has financed new R&D equipment with financial leasing .Leasing commitments are disclosed in the notes to the financial statements.

#### D) Mandatory provisions

Mandatory provisions in the balance sheet are defined as commitments related to the current or prior fiscal years which on the balance sheet are certain or likely to materialize, but with regard to which there is uncertainty as to the amount or the timing of the obligation. The estimated provisions are based on information available on the balance sheet date.

#### E) Pension expenses

A pension plan to the benefit of the company's employees has been arranged with an external insurance company. Pension costs are included in personnel expenses.

#### F) Foreign currency

Receivables and liabilities in foreign currencies have been valued to Euro at the average rate quoted by the European Central Bank at the balance sheet date.

#### G) Revenue recognition

Revenue of the company consists of upfront and milestone payments agreed in collaboration agreements. The revenues are mainly recognized directly as income. However; part of received upfront payments are recognized against costs occurred.

#### H) Capital loans

Capital loans are reported in long-term liabilities according to the Companies Act of 2006.

## 2. Revenue

| | 2010 | 2009 |
|---|---|---|
| Lundbeck license agreement | 1 771 | 2 135 |

## 3. Personnel expenses

| | 2010 | 2009 |
|---|---|---|
| Wages and salaries | 2 559 | 2 072 |
| Pension expenses | 339 | 297 |
| Other personnel expenses | 163 | 157 |
| Total | 3 061 | 2 526 |
| | | |
| Salary to Managing Director and remuneration of board members | 500 | 435 |
| | | |
| Average number of personnel employed throughout the year | 37 | 36 |
| Personnel at the end of period | 22 | 35 |

## 4. Auditors' fees

| | 2010 | 2009 |
|---|---|---|
| Statutory audit | 46 | 46 |
| Acquisition of Synosia and listing | 190 | 0 |
| Tax services | 0 | 10 |
| Other services | 49 | 13 |
| Total | 286 | 69 |

## 5. Depreciation

| | 2010 | 2009 |
|---|---|---|
| Intangible assets | 4 | 8 |
| Machinery and equipment, non R&D | 26 | 21 |
| Machinery and equipment, R&D | 9 | 2 |
| Total*) | 39 | 31 |
| *thereof related to software and equipment used in R&D | 9 | 2 |

## 6. Other operating income

| | 2010 | 2009 |
|---|---|---|
| Rents | 138 | 167 |
| Other | 28 | 75 |
| Total | 166 | 242 |

## 7. Financial income and expenses

| | 2010 | 2009 |
|---|---|---|
| Interest income | 188 | 582 |
| Interest expenses | -42 | -56 |
| Other financial expenses | 0 | -200 |
| Impairment of non-current investment | -1 405 | 0 |
| Expenses in relation to share issue | -328 | -520 |
| Total | -1 587 | -194 |

The impairment of non-current investment is related to the impairment of biocrea investment.

## 8. Intangible and tangible assets

| | Other long-term investments | Intangible assets | Intangible assets R&D | Machinery and equipment | Machinery and equipment R&D | Merger goodwill | Total |
|---|---|---|---|---|---|---|---|
| Historical costs on 1.1.2010 | 1 098 | 3 078 | 25 | 753 | 375 | 1 431 | 6 760 |
| Capital expenditure on 1.1.-31.12.2010 | 0 | 41 | 0 | 5 | 9 | 0 | 54 |
| Historical costs on 31.12.2010 | 1 098 | 3 119 | 25 | 758 | 384 | 1 431 | 6 814 |
| Accumulated depreciation | -1 098 | -3 069 | -25 | -710 | -375 | -1 431 | -6 708 |
| Total before financial year depreciation | 0 | 50 | 0 | 47 | 9 | 0 | 106 |
| Depreciation during the financial year | 0 | -13 | 0 | -17 | -9 | 0 | -39 |
| Net book value of assets on 31.12.2010 | 0 | 36 | 0 | 31 | 0 | 0 | 67 |

## 9. Group companies

| Ownership in subsidiaries book values | **2010** | **2009** |
|---|---|---|
| Biotie Therapies GmbH, Radebeul Germany | 100% | 100% |
| Biotie Therapies International Ltd, Turku | 100% | 100% |
| | | |
| Book values | | |
| Biotie Therapies GmbH, Germany | 25 986 | 23 986 |
| Biotie Therapies International Oy, Turku | 9 | 9 |

## 10. Receivables from group companies

| | **2010** | **2009** |
|---|---|---|
| Loan receivable from subsidiary | 800 | 0 |

## 11. Current receivables

| | **2010** | **2009** |
|---|---|---|
| VAT receivables | 127 | 51 |
| Other receivables | 388 | 28 |
| Prepaid expenses and accrued income | 62 | 53 |
| Total | 577 | 132 |

## 12. Securities and bank deposits

| Book value on balance sheet day | **2010** | **2009** |
|---|---|---|
| Money market funds | 0 | 8 800 |
| Bank deposits | 0 | 9 100 |
| Bank accounts | 3 833 | 703 |
| Total | 3 833 | 18 603 |

The company’s liquid assets were placed into bank accounts.

## 13. Shareholders’ Equity

On the basis of the authorization by the General Meeting of Shareholders of Biotie held on 15 April 2010, Biotie issued 17 251 371 shares to the company itself without consideration for fundraising purposes . A prospectus concerning this share issue was published in October. In different instances in August, November and December, a total of 2 967 542 treasury shares were conveyed to Yorkville against cash payments totalling EUR 1 050 000. The offers were made in order to strengthen Biotie's working capital and to provide further financing for the company's R&D programs. At the end of the year, Biotie held 14 747 084 own shares in treasury. The market value of the shares (EUR 0.50 per share) at balance sheet date was EUR 7 374 thousand.

## A) Changes in Shareholders' equity

| | 2010 | 2009 |
|---|---|---|
| Share capital at the beginning of the period | 51 507 | 44 291 |
| Share issue | 550 | 7 216 |
| **Share capital at the end of the period** | 52 057 | 51 507 |
| | | |
| **Share issue** | 500 | 0 |
| | | |
| Reserve for invested unrestricted equity at the beginning of the period | 1 180 | 980 |
| Share subscription pursuant to SEDA agreement | 0 | 200 |
| **Reserve for invested unrestricted equity at the end of the period** | 1 180 | 1 180 |
| | | |
| **Retained earnings** | -41 148 | -30 810 |
| | | |
| **Net income (loss)** | -10 686 | -10 338 |
| | | |
| **Shareholders' equity** | 1 903 | 11 539 |
| Distributable funds at the end of the period | -50 654 | -39 968 |

## B) Changes in number of shares and share capital

| Measure | Par value (EUR) | Sub-scription price (EUR) | Number of shares before | Number of shares after | Change in share capital (EUR) | New share capital (EUR) | Registered [1)] |
|---|---|---|---|---|---|---|---|
| Foundation | 1.68 | 1.68 | 0 | 20 000 | 33 638 | 33 638 | 11.05.1998 |
| New issue | 1.68 | 67.28 | 20 000 | 25 500 | 9 250 | 42 888 | 06.05.1999 |
| New issue | 1.68 | 84.10 | 25 500 | 27 100 | 2 691 | 45 579 | 08.10.1999 |
| Split 1:10 | 0.17 | - | 27 100 | 271 000 | - | 45 579 | 12.06.2000 |
| Share subscription with option rights | 0.17 | 0.17 | 271 000 | 320 600 | 8 342 | 53 921 | 15.08.2000 |
| Merger compensation | 0.17 | 0.17 | 320 600 | 686 755 | 61 583 | 115 504 | 21.02.2001 |
| New issue | 0.17 | 100.00 | 686 755 | 761 755 | 12 614 | 128 118 | 29.05.2001 |
| Share subscription with option rights | 0.17 | 0.17 | 761 755 | 762 375 | 104 | 128 222 | 29.05.2001 |
| New issue | 0.17 | 101.00 | 762 375 | 801 978 | 6 661 | 134 883 | 10.01.2002 |
| Bonus issue | 0.18 | - | 801 978 | 801 978 | 9 473 | 144 356 | 03.06.2002 |
| Split 1:9 | 0.02 | - | 801 978 | 7 217 802 | - | 144 356 | 03.06.2002 |
| Share subscription through exercise of option rights | 0.02 | 0.02 | 7 217 802 | 7 648 722 | 8 618 | 152 974 | 03.06.2002 |
| Conversion of interest debt | 0.02 | 5.60 | 7 648 722 | 7 704 072 | 1 107 | 154 082 | 08.10.2002 |
| New issue, Institutional Offering | 0.02 | 5.60 | 7 704 072 | 10 401 922 | 53 957 | 208 038 | 08.10.2002 |
| Consolidation of BioTie | 0.02 | 2.38 | 10 401 922 | 17 033 722 | 132 636 | 340 675 | 31.10.2002 |
| Consolidation of Carbion | 0.02 | 2.38 | 17 033 722 | 17 459 559 | 8 517 | 349 191 | 31.10.2002 |
| Share subscription through exercise of option rights | 0.02 | 0.02 | 17 459 559 | 17 474 559 | 300 | 349 491 | 30.04.2003 |
| New issue | 0.02 | 0.40 | 17 474 559 | 43 686 397 | 524 237 | 873 728 | 26.06.2003 |
| Share subscription through exercise of option rights | 0.02 | 0.02 | 43 686 397 | 43 850 497 | 3 282 | 877 010 | 06.02.2004 |
| Share subscription through exercise of option rights | 0.02 | 0.35 | 43 850 497 | 43 889 233 | 775 | 877 785 | 08.09.2004 |
| Share subscription through exercise of option rights | 0.02 | 0.02 | 43 889 233 | 43 907 436 | 364 | 878 149 | 29.12.2004 |
| Share subscription through exercise of option rights | 0.02 | 0.02 | 43 907 436 | 43 909 296 | 37 | 878 186 | 23.02.2005 |
| New issue | 0.02 | 0.75 | 43 909 296 | 51 279 416 | 147 402 | 1 025 588 | 17.06.2005 |
| New issue | 0.02 | 0.75 | 51 279 416 | 52 675 221 | 27 916 | 1 053 504 | 28.06.2005 |
| New issue, Institutional Offering | | 0.51 | 52 675 221 | 78 165 418 | 13 000 000 | 14 053 505 | 01.12.2006 |
| New issue | | 0.51 | 78 165 418 | 89 530 660 | 5 796 273 | 19 849 778 | 27.12.2006 |
| Share subscription pursuant to convertible capital loan | | 1.87 | 89 530 660 | 89 800 660 | *) | 19 849 778 | 02.04.2007 |
| Share subscription through exercise of option rights* | | 0.60 | 89 800 660 | 90 031 860 | *) | 19 849 778 | 30.04.2007 |
| Share subscription pursuant to convertible capital loan | | 1.87 | 90 031 860 | 90 211 860 | *) | 19 849 778 | 11.05.2007 |
| New share issue | | 0.45 | 90 211 860 | 144 320 560 | 24 440 900 | 44 290 678 | 17.11.2008 |
| New share issue | | 0.50 | 144 320 560 | 158 752 560 | 7 216 000 | 51 506 678 | 14.12.2009 |
| Directed issue of treasure shares | | 0.44 | 158 752 560 | 158 752 560 | 50 000 | 51 556 678 | 12.10.2010 |
| Share issue to the company itself without consideration | | | 158 752 560 | 176 003 931 | - | 51 556 678 | 26.10.2010 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Directed offer of treasure shares | 0.37 | 176 003 931 | 176 003 931 | 500 000 | 52 056 678 | 03.12.2010 |

[1]) Date refers to date of registration in the Trade Register maintained by the National Board of Patents and Registration.
*) The exercise price paid will be recorded in the reserve for invested unrestricted equity.

## 14. Options

| | | Options 2006 | Options 2009 |
|---|---|---|---|
| Number of option rights, total | | 3 000 000 | 7 000 000 |
| Subscribed | | 3 000 000 | 7 000 000 |
| Shares subscribed through exercise of option rights | | 231 200 | 0 |
| Option rights remaining | | 2 768 800 | 7 000 000 |
| Entitlement to subscribe a total of shares | | 3 000 000 | 7 000 000 |
| Of which the company possesses | | 338 540 | 1 750 000 |
| Subscription volume and period: | | | |
| | A-Series | (1 000 000 pcs) 1.1.2007 - 31.12.2011 | (2 000 000 pcs) 1.1.2010 - 31.12.2013 |
| | B-Series | (1 000 000 pcs) 1.1.2008 - 31.12.2011 | (2 500 000 pcs) 1.1.2011 - 31.12.2013 |
| | C-Series | (1 000 000 pcs) 1.1.2009 - 31.12.2011 | (2 500 000 pcs) 1.1.2012 - 31.12.2013 |
| Subscription terms | | 1 share for exercise of one option right | 1 share for exercise of one option right |
| Subscription price: | | | |
| | A-Series | 1 share for EUR 0.60 | 1 share for EUR 0.40 |
| | B-Series | 1 share for EUR 0.66 | 1 share for EUR 0.70 |
| | C-Series | 1 share for EUR 0.71 | 1 share for EUR 1.00 |

## 15. Mandatory provisions

| | 2010 | 2009 |
|---|---|---|
| Rent for unutilized premises | 23 | 47 |

## 16. Long-term liabilities

| | 2010 | 2009 |
|---|---|---|
| Non-convertible capital loans from TEKES | 19 663 | 19 663 |
| Convertible capital loans | 1 682 | 1 682 |
| R&D loans from TEKES | 4 179 | 4 032 |
| Interest on capital loans | 176 | 176 |
| Long term advance payments received | 0 | 886 |
| Total | 25 700 | 26 439 |

### A) Non-convertible capital loans

The Finnish Funding Agency for Technology and Innovation (TEKES) has granted a total of 18 non-convertible capital loans to the company, comprising an aggregate amount of EUR 19 663 thousand. The total amount has been drawn down by the company at the end of the year 2008. The total loan periods are set from 8 to 10 years from draw down. The interest rate for these loans is the base rate set by the Ministry of Finance minus 1 %, however, at least 3 %. Repayment of these loans shall be initiated after 4 or 5 years, thereafter loan principals shall be paid back in equal instalments over the remaining loan period.

The repayment of capital loans and accrued interest is governed by a restrictive condition, according to which the capital must only be returned if the restricted equity of the parent company and the group for the last financial period is fully covered. Interest on the non-convertible capital loans shall be paid only if the parent company and the group have sufficient funds for profit distribution as per the adopted balance sheet for the most recently ended fiscal year. The loans shall also yield interest from the fiscal years in which the financial statements to be adopted do not present funds available for profit distribution. No interest payments on capital loans were made so far, however these are recorded as expenses in the financial statement and as increase of long-term liabilities in the balance sheet until the end of the year 2001. The accumulated interest on non convertible capital loans amounts to EUR 4 713 thousand.

### B) Convertible capital loans

The company has received convertible capital loans in the aggregate amount of EUR 1 682 thousand. The original subscription period for a total of up to 828 000 shares of the company began on June 1, 2000, and ended on December 31, 2005, or provided that the loan capital will not be paid by then, until the loan capital has been paid or converted into shares of the company. The interest rate is 10 % pa. The repayment of capital loans and its interest is governed by a restrictive condition in the agreements, according to which the capital must only be returned if the restricted equity of the parent company and the group for the last financial period is fully covered. Interest on the convertible capital loans shall be paid only if the parent company and the group have sufficient funds for profit distribution as per the adopted balance sheet for the most recently ended fiscal year. The loans shall also yield interest from the fiscal years in

which the financial statements to be adopted do not present funds available for profit distribution. Accumulated interest on convertible bonds amount to EUR 2 730 thousand and are not recorded in the financial statements. The convertible capital loans can also be converted into shares of the company under the terms of the agreement.

| | 2010 | 2009 |
|---|---|---|
| Accumulated interest on capital loans, not recorded as expense | 7 267 | 6 508 |
| Accumulated interest on capital loans, recorded as expense | 176 | 176 |
| Total | 7 443 | 6 684 |

### C) R&D loans

At the end of the financial year, Biotie had EUR 4 218 thousand of R&D loans granted by Tekes. R&D loans have been granted to a definite product development project and it covers a contract-based share of the projects R&D expenses. The interest rate for these loans is the base rate set by the Ministry of Finance minus 3 %, however, at least 1%. Repayment of these loans shall be initiated after 5 years, thereafter loan principals shall be paid back in equal instalments within 5 years.

## 17. Repayment of capital loans and R&D loans

| Period | Capital loans | R&D loans | Total |
|---|---|---|---|
| Due next fiscal year | 20 079 | 530 | 20 609 |
| Due next 1-5 fiscal years | 1 266 | 2 605 | 3 871 |
| Due after 5 years | 0 | 1 083 | 1 083 |
| Total | 21 345 | 4 218 | 25 563 |

## 18. Accounts payable and other current liabilities

| | 2010 | 2009 |
|---|---|---|
| Deferred income | 888 | 1 839 |
| Accounts payable | 547 | 886 |
| Other current liabilities | 423 | 184 |
| Accrued expenses*) | 1 490 | 1 859 |
| Total | 3 348 | 4 768 |
| *) of which accrued vacation pay | 333 | 299 |

## 19. Liabilities to group companies

| | 2010 | 2009 |
|---|---|---|
| Accounts payable to group companies | 309 | 181 |

## 20. Contingent liabilities

| | 2010 | 2009 |
|---|---|---|
| Due next year | 414 | 506 |
| Due later on | 100 | 344 |
| Total | 514 | 850 |

Contingent liabilities include leasing as well as rent commitments.

## 21. Other financial commitments

On December 31, 2010, the company had outstanding contractual payment obligations (contracted commitments), primarily for contract research work services, totalling EUR 2 052 thousand.

The company has committed to finance its subsidiary Biotie Therapies GmbH.

## 22. Deferred tax liabilities and assets

Deferred tax assets arising from previous years' losses are not recorded in the balance sheet.

## 23. Own shares

The parent company of the group owns 14 747 084 own shares at EUR 0.50 per share, the market value of the shares was EUR 7 373 542,00 at the end of the financial period. The shares owned by the company represent approximately 8.38 % of all shares of the company.

The General Meeting authorized the Board of Directors to resolve on one or more issues which contains the right to issue new shares or dispose of the shares in the possession of the company and to issue options or other rights to the shares pursuant to chapter 10 of the Companies Act. The authorization consists of up to 80 000 000 shares in aggregate. The Board of Directors used the authorization during the reporting period to issue 17 251 371 shares to company itself without consideration. In three different instances in August, November and December, a total of 2 967 542 treasury shares were conveyed to Yorkville against cash payments totalling EUR 1 050 thousand.

## IV. Signatures of the Report from the Board of Directors and Financial Statements

**Proposal to the Annual General Meeting**

The Board of Directors proposes to transfer the loss of the period, amounting to EUR -10 685 906,22 to retained earnings.

Helsinki, March 25, 2011

Peter Fellner
Chairman of the Board

Timo Veromaa
President and CEO

Merja Karhapää

Bernd Kastler

Piet Serrure

James S. Shannon

Bradley J. Bolzon

Andrew J. Schwab

Guido Magni

Ismail Kola

William M. Burns

# V. Auditor`s report

**UNOFFICIAL TRANSLATION**
(Translation of the original and signed document in the Finnish language. In case of discrepancy, the Finnish language is prevailing.)

**To the Annual General Meeting of Biotie Therapies Corp.**

We have audited the accounting records, the financial statements, the report of the Board of Directors, and the administration of Biotie Therapies Corp. for the year ended 31 December, 2010. The financial statements comprise the consolidated statement of financial position, statement of comprehensive income, statement of changes in equity and statement of cash flows, and notes to the consolidated financial statements, as well as the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements.

**Responsibility of the Board of Directors and the Managing Director**
The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board of Directors that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances, and the Managing Director shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

**Auditor's Responsibility**
Our responsibility is to express an opinion on the financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Auditing Act requires that we comply with the requirements of professional ethics. We conducted our audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the report of the Board of Directors are free from material misstatement, and whether the members of the Board of Directors of the parent company and the Managing Director are guilty of an act or negligence which may result in liability in damages towards the company or violated the Limited Liability Companies Act or the articles of association of the company.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements and report of the Board of Directors that give a true and fair view 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion on the consolidated financial statements**
In our opinion, the consolidated financial statements give a true and fair view of the financial position, financial performance, and cash flows of the group in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

**Opinion on the company's financial statements and the report of the Board of Directors**
In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of both the consolidated and the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board of Directors in Finland. The information in the report of the Board of Directors is consistent with the information in the financial statements.

Turku, March 25, 2011

**PricewaterhouseCoopers Oy**
Authorised Public Accountants

Janne Rajalahti
APA

Tomi Moisio
APA, CPFA

# VI. Information for investors

**Investor relations**

Investor relations are the responsibility of Timo Veromaa, CEO tel. +358 2 274 8900 (timo.veromaa@biotie.com). Biotie´s website, www.biotie.com, offers accurate and up-to-date investor information: stock exchange and press releases, financial reports and other relevant information. Financial reports, attendance notifications to General Meetings, requests for materials and other inquiries can be addressed to Biotie through the website or by email to Virve Nurmi, Biotie's manager of investor relations: virve.nurmi@biotie.com or by phone: +358 2 274 8911.

**The Biotie share**

Biotie shares are all of the same class and have equal rights. Each share entitles the holder to one vote at the general meeting of shareholders. All shares are freely transferable and are quoted on NASDAQ OMX Helsinki Ltd. and traded under the symbol BTH1V. Biotie shares are grouped in the small cap segment and are part of the healthcare sector of NASDAQ OMX Helsinki Ltd.

| | |
|---|---|
| Ticker symbol | BTH1V |
| Date of first listing | October 31, 2002 |
| ISIN code | FI0009011571 |
| Number of shares (31 December 2010) | 176 003 931 |
| of which treasury shares | 14 747 084 |
| Share capital (31 December 2010) | EUR 52 056 678.10 |

**Summary of trading and listing information**

On the last trading day in 2010, the share price was EUR 0.50. The highest price for Biotie's share during the year was EUR 0.65 while the lowest was EUR 0.30.

The market capitalization of Biotie amounted to EUR 88.0 million by the end of 2010 (2009: EUR 87.3 million at the end of 2009. During 2010, a total of approximately 90.0 million Biotie shares were traded, corresponding to a turnover of EUR 43.1 million. We attribute this increased investor interest to investor relation measures which continued to intensify last year. Biotie remains committed to increasing investor awareness in the future.

Nordea Bank Finland Plc has been engaged as liquidity providing agent for Biotie shares under a market making agreement concluded in September 2009.

**Share capital and number of shares – Board authorizations**

Biotie's share capital (registered on 31 December, 2010) was EUR 52 056 678.10 (FAS), the total number of shares amounted to 176 003 931. Of these shares, 14 747 084 were owned by Biotie Therapies Corp.

The Annual General Meeting on 15 April 2010 authorized the Board of Directors to resolve on one or more issues which contains the right to issue new shares or dispose of the shares in the possession of the company and to issue options or other rights to the shares pursuant to chapter 10 of the Companies Act. The authorization consists of up to 80 000 000 shares in aggregate. The authorization is effective until 30 June 2011 and it supersedes all earlier authorizations.

After the reporting period and as described in more detail in Biotie's stock exchange releases issued on 2 February 2011, Biotie's Extraordinary General Meeting has on 1 February 2011 passed resolutions necessary for the completion of the acquisition of Synosia Therapeutics Holding AG, and the company has issued 161 448 371 shares to the shareholders and warrant holders of Synosia as consideration for the entire issued share capital and outstanding warrants of Synosia. In connection with this transaction, the company also issued 14 912 155 new shares to Synosia to be held in treasury and used to fulfil the requirements of future potential exercise of Synosia's options. The new shares have been registered on 3 February 2011. Furthermore, Biotie announced the successful placement of 35 230 000 new shares and 14 747 084 treasury shares to institutional strategic investors on 11 March 2011. Following the completed share issue on 18 March 2011, the existing authorization has been used for 70 195 997 shares. On March 18, 2011 the registered number of shares in Biotie Therapies Corp. is 387 594 457. Of these shares 14 912 155 are held by the company or its group companies. The share capital of Biotie is EUR 165 919 181.95

**Option rights**

Biotie has issued option rights to certain of its employees and managers pursuant to two different option programs in 2006 and 2009. The total number of granted options on 31 December 2010 amounts to 9 768 800, which represents 5.55 % of the total amount of shares as of 31 December 2010. For a more detailed description of the option programs please see note 21 of consolidated financial statements.

Pursuant to convertible capital loan agreements with certain investors, up to 828 000 shares of Biotie can be subscribed. The convertible capital loans are specified in note 23 of the consolidated financial statements.

**Shares and options held by management**

At the end of financial year 2010 the amount of company's shares held by the Board of Directors and the company's management and their controlled companies amounted to 1 682 588 shares and 6 181 980 option rights of which 1 250 000 options are conditional achieving certain set targets.

**Shareholders**

The shares of the company are included in the book-entry securities system maintained by Euroclear Finland Ltd. On December 31, 2010 Biotie had 8 903 shareholders, while 43 532 783 shares were held by nominee-registered, representing 24.73 % of the total number of shares.

**Distribution of Shareholding on December 31, 2010**

| **Shares held** | **Shareholders** | **%** | **Number of shares** | **%** |
|---|---|---|---|---|
| 1–5 000 | 6 753 | 75.85 | 9 636 489 | 5.48 |
| 5 001–100 000 | 2 016 | 22.64 | 40 022 482 | 22.74 |
| 100 001–1 000 000 | 118 | 1.33 | 26 197 578 | 14.88 |
| 1 000 000– | 16 | 0.18 | 100 147 382 | 56.90 |
| Total | 8 903 | 100.00 | 176 003 931 | 100.00 |
| *Of which nominee registered* | *7* | | *43 532 783* | *24.73* |

| | **Shareholders** | **%** | **Number of shares** | **%** |
|---|---|---|---|---|
| Corporations | 318 | 3.57 | 32 850 378 | 18.66 |
| Financial and insurance institutions | 21 | 0.24 | 50 405 625 | 28.64 |
| Households | 8 506 | 95.54 | 65 257 087 | 37.07 |
| Public institutions | 6 | 0.07 | 8 283 427 | 4.71 |
| Non-profit organizations | 21 | 0.24 | 14 952 998 | 8.50 |
| Foreign | 31 | 0.35 | 4 254 416 | 2.42 |
| Total | 8 903 | 100.00 | 176 003 931 | 100.00 |
| *Of which nominee registered* | *7* | | *43 532 783* | *24.73* |

**Ten largest shareholders on 31 December 2010**

| | **Number of shares** | **%** |
|---|---|---|
| Finnish Innovation Fund (Sitra) | 13 585 350 | 8.42 |
| Veritas Pension Insurance Company Ltd. | 6 684 175 | 4.15 |
| Juha Jouhki and his controlled companies: | | |
| - Thominvest Oy (2,937,900) | | |
| - Dreadnought Finance Oy (2,098,416) | | |
| - Jouhki Juha (1,501,356) | | |
| Total: | 6 537 672 | 4.05 |
| Finnish Industry Investment Ltd | 3196 636 | 1.98 |
| ABN Amro Finland | 2 785 542 | 1.73 |
| BioFund Ventures III Ky | 2 485 715 | 1.54 |
| Harri Markkula and his controlled companies: | | |
| - Markkula Harri (2,221,268) | | |
| - Tilator Oy (62,700) | | |
| Total: | 2 283 968 | 1.42 |
| Alfred Berg Small Cap Finland | 2 246 050 | 1.39 |
| Kastler GmbH | 1 195 702 | 0.74 |
| Oy H Kuningas&Co | 1 058 371 | 0.66 |
| | **42 059 181** | 26.08 |
| Other shareholders | 75 664 883 | 46,92 |
| Nominee registered shares total | 43 532 783 | 27.00 |
| | **161 256 847** | 100.00 |
| Own shares held by Biotie Therapies | 14 747 084 | |
| **Total** | **176 003 931** | |