Newron Pharmaceuticals

Annual Report 2007

Corporate Profile

Newron (SWX: NWRN) is a clinical-stage biopharmaceutical company. Our mission is to discover, develop and commercialize novel drugs to treat diseases of the Central Nervous System (CNS) and pain.

Our two lead programmes include safinamide, in late-stage clinical trials for the treatment of patients with Parkinson's disease, and ralfinamide in clinical development for the treatment of neuropathic and inflammatory pain. In addition, the Company is developing a portfolio of early-stage compounds generated through its ion channel drug discovery platform.

On February 9, 2008, Newron signed an agreement to acquire Hunter-Fleming, a private UK biopharmaceutical company developing new medicines to treat neurodegenerative and inflammatory disorders. On completion, this deal will enlarge Newron's pipeline particularly in the area of neuro-inflammation, with the addition of three compounds in clinical development and one discovery programme.

Newron is headquartered in Bresso, Italy, with a clinical development facility in Basel, Switzerland.

2007/2008 Highlights

Ralfinamide

- Commercial settlement with Purdue – option to Purdue patents
- Positive phase II data in neuropathic pain
- IND approved for development in neuropathic pain
- Start/completion of enrolment of phase II study in post-surgical (dental) pain
- EU patent for use in migraine granted

Safinamide

- Positive 18 months phase III data in PD
- Start of phase III MOTION trial (Merck Serono)
- Extension of patent protection: EPO intention-to-grant letter

Start of development of NW-3509

Opening of clinical development facility in Basel

Carlos de Sousa appointed as Chief Business Officer

Dr. Hans-Joachim Lohrisch appointed non-executive member of the Board of Directors

Agreement for acquisition of Hunter-Fleming

“Somewhere, something incredible is waiting to be known.”

Dr. Carl Sagan

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Chairman's Letter

Rolf Stahel

Dear Shareholder

I am pleased to report significant progress for Newron during 2007 which was our first full year as a publicly listed company. Progress has been achieved across a number of fronts, most importantly in advancing the company's lead projects.

Developing new and effective treatments for diseases of the Central Nervous System (CNS) remains the corner stone of Newron's business. Safinamide, our lead compound for the treatment of Parkinson's disease, has produced strong results in the 18-month phase III data announced in August.

We are highly encouraged by the excellent collaboration we have with Merck Serono who licensed the worldwide rights to safinamide from us in 2006 and we were pleased to announce the start of a new phase III trial – the MOTION study – in November.

Ralfinamide, our pain compound, has also produced positive news during this year. Significant developments relating to our patent position in the US began early in January when the US Patents and Trademarks Office (USPTO) ruled that Newron should retain US patent claims to methods of treating pain using a class of compounds that include ralfinamide. Later in the year, we signed an agreement with Purdue, who had previously contested our patent claims, for the full global rights to this class of compounds. At the end of the year, we were awarded an EU patent for ralfinamide in migraine. All of these events greatly strengthen the overall patent protection that we have built for this important compound that remains a significant asset for Newron.

As anticipated in our last report, we initiated the preclinical development of NW-3509, an innovative compound from our ion channel discovery programme, which has potential in psychiatric and neurological disorders.

Despite the downturn in the global financial markets that we have seen in recent months which had a significant impact on Newron's valuation, the company's fundamentals are stronger than ever.

Newron is well funded and well positioned to consider offers to outlicense ralfinamide and to further increase its R&D portfolio through business development or merger and acquisition. The general funding restriction for early-phase biotechnology companies represents a significant opportunity for Newron.

In line with the above comments, on February 11, 2008, we announced the signing of an agreement providing for the acquisition of Hunter-Fleming Ltd., a UK-based R&D company focusing on CNS projects.

We look forward to reporting more on this and our other various activities during the year ahead.

All of this substantial progress is due to the ongoing commitment and dedication of our staff for which I would like to thank them on behalf of the entire Board. We are also grateful for the commitment of our Board of Directors and the support of our shareholders as we build Newron into a leading CNS biopharmaceutical company.

I look forward to the future of Newron with great confidence.

Rolf Stahel
Chairman

CEO's Letter

Luca Benatti

Dear Shareholder

In 2007 I believe that we made considerable progress towards our goal of building an innovative and valuable Central Nervous System (CNS) drug pipeline. The progress achieved with safinamide and ralfinamide further increases the values of these two important assets.

With safinamide we have the real opportunity to offer a new treatment option to Parkinson's disease patients, for which there have been few breakthroughs in many years. In addition to the positive effect seen on motor symptoms and quality of life, the recent results as presented at the 11th Movement Disorders Society Congress in June indicated great potential for safinamide to improve cognition in early patients, a clear unmet medical need in Parkinson's disease. Merck Serono's commitment to advancing this compound in its late-stage development is exciting to all of us at Newron and there is a real sense of true collaboration in working with Merck Serono as a team for this purpose. We have a full schedule of phase III trials currently underway or planned and we look forward to updating shareholders as we make further progress.

We also reported positive data from our phase II trial for ralfinamide in patients with neuropathic pain. It showed that the drug was well tolerated with no evidence of any statistically significant or clinically relevant pattern of change compared to placebo. Ralfinamide showed clear evidence of efficacy, significantly reducing the severity of pain and meeting other relevant endpoints, including quality of sleep. A few days prior to this, we had gained approval from the US Food&Drug Administration (FDA) for an Investigational New Drug (IND) for ralfinamide in neuropathic pain enabling us to rapidly plan for US and global development. In October, we commenced phase II trials with ralfinamide in post-surgical dental pain and we await the results of this trial in April 2008.

Our corporate development activities have increased with the opening of a clinical development facility in Basel, enabling us to take advantage of this key region and its expertise in pharmaceutical development to expand our talented team. In June, Carlos de Sousa joined us in the new role of Chief Business Officer reflecting the growing importance to us of business development. We have clearly stated our strategy for growing our product development pipeline and we have recently seen the first fruits of this with the announced intention to acquire Hunter-Fleming, a privately owned biotech company with a strong portfolio of CNS and inflammatory compounds in development. Not only will this double our pipeline but also expand our CNS expertise into neuro-inflammation. The financial structure of the transaction – a low upfront

payment and limited success-based milestones – provides Newron's shareholders with a safety cushion coupled with a significant upside potential.

In 2008 we look forward to building on the momentum of 2007 with the ongoing development of our lead programmes and the integration of Hunter-Fleming. Our broadened pipeline brings with it an exciting time as we continue to work to discover and develop and aim at commercializing novel drugs to treat diseases of the Central Nervous System (CNS) and pain.

I would like to thank the Newron team for their contribution in 2007. It is their strong commitment and enthusiasm that makes Newron a unique company in the high-potential CNS field.

Luca Benatti
Chief Executive Officer

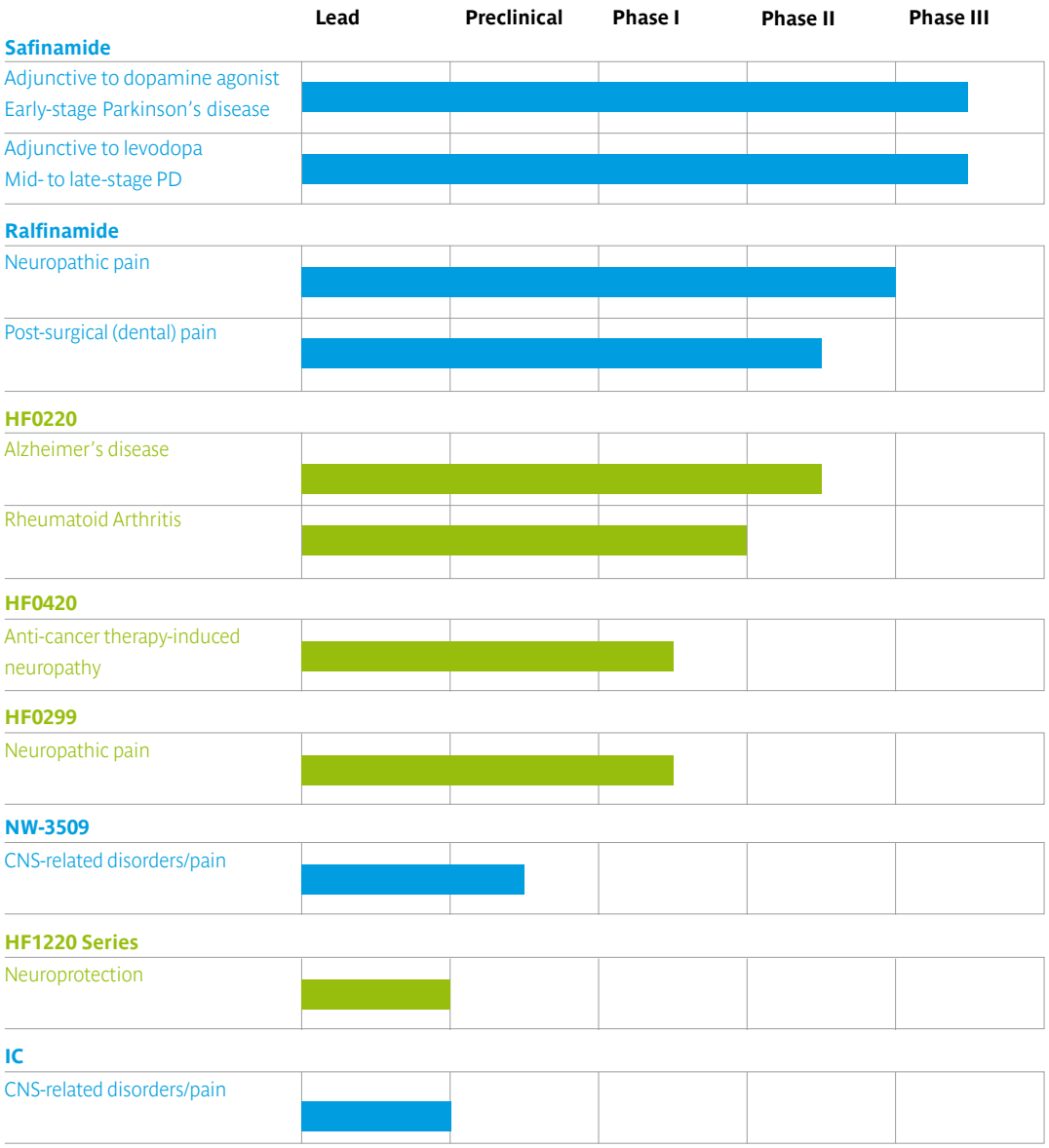
“The process of scientific discovery is, in effect, a continual flight from wonder.”

Albert Einstein

Company Information

Drug Portfolio

Newron's late-stage clinical pipeline matures with positive results from safinamide in phase III and ralfinamide in phase II. The acquisition of Hunter-Fleming expands the pipeline, adding three compounds in clinical development and a discovery programme (*).



Notes:

1) Newron is undertaking Phase III trials with safinamide for the treatment of PD together with its partner Merck Serono

2) IC= Ion Channel Programme

3) HF1020 in preclinical development for asthma is part of Newron's equity holding in Trident

(*) On February 9, 2008, Newron signed an agreement providing for the acquisition of 100% of the issued share capital of Hunter-Fleming Ltd. The agreement is conditional to Newron shareholders' approval, expected for April 2008. The pipeline chart contains the compounds provided by Hunter-Fleming (marked in green).

Ralfinamide

Ralfinamide is a unique New Chemical Entity that is believed to mediate analgesic and anti-inflammatory effects through the modulation of ion channels implicated in pain and the inhibition of substance P.

Profile

Recent third-party publications(*) show that ralfinamide, out of a number of approved drugs and development compounds, has the highest potency in blocking the Nav 1.7 sodium channel, a key channel in pain transmission in humans.

Discovered through Newron's ion channel programme, the compound stems from a new chemical class and is orally administered twice a day. It shows linear kinetics and excellent drugability. In models of neuropathic pain ralfinamide has shown long-lasting allodynic and anti-hyperalgesic effects, also in patients not led to development of tolerance when chronically given, and does not require titration.

Newron is developing ralfinamide for the treatment of neuropathic and post-surgical (dental) pain. A phase II placebo-controlled study in patients with peripheral neuropathic pain was completed in 2007, with positive safety and efficacy results. A phase II study with ralfinamide in post-surgical (dental) pain is ongoing, with results expected in April 2008.

We believe that ralfinamide has the potential to provide major therapeutic benefit for pain patients in a market expected to reach Euro 5.7 bn in annual sales in 2017 (IMS) for neuropathic pain, alone. With only a handful of approved drugs, there is a great need for new classes of efficacious treatments with an improved safety profile providing both monotherapy and combination treatments.

(*) Nature Vol. 444, Dec. 14, 2006, Expert Opin. Ther. Targets (2007) 11(3).291–306

Key achievements

Ralfinamide's benefits had received a muted response from the financial markets at the beginning of 2007, due to the ongoing patent litigation with Purdue Neuroscience and the lack of results from the ongoing placebo-controlled phase II efficacy study.

In the course of 2007, we have not only been able to settle both issues in a convincing manner, but open additional potential for ralfinamide in new indications.

The settlement of the ongoing patent issue with Purdue Neuroscience removes any uncertainty over Newron's rights to fully develop this important compound. A first major success in the interference process was the ruling on January 12 in which the USPTO held that final judgement on priority of invention was to be awarded against Purdue, thus declaring that Newron alone should retain US patent claims for the use of, amongst other compounds, ralfinamide, for the treatment of pain. This development strongly advanced talks towards a commercial agreement with Purdue and the settlement allows Newron to focus on the further expansion of rafinamide's clinical development programme. A downpayment of Euro 750,000 was effected in favour of Purdue, granting Newron the option to have the relevant Purdue patents assigned against a further payment. Additional payments and very low royalties will become due upon achievement of certain milestones and approval of the drug. Newron's management

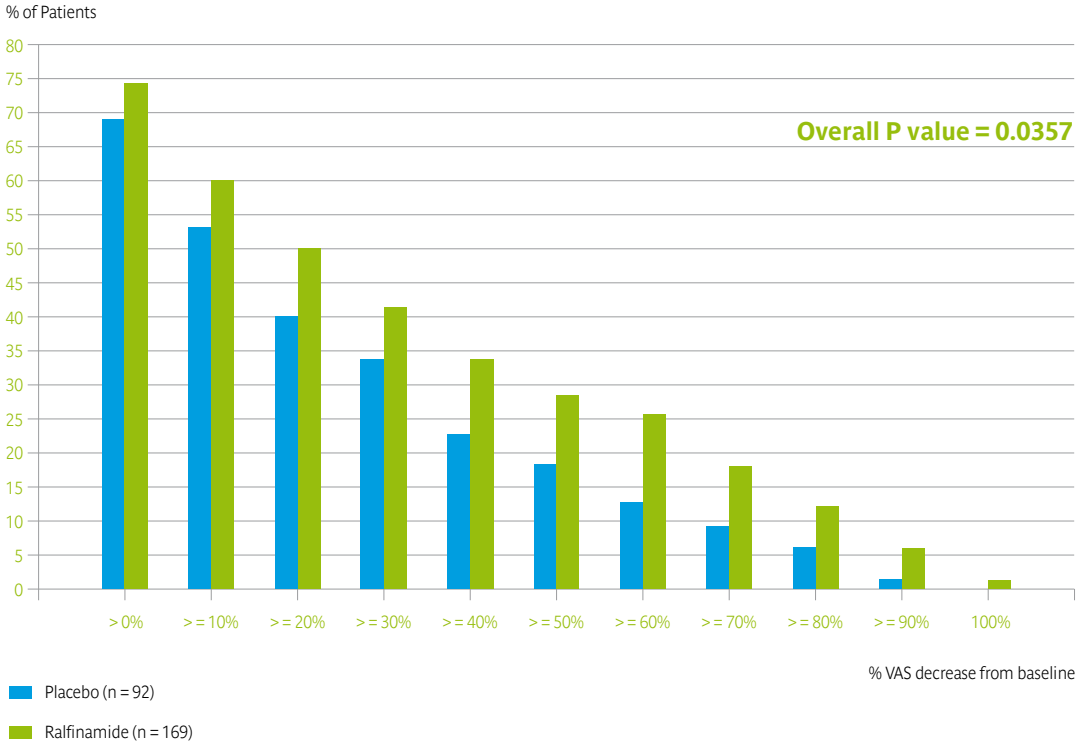
believes the terms fairly represent the value of finalized legal procedures, yet reflecting the positive outcome of the above USPTO ruling.

Alongside, we announced that the US FDA approved our IND application to conduct clinical trials with ralfinamide for the treatment of neuropathic pain in the USA. Clinical trials with ralfinamide have so far been performed in Europe and India and this approval will enable us to expand clinical development on a global scale.

Positive phase II data in neuropathic pain

In July, we presented the results of a phase II study with ralfinamide in neuropathic pain. The study, which was performed in 272 patients, showed that ralfinamide was well tolerated and safe, with reported side effects comparable to placebo. More importantly, the compound showed statistically significant superiority compared with placebo on the patient-rated Visual Analog Scale (VAS) – a measure of the severity of pain. Also, responder rates were significantly increased compared to placebo, as measured by the Visual Analogue Scale (VAS). Finally, patients experienced a significant improvement in the quality of sleep and their performance of daily activities.

VAS (% reduction by treatment): significant increase in responder rates



Consequent analyses of the results of the trial in neuropathic pain have shown particularly positive results in a subtype of neuropathic pain, for which, currently, no drugs are globally approved. It seems to represent one of the most important market opportunities in neuropathic pain. Upon completion of all analyses and discussion with the major health authorities, Newron will disclose the subtype analysis for ralfinamide at the occasion of the American Academy of Neurology's 60th Annual Meeting in Chicago on April 15, 2008.

Finally, in October 2007, Newron has initiated a phase II study of ralfinamide in post-surgical dental pain. The study is a randomized, placebo-controlled, double-blind, parallel-group, multi-centre study, designed to determine the safety, tolerability and preliminary evidence of preventive analgesic efficacy of orally administered ralfinamide at a dose range of 320/480 mg per day, compared to placebo, in patients with third-molar, post-extraction, dental pain. The study was performed in 15 study centres in India and Romania. 202 patients were screened and 187 randomized (1:1) to ralfinamide or placebo. Patients received 5 days of pre-treatment with ralfinamide at 320 mg/day or placebo prior to the day of molar-extraction surgery. On the day of surgery, patients received a total daily dose of ralfinamide at 480 mg or placebo. On the day following surgery, patients received treatment at 320 mg/day of ralfinamide or placebo and on the last day of the study, the dose was 160 mg/day of ralfinamide or placebo. The trial design was based on a preclinical study that demonstrated that pre- and/or post-operative treatment with ralfinamide provides long-lasting suppression of spontaneous post-surgical neuropathic pain-related behaviour. Enrolment of the study was completed in February 2008 and top-line results are expected to be available in April of the current year.

Should the study produce positive results, further development of ralfinamide in general post-surgical pain could be pursued, significantly expanding ralfinamide's market potential.

Newron owns all rights to develop and commercialize ralfinamide. Thus Newron's share-holders will continue to benefit from any further progress in the development of the compound in neuropathic pain, and potentially in other pain and CNS indications.

Safinamide

Safinamide is an alpha-aminoamide derivative which is orally administered. Safinamide is believed to have a novel mode of action as a dopamine modulator (comprising both selective and reversible MAO-B inhibition and also blockade of dopamine reuptake) complemented by an effect on the glutamate pathway.

Profile

Studies suggest that safinamide may combine the inhibition of dopamine reuptake and MAO-B, two key mechanisms involved in the control of dopamine concentration in the brain, and inhibition of glutamate release.

The compound stems from a new chemical class and is administered orally.

Newron is undertaking phase III trials with safinamide for the treatment of Parkinson's disease (PD) in conjunction with its partner, Merck Serono, which has exclusive worldwide rights to develop, manufacture and commercialize the compound in Parkinson's disease, Alzheimer's disease, and other therapeutic applications.

If regulatory approvals are obtained, Merck Serono and Newron believe that safinamide, as an adjunctive treatment to dopamine agonists and levodopa, may have a competitive advantage over current therapies for Parkinson's disease.

Safinamide with potential benefits in Parkinson's disease

Current PD paradigm

Safinamide enhances existing treatment paradigm

Parkinson's disease is the most common serious movement disorder in the world, affecting about 1% of the population over 60 years of age. Approximately 53,000 new patients are diagnosed each year in each of the USA and Europe. Currently, annual global sales revenues are approaching USD 4 bn.

Key achievements

At different points of time during 2007, phase III studies with safinamide as add-on treatment to either dopamine agonist therapy in early Parkinson's patients or to levodopa therapy in mid- to late-stage patients were ongoing:

In August, Newron and Merck Serono announced preliminary results of a 12-month extension study (Study 017) of the first 6-month phase III trial of safinamide as an add-on treatment to dopamine agonist therapy in patients with early-stage Parkinson's disease (Study 015). Positive results from the initial 6-month trial were presented in May 2007 at the American Academy of Neurology 59th Annual Meeting. The aim of the 12-month extension study was to provide long-term safety data of safinamide, as add-on treatment to dopamine agonist therapy, as per the regulatory requirements (FDA/EMEA) for regulatory approval of drugs for the treatment of PD. In addition, we conducted the study double blind and added an efficacy end point to measure the time to pharmacological intervention, so to evaluate whether safinamide given on top of a stable dose of dopamine agonists was able to delay time to administration of levodopa or time to increase in the dopamine agonist dose. Of the 270 patients originally enrolled in the trial, 227 entered the 12-month extension; 187 patients completed the 12-month extension period. Safinamide at a dose of 50 to 100 mg/day(*) added to patients who were still benefiting from dopamine agonist treatment at six months showed:

- statistically significant, clinically relevant improvement in motor symptoms (UPDRS III, p=0.0419, primary regulatory objective)
- statistically significant improvement in activities of daily living (UPDRS II, p=0.0248)
- statistically significant improvement in two major cognitive domains often impaired in early stage PD (executive functioning and working memory)

and at 18 months showed:
- a favorable safety profile
- benefit on motor symptoms (UPDRS III, p=0.019) and quality of life (EUROQOL, p=0.017) (**)
- potential to reduce the number of patients experiencing interventions (**)

A second phase III study was started with safinamide in mid- to late-stage PD. That international, 6-month, double-blind, randomized, placebo-controlled, parallel-group study has been designed to determine the efficacy and safety of safinamide in comparison to placebo in patients who were receiving stable doses of levodopa with or without additional treatment with dopamine agonists and/or anticholinergic drugs. The study has been designed to determine efficacy in increasing the "on-time" periods (periods of good functioning) compared with placebo. After an initial 6 months' dosing phase, patients will continue for an additional period of 18 months of treatment under blinded conditions designed to determine whether there is a reduction in dyskinesias, involuntary, jerky movements, which are incapacitating Parkinson's disease patients treated chronically with levodopa. The study will also evaluate changes in cognitive function. This second trial is proceeding with completion of enrolment expected soon.

(*) The higher safinamide dose range of 150 to 200 mg per day did not offer any incremental advantage over placebo over an 18-month period.
(**) Post hoc analysis

Start of phase III MOTION trial

Finally, in November 2007, Merck Serono initiated the second add-on-to dopamine agonist therapy study (MOTION: SafinaMide add-On To dopamine agonist for early Idiopathic ParkinsON's disease). This study will evaluate the efficacy and safety of two dose regimens of safinamide (50 and 100 mg once daily), as add-on therapy to a stable dose of a single dopamine agonist, compared with dopamine agonist monotherapy. The MOTION study is a 6-month (24 weeks), randomized, double-blind, international, phase III trial. The trial will involve more than 650 patients with early idiopathic Parkinson's disease (less than five years of disease duration) treated with a stable dose of a single dopamine agonist for at least four weeks. Study participants will be randomized in one of the three arms of the trial (1:1:1), to receive either safinamide 50 mg once daily, safinamide 100 mg once daily or matching placebo tablets, as adjunctive treatment to dopamine agonist therapy. The primary endpoint of the trial is the change in motor symptoms assessed by the change in the Unified Parkinson's Disease Rating Scale (UPDRS) Part III score from baseline to week 24. Secondary endpoints include changes in measures of activities of daily living, cognitive functions, global clinical status and health-related quality of life.

Extension of patent protection

Early in 2008, a significant improvement was achieved on the patent protection of safinamide when Newron received written confirmation from the European Patent Office (EPO) that the authority intends to grant the patent "Methods for treatment of Parkinson's Disease". The application was filed by Newron in Europe and in all major countries in 2004. The patent relates to methods for treating Parkinson's disease (PD) through the administration of Newron's safinamide in combination with levodopa and protects the use of safinamide as add-on to levodopa up to 2024, excluding potential extension periods.

NW-3509

NW-3509 is an innovative compound from a new chemical class. It is a potent and highly specific sodium channel blocker with fast onset of action and promising activity in models of mania.

Profile

NW-3509's potent effect of neuronal firing opens potential for multiple CNS indications.

It is further proof of Newron's know-how in identifying and developing promising ion-channel-based compounds, alongside ralfinamide.

Although there are drugs approved for the treatment of mania, there is significant unmet medical need, as treatment of mania is characterized by high rates of premature termination due to lack of efficacy, side effects including weight gain, cognitive slowing, changes in blood and kidney function, etc. Treatment of mania is also characterized by a high rate of relapse. The total market for bipolar disorder was expected to exceed USD 6 bn in 2007, growing at 16% (2006–2007, CAGR, Datamonitor).

Key achievements

NW-3509 entered into IND-enabling studies in December 2007.

Hunter-Fleming

On February 11, 2008, Newron announced the acquisition of Hunter-Fleming Ltd., a private UK biopharmaceutical company. Consistent with Newron's growth strategy, this acquisition enlarges Newron's clinical-stage pipeline, particularly in the area of neuro-inflammation.

Newron's strategy is to become a fully integrated biopharmaceutical company focused on the discovery, development and commercialization of drugs for the treatment of CNS-related diseases and pain, thus providing maximum value to our shareholders.

The key elements of this strategy are:

- Complete the development of safinamide in PD and expand its potential into additional indications with Merck Serono
- Maximize the commercial potential for ralfinamide
- Expand the current portfolio of product candidates in the area of CNS-related diseases and pain
- Develop a sales force targeting specialists and/or selected categories of prescribers

Expanding CNS pipeline

As a first major milestone in expanding the development pipeline in CNS diseases, Newron signed an agreement on February 9, 2008, providing for the acquisition of 100% of the issued share capital of Hunter-Fleming Ltd. The agreement is conditional to Newron shareholders' approval expected in April 2008.

Hunter-Fleming Ltd. is a private UK biopharmaceutical company developing new medicines to treat neurodegenerative and inflammatory disorders. The acquisition provides a pipeline of three compounds in various phases of clinical development and one discovery programme:

HF0220: a broad-spectrum neuroprotective agent with

- an ongoing phase II safety and tolerability study exploring biological markers in patients with Alzheimer's disease
- a phase II study in rheumatoid arthritis to be initiated in late 2008

HF0420: a low-molecular-weight oligosaccharide in phase I for prevention of anti-cancer therapy-induced neuropathy

HF0299: a naturally occurring human steroid in phase I with potential in the treatment of neuropathic pain

HF1220: a second-generation neuroprotective compound series in discovery phase

Newron will also acquire an equity holding in a Special Purpose Vehicle (SPV) set up to develop a late preclinical compound in asthma.

In addition, Newron will benefit from a team of professionals with significant pharmaceutical industry and neuroinflammation development experience.

Newron will pay Euro 8m for Hunter-Fleming shares, reduced for the company's debt, and, in addition, agreed milestones related to the further progression of the Hunter-Fleming programmes, up to a maximum of Euro17m. The acquisition will be paid for by new Newron shares.

The transaction was very well received by capital markets.

Within a few weeks of announcement of the transaction, Newron and Hunter-Fleming could already present positive news, as in an ongoing phase II safety and tolerability study with Hunter-Fleming's lead compound, HF0220 in Alzheimer's disease patients, a recommendation was received from the independent Data Safety Monitoring Board (DSMB) to continue the study. The recommendation was based on the results of an interim review of the study being undertaken by Hunter-Fleming. The phase IIa multi-centre, double-blind placebo-controlled, biomarker trial includes 40 patients in study centres in the UK and Sweden, who are treated for 28 days at different doses of HF0220.

Newron's Team

In line with its intention to build a sustainable biopharmaceutical business, Newron has expanded its team to 43 by the end of 2007.

We were able to attract internationally experienced individuals for preclinical and clinical development, project management and administrative functions.

Our Swiss activities, domiciled under Newron Suisse S.A. in Basel, have already reaped rewards. Operations were started in November 2007 and in a very short time frame, we were able to report the recruitment of four senior clinical development professionals, all with strong track records.

Executive management was completed by the appointment of Carlos de Sousa, MD, MBA, previously with Pfizer, Novartis, and Schwarz Pharma, as Chief Business Officer.

Early January 2008, we were able to attract Dr. Hans Joachim Lohrisch, the former CEO of Altana Pharma, as non-executive member to our BoD.

We are proud to say that our team now reflects the international nature of our business, with individuals from Italy, England, Germany, France, Scotland, Portugal, the Netherlands, Norway, India, Pakistan, Switzerland and Spain working hand in hand towards the success of Newron.

For more details, please see "Corporate Governance", "Board of Directors", and "Senior Management".

Information for Investors

Newron share price development

Stock exchange information

Symbol	NWRN
Listing	SWX
Nominal value	EUR 0.20
ISIN	IT0004147952
Swiss Security Number (Valor)	002791431

Share price data

	FY 2007	FY 2006
Number of shares	5,834,766	5,820,106
Year high (in CHF)	80.0	53.6
Year low (in CHF)	40.0	49.5
Year end (in CHF)	51.0	53.3
Loss per share (in EUR)	1.90	4.32
Cash and cash equivalents as at December 31 (in k EUR)	63,157	74,765
Market capitalization as at December 31 (in CHF)	297,573,066	310,211,650

Major shareholders *

3i Group plc
NPI Services S.a.r.l.
HBM Bio Ventures (Cayman) Ltd.
NWB Investissements S.p.r.l.

* With holdings of more than 5% (to the best of the company's knowledge)

Financial Calendar

March 27, 2008	Year end results 2007
April 24, 2008	Annual General Meeting
September 19, 2008	Half-year results 2008

Contact

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“Research is to see what everybody else has seen, and to think what nobody else has thought.”

Albert Szent-Gyorgyi

Corporate Governance

Newron's Board of Directors (the "Board") and management are committed to high standards of corporate governance, including transparency and accountability towards its shareholders as well as equal treatment of all shareholders. This report explains how the leadership and the management of the Company are organized and provides background information on the Group's executive officers and bodies, effective December 31, 2007. The report is based on the SWX Swiss Exchange Directive on Information Relating to Corporate Governance and the Swiss Code of Best Practice for Corporate Governance, both in force since July 1, 2002.

Group Structure and Shareholders

Newron Pharmaceuticals S.p.A. is a joint stock company *(Società per Azioni or S.p.A.)* ("Newron" or the "Company") organized under the laws of the Republic of Italy.

Since April 17, 2002, it has been registered with the Chamber of Commerce in Milan, Italy, under the name "Newron Pharmaceuticals S.p.A." and with its registered office and principal business office in Bresso (Milan), Italy.

The operations of the Company focus on the discovery and development of pharmaceutical products. Currently, the Company is not generating revenues from the sale of any commercial pharmaceutical product.

The operations of the Company are managed by the Chief Executive Officer (CEO) together with the other members of the management team: the Chief Business Officer (CBO), the Chief Financial Officer (CFO), the Chief Medical Officer (CMO), the Vice President Clinical Development and Regulatory Affairs, the Vice President Strategic Marketing and Head of Legal Affairs and the Vice President Preclinical Research and Development. The management is advised and controlled by the Board of Directors.

Related entities

Newron Suisse S.A. is a joint stock company (Société Anonyme) organized under the laws of Switzerland. The company has been registered with the Handelsregister des Kantons Basel-Stadt, Hauptregister, under the name Newron Suisse S.A., since September 13, 2007, and with registered office and principal business office in Basel, Switzerland.The company's share capital of CHF 100,000 is split in 1,000 name shares of CHF 100 nominal value, each. The totality of these shares is held by Newron Pharmaceuticals S.p.A. The operations of the company focus on the research and development, manufacturing and distribution of pharmaceutical products and services. The operations of the company are managed by Luca Benatti as Geschäftsführer. Philippe A. Weber is the sole Verwaltungsrat of the company.

During 2002, Newron contributed Euro 26,000 to the capital of Consorzio Italbiotec (formerly Roberto Lepetit). The Consortium is a non-profit partnership. Its main objective is to promote research and development in the medical and pharmaceutical field. It also undertakes research and other projects for the benefit of the partners, who have joint control, as well as other interested parties. The management has decided not to consolidate the Company's interest in the Consortium.

After the end of the reporting period (February 9, 2008), Newron Pharmaceuticals S.p.A. has signed an agreement providing for the acquisition of 100% of the issued share capital of Hunter-Fleming Ltd., a private UK biopharmaceutical company developing new medicines to treat neurodegenerative and inflammatory diseases. The acquisition is conditional amongst others to the approval by Newron's shareholders in a general assembly expected to be held in April 2008.

Segment reporting

The Company is in a start-up stage and its activities are sufficiently homogeneous to preclude the identification of reportable business or geographical segments.

Listed company

Newron Pharmaceuticals S.p.A., Via Ludovico Ariosto 21, Bresso (Milan), Italy, is listed on the main segment of the SWX Swiss Exchange, Zurich, Switzerland.

Swiss Security Code:	2 791 431
ISIN:	IT0004 147 952
Common Code:	027612440
Ticker symbol:	NWRN
Market capitalization on December 31, 2007:	CHF 297,573,066 (based on 5,834,766 outstanding shares and a share price of CHF 51.00)

Significant shareholders

As far as Newron is aware, the following shareholders had holdings of more than 5% as at December 31, 2007:

3i Group plc, England
NPI Services S.à.r.l., Luxembourg*
HBM BioVentures (Cayman) Ltd., Cayman Islands
NWB Investissements S.p.r.l., Belgium**

* beneficially owned by Atlas Venture Fund VI, L.P., USA

** indirectly controlled by Apax France VI, France

The lock-up agreements between the venture capitalist investors, who at the time of the IPO of Newron (Dec 12, 2006), held a total of 54.3% of the outstanding capital as of December 31, 2006, and the Joint Global Coordinators of the IPO have expired in September 2007.

The individual lock-up agreements between Newron's founders and members of the Board and the Joint Global Coordinators of the IPO have expired in December 2007.

In line with Swiss law, which is not applicable to Newron as an Italian entity, Newron's by-laws ask shareholders to comply with the Ownership Disclosure Laws as set forth in Article 20 of the Swiss Federal Act on Stock Exchanges and Securities Trading of March 24, 1995, as amended (the "SESTA"), as well as pertinent regulations, including Articles 9 ss of the Ordinance of the Federal Banking Commission on Stock Exchanges and Securities Trading of June 25, 1997, as amended, (the "SESTO-FBC") (all such laws and regulations, the "Swiss Ownership Disclosure Laws"). Such Swiss Ownership Disclosure Laws provide, among other things, that persons who, directly, indirectly or in concert with third parties, acquire or dispose of shares or rights or obligations to acquire shares and thereby attain, exceed or fall below the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 33 $^{1}/_{3}$%, 50% or 66 $^{2}/_{3}$% of the voting rights (whether exercisable or not) of a company shall notify such company and the SWX Swiss Exchange of such transactions within four trading days. Following receipt of such notification, the company is also obliged to publish the disclosure.

Any shareholder who does not comply with the Swiss Ownership Disclosure Laws, may be subject to claims by the Company, other shareholders and/or other third parties for any damages they incur as a result of such non-compliance with the Swiss Ownership Disclosure Laws.

Cross-shareholdings

As of December 31, 2007, there are no cross-shareholdings of Newron with another company or group of companies.

Capital Structure

Amount in Euro	2007	2006	2005
Number of ordinary shares with par value of Euro 0.20	5,834,766	5,820,106	3,672,500
Share capital	1,166,953.20	1,164,021.20	734,500.00
Number of preauthorized shares with par value of Euro 0.20 (up to)	543,210	273,870	273,870
Preauthorised share capital (up to)	108,642	54,774.00	54,774.00

As of December 31, 2007, Newron's outstanding share capital was Euro 1,166,953.20, consisting of 5,834,766 ordinary shares with a nominal value of Euro 0.20 each. All shares are fully paid-up.

As per the same date, Newron in addition had a preauthorized share capital of up to Euro 108,642, represented by 543,210 shares with a nominal value of Euro 0.20 per share, solely for the purpose of implementing stock-based incentive compensation plans for employees and directors of the Company and subsidiaries. As for the term of validity and the terms and conditions of the issuance of these equity securities, please see para "Stock based remuneration".

Changes in capital

On February 15, 2005, the extraordinary shareholders' meeting resolved, among other things, to: (i) increase the share capital for payment by up to Euro 115,000, by issuing 1,150,000 preferred B shares with a share premium of Euro 9.90 per share, which was subscribed for by 3i Group plc, NPI (Services) S.à.r.l., Apax France VI, and by the new financial investors HBM BioVentures (Cayman) Ltd, HBM Biocapital (EUR) L.P., HBM Biocapital (USD) L.P.; and (ii) further increase the share capital for payment by up to Euro 115,000, by issuing 1,150,000 preferred B shares with a share premium of Euro 9.90 per share, which was not subscribed for on such date. At an extraordinary shareholders' meeting held on September 27, 2005, this further increase was partially revoked as discussed below.

Following the subscription and payment by the investors, the Company's share capital was increased to Euro 549,500, divided into 1,794,010 shares, 2,550,990 preferred A shares and 1,150,000 preferred B shares.

On September 27, 2005, the extraordinary shareholders' meeting resolved, among other things, to: (i) partially revoke, for an amount of Euro 80,000.00, the up to Euro 115,000 capital increase authorized at the February 15, 2005, extraordinary shareholders' meeting which was not subscribed for on such date, the remainder of which was subscribed for by the new investors, TVM LSV VI GmbH & Co. KG and TVM LSV VI L.P., in the form of 350,000 preferred B shares; and (ii) increase the share capital for payment by up to Euro 150,000, by issuing 1,500,000 preferred B shares with a share premium of Euro 9.90 per share, which was subscribed for by all of the existing venture capital investors.

On November 7, 2006, the shareholders' meeting resolved, among other things, to: (i) change the nominal value of the shares from Euro 0.10 to Euro 0.20 (resulting in the Company's share capital, then equal to Euro 734,500, being comprised of 3,672,500 shares), (ii) list the shares on the SWX Swiss Exchange, and (iii) increase the Company's share capital for payment of up to Euro 500,000, by issuing up to 2,500,000 shares in the offering, while delegating to the Board as a whole, the Chairman of the Board and Company's Managing Director, and each of them individually, the power to determine the exact amount by which the Company's share capital will be increased and the number of shares to be issued, each for the offering. On December 7,

2006, the Company decided to offer 2,147,606 shares in the offering, at a price of CHF 55 per offered share. By November 7, 2006, holders of all preferred shares previously issued by the Company, converted them into an equal number of shares.

As per decision of the Board as of February 7, 2007, an amount of Euro 2,932.00 from the preauthorized share capital of Euro 54,774.00 was converted into share capital. The outstanding share capital thus was increased to Euro 1.166.953,20.

On April 23, 2007, the extraordinary shareholders' meeting resolved, among other things, to increase the share capital for payment by up to Euro 56,800, in one or several steps, and to issue up to 284,000 shares of a nominal value of Euro 0.20 per share, for subscription prior to December 31, 2012. The shares are to serve one or several new stock-based remuneration schemes for employees and other qualifying persons, at the discretion of the Board of Directors. Pre-emptive subscription rights are excluded.

Shares and participation certificates

Each share is entitled to one vote at the shareholders' meeting. To attend any shareholders' meeting, a Newron shareholder must, at least one business day prior to the date fixed for the meeting, instruct the relevant intermediary to communicate his relevant shareholding and voting rights to the Company. All shares are entitled to full dividend rights. In the event of a capital increase through the issue of new shares, the existing shareholders have subscription rights in proportion to their existing shareholding, unless the shareholders' meeting restricts or excludes such rights for important reasons, especially in connection with the acquisition of investments or employee participation. Newron has not issued any (non-voting) participation certificates.

Bonus certificates

Newron has not issued bonus certificates.

Transfer of shares

The transfer of shares is effected by corresponding entry in securities accounts which record the transfer of financial instruments opened with authorized financial intermediaries and in accordance with the applicable law. Upon registration of the transfer and upon request of the shareholder, the financial intermediaries shall inform the Company of the transfer of shares, and the Company shall update the Libro Soci (Shareholders' Ledger) in accordance with Italian law. A shareholder may ask for his registration at any time.

Convertible bonds

Newron has no convertible bonds outstanding.

Stock-based remuneration (stock options, stock appreciation rights)

In December 2001, the Company adopted a stock option plan for the Company's employees, comprising options to purchase 29,950 shares (after giving effect to subsequent changes in the nominal value of the shares) currently held by Luca Benatti, Ruggero Fariello and Patricia Salvati. This plan was adopted by the Board in order to provide an incentive for certain employees of the Company identified by the Board and for the recruitment of highly qualified personnel. All options available to be granted under this plan were granted as of September 30, 2006. The exercise price for each option granted is Euro 18.42 per share, of which Euro 18.22 represents a share premium. All options granted are fully vested and exercisable between the first and the fifteenth day of March and September of 2007 and 2008.

On July 22, 2003, the shareholders' meeting authorized the Board to increase the share capital of the Company by up to Euro 27,734.00 by issuing up to 138,670 shares (after giving effect to subsequent changes in the nominal value of the shares), solely for the purpose of implementing stock-based incentive compensation plans for employees, managers, directors, collaborators of the Company or subsidiaries (if any). Stock options may be granted without charge and the exercise price for such options, inclusive of share premium, will be determined by the Board in light of the "normal value" of the shares, as determined in accordance with Italian tax law applicable at the time of issuance. However, the exercise price may not be lower than Euro 19.60 per share (of which Euro 19.40 represents a share premium) or the amount of total shareholders' equity per share, considering as well, in the case of a listing of the shares on a stock exchange, the market trend of the shares during the previous six months. The Board is authorized to determine the beneficiaries and the terms of any stock option plan. Newly issued shares pursuant to this stock option plan are not subject to pre-emptive rights of existing shareholders pursuant to Article 2441 of the Italian Civil Code.

In accordance with the above authorizations, in October 2003 the Board adopted a stock option plan pursuant to which, as of December 31, 2006, options to purchase 99,465 shares (after giving effect to subsequent changes in the nominal value of the shares) have been granted to certain employees of the Company, including certain of the Company Managers. All these options vested on December 11, 2006, and have been exercisable since December 12, 2006, beginning three years after the date of grant of each option. Under this plan, certain members of the Board and the executive management of Newron have been granted options to purchase 47,135 shares in aggregate at the exercise price of Euro 20.00 per share, of which Euro 19.80 represents a share premium. The remaining options may be exercised at the exercise price of Euro 19.60 per share, of which Euro 19.40 represents a share premium.

On May 31, 2004, the shareholders' meeting authorized the Board to further increase the share capital of the Company by up to Euro 27,040 by issuing up to 135,200 shares (after giving effect to subsequent changes in the nominal value of the shares) solely for the purpose of implementing stock-based incentive compensation plans for employees and directors of the Company and subsidiaries (if any). In accordance with this authorization, in May 2004 the Board adopted a stock option plan pursuant to which, as of September 30, 2006, a member of the Board has been granted options to purchase 135,200 shares at the exercise price of Euro 20.00 per Share, of which Euro 19.80 represents a share premium. These options are fully vested and exercisable.

On April 23, 2007, the extraordinary shareholders' meeting resolved to increase the share capital for payment by up to Euro 56,800, in one or several steps, and to issue up to 284,000 shares of a nominal value of Euro 0.20 per share, for subscription prior to December 31, 2012. The shares are to serve one or several new stock-based remuneration schemes for employees and other qualifying persons, at the discretion of the Board of Directors. Pre-emptive subscription rights are excluded. In accordance with this authorization, in June 2007 the Board adopted a stock remuneration plan pursuant to which, as of December 31, 2007, options to purchase 60,680 shares have been granted to certain employees, consultants and members of the Board. All these options will vest on June 17, 2010. The exercise price of the options will be Euro 36.83 per Share, of which Euro 36.63 represent a share premium. Upon the disretion of the Board, the stock-based remuneration can alternatively be allocated via stock appreciation rights with the same vesting period and the same exercise price as for the stock options. Pursuant to the stock appreciation rights programme, as of December 31, 2007, stock appreciation rights to purchase 157,042 shares have been granted to certain employees, consultants and members of the Board.

Board of Directors

Members of the Board of Directors

The Company's by-laws establish that the Board shall consist of a minimum of seven (7) and a maximum of eleven (11) members. As per December 31, 2007, following the resignation by Professor Ruggero Fariello from his position in Newron's Board effective May 21, 2007, the Board was comprised of eight (8) directors. Five of these directors were elected on February 15, 2005, for a three-year term expiring on the date of the shareholders' meeting scheduled to approve Newron's financial statements for the year ending December 31, 2007. Of the remaining three directors, Alexandra Goll was appointed at the shareholders' meeting and Renée Aguiar-Lucander and Hervé Guerin were each appointed at a Board meeting held on November 17, 2006, pursuant to article 2386 of the Civil Code and confirmed by the next ordinary shareholders' meeting for a term expiring at the shareholders' meeting approving the financial statements for the year ending December 31, 2007. Effective January 11, 2008, Dr. Hans-Joachim Lohrisch was appointed at a Board meeting, pursuant to article 2386 of the Civil Code for a term expiring at the shareholders' meeting approving the financial statements for the year ending December 31, 2007. All members are due for re-election at the same time. In case of replacements of members of the Board of Directors, the replacing new members take over the mandate for the left period of the leaving member. The shareholders' meeting elects the new members by individual vote.

The following table sets forth certain information about the Company's directors:

Name	Age	Position	Member since	Relevant external positions
Rolf Stahel	63	Chairman, non-executive Director	2004	Former Chief Executive Officer of Shire Pharmaceuticals Group plc
Luca Benatti	47	Managing Director, CEO, executive Director	1998	Former Head of the Molecular Neurobiology Department at Pharmacia & Upjohn SpA
Ruggero Fariello *Up to May 21, 2007*	65	Non-executive Director	1998	Professor of Neurology at Thomas Jefferson University
Axel Bolte	36	Non-executive Director	2005	Investment Advisor of HBM Partners
Francesco Parenti	67	Non-executive Director	1999	Former Chief Scientific Officer of Vicuron Pharmaceuticals
Hervé Guérin	66	Non-executive Director	2006	Former Vice Chairman and COO of Sanofi Synthelabo; former Chairman and CEO of Synthelabo
Renée Aguiar-Lucander	45	Non-executive Director	2006	Partner of 3i Group plc
Laurent Ganem	49	Non-executive Director	2002	Former partner of Apax Partners; Founder and President of G Square
Alexandra Goll	51	Non-executive Director	2005	General Partner of TVM Capital
Hans-Joachim Lohrisch *Since January 11, 2008*	59	Non-executive Director	2008	Former CEO of Altana Pharma and Board member of Altana AG

None of the non-executive members of the Board as per December 31, 2007, was a member of Newron's management in the three financial years preceding the current year. None of the Members of the Board exercises official functions or hold political posts.

Rolf Stahel has been the Chairman of the Board since May 2004. Mr. Stahel, a Swiss national, has a degree in Business Studies from Kantonsschule Lucerne, CH, and has attended the Advanced Management Programme at Harvard Business School. From March 1994 to March 2003, Mr. Stahel was the Chief Executive Officer of Shire Pharmaceuticals Group plc (now Shire plc). He was also a Main Board Director and Chairman of the Executive Committee of Shire Pharmaceuticals. From 1967 to 1994, he worked for Wellcome plc in Switzerland, Italy, Thailand, Singapore and the United Kingdom. From 1990 to 1994, Mr. Stahel was Wellcome's Director of Group Marketing, based in London and Beckenham, with responsibility for Group Strategy, R & D portfolio evaluation, marketing of existing and new products and business development. In this position, Mr. Stahel reported to the chief executive officer of Wellcome. From 1979 to 1990, he was a Regional Director of Wellcome, based in Singapore, with responsibility for 18 Pacific Rim countries. In addition to his position at Newron, Mr. Stahel is also the non-executive chairman of the boards of Cosmo Pharmaceuticals and EUSA Pharma Inc. Mr. Stahel is also the executive chairman of Chesyl Pharma Ltd. This company supports the services provided by Mr. Stahel. Mr. Stahel was the recipient of the Chief Executive Officer of the Year Award for the global pharmaceutical industry, awarded by Informa, in 2001, and the "Most Significant Contribution to UK Lifesciences", awarded by TechMark, Mediscience, sponsored by Evolution Beeson Gregory in association with the London Stock Exchange and the BIA (UK Biotech Association), in 2003. Rolf Stahel joined on November 1, 2007, the advisory board of Imperial College's Business School, London.
Permanent management and consultancy functions for Swiss and foreign interest groups: none.

Luca Benatti, the Company's Managing Director and Chief Executive Officer since 1998, founded Newron in 1998 along with Dr. Ruggero Fariello and Dr. Patricia Salvati. He has more than 15 years of scientific experience in molecular biology and neurobiology. Dr. Benatti has a degree in molecular biology from Milan University. He started his career as a scientist for Farmitalia Carlo Erba, where he held several positions in its biotechnology department. Following a postdoctoral training at the Oxford University, Dr. Benatti was the head of the Molecular Neurobiology Department at Pharmacia&Upjohn S.p.A., holding that position until he resigned to found Newron in 1998.

He holds several patents and has authored publications in peer-reviewed journals. Luca Benatti is a member of Emerging Enterprise Board of EuropaBio, of the Italian Association of Biotechnology and since 2004 jury member of the European Biotechnica Award. He is Italian by nationality.
Permanent management and consultancy functions for Swiss and foreign interest groups besides those mentioned: none.

Axel Bolte, a Director since 2005, is an Investment Advisor at HBM Partners AG, a provider of investment advisory services in the life sciences industry. Previously, Mr. Bolte was an investment manager of NMT New Medical Technologies AG, a Swiss venture capital company focused on life sciences. Mr. Bolte began his career in R&D management at Serono S.A., a biotechnology company. He currently serves on the board of directors of PTC Therapeutics, Inc., Nabriva Therapeutics AG, Lux Biosciences, Inc., MPex Pharmaceuticals, Inc. and Ophthotech Corp., five privately held biotechnology companies. He also represents or has represented HBM Partners AG's interests at Adnexus Therapeutics, Enanta Pharmaceuticals, Syntonix and Zosano Pharma. Mr. Bolte received his MBA from the University of St. Gallen, Switzerland, and his degree in biochemistry at the Swiss Federal Institute of Technology, Zurich, Switzerland. He is Swiss by nationality.
Permanent management and consultancy functions for Swiss and foreign interest groups: none.

Francesco Parenti, a Director since 1999, holds a PhD in biological sciences from the University of Milan and has conducted postdoctoral research at Yale University. He is currently a partner and director of Livolsi and Partners, a merchant bank. Previously, he was the Chief Scientific Officer of Vicuron Pharmaceuticals, Inc. (formerly, President and Chief Scientific Officer of Biosearch Italia prior to its merger with Versicor in 2003 which created Vicuron). A biologist with over 30 years of experience in the pharmaceutical industry, Dr. Parenti has served as Vice President of Hoechst Marion Roussel, President (Europe, Middle East and Africa) for Marion Merrell Dow and General Manager of Dow Lepetit Italy and has overseen the creation of the Antinfective Research Center at the Merrell Dow Research Institute. He has also served on the board of directors of several biotechnology companies. Dr. Parenti is inventor or coinventor of about thirty patents. He is Italian.
Permanent management and consultancy functions for Swiss and foreign interest groups: none.

Laurent Ganem, a Director since 2002, was a partner of Apax Partners from 1994 to 2007, in charge of investments in healthcare and biotechnology. He recently founded and is the President of G Square, a private equity firm investing in Healthcare. He began his career in the United States at Baxter International. In France, he founded a company specializing in life science technology transfers where he was the General Manager until 1993. In addition to Newron, he is currently a member of the board of directors of Hybrigenics, Neurotech, Galapagos, Corevalve, DBV, Vedici, Capio and Orexo. Mr. Ganem is a graduate of the Paris University of Medicine and holds a Masters in Business Administration from Columbia University (New York, New York, United States). He is French.
Permanent management and consultancy functions for Swiss and foreign interest groups: none.

Dr. Alexandra Goll, a Director since 2005, joined TVM Capital in early 1998, and has since been responsible for 10 TVM Capital life sciences investments. She was an initial investor in Actelion Ltd. (Allschwil, Switzerland) and a Series B lead investor of Idenix Pharmaceuticals, Inc. (Cambridge, Massachusetts). Dr. Goll was a member of the Board of Directors of Idenix until the sale of 51% of the company to Novartis in May 2003. Currently, Dr. Goll serves on the Board of Directors of Addex Pharmaceuticals SA (Geneva, Switzerland), Biovertis AG (Vienna, Austria), Cerenis Therapeutics (Toulouse, France –Ann Arbor, MI), and Wilex AG (Munich, Germany). She also represents the interests of TVM Capital with Ark Therapeutics Ltd. (London, UK), GPC Biotech AG (Martinsried, Germany), MediGene AG (Martinsried, Germany), Pharmasset Inc. (Princeton, New Jersey). Prior to her affiliation with TVM Capital, Dr. Goll was the Global Business Leader for HIV and CMV, and was responsible for strategic marketing and business development for virology at Roche Ltd. in Basel. She had been involved in clinical development and managing commercialization strategies of products such as Neupogen® under an agreement with Amgen), Hivid®, Cymevene®, and Valcyte®. Dr. Goll holds a degree in pharmacy from the Free University of Berlin and wrote her doctoral dissertation in natural sciences at Philipps University of Marburg. She was also honoured with a postdoctoral position supported by the Boehringer-Ingelheim Foundation for fundamental research in medicine.
Dr. Goll is German by nationality.
Permanent management and consultancy functions for Swiss and foreign interest groups: none.

Hervé Guérin, a director since November 2006, has 30 years of pharmaceutical management expertise. From 1999 to 2004, he was a director of Sanofi Synthelabo. From 1999 to 2001, he was the Vice Chairman and Chief Operating Officer of Sanofi Synthelabo. Prior to the merger of Sanofi and Synthelabo in 1999, Mr. Guérin had been the Chairman and Chief Executive Officer of Synthelabo since 1989. Mr. Guérin had also previously held positions as Regional President UK, Northern Europe, Middle East, Asia, Pacific & Africa for Rhône Poulenc and May and Baker. He was also Financial Vice President for Europe and Regional President for Canada, Latin America, Asia & Pacific for Revlon Healthcare. Mr. Guérin, who is French, is a graduate from HEC and holds an MBA from Harvard Business School. He also received the chevalier de la Légion d'Honneur, the leading French civil and military order.
Permanent management and consultancy functions for Swiss and foreign interest groups: none.

Renée Aguiar-Lucander has been a director since November 2006. She is a partner in the venture capital team of 3i Group plc, a leading private equity and venture capital firm with around USD 10 billion of assets under management. Within 3i venture, she is responsible for managing the quoted assets and overseeing the European divestment process. In addition, Ms. Aguiar-Lucander is a senior member of the European portfolio management team with a focus on health care assets and as such serves on the board of selected, privately held 3i investments. From 2000 to 2005, she was a Managing Director in corporate finance with Lehman Brothers, focusing primarily on the Technology, Media and Communications sectors, following which she worked as an advisor for private equity funds prior to joining 3i Group in 2005. Prior to joining Lehman Brothers in 1999, Ms. Aguiar-Lucander worked for Deutsche Bank and Alex. Brown & Sons, both in the US and in Europe focusing on M&A and private/public capital-raising for growth companies. Ms. Aguiar-Lucander has a bachelor's degree in finance from Stockhom School of Economics and a master's degree in business administration from INSEAD. She is of Swedish nationality.
Permanent management and consultancy functions for Swiss and foreign interest groups: none.

Dr. Hans-Joachim Lohrisch has been appointed director effective January 11, 2008. HJ. Lohrisch was CEO of Altana Pharma AG from 1999 to 2006 and a member of the Board of Management of ALTANA AG, a DAX 30 company, from 1999 to 2006. In the course of the spin-out and take-over of Altana Pharma by Nycomed, he joined the Board of Nycomed SA, a position that he resigned from end of January 2008. Prior to Altana, HJ. Lohrisch was at Merck KGaA for 21 years. Between others his experience and responsibilities embraced: R&D project management, licensing and M&A, General Manager Pharma Portugal, Head of International Strategic Marketing, Country Manager Pharma Germany, CEO Merck Generics Group (London) and Division Head of Pharma Ethicals with worldwide business responsibility. HJ. Lohrisch served as a member of the Pharma Executive Committee from 1993 to 1999.
HJ. Lohrisch's career in the pharmaceutical industry spans a total of 30 years. He holds a doctorate in Organic Chemistry from Bonn University and graduated from INSEAD's AMP program.
Permanent management and consultancy functions for Swiss and foreign interest groups: none.

Cross-involvement

There is no cross-involvement with the boards of directors of other listed companies.

Responsabilities and organization

Pursuant to the Company's By-laws, the Board has complete power over the administration of the Company's business and it has the power to take actions deemed advisable for the pursuit of the Company's corporate purposes. Within the limits prescribed by Italian law, the Board may delegate its general powers to an executive committee and/or any managing director. The Board has delegated certain of its powers, excluding, amongst others, the conduct of material litigation, material non-budgeted expenditure, material agreements, entering into joint ventures, material-lending agreements, variation in share option schemes, approval of the annual budget, to the Company's managing director, Luca Benatti, whose functions

include coordination and supervision of the Company's business. Although the Company's By-laws specifically permit the Board to appoint an executive committee, this right has not been exercised by the Board. The Board also determines the duration of the term of the Company's managing director. The chairman of the Board, any deputy chairman as well as any managing director are the legal representatives of the Company. The Board and any managing director may delegate the power to carry out certain acts within the scope of their respective authority.

Pursuant to the Italian Civil Code, Newron is also required to appoint a supervisory body referred to as the board of statutory auditors (see "Board of Statutory Auditors").

The Company's directors are elected at the Company's annual ordinary meeting of shareholders for a term of three financial years. The Company's directors may be re-elected for consecutive terms. If the shareholders fail to elect a chairman at the shareholders' meeting, the members of the Board elect, from amongst themselves, the chairman, and one or more deputy chairman and/or managing directors.

Under Italian law, directors may be removed from office at any time by a shareholder's resolution. However, if removed without just cause, such director may have a claim for damages against Newron. The Company's directors may resign at any time by written notice to the board of statutory auditors. Further to such removal or resignation, the Board may appoint substitute directors, subject to the approval of the Company's Board of Statutory auditors, who will serve until the next general meeting of shareholders.

Meetings

Meetings of the Board may be called by the Company's chairman or any deputy chairman, managing director or two directors by notice setting forth the matters to be discussed at the meeting, to be sent at least five days (or in cases of urgency, at least one day) before the date of the meeting. The minimum quorum required for Board meetings is a majority of the Company's directors in office. Board meetings are chaired by the Company's chairman or, if the chairman is absent or otherwise unable to act, by any deputy chairman or the Company's managing director. Resolutions are adopted by a majority vote of the directors present at the meeting.

In 2007, a total of eight meetings of the full Board were called, of which five were held physically and three via phone. In addition, the nomination and compensation subcommittee convened for three times and the audit subcommittee for three times. While the physical meetings are called on a quarterly basis and usually take a business day, the phone board meetings are called upon requirement and might take up to several hours.

Members of senior management are regularly attending the Board and subcommittee meetings to report on areas of the business within their responsibility, to present proposals for decision and to participate, if requested by the Board, to the discussion prior to a vote being taken by the Board.

Information and control instruments

The members of the Board regularly receive a comprehensive management report designed to provide them with an update on business activities in general and relevant developments with regard to clinical trials and preclinical activities, the collaboration with licensing partners, as well as on legal, business development and financial matters. The reports are object of discussion during the board meetings, to which senior management regularly attends. With regard to the subcommittees as described below, the CEO is the main contact to the members of the nomination and compensation committee, while the CFO takes this function towards the members of the audit committee. Yet, decisions might be taken by the members of the Board as

well as each subcommittee without the attendance of senior management, but following presentation of facts and discussion with senior management.

Members of the Board and the subcommittees usually do not participate in meetings of senior management.

Management provides the board annually with a consolidated financial budget for the next business year for the mother company and the subsidiary, and regularly, senior management presents to the board strategic consideratons for review, discussion and decision.

The Board and the subcommittees closely follow the progress on the major activities. Analysis of deviations are to be provided and explained in written on a monthly basis, required action will be closely monitored via update phone calls. Each member of the Board may demand information on any business of Newron's affairs and may inspect all books, business files and corporate documents.

On a quarterly basis, the Board of Statutory Auditors is updated as well, as required by Italian law (see below).

Subcommittees

The Board has formed an audit committee and a nomination and compensation committee to support its work. The overall responsibility of the Board is not limited by these committees. The role of such committees is mostly to exercise review and control and to report the findings to the full Board of Directors and to express certain recommendations to the full Board of Directors, while decisions are finally taken by the full Board of Directors.

The audit committee currently consists of Renée Lucander (chairperson), Rolf Stahel and Hervé Guerin, each of whom is a non-executive and independent member of the Board. The audit committee meets at the option of its members on the same date as the Company's scheduled board meetings and at such other times as its chairperson deems it appropriate. The main tasks of the audit committee are to verify the scope of the audit, the audit programme and the procedures, the audit reports as well as to issue recommendations to the Board regarding the acceptance of the Company's annual accounts and to review annually the Company's system of internal control. The committee's chairperson reports formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

The nomination and compensation committee currently consists of Rolf Stahel (chairperson), Hervé Guerin and Francesco Parenti, each of whom is a non-executive and independent member of the Board. The main task of the nomination and compensation committee is to issue recommendations to the Board regarding (i) the appointment and resignation of Directors and senior managers, (ii) the Company's system of compensation (including equity and cash incentive programmes), and (iii) the overall compensation packages of the members of the Board and the Company's senior managers; further tasks are described in "Compensation, Shareholdings and Loans". This committee meets at the option of its members on the same date as the Company's scheduled board meetings and at such other times as its chairperson deems it appropriate. The committee's chairperson reports formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

Board of statutory auditors

Pursuant to Italian Law, in addition to electing the Board, the Company's ordinary shareholders' meeting also elects a board of statutory auditors, which is required to meet at least once each quarter. Members of the Company's board of statutory auditors are elected for a three-year term with a voting list (voto di lista) system according to the following procedures.

The Company's previous board of statutory auditors had been elected on April 16, 2004, for a three-year term which expired upon the approval of the Company's financial statements for the year ending December 31, 2006, on April 23, 2007.

The Company's current board of statutory auditors has been elected on April 23, 2007, for a three-year term expiring upon the approval of the Company's financial statements for the year ending December 31, 2009. It is composed of three permanent statutory auditors, plus two alternate statutory auditors who would automatically replace a permanent statutory auditor who resigns or otherwise becomes unable to perform his duties. At least one member of the board of statutory auditors and one alternate member must be registered with the national register of auditors ("Registro dei Revisori Contabili"). The other members, if not registered with the national register of auditors, must be registered in specific professional registers or must be chosen among certain university professors. All members of the Company's board of statutory auditors are registered with the national register of auditors.

The Company's board of statutory auditors is responsible for reviewing the Company's affairs and financial reporting and condition. It is required to review the Company's activities in order to determine compliance with the By-laws and applicable Italian law, as well as report specific matters to the shareholders and to the court. The board of statutory auditors, among other things, ensures (i) that the Company be managed in a sound manner and (ii) that the Company's internal auditing, accounting and administrative procedures be adequate. The review of the Company's books and records performed by its board of statutory auditors does not constitute an audit in accordance with Italian auditing standards.

Members of the Company's board of statutory auditors must receive notice of, and are required to attend, meetings of the Board, shareholders' meetings and meetings of any executive committee of the Board.

The following table sets forth certain information about the previous members of the Company's board of statutory auditors, who have been in function until the shareholders' meeting of April 23, 2007:

Name	Age	Position in the Company	Member since
Antonio Ortolani	61	Chairman of the Board of Statutory Auditors	2004
Massimo Conti	50	Permanent Auditor	1999
Richard P. Murphy	44	Permanent Auditor	2002
Lucio G. Ricci	40	Alternate Auditor	2002
Luca Angeretti	34	Alternate Auditor	2002

The following table sets forth certain information about the current members of the Company's board of statutory auditors, who have been appointed by the shareholders' meeting of April 23, 2007:

Name	Age	Position in the Company	Member since
Richard P. Murphy	44	Chairman of the Board of Statutory Auditors	2002
Giorgio R. Fumagalli	45	Permanent Auditor	2007
Lucio G. Ricci	40	Permanent Auditor	2002
Michele Ghiringelli	43	Alternate Auditor	2007
Luca G. Caretta	58	Alternate Auditor	2007

Each of the members of the Company's board of statutory auditors also serve as statutory auditors for several other Italian and pharmaceutical companies.

Senior Management

Members of the senior management

Name	Age	Position at the Company
Luca Benatti	47	Chief Executive Officer, Managing Director
Ravi Anand	51	Chief Medical Officer
Carlos de Sousa	49	Chief Business Officer
Stefan Weber	43	Chief Financial Officer
Marco Caremi	51	Vice President Strategic Marketing and Head of Legal Affairs
Stefano Rossetti	55	Vice President Clinical Development and Regulatory Affairs
Patricia Salvati	58	Vice President Preclinical Research and Development

For a biography of Luca Benatti, Newron's CEO, see "Board of Directors" above.

None of the members of the senior management is a member of governing and supervisory bodies of important Swiss or foreign organizations outside of Newron. None of the members of the senior management holds permanent management or consultancy functions for important Swiss or foreign interest groups, and none of them has official functions or holds political posts besides those mentioned.

Ravi Anand, a Swiss resident, has been the Company's Chief Medical Officer since May 2005. He received his university education in New Delhi, India, and his medical training in the specialties of psychiatry and neurology in the United States. For over 20 years, Dr. Anand has worked in international drug development and registration departments of major pharmaceutical companies, including F. Hoffmann-La Roche (Switzerland), Sandoz/Novartis (United States) and Organon (Netherlands). From 1993 to 1997, he was the Medical Director of CNS, Clinical Research at Sandoz Research Institute. From 1997 to 2001, he served as the international head of CNS Medical Affairs at Novartis. From 2001 to 2003, he served as the global head of CNS Clinical Research at Organon. Between 2003 and 2005, Dr. Anand was an independent consultant.

During his tenure in the pharmaceutical industry, Dr. Anand has worked in all phases (I through III) of drug development as well as in medical commercialization (phase IV). Overall, he has been responsible for the conduct of clinical trials in over 30 countries. He has been involved in over 30 investigational new drug applications, and over seven international new drug applications. He has published extensively, including over 50 papers and 200 abstracts, posters and presentations.

Carlos de Sousa was appointed Chief Business Officer effective June 1, 2007. He is an MD and MBA by training. Dr. de Sousa, a senior pharmaceutical executive with 19 years of experience in the industry, largely at Pfizer Inc. and Novartis AG, was Senior Vice President and Global Head of Business Development and Licensing at Schwarz Pharma AG. Prior to joining Schwarz Pharma in 2006, he was Global Head of Negotiations, Neurosciences, at Novartis AG (Basel, Switzerland), where he served for five years in various executive roles within business development and in marketing. Previously, during his twelve years with Pfizer Inc. (Lisbon, Portugal, and New York, USA), Dr. de Sousa held positions in clinical development, business development and licensing, as well as regional operations management. He earned his MD from Lisbon Medical School, and his MBA from the Stern School of Business, New York University. Dr. de Sousa is Portuguese.

Stefan Weber has been the Company's Chief Financial Officer since April 2005. He holds a master's degree in business management from Fernuniversität Hagen (Diplom-Kaufmann). He has 20 years of industry experience in finance and serves as the chief financial officer of public and private biotechnology companies since 2000. From 1987 to 1999, he worked at the Lohmann group, a worldwide producer of pharmaceutical, medical, technical and consumer products. His final position was head of finance of the Lohmann group. After joining Girindus, a fine chemistry process development and scale-up provider in 1999, he was appointed Chief Financial Officer in 2000. From 2001 to 2005, he was the Chief Financial Officer of Biofrontera, a company active in drug discovery and development. He has been responsible for executing numerous substantial financing transactions, including debt, equity and mezzanine financing as well as national and European grants. He furthermore has been involved in a number of M&A transactions, disinvestments and strategic restructurings. As Chief Financial Officer of Girindus, he managed the company's initial public offering and post-initial public offering investor relations. He is German.

Marco Caremi is the VP Strategic Marketing and Head of Legal Affairs since 2007. He has been in VP positions with the Company since September 2002. He holds a university degree in Natural Science from the University of Milan and has successfully completed the Advanced Development Programme at the London Business School. Mr. Caremi has approximately 25 years of experience in the pharmaceutical industry. From 1998 to 2002, he was the Director of Business Development at Schwarz Pharma S.p.A. where he had responsibility for researching and evaluating all in- and out-licensing deals, analysing companies for potential acquisitions and developing strategic plans for forthcoming market opportunities. From 1996 to 1998, he was the Business Development Manager at Schering-Plough S.p.A. From 1990 to 1996, he held several marketing and sales positions at Schering-Plough S.p.A. Before that time, he was a sales representative, sales specialist and sales district coordinator at Polifarma S.p.A. Marco Caremi is Italian.

Stefano Rossetti is the VP Clinical Development and Regulatory Affairs since February 2008. He has been in VP positions with the Company since May 2003. Dr. Rossetti holds a degree in medicine and surgery and gastroenterology from Pavia and Milan Universities and is the author of several scientific publications. From 1999 to 2003, he was Director of Product Development at Schering-Plough Pharmaceuticals International (Europe/Canada/Middle East) with regulatory, medical and commercial responsibilities during the new drugs development process (from early development phase to registration and market positioning). From 1989 to 1999, Dr Rossetti was Medical and Regulatory Affairs Director at Schering-Plough Italy. From 1984 to 1989, he was the Medical Director for SyntheLabo Italy with specific responsibilities in the cardiovascular, CNS and pneumology areas. From 1981 to 1984, Dr. Rossetti was the clinical monitor for Boots Italy conducting and monitoring phase II, III and IV clinical trials in the gastroenterology, rheumatology and cardiovascular areas. Stefano Rossetti is Italian.

Patricia Salvati is the Vice President Preclinical Research and Development since February 2008. She has been in VP positions with the Company since 1999. She co-founded Newron in 1998 along with Dr. Benatti and Dr. Fariello. She is a pharmacologist with over 25 years of experience in research and development in the pharmaceutical industry. After receiving a doctoral degree in biological sciences from the University of Bologna with honours, she underwent postdoctoral training in pharmacology at the University of Pavia, followed by additional training at the University College (London, United Kingdom); Prostaglandin Unit of the Wellcome Research Laboratory (Beckenham, Kent, United Kingdom); New York Medical College (Valhalla, New York, United States); the Biophysics Institute of Aarhus University (Denmark) and Shimane University (Izumo, Japan). Having gained extensive experience in gastrointestinal pharmacology and cardiovascular research, she devoted her research to neuropharmacology beginning in 1993. She holds over 60 patents and is the author of over 90 publications. Dr. Salvati has extensive experience in leading drug development projects in the industry. In 1978, she joined Farmitalia Carlo Erba where she became the head of Cardiovascular Pharmacology in 1986 and then the director of Cardiovascular Research in 1990. After the merger with Pharmacia & Upjohn, she was appointed the head of CNS Pharmacology and Project Leader of the antiepileptic project in 1995 and held that position until she co-founded Newron in 1998. Patricia Salvati is Italian.

Management contracts

The Company does not have management contracts with third parties.

Compensation, Shareholdings and Loans

The compensation of the members of the Board of Directors consists of a fixed annual remuneration and an additional remuneration for members of Board subcommittees. It is the current policy not to issue additional stock options/stock appreciation rights to non-executive members of the BoD. The maximum total annual compensation for the members of the Board of Directors is fixed by decision of the shareholders' meeting. The allocation of the total remuneration within such limit is up to the decision by the Board of Directors. Luca Benatti, Axel Bolte, Laurent Ganem and Alexandra Goll have each waived their compensation as directors for the fiscal year ended December 31, 2007. Effective January 1, 2008, Hervé Guérin has renounced his compensation for 2008 and has furthermore renounced his stock options and stock appreciation rights.

The compensation of the members of the senior management is set and reviewed annually by the nomination and compensation committee of the Board of Directors, in accordance with Newron's compensation policies. The review is based on experience of the members of the committee, publicly available information and third party intelligence with regard to remuneration packages provided by comparable companies in the industry. The nomination and remuneration committee is required to inform the Board of Directors of the decisions taken. The compensation consists of base salary, bonus and stock-based remuneration (stock options and stock appreciation rights). The bonus is based on company and individual performance, calculated as a percentage of the base salary (generally 30%). In addition, Newron supports company cars, the obligatory Italian social security payments and certain life insurance coverage.

The nomination and compensation committee of the Board of Directors decides on an annual basis on the level of achievement of the company goals, which are related to the key value drivers of the company like development progress, licensing and M&A transactions, financing measures and budgetary discipline, and agreed at the beginning of each year. The achievement on individual performance is determined by the nomination and remuneration committee of the Board of Directors compared to individual targets agreed at the beginning of each year. The nomination and remuneration committee is required to inform the Board of Directors of the decisions taken.

The total compensation of the members of the Board of Directors in 2007 is outlined below:

(In thousand Euro)	Cash compensation	Stock options	Stock appreciation rights	Total
Rolf Stahel	50	42	-	92
Luca Benatti *	388	52	107	547
Ruggero Fariello *Up to May 21, 2007*	6	-	-	6
Axel Bolte	-	-	-	-
Francesco Parenti	16	-	-	16
Hervé Guérin	16	8	17	41
Renée Aguiar-Lucander	-	-	-	-
Laurent Ganem	-	-	-	-
Alexandra Goll	-	-	-	-
Hans-Joachim Lohrisch *Appointed Jan.11, 2008*	-	-	-	-
Total	**476**	**102**	**124**	**702**

* remuneration in his function as CEO

Chesyl Pharma Ltd., company supporting services provided by Rolf Stahel, had a consulting agreement with Newron pursuant to which the company provided business and strategic advice to Newron . In 2007, the remuneration amounted to a total of Euro 101,000. This remuneration is not included in the above table.

For the fiscal year ended December 31, 2007, the aggregate compensation (consisting of statutory auditors' fees) paid by Newron to the Company's board of statutory auditors was Euro 38,000.

The total compensation and the highest individual compensation of the members of the senior management in 2007 are outlined below:

(In thousand Euro)	Base salary	Bonus	Stock options	Stock appreciation rights	Total
CEO	305	83	52	107	547
Total senior management	1,830	262	261	241	2,594

An exceptional bonus was paid to senior management in 2007 for the performance of the Initial Public Offering from December 2006. This was accrued in the financial statements 2006 (see note 28 of IFRS Consolidated Financial Statements).

Payments to former management and directors

There were no compensation payments to former members of the Board, nor of senior management, neither were options issued.

Share allotment

In the year ended December 31, 2007, no shares have been allotted to any members of the Board nor the senior management or parties closely linked to them.

The holdings of shares, stock options and stock appreciation rights in Newron of members of the Board of Directors and senior management as of December 31, 2007, are outlined below:

	Shares	Stock options	of which vested	Stock appre-ciation rights	of which vested
Rolf Stahel	-	157,855	157,855	-	-
Luca Benatti	163,605	20,000	-	60,000	-
Axel Bolte	-	-	-	-	-
Francesco Parenti	8,195	-	-	-	-
Hervé Guérin	-	3,180	-	9,542	-
Renée Aguiar-Lucander	-	-	-	-	-
Laurent Ganem	-	-	-	-	-
Alexandra Goll	-	-	-	-	-
Hans-Joachim Lohrisch *Appointed Jan. 11, 2008*	-	-	-	-	-
Ravi Anand	-	24,500	-	-	-
Carlos de Sousa	-	10,000	-	30,000	-
Stefan Weber	525	29,480	21,980	22,500	-
Marco Caremi	-	19,835	17,335	7,500	-
Stefano Rossetti	-	19,835	17,335	7,500	-
Patricia Salvati	163,610	2,500	-	7,500	-

The weighted average exercise price of the stock options is Euro 23.32.
The weighted average exercise price of the stock appreciation rights is Euro 36.83.

The exercise ration in all cases is 1 share for 1 stock option and 1 share for one stock appreciation right.

Additional fees and remunerations

Besides the consulting agreement described below, no additional fees and remunerations have been billed to Newron by any member of the Board or of the senior management or parties closely linked to them for additional services performed during 2007.

Loans to governing boards

No loans were granted during 2007 to members of the Board, senior management or closely linked parties.

Shareholders' Participation

Ordinary meetings

Ordinary shareholders' meetings must be convened at least once a year within 120 days after the end of the fiscal year (180 days in particular circumstances) for the approval of the financial statements. At ordinary meetings, shareholders may also appoint directors and statutory auditors, determine their remuneration, vote on whether the Company should take action against any directors or statutory auditors, and vote on any business matter submitted by the directors.

The quorum required for an ordinary shareholders' meeting of Newron on first call is the presence of shareholders representing at least 50% of the Company's share capital. On the second and third calls, there is no quorum requirement. In all such cases, resolutions are approved by the shareholders representing the majority of the shares present or represented at the meeting.

Extraordinary meetings

Extraordinary meetings of shareholders may be called to vote on proposed amendments to the By-Laws, appointment, substitution and powers of liquidators and other resolutions provided by law.

The quorum required at an extraordinary shareholders' meeting of Newron on the first, second and third calls is the presence of shareholders representing more than 50%, $33^{1}/_{3}$% and 20% of Newron's share capital, respectively. At extraordinary meetings, resolutions must be approved by at least two-thirds of the share capital represented at such meetings.

Notice of meetings

Notice of all shareholders' meetings of listed companies must be published in the *Gazzetta Ufficiale*, the Italian official gazette, or in at least one of the daily newspapers set forth in the By-laws, at least 15 days prior to the date set for the meeting. Pursuant to relevant provisions of the Company's By-laws, such notice will be published in the Italian daily newspaper *Il Sole 24 Ore* or, in the case that *Il Sole 24 Ore* is no longer published for any reason, in the Italian daily newspaper *Corriere della Sera*, or, in the case that *Corriere della Sera* is no longer published for any reason, in the Official Gazette of the Republic of Italy *(Gazzetta Ufficiale)*. Pursuant to the Company's By-laws, such notice will also be published in the German language, Swiss daily newspaper *Neue Zürcher Zeitung*, or, in the case that *Neue Zürcher Zeitung* is no longer published for any reason, in the German language, Swiss daily newspaper *Tages-Anzeiger* and the French language, Swiss daily newspaper, *Le Temps* or, in the case that *Le Temps* is no longer published for any reason, in French language, Swiss daily newspaper *L'Agefi*.

Notice for any meeting may specify a date for the second call and, if set forth in the by-laws, the third call of the same meeting in the event that a quorum is not obtained at the first meeting or the meeting lapses. If no date for a second call of the shareholders' meeting is specified, and quorum is not reached on the first call, then a new notice must be given calling for a new meeting, which must be held within 30 days from the previously called meeting. In this instance, notice must be published at least eight days prior to the date set for the new meeting.

In addition, pursuant to Article 2366 of the Italian Civil Code, a meeting will be deemed duly convened if shareholders representing 100% of the Company's share capital, together with the majority of directors and the majority of members of the board of statutory auditors, are present at the meeting. Persons attending may object to discussions of matters on which they have not been sufficiently informed.

Shareholders' meetings (1) must be called promptly upon the request by holders of at least 10% of the share capital; (2) may be called by the board of directors whenever it deems appropriate; or (3) may be called by the board of statutory auditors or the president of the court having jurisdiction *(Presidente del Tribunale)*, in the cases provided by law.

Attendance and voting rights

To attend any shareholders' meeting, a Newron shareholder must, at least one business day prior to the date fixed for the meeting, instruct the relevant intermediary to communicate his relevant shareholding and voting rights to the Company.

Shareholders may appoint proxies by written means. Neither directors, statutory auditors nor employees of Newron may act as proxies for shareholders and no single proxy may represent more than the number of shareholders set forth in Article 2372 of the Italian Civil Code.

Minority shareholders' rights

The By-laws of the Company do not contain any limitations on the voting rights in respect of shares held by any shareholder. Resolutions adopted at a shareholders' meeting are binding on all shareholders.

Yet, under Italian law, any shareholder owning voting shares representing at least 1‰ of the stock of a listed company may, within specific terms, challenge any resolution of the shareholders in respect of which it has abstained from voting or cast a dissenting vote on the basis that the resolution was not adopted in conformity with applicable law or the By-Laws; directors and statutory auditors may also challenge shareholders resolutions on that basis.

Each shareholder may submit a complaint to the board of statutory auditors regarding facts that such shareholder deems to be censurable, and the board of statutory auditors must take any such complaint into account in its report to the meeting of the shareholders. If shareholders collectively representing 2% of the company's share capital submit a complaint, the board of statutory auditors must promptly undertake an investigation and presents its findings and any recommendations to a meeting of the shareholders (which must be convened by the board of statutory auditors immediately if there appear to be grounds for the complaint and there is an urgent need to take action).

Shareholders representing in the aggregate at least 5% of the company's share capital have the right to report major irregularities in the management of the company to the relevant court. In addition, shareholders representing at least 2.5% of the company's share capital may bring legal action against the directors of the company. The company may waive or settle the suit provided that (i) such waiver or settlement is approved by the ordinary shareholders' meeting and (ii) holders of more than 5% of the company's share capital do not vote against such waiver or settlement. The company will reimburse the legal costs of such action in the event that the claim of such shareholders is successful and: (i) the court does not award such costs against the relevant directors, statutory auditors or general managers; or (ii) such costs cannot be recovered from such directors, statutory auditors or general managers.

In addition, under Italian law, a single shareholder may bring an action against members of a company's board of directors in respect of damages directly suffered for negligence or wilful misconduct.

Change of Control and Defence Measures

In line with Swiss law, which is not applicable to Newron as an Italian entity, Newron's shareholders (and any direct or indirect holder, acquirer, or seller of shares) are required by the By-laws to comply with the Tender Offer Laws as set forth in Article 22 ss. SESTA, including Article 32 of the SESTA, and pertinent regulations, including articles 24 ss. SESTO-FBC and the Ordinance of the Takeover Board on Public Takeover Offers of July 21, 1997, as amended ("TOO") (all such laws and regulations the "Swiss Tender Offer Laws"). The Swiss Tender Offer Laws provide, among other things, that if a person acquires shares of a company, whether directly or indirectly or acting in concert with third parties, which, when added to the shares already held by such person, exceed the threshold of 33 1/3% of the voting rights (whether exercisable or not) of such company, that person must make an offer to acquire all of the listed shares of that company.

Pursuant to the By-laws, any shareholder who does not comply with the Swiss Tender Offer Laws will be prohibited from voting any shares until he either (i) launches the public offer required by the Swiss Tender Offer Laws, or (ii) disposes of an amount of shares such that he owns less than 33 1/3% of the voting share capital, unless the Board decides otherwise on the basis of applicable law. Any shareholder who does not comply with the Swiss Tender Offer Laws may also be subject to claims by the Company, other shareholders and/or other third parties for any damages they incur as a result of its non-compliance with the Swiss Tender Offer Laws.

As of December 31, 2007, none of the agreements or schemes that benefit members of the Board and senior management do include change of control clauses.

Auditors

On April 23, 2007, the shareholders' meeting has appointed Reconta Ernst & Young S.p.A. as the company's independent auditors in relation to the audit of the Company's financial statements for the three years ending December 31, 2009.

The auditor in charge is Paolo Zocchi.

Reconta Ernst & Young will receive an expected fee of Euro 90,000 for the audit of the Company's Italian GAAP Financial Statements as well as the group's consolidated IFRS Financial Statements for 2007.

In addition to the fees described above, aggregate fees of Euro 349,000 were billed by Reconta Ernst & Young and international E & Y offices during the year ending December 31, 2007, primarily for audit work related to an M&A project.

Reconta Ernst & Young replaced PricewaterhouseCoopers S.p.A. who had been the Company's independent accountants since 2002, and whose three-year mandate had come to its end.

Supervisory and control instruments pertaining to the audit

The Board has installed an audit subcommittee, whose task it is to discuss with the auditors the audit scope, audit and review procedures, significant reporting matters and fees. The chairperson of the subcommittee, Renée Aguiar-Lucander, is responsible for the information of the full Board about the results of the meetings and the recommendations of the subcommittee.

The duties of the Committee are

- to consider the appointment of the external auditor, the audit fee, the independence and objectivity of the auditors and any questions of retirement, resignation or dismissal;

- to review the nature and scope of the audit, discuss the audit with the external auditor before it commences, and ensure co-ordination where more than one audit firm is involved;

- to review the annual financial statements before submission to the Board, focusing particularly on (i) any changes in accounting policies and practices, (ii) major judgmental areas, (iii) significant adjustments resulting from the audit, (iv) the going concern assumption, (v) compliance with accounting standards, (vi) compliance with legal requirements, and (vii) the Chairman's statement and statement of operations to be made in the Company's annual report;

- to review the results of the audit and its cost effectiveness and in particular: (i) to discuss problems and reservations arising from the interim and final audits and any matters the auditors may wish to discuss (in the absence of management where necessary), (ii) to review the external auditor's management letter and management's response, (iii) to consider any significant ventures, investments or operations which are not subject to external audit;

- to review annually the Company's systems of internal control (including financial, operational and compliance controls and risk management) prior to review by the Board and from time to time to make recommendations to ensure the maintenance of a sound system of internal control to safeguard shareholders' investment and the Company's assets.

Information Policy

Newron undertakes significant efforts to keep its shareholders informed, as otherwise achievements cannot be considered properly by capital markets and the interested public, thus leaving shareholders with suboptimal stock price performance.

We regularly update the corporate web page (www.Newron.com), provide the regular (annual report, half-year report) and extraordinary reports (directors' dealings, status of preauthorized capital, ad hoc news and publications) to the SWX Swiss Exchange and the general public, routinely visit conferences to present the Company to opinion leaders and multiplicators of public opinion and talk to analysts and the press. All interested parties have the possibility to directly receive from Newron (http://www.newron.com/Register4Updates.asp) free and timely notification of potentially price-sensitive facts. It is our aim to reach out to all potentially interested addressees in the field and once attracted to Newron, keep them up to the news. In order to keep satisfaction at high levels, we do commit to give a true and fair view to the news. Newron's PR and IR representatives are at your disposal.

Important dates for 2008

Annual General Meeting of Shareholders: April 24, 2008, Zurich
Publication of half-year results: September 19, 2008

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“Action is the foundational key to all success.”

Pablo Picasso

IFRS Consolidated Financial Statements

Consolidated Income Statement

(In thousand Euro, except per share information)		For the year ended December 31	
	Note	2007	2006
Licence income	5	4,024	1,191
Research and development expenses	7	(8,197)	(11,488)
Grants		70	219
Marketing and advertising expenses		(131)	(55)
General and administrative expenses	8	(9,447)	(6,619
Operating loss		(13,681)	(16,752)
Financial income, net	9	2,593	351
Loss before tax		(11,088)	(16,401)
Income tax expense	10	(1)	0
Net loss		**(11,089)**	**(16,401)**
Loss per share			
Basic	27	**(1.90)**	**(4.33)**
Diluted	27	**(1.90)**	**(4.33)**

(The accompanying notes are an integral part of these financial statements.)

Consolidated Balance Sheet

(In thousand Euro)	Note	As of December 31 2007	2006
Assets			
Non-current assets			
Property, plant and equipment	11	433	291
Intangible assets	12	32	46
Receivables	13	387	688
		852	1,025
Current assets			
Inventories		523	1,345
Receivables and prepayments	14	5,836	9,022
Cash and cash equivalents	15	63,157	74,765
		69,516	85,132
Total assets		**70,368**	**86,157**
Shareholders' equity			
Share capital	23	1,167	1,164
Share premium reserve	24	66,978	82,148
Share option reserve	25	2,091	1,803
Retained earning		(1,747)	(856)
Net loss		(11,089)	(16,401)
Total shareholders' equity		57,400	67,858
Liabilities			
Non-current liabilities			
Deferred income	16	1,973	4,327
Borrowings	17	561	833
Employee cash-settled share-based liabilities	20	281	0
Employee severance indemnity	21	380	350
		3,195	5,510
Current liabilities			
Deferred income	16	2,635	4,304
Borrowings	17	272	272
Trade and other payables	18	6,866	8,213
		9,773	12,789
Total liabilities		12,968	18,299
Total equity and liabilities		**70,368**	**86,157**

(The accompanying notes are an integral part of these financial statements.)

Consolidated Statement of Changes in Shareholders' Equity

(In thousand Euro)	Note	Share capital	Share premium	Stock option reserve	Retained earning	Total
Balance at January 1, 2006 – Newron stand alone		735	30,565	1,196	(15,476)	17,020
Net loss					(16,401)	(16,401)
Share option scheme				607		607
Loss allocation			(14,620)		14,620	0
Issue of shares – IPO		429	73,827			74,256
Share capital issue costs			(7,624)			(7,624)
Balance at December 31, 2006 – Newron stand alone		1,164	82,148	1,803	(17,257)	67,858
Net loss					(11,089)	(11,089)
Share option scheme	25			343		343
Issue of shares – 2003 option plan	23	3	339	(55)		287
Loss allocation			(15,509)		15,509	0
Balance at December 31, 2007 – Newron Group		**1,167**	**66,978**	**2,091**	**(12,836)**	**57,400**

(The accompanying notes are an integral part of these financial statements.)

Consolidated Cash Flow Statement

(In thousand Euro)		For the year ended December 31	
	Note	2007	2006
Net loss		(11,089)	(16,401)
Adjustments for:			
Depreciation and amortization		213	245
Interest income		(2,582)	(318)
Grants		(70)	(219)
Share option expenses		625	607
Employee severance indemnity expense		219	142
Changes in working capital:			
Inventories		822	(606)
Current receivables and prepayments and deferred cost (excluding grants receivable)		3,256	(6,170)
Trade and other payables and deferred income (excluding advances of grants)		(5,371)	11,740
Cash used in operations	26	(13,977)	(10,980)
Cash flows from operating activities			
Cash used in operations		(13,977)	(10,980)
Government grants received		0	462
Pension fund paid	21	(190)	(115)
Change in non-current receivables		301	1,003
Net cash used in operating activities		(13,866)	(9,630)
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(316)	(42)
Purchase of intangible assets	12	(23)	(10)
Interest received		2,582	301
Net cash flows from/(used in) investing activities		2,243	249
Cash flows from financing activities			
Net proceeds from borrowings	17	(272)	68
Proceeds from issue of shares (exercise of share option)	23	287	66,632
Net cash flows from financing activities		15	66,700
Net increase/(decrease) in cash and cash equivalents		(11,608)	57,319
Cash and cash equivalents at January 1, – Newron stand alone		74,765	17,446
Cash and cash equivalents at the end of the year – Newron Group		**63,157**	**74,765**

(The accompanying notes are an integral part of these financial statements.)

Notes to the Consolidated Financial Statements

(In thousand Euro unless otherwise stated)

1 General information

Newron Group (the Group) is composed of Newron Pharmaceuticals S.p.A. (the Company), a clinical stage biopharmaceutical company focused on the discovery and development of drugs for the treatment of central nervous system (CNS) disorders including pain – the parent company – , and Newron Suisse SA, a clinical development fully owned subsidiary based in Basel (Switzerland) established during 2007 (the Subsidiary). The Company is incorporated and domiciled in Milan, Italy. The address of its registered office is via Ludovico Ariosto 21, Bresso MI 20091, Italy. The Company is listed on the main segment of the SWX Swiss Exchange, Zurich, Switzerland, under the trade name NWRN.

These consolidated financial statements have been approved for issuance by the Board of Directors on March 18, 2008.

1.1 Significant events

On June 29, 2007, the Group signed a commercial agreement with Purdue Neuroscience Company (Purdue) in order to settle the dispute rose between the companies and concerning the right of utilization of certain compounds, including ralfinamide. As a consequence of the agreement, the Group made a down payment of Euro 750. Upon achievement of certain future development success, or earlier at the sole discretion of Newron, an additional payment of Euro 2,250 will be due which will trigger the assignment of the patents. In addition, further milestones up to Euro 1,300 and royalties on global sales will be due to Purdue upon regulatory and marketing approval of ralfinamide or another claimed compound.

In September 2007, the Company has opened a clinical development facility in Elisabethenanlage 25, CH-4051 Basel, Switzerland: the activity started in November 2007. The new operations have been incorporated into a subsidiary fully owned by the Company, called Newron Suisse SA. The Basel region is one of Europe's key pharma/biotech cluster in which Newron will be well positioned to attract talented research and development professionals. Currently, Newron Suisse has 4 senior professionals and a gradual expansion is planned.

In February 2008, the Group announced the signing of an agreement providing for the acquisition of 100% of the issued share capital of Hunter-Fleming Ltd, a private UK biopharmaceutical company developing new medicines to treat neurodegenerative and inflammatory disorders. For further details please refer to note 29.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. As a consequence of the establishment of Newron Suisse SA, which is 100% owned by the Company, the 2007 financial statements have been prepared for the first time on a consolidated basis.

A Basis of preparation

The consolidated financial statements of Newron Group have been prepared in accordance with International Financial Reporting Standards (IFRS).
The consolidated financial statements are based on the financial statements of the individual Group companies prepared for the same reporting period using consistent accounting policies. The financial statements have been prepared under the historical cost convention, as modified by financial assets and liabilities at fair value as described in the notes.

The presentation currency is Euro. All figures included in these financial statements and notes to the financial statements are rounded to the nearest Euro thousand except as otherwise stated.

The Group has incurred since its inception significant costs for the funding of its research and development activities without generating revenues to sustain them. Newron's liquidity requirements arise primarily from the need to fund its ongoing research and development activities and, although the results of research are substantially positive, it is not certain that the research and development activities will lead to the introduction of new products to the market. Historically, Newron has primarily used capital contributions from shareholders, and limited government grants and loans, to finance the cash needs of its continuing development activities.

The directors considered it appropriate to prepare the consolidated financial statements on a going concern basis.

The Group's activities are not subject to seasonal fluctuations.

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

B Consolidation

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

The consolidated financial statements of Newron Group include the accounts of Newron Pharmaceuticals S.p.A. and Newron Suisse SA.

The consolidation commences from the date on which the subsidiary has been incorporated or established. As for Newron Suisse SA, the subsidiary was established in September 2007 and started its operational activity in November 2007. Accordingly, the consolidated financial statements include the operations of the subsidiary of the last 2 months of the year.

Intercompany balances and transaction between group companies are eliminated.

C Change in accounting policies

The accounting policies correspond generally to those applied in the previous year. In addition, the Group has applied the following new or revised Standards and Interpretations which were required to be applied for the first time in the fiscal year 2007:

IFRS 7	Financial Instruments – disclosures
IAS 1	Amendment – presentation of financial statements: capital disclosures
IFRIC 7	Applying the restatement approach under IAS 29 "Financial reporting in hyperinflationary economies"
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of embedded derivatives
IFRIC 10	Interim financial reporting and impairment

Apart from additional disclosure requirements, application of these standards and interpretations had no material effects on the consolidated financial statements.

The following new or revised Standards and Interpretations have been published as of December 31, 2007, but not yet required to be applied for the fiscal year ended:

IFRS 8	Segment Reporting
IAS 23	Borrowing Costs: revised
IFRIC 11	Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programmes
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interactions
IAS 1 (revised)	Presentation of Financial Statements

In January 2008, the IASB issued revised versions of IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements (both effective July 1, 2009) as well as an amendment to IFRS 2 Share based payments "Vesting Conditions and Cancellations" (effective January 1, 2009). The Group is currently evaluating whether these changes will have any impact.

The Group did not exercise any option to apply Standards and Interpretations prior to their effective date. Apart from additional or modified disclosure requirements, no significant effects on the consolidated financial statements are expected for the first time adoption.

D Segment reporting

The Company operates in a single business segment, which is research and development of pharmaceutical drugs. Geographically the research and development activities are performed in Italy and in Switzerland.

E Related party transactions

No significant transactions with related parties have been performed during the year.

F Foreign currency translation

(1) Measurement currency

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

(2) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. There are no translation differences on non-monetary items.

(3) Group companies

The financial statements of companies with functional currency other than Euro, are translated into Euro for purposes of consolidation using year-end rates for balance sheet items and the average rate for the year for the income statement items. Components of equity are translated at the dates of the relevant transaction. The resulting translation differences are taken directly to equity and are not recognized in the income statement.
Year-end rate: 1 Euro equal to 1.6547 CHF
Average rate (November/December): 1 Euro equal to 1.6535 CHF

G Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost or residual value of the asset over the estimated useful life, as follows:

Leasehold improvements: remaining life of the lease contract
Laboratory equipment and instruments: 2.5 years
Office equipment and other assets : 5-9 years

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each balance sheet date. The carrying amount of an asset is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Capital investment grants relating to the purchase of property, plant and equipment are deducted from the cost of the related assets. The grant is recognized as income over the life of the depreciable asset by way of a reduced depreciation charge.

H Operating leases

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

I Research and development

As stated in IAS 38, costs incurred on development projects (relating to testing of new or improved small molecule drugs) are recognized as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility, the availability of adequate funding resources and the ability to measure its costs reliably.

Development costs which do not meet these criteria are recognized as an expense. Since inception, all research and development costs have been treated as expenses as commercial and technical feasibility continues to be assessed. There are no intangible assets in relation to development expenditure.

J Intangible assets

Computer software and licences

Acquired computer software and licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over the asset's estimated useful life of five years.

Brands

Costs incurred in depositing the Group's name and logo and obtaining their exclusive use world-wide are classified as brands and are shown at historical cost. Brands have a definite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the costs over the asset's estimated useful life of three years.

K Impairment of non-current assets

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

L Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

In December 2006, the Board of Directors approved an investment policy. The general statement is the following: *"All investments in financial instruments by the Company shall be for capital preservation purposes, aimed at safeguarding its capital, reserves and liquidity until the funds are used in the Company's primary business"*. It is also stated that *"Any investment in derivative financial instruments shall need to be previously authorized by the Company's board of directors"*.

M Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated market price less applicable variable selling expenses. Inventories consist of drug substances used for testing and experiments.

N Trade and other receivables

Trade and other receivables are recognized initially at fair value. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the statement of income.

O Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

P Share capital

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

Q Borrowings

Borrowings are recognized initially at fair value. Borrowings are subsequently stated at amortized cost; any difference between the proceeds and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

R Current and deferred income taxes

Deferred tax is recognized 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. Deferred tax is determined in accordance with tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

S Employee benefits

Employee severance indemnity (Trattamento di Fine Rapporto, T.F.R.)

In accordance with Italian legislation, an employee benefit is accrued for service to date and is payable immediately when the employee leaves the Company virtually for any reason. Accordingly, the benefit payable will depend on the employee's years of service and compensation.

According to IAS 19, the liability in respect of the severance indemnity is the present value of the defined benefit at the balance sheet date. The defined benefit obligation is calculated on a regular basis in accordance with the advice of independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by the estimated future cash outflows using interest rates of government securities with maturities approximating those of the related liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized immediately in the income statement.

Pension costs

The Group and its employees pay contributions to the state defined contribution pension plan on a mandatory basis. Once the contributions have been paid, the Group has no further payment obligations. The regular contributions paid by the Group constitute net periodic costs for the year in which they are due and as such are included in staff costs.

Share-based compensation

The Group operates an equity-settled, share-based compensation plan (Employees Stock Option Plan). The fair value of the employee services received in exchange for the grant of the options is recognized, as stated by IFRS 2, as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted.

At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. It recognizes the impact of the revision of the original estimate, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Cash-settled share-based compensation

The Group operates a cash-settled, share-based compensation plan (Stock Appreciation Right). The fair value of the employee services received in exchange for the grant of the options is recognized, as stated by IFRS 2, as an expense and a corresponding amount is booked as a long-term liability. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. The corresponding social security contribution is recognized as an expense as the related options are exercised.

At each reporting date, the fair value of the liability is re-measured and any change in fair value is recognized in the income statement of the period. The total net cost recognized in respect of the transaction will be the amount paid to settle the liabilities.

T Revenue recognition

Revenue comprises the sale of licenses and is recognized when the Company assigns the rights of ownership to the customer, and collectibility of the related receivables is reasonably assured.

Receipts of upfront payments and other similar non-refundable payments relating to the sale or licensing of products or technology are initially reported as deferred income and recognized as income on a straight-line

basis over the estimated period of the collaboration required to finalize the development period.

The incremental costs directly attributable to entering into the collaboration agreements are recognized as deferred cost and amortized over the relevant period of collaboration.

The reimbursements received in relation to the licensing and collaboration agreement with Merck Serono are booked as a decrease of the related costs incurred.

U Grants

Grants relating to income are recognized in the income statement over the period necessary to match them with the costs they are intended to compensate. Grants are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

3 Financial risk management

A Financial risk factors

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates.

Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various purchase and service contracts as well as the newly opened Suisse subsidiary that generate currency exposures primarily with respect to Swiss Francs and US Dollars. However for the year 2007 this risk was limited due to the following factors:

- These exposures represent a relatively small portion of the Group's costs; and
- substantially all purchase contracts denominated in foreign currencies are for short periods, and in no case do they exceed one year.

As a result of the above, the Group did not enter into foreign exchange contracts or other financial instruments in order to hedge its foreign exchange risk.

Interest rate risk

The Group is not exposed to interest rate risk. The Group's only borrowings are loans received from the government at subsidized interest rates, which are unlikely to exceed the market rate in the foreseeable future.

B Fair value estimation

The fair value of available-for-sale financial assets is based on quoted market prices at the balance sheet date.

The Group has no derivative financial instruments or hedging activities.

4 Critical accounting estimates and judgements

The preparation of this consolidated financial information requires management to apply accounting methods and policies that are based on difficult or subjective judgments, estimates based on past experience and assumptions determined to be reasonable and realistic based on the related circumstances. The application of these estimates and assumptions affects the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of income and expenses during the reporting period. Actual results may differ from these estimates given the uncertainty surrounding the assumptions and conditions upon which the estimates are based. Below are summarized the Group' accounting estimates that require the most subjective judgement of management in making assumptions or estimates regarding the effects of matters that are inherently uncertain and for which changes in conditions may significantly affect the results reported in the financial statements.

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.

Share-based compensation expense and cash-settled share-based compensation

The Group has granted share options to some of its employees, directors and consultants. The options granted have different vesting, maturity and exercise dates. Since there is no market for trading share

options, management must use a fair value method to value them. Fair value methods require management to make several assumptions, the most significant of which are the selection of a fair value model, share price volatility and the average life of an option. The fair value of each of the share options has been determined separately by an external appraiser using an enhanced binomial model. Estimates have been based on Group history or market data where appropriate. There is no certainty that the results of a fair value method would be the value at which the share options would be traded for cash. Should different assumptions be used, the expenditure recognized could be different. Additional information is reported at Note 2 "S Employee benefits".

Cost accruals

The Group has numerous contracts with subcontractors who carry out research and development activities. The invoicing dates on these contracts do not coincide with the financial year-end. Thus, management has to exercise judgement as to the progress of work done under the contracts and apportion the cost to the different periods.

Capitalization of development costs

IAS 38 requires the capitalization of development costs upon the completion of certain requirements about commercial and technical feasibility of projects, the availability of adequate funding resources and the ability to measure costs reliably. All development costs incurred till December 31, 2007, have been treated as expenses as commercial and technical feasibility continues to be assessed. There are no intangible assets in relation to development expenditure.

Deferred tax assets

The Group has a considerable amount of tax loss carry-forwards. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

In determining the recognition of deferred tax assets and liabilities, the Group's assessment of future taxable income, available taxable temporary differences, tax planning and applicable limitations on the use of tax loss carry-forwards are factors taken into account. The Group has incurred losses since inception and the availability of future taxable profits against which such an asset may be offset is uncertain. Accordingly, no deferred tax assets have been recognized. Should different events and assumptions be used, the deferred tax assets recognized could be different.

Impairment of property, plant and equipment

The Group has incurred losses since inception, and management considers this a sufficient indicator of the necessity of annual impairment tests. As of the year-end, management assessed the fair values less costs to sell of the property, plant and equipment. These were estimated to be higher than the assets' net book value, and no impairment has been accounted for. No assessment of the value in use of each cash-generating unit has been made, as the only revenues of the Group are of limited and non-recurrent nature. However, as IAS 36 allows, if net realizable value exceeds an asset's carrying amount, there is no need to write down the asset for impairment or estimate its value in use.

5 Licence income

(In thousand Euro)	For the year ended December 31	
	2007	2006
Licence income	4,024	1,191

Licence income of Euro 4,024 (2006: Euro 1,191) is entirely referable to the down-payment received from Merck Serono International SA in October 2006, which is being recognized as revenue on a straight-line basis over the estimated period of collaboration required to finalize the development of safinamide. The portion of the down-payment in excess of the recognized revenue has been recorded as deferred income among current and non current liabilities: additional information is reported in note 16 "Deferred income". In 2007 the Company revised the recognition period of the payment to align it with the revised expected development period, which has been extended from December 31, 2008, to September 30, 2009. Such a change has been accounted for prospectively as a change in estimate, resulting in a decrease of 2007 licence income of Euro 280. The change will result also in a decrease of 2008 licence income of Euro 1,681 and in an increase of 2009 licence income of Euro 1,961.

6 Staff costs

(In thousand Euro)	For the year ended December 31	
	2007	2006
Wages and salaries	3,063	2,824
Pension costs – defined contribution plans	720	694
Share options granted to directors and employees	343	607
Share apreciation rights granted to directors and employess	281	0
Employee severance indemnity costs	220	142
Social security costs	95	75
Other payroll related costs	0	103
	4,722	**4,445**

The average number of Group employees in 2007 was 38 (2006: 33), of whom 2 (2006: 2) were part-time and 3 were hired in Basel between November and December 2007.

The cost of share options and share appreciation rights related to general and administration personnel is Euro 167 and Euro 240 respectively, the remaining part is related to R&D.

The item "Other payroll related costs" has been reclassified into "Consultancy and other professional services".

7 Research and development expenses

(In thousand Euro)	For the year ended December 31	
	2007	2006
Services received from subcontractors	3,987	7,464
Staff costs	2,288	2,194
Consultancy fees	1,102	927
Material and consumable used	312	381
Laboratory operating leasing cost	396	392
Depreciation and amortization expense	103	118
Other research and development costs	9	12
	8,197	**11,488**

Research and development expenses related to safinamide project are reimbursed by Merck Serono according to the collaboration and licence agreement pursuant to which Newron granted Merck Serono the exclusive worldwide right and licence to develop and commercialize the compound. Accordingly, research and development expenses are presented net of costs reimbursed to Newron by Merck Serono, amounting to Euro 9,477 in 2007(2006: Euro 3,490).

Since inception, no development costs have been capitalized.

8 General and administrative expenses

(In thousand Euro)	For the year ended December 31	
	2007	2006
Staff costs	2,434	2,251
Consultancy and other professional services	4,034	2,437
Intellectual properties	671	602
Travelling expenses	693	504
Operating leasing cost	147	134
Depreciation and amortization expense	110	127
Other expenses	1,358	564
	9,447	**6,619**

G&A expenses increased during 2007 by Euro 2,828. The increase is mainly (Euro 2.4 million) related to the following items: (a) legal costs incurred to settle the Purdue dispute (please refer to paragraph 1.1 for further details) (b) payment of the first milestone relating to the mentioned Purdue settlement signed on June 29, 2007. (c) administrative and legal expenditure incurred by the Company to handle the M&A process that resulted into the announced acquisition of Hunter-Fleming (please refer to paragraph 29 for further details).

9 Financial income, net

(In thousand Euro)	For the year ended December 31	
	2007	2006
Interest income	2,593	318
Interest expense	(11)	(12)
Foreign exchange gains	45	70
Foreign exchange losses	(13)	(8)
Other costs, net	(21)	(17)
	2,593	**351**

The Group invested IPO proceeds pursuant to the policy approved by the Board of Directors as described in note "2 L Investments". See also note "15 Cash and cash equivalents".

10 Income tax expense

No tax charge has been recorded in the current or prior years as Newron incurred losses. As of December 31, 2007, the Subsidiary has accrued income taxes of Euro 1.

The nil tax charge on the Company's result differs from the theoretical amount that would arise using the tax rates applicable at the year-end. This due to unrecognised deferred tax assets, primarily tax loss carry-forwards (note 19).

The Company is subject to income taxes in Italy (IRES), at an applicable tax rate of 33% for the year ended December 31, 2007. Italian entities are also subject to a 4.25% local income tax (IRAP tax). Net operating tax loss carry-forward amounts for Italian entities may be utilized only to offset taxable income for IRES tax.

Taxation on the Company's profit before tax differs from the theoretical amount that would arise using the IRES tax rate applicable as follows:

(In thousand Euro)	For the year ended December 31	
	2007	2006
Loss before tax	(11,089)	(16,401)
Tax income calculated at current tax rate	(3,660)	(5,412)
Expenses not deductable for tax purposes	(287)	(51)
Deferred tax assets/liabilities not recognized on temporary differences	1,831	(2,546)
Deferred tax assets not recognized on tax losses of the year	(5,205)	(2,815)
Tax charge	**1**	**-**

11 Property, plant and equipment

(In thousand Euro)	Leasehold improvements	Laboratory and office equipment	Total
Cost – Newron stand alone			
At January 1, 2006	498	844	1,342
Additions	0	47	47
At December 31, 2006	498	891	1,389
Accumulated depreciation – Newron stand alone			
At January 1, 2006	(237)	(664)	(901)
Additions	(89)	(108)	(197)
Disposals	0	0	0
At December 31, 2006	(326)	(772)	(1,098)
Net book value – Newron stand alone	**172**	**119**	**291**
Cost – Newron stand alone			
At January 1, 2007	498	891	1,389
Additions	0	266	266
Disposals	0	(2)	(2)
At December 31, 2007	498	1,155	1,653
Accumulated depreciation – Newron stand alone			
At January 1, 2007	(326)	(772)	(1'098)
Additions	(88)	(94)	(182)
At December 31, 2007	(414)	(866)	(1,280)
Net book value – Newron stand alone	**84**	**289**	**373**
Cost - Newron Suisse SA			
At January 1, 2007	0	0	0
Additions	0	61	61
Disposals	0	0	0
At December 31, 2007	0	61	61
Accumulated depreciation – Newron Suisse SA			
At January 1, 2007	0	0	0
Additions	0	(1)	(1)
At December 31, 2007	0	(1)	(1)
Net book value – Newron Group	**84**	**349**	**433**

Leasehold improvements include improvements to the office and laboratory buildings, which are depreciated over the remaining term of the lease. Government grants were collected in accordance with Law 451 of July 19, 1994, and relate to tangible assets acquired in connection with a specific research project.

The Group has incurred significant losses since inception. As a result, property, plant and equipment were reviewed for impairment. Management assessed that the property, plant and equipment fair value less costs to sell exceeds its carrying amount, and no impairment write-down is required.

12 Intangible assets

	Licenses and software	Brands	Total
Cost – Newron stand alone			
At January 1, 2006	202	49	251
Additions	10	0	10
At December 31, 2006	212	49	261
Accumulated amoritization – Newron stand alone			
At January 1, 2006	(136)	(30)	(166)
Additions	(32)	(17)	(49)
At December 31, 2006	(168)	(47)	(215)
Net book value - Newron stand alone	**44**	**2**	**46**
Cost – Newron stand alone			
At January 1, 2007	212	49	261
Additions	22	0	22
At December 31, 2007	234	49	283
Accumulated amoritization – Newron stand alone			
At January 1, 2007	(168)	(47)	(215)
Additions	(34)	(2)	(36)
At December 31, 2007	(202)	(49)	(251)
Net book value – Newron stand alone	**32**	**0**	**32**
No additions during the year in Newron Suisse SA			
Net book value – Newron Group	**32**	**0**	**32**

13 Non-current receivables

(In thousand Euro)	As of December 31	
	2007	2006
Deferred costs	247	543
Guarantee deposits for leases	140	145
	387	**688**

14 Receivables and prepayments

(In thousand Euro)	As of December 31	
	2007	2006
Receivables	1,896	3,490
Government grants receivable	850	780
Prepayments	1,572	991
Deferred costs	330	539
VAT receivable	1,002	2,454
Other receivables	186	768
	5,836	**9,022**

The amount classified as Receivables refers entirely to the accruals related to the reimbursement of safinamide's research and development costs incurred in relation to the Merck Serono agreement.

Government grants receivable includes:

(In thousand Euro)	Approved amounts	Approved amounts%	Receivables
Law n° 451 of July 19, 1994			
Grants for scientific research	6,219	100	6,219
Advance payment 20%	(1,244)	100	(1,244)
Collections as at December 2005			(4,000)
Collections received during 2006			(280)
Net receivables as per Law 451			695
Law n° 46 of February 17, 1982			
Grants for technological R&D			
Total approved loan	1,621	95	1,540
Loan received as at December 2006	Amount not included: see analysis in note 17		
Income grant	672	95	639
Collections as at December 2005			(431)
Collections received during 2006			(173)
Net receivables as per Law 46			35
D.D. 2187 year 2003			
Grants for scientific research	200	60	120
Net receivables as per D.D. 2187			120
			850

15 Cash and cash equivalents

(In thousand Euro)	As of December 31	
	2007	**2006**
Cash at bank and in hand	4,861	72,266
Short-term deposit guaranteed with government bonds	0	2,499
Short-term investments	58,296	0
	63,157	**74,765**

The "Short-term investments" are highly liquid investments easily convertible into cash, not subject to significant changes in value and with no withdrawal penalty.

16 Deferred income

Deferred income relates to the upfront payment received from Serono International SA (now Merck Serono International SA) and is divided into a non-current portion of Euro 1,973 and a current portion of Euro 2,635.

17 Borrowings

(In thousand Euro)	As of December 31	
	2007	**2006**
At beginnig of year	1,105	1,037
Increase	0	337
Repayment	(272)	(269)
Total borrowings	**833**	**1,105**
Long term	561	833
Short term	272	272

In each of the periods considered, borrowings comprise a loan received from the Italian government. The total loan initially approved amounted to Euro 1,621, however as the project was completed ahead of schedule this was reduced to Euro 1,540 of which Euro 1,334 has been received. The remaining loan of Euro 166 is to be disbursed to the Company on receipt of final approval from the Ministry.

Interest on this loan is charged at a subsidised rate of 1.012% per annum. The loan will be repaid in five equal annual instalments: the second instalment was paid in November 2007 (equal to Euro 272).

18 Trade and other payables

(In thousand Euro)	As of December 31	
	2007	2006
Trade payables	4,468	3,965
Accrued expenses	1,119	2,530
Advance payment of government grant	0	515
Pension contribution payable	379	336
Social security	154	113
Other payables	746	754
	6,866	**8,213**

19 Deferred income taxes

The Group's accounts include the following significant temporary differences from the tax bases of the relevant assets and liabilities:

(In thousand Euro)	As of December 31	
	2007	2006
Other (IAS 19)	(56)	0
Total taxable differences	(56)	0
Start-up costs recognized in the income statement in prior years	0	1
Other minor	68	172
Share option adjustment	281	1'803
IPO expenses	4,574	6,099
Deferred income	4,608	8,632
Tax losses carry forwards	63,132	53,569
Total deductible differences	72,663	70,276
Net temporary differences	**72,607**	**70,276**
Deferred tax asset at standard IRES (national income tax) rate of 27.5% (2006: 33%)	19,967	23,191

Effective January 1, 2008, applicable tax rates for IRES and IRAP have been reduced to 27,5% and 3,9% respectively. Consequently, deferred tax assets have been determined according to the amended tax rates. The above deferred tax asset has not been recognized in the consolidated financial statements due to uncertainties concerning the availability of future taxable profits against which such an asset may be offset, also considering the expiring dates of the tax losses.

Tax loss carryforwards expire as follows:

(In thousand Euro)	December 31, 2007
Year of expiration:	
2008	6,818
2009	11,502
2010	14,500
2011	8,530
2012	15,774
no expiry date	6,008
	63,132

The Euro 6,008 tax losses may be carried forward indefinitely since they relate to start-up costs. Of the net taxable temporary differences, the amount related to the start-up costs is relevant also for IRAP (local income tax) purposes; the related deferred tax asset has not been recognized in the Group's financial statements due to uncertainties concerning the availability of future IRAP taxable profits against which such an asset may be offset.

The "Tax loss carryforwards" balance increased by Euro 9,563. The Group lost its 2002 tax loss (Euro 6,211) and added the 2007 tax loss equal to Euro 15,774.

20 Cash-settled share-based compensation

The Company's Board of Directors approved on June 18, 2007, a Stock Appreciation Right Plan (SARP 2007). The Plan involves assigning, by no later than December 31, 2008, to one or more Recipients, an overall maximum of 213,000 option rights granting the right to obtain, at the exercise date, the payment of an amount calculated on the basis of the differential variation of the value of the ordinary shares of Newron S.p.A. ("Phantom Options").

The Phantom Options provide the Recipient with the right to obtain from the Group, at the Exercise Date, payment of a gross amount equal to the positive differential variation between the official price registered on the SWX Swiss Exchange as at the Exercise Date, multi-

plied by the number of granted options, provided that in any event that the Differential cannot be higher than 150% of the Initial Price. It should be highlighted that the Differential is usually taxable income for the Recipients. At the payment date, the Company will apply the deductions and applicable welfare contribution, by paying to the Recipient the net amount.

The Differential is calculated based on the variation (positive) of the ordinary share price of Newron Pharmaceuticals S.p.A. between the grant date and the exercise date.

Exercise of the Phantom Options by the Recipients is permitted solely following the date marking 3 years following the grant date. The Exercisable Phantom Options can be exercised within two years from the Exercise Start Date.

As of June 18, 2007, the Board of Directors granted 157,042 Phantom Options at an exercise price of Euro 36.83. The Board of Directors may still grant, within the end of 2008, 55,958 Phantom Option.

21 Employee severance indemnity

The Company provides for employee severance indemnities as required under Italian legislation, which is considered to be a defined benefit scheme.

The principal assumptions used for the purpose of the actuarial valuation were as follows:

(In thousand Euro)	December 31, 2007
Actuarial assumptions	
Discount rate	5.50%
Inflation rate	2.00%
Future salary increase	3.50%
Future pension increase	3.00%

Based on the present value of the estimated obligation, the amount recognized on the balance sheet in respect of the Company's defined benefit plan amounted to Euro 380 in 2007 (2006: Euro 350) and the movements are as follows:

(In thousand Euro)	As of December 31	
	2007	2006
Balance as at the beginning of the year	350	322
Total expense charged in the income statement	220	142
Indemnity paid during period, leavers and transfers out	(190)	(114)
Balance as at the end of the year	**380**	**350**

Amounts recognized under staff costs in the income statement are as follows:

(In thousand Euro)	As of December 31	
	2007	2006
Current service cost	182	162
Interest expense on obligation	16	2
Actuarial gains/losses	22	(22)
	220	**142**

22 Commitments and contingent liabilities

Operating lease commitments – whereby the Group is the lessee

The Company leases a building used as a laboratory for research and development from Zambon Immobiliare S.p.A. This lease expires on February 14, 2009. In addition, Bresso office premises are leased from Zambon Immobiliare S.p.A. under a lease expiring on September 30, 2008 and Basel ones are leased from Livit AG under a lease expiring on July 31, 2012.

During the year ended December 31, 2007, Euro 531 was recognized as an expense in the income statement in respect of operating leases (2006: Euro 524).

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

(In thousand Euro)	As of December 31	
	2007	2006
No later than 1 year	621	583
Later than 1 year and not later than 5 years	297	596
	918	**1,179**

Other commitments

The Company has entered into contracts for clinical development with CROs. The Company compensates the CROs for the services provided on a regular basis. The expenditure contracted for at the balance sheet date but not yet incurred is equal to Euro 1.2 million.

Contingent liabilities

As mentioned at paragraph 1.1, the achievement of certain future development milestones related to ralfinamide project will trigger the assignment of the Purdue patents for an amount of Euro 2,250 and further milestone based payments to Purdue up to Euro 1,300.

23 Share capital

As of December 31, 2006, the subscribed share capital was equal to Euro 1,164,021.20, divided into 5,820,106 ordinary shares with nominal value equal to Euro 0.20 each. The authorized share capital is equal to Euro 1,234,500.00 (divided into n. 6,172,500 ordinary shares).

Following a resolution passed at an extraordinary Board of Directors meeting on February 7, 2007 the share capital increased up to Euro 1,166,953.20 divided into 5,834,766 ordinary shares with nominal value equal to Euro 0.20 each to allow some option holders to exercise their rights.

On April 23, 2007, the extraordinary shareholders meeting resolved to increase the corporate share capital through payments of maximum nominal amounts of Euro 56,800, with the exclusion of the pre-emption right pursuant to art. 2441, paragraph 5 and 8, of the civil code, to be made, in one or more portions, also on different occasions, by the issuing of 284,000 ordinary shares with a nominal value of Euro 0.20 each to be used in one or more new incentive plans reserved for employees, collaborators, consultants, directors of the Company and any of its current and future subsidiaries and/or other parties selected at the discretion of the Company's Board of Directors.

An extraordinary Board of Directors meeting held on December 17, 2007, resolved to increase the Company's share capital by Euro 48,401 divided into 242,005 ordinary shares with nominal value equal to Euro 0.20 each since the shareholders granted them this power. This capital increase was resolved to allow the option holders (ESOP 2003 and ESOP 2004) to exercise their rights.

As of December 31, 2007, the subscribed share capital was equal to Euro 1,166,953.20, divided into 5,834,766 ordinary shares with nominal value equal to Euro 0.20 each. The authorized share capital is equal to Euro 1,275,595.20 (divided into n. 6,377,976 ordinary shares).

A summary of the changes in share capital is as follows:

(In Euro)	Total
As of December 31, 2005	734,500.00
- issue of ordinary shares (subscribed)	429,521.20
As of December 31, 2006 – Newron stand alone	1,164,021.20
- issue of ordinary share (option plan)	2,932.00
As of December 31, 2007 – Newron Group	**1,166,953.20**

24 Share premium reserve

(In thousand Euro)	As of December 31	
	2007	2006
At the beginning of the year	82,148	30,565
Loss allocation	(15,509)	(14,620)
Issue of shares		73,827
Issue of shares (option)	284	0
Reclassification from stock option reserve	55	0
Share capital issue costs	0	(7,624)
At the end of the year	**66,978**	**82,148**

On February 7, 2007 the Board of Directors approved a capital increase of Euro 2,932, divided into 14,660 ordinary shares with nominal value equal to Euro 0.20 each to allow some option holders to exercise their rights.

25 Share options

To incentivise the efforts of employees, directors and certain consultants directed at the growth of the Company and its subsidiaries in the medium term the Group has approved three Share Option Plans: the first in October 2003 (ESOP 2003); the second in July 2004 (ESOP 2004) and the third in June 2007 (ESOP 2007) following the shareholders resolution described in note 23. The options have been awarded free of charge.

On June 18, 2007, the Group's Board of Directors granted to some employees, directors and certain consultants 60,680 options at an exercise price equal to Euro 36.83 each.

On February 7, 2007, the Company granted 22,000 options (October 2003 plan) to certain consultants at an exercise price equal to Euro 35.03 per option.

(In thousand Euro)	Employee Share Option Plans			
	2003	2004	2007	Total
At January 1	76,810	157,855	0	234,665
Granted	22,00	0	60,680	82,680
Exercised	(14,660)	0	0	(14,660)
At December 31	**84,150**	**157,855**	**60,680**	**302,685**
Grantable options	0	0	223,320	223,320

The Group's Board of Directors cannot grant further options under the ESOP 2003 and 2004 plans.

The options granted are recognized as personnel expenses over the vesting period. In 2007, option grants resulted in personnel expenses of Euro 343 (Euro 176 related to R&D and 167 related to G&A) and in 2006 such grants resulted in personnel expenses of Euro 607 (Euro 36 R&D and Euro 571 G&A).

Exercise price (in Euro)	Number outstanding	Weighted-average remaining contractual life (years)	Number exercisable
19.60	37,670	2.00	37,670
20.00	182,335	1.51	182,335
35.03	22,000	4.00	0
36.83	60,680	4.47	0
	302,685		**220,005**

26 Cash used in operations

(In thousand Euro)	For the year ended December 31	
	2007	2006
Net loss	(11,089)	(16,401)
Adjustments for:		
Depreciation and amortization	213	245
Interest income	(2,582)	(318)
Grants	(70)	(219)
Share option expenses	625	607
Employee severance indemnity expense	219	142
Changes in working capital:		
Inventories	822	(606)
Current receivables and prepayments and deferred cost (excluding grants receivable)	3,256	(6,170)
Trade and other payables and deferred income (excluding advances of grants)	(5,371)	11,740
Cash used in operations	**(13,977)**	**(10,980)**

Non cash transactions

The principal non-cash transactions relate to (i) grant income which has not yet been received and (ii) share option expenses. The interest income has been reclassified under the definition of "Cash flows from investing activities".

27 Loss per share

The basic loss per share is calculated by dividing the net loss attributable to shareholders by the weighted average number of ordinary and preferred (if any) shares during the year. Preferred shares were included in the calculation as they had similar rights to those of the ordinary shareholders.

(In thousand Euro)	For the year ended December 31	
	2007	2006
Net loss attributable to shareholders	(11,089)	(16,401)
Weighted average number of shares (thousands)	5,833	3,790
Loss per share – basic (in Euro)	(1.90)	(4.33)

The only categories of potential ordinary shares are the share options granted to employees and directors. During the presented periods, these were anti-dilutive, as their conversion would have decreased the loss per share. Thus, the values of the basic and diluted loss per share coincide.
In case Newron shows a profit in the future, options (as of today n. 302,685 – see also note 25) may have a dilutive effect on the net profit per shares.

28 Related party transactions

i) Related entity

During 2002 the Company contributed Euro 26 to the capital of Consorzio Italbiotec (formerly Roberto Lepetit) ("the Consortium"). The Consortium is a non-profit partnership. Its main objective is to promote research and development in the medical and pharmaceutical field. It also undertakes research and other projects for the benefit of the partners, who have joint control, as well as other interested parties.

Management has decided not to consolidate the Company's interest in the Consortium and, furthermore, to write down its value to Euro 1.00 for the following reasons:

- the Consortium is a non-profit enterprise;
- it does not propose to make any distributions to the partners;
- the Company may not reclaim any part of its contribution to the Consortium if it decides to withdraw;
- no decision has been made as to how the net assets are to be divided should the Consortium cease operations.

If the Consortium reports a loss in the year-end financial results, the Company must fund one-fourth of such loss, the remaining loss being funded by the three other partnering companies.

As of December 31, 2007 the Consortium had net equity of Euro 140 (2006: Euro 130) and a net profit of Euro 10 (2006: net profit of Euro 15).

ii) Purchases from related parties

Not applicable.

iii) Key management personnel

The total remuneration of key management personnel is as follows:

(In Euro)	For the year ended December 31	
	2007	2006
Salaries	1,745	1,383
Bonuses	262	420
Social security contributions	489	350
Share option compensation	502	114
Employee severance indemnity	85	57
	3,083	2,324

29 Events after the balance sheet date

In February 2008, the Group announced the signing of an agreement providing for the acquisition of 100% of the issued share capital of Hunter-Fleming Ltd, a private UK biopharmaceutical company developing new medicines to treat neurodegenerative and inflammatory disorders. The agreement will result in the strengthening of Group's pipeline and in the expansion of Newron' CNS expertise into neuro-inflammation. As a result of the acquisition Newron will also hold a minority interest (17%) in a Special Purpose Vehicle (SPV) set-up to develop a late-preclinical compound in asthma.
The companies have agreed an amount of Euro 8 million minus net debt for the acquisition of 100% of Hunter-Fleming shares; the price will be entirely paid for by newly issued Newron shares. In addition, the Company and Hunter Fleming agreed further success based milestones related to progression of Hunter- Fleming programs, up to a maximum of Euro 17 million. The above agreement is conditional to Newron shareholders' approval expected in April 2008.

Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Newron Pharmaceuticals S.p.A.

As group auditors, we have audited the consolidated financial statements (balance sheet, income statement, cash flow statement and notes) of Newron Pharmaceuticals S.p.A. for the year ended December 31, 2007.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with the International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

With respect to the comparative data as of and for the year ended December 31, 2006, reference should be made to the audit report issued by other auditors on March 21, 2007.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

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

Milan, March 20, 2008

Reconta Ernst & Young S.p.A.

Paolo Zocchi
(Partner)

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Glossary

Activities of Daily Living (ADLs)
Routine activities of everyday life that people tend to do on a daily basis without needing assistance. There are six basic ADLs: eating, bathing, dressing, toileting, transferring (walking) and continence. An individual's ability to perform ADLs is important for determining what type of long-term care (e.g. nursing home care or home care) and coverage the individual needs (i.e. government-funded health care or long-term care insurance).

Adjunctive treatment
A drug added as a supplement to increase the efficacy/decrease side effects/change the pharmacokinetics (PK) of another already prescribed treatment, e.g. (i) improve efficacy of a first-line therapy, e.g. adding a dopamine agonist to patients on levodopa, (ii) improve the tolerability and safety of the first-line therapy, e.g. use of anti-cholinergics to patients on neuroleptics, and (iii) improve the PK/brain availability of the first-line therapy, e.g. COMT-inhibitors administered to patients on levodopa.

Agonist
An endogeneous or exogeneous agent that mimics the action of hormones and/or neurotransmitters on their receptors to enhance the response. For example, dopamine agonists stimulate specific brain dopamine receptors to obtain motor response.

Allodynia
Pain from mechanical or thermal stimuli which are not normally painful. Allodynia is not referred pain and can occur in other areas that are not stimulated.

Alpha-aminoamide derivative
The chemical class to which both safinamide and ralfinamide belong. More specifically, it is an amide derivative of an alpha-amino acid.

Alzheimer's disease
A progressive degenerative disease of the brain of unknown etiology, characterized by diffuse atrophy throughout the brain with characteristic pathological changes suggestive of degeneration, and/or necrosis. The disease is characterized by a progressive deterioration of memory, cognitive function and changes in personality. Death usually occurs within 7 to 10 years of the time of diagnosis in most patients.

Benzodiazepines
A class of drugs with hypnotic, anxiolytic, anticonvulsant, amnestic and muscle relaxant properties, which are used for short-term relief of severe, disabling anxiety, insomnia, and muscle relaxation for surgical procedures.

Cannabinoid
A group of chemicals which activate the body's cannabinoid receptors. Currently, there are three general types of cannabinoids: (i) herbal cannabinoids occur uniquely in the cannabis plant, (ii) endogenous cannabinoids are produced in the bodies of humans and other animals, and (iii) synthetic cannabinoids are similar compounds produced in a laboratory.

Central Nervous System (CNS)
The nerves and cells of the brain and spinal cord.

Chemical scaffold
Chemical structure subunit shared by the molecules of a given chemical class.

Clinical Global Impression Scale
A scale which provides an overall assessment of the global severity of illness, and change in the clinical condition of the patients compared with pretreatment status.

Daily motor fluctuations (the "on/off" effect)
An unpredictable succession of "off" periods when patients experience full disability and "on" periods when the drug being administered is successfully alleviating the patient's symptoms.

Dopamine
A neurotransmitter known to have multiple functions depending on where it acts. Dopamine-containing neurons in a specific area of the basal ganglia are destroyed in Parkinson's victims.

Dopamine reuptake
The active transport of dopamine from the synaptic cleft into the presynaptic neuron after it has performed its function of transmitting a neural impulse.

Dopaminergic system
The system of nerve cells that uses dopamine as its neurotransmitter.

Double-blind study
A clinical trial design in which neither the participating individuals (healthy volunteers or patients) nor the study staff know which participants are receiving the experimental drug and which are receiving placebo or another active treatment. Double-blind trials are thought to produce objective results, since the expectations of the doctor and the participant about the experimental drug do not affect the outcome.

Dyskinesias
Abnormal, involuntary body movements that can appear as jerking, fidgeting, twisting, and turning movements.
In the context of Parkinson's disease, dyskinesias are often the result of chronic levodopa therapy. These motor fluctuations occur in more than half of PD patients with levodopa therapy. Dyskinesias most commonly occur at the time of peak levodopa plasma concentrations and are thus referred to as peak-dose dyskinesias. As patients advance, they may evidence diphasic dyskinesias, which occur when the drug concentration rises or falls.

Endogenous
Produced or synthesized within the organism.

Epilepsy
Any of various chronic neurological conditions marked by abnormal electrical discharges in the brain and typically manifested by sudden brief episodes of altered or diminished consciousness, involuntary movements, or convulsions.

EPO
European Patent Office

Executive function
Executive function is a collection of varying abilities that involve regulatory control over thought and behaviour in the service of goal-directed or intentional action, problem solving, and flexible shifting of actions to meet task demands. Clinical data about executive function can be obtained by observing an individual's ability to problem-solving in the natural environment and assessing how flexible a person is when faced with a changing routine.
The major executive functions include response inhibition (which permits impulse control, resistance to distraction and delay of gratification); nonverbal working memory (which permits the holding of events in the mind and allows self-awareness across time); verbal working memory (which comprises the internalization of speech and permits self-description, questioning and reading comprehension); and self-regulation of emotion and motivation (which permits motivation, persistence toward a goal and emotional self-control).

GABA
Gamma-Amino Butyric Acid, a neurotransmitter which acts at inhibitory synapses in the brain and spinal cord.

Gastrointestinal
Relating to, or affecting both stomach and intestine or their functions.

Glutamate
A salt or ester of levorotatory glutamic acid. Glutamic acid is an amino acid, one of the 20 building blocks of proteins. It is involved in ammonia metabolism and serves as an excitatory neurotransmitter.

Half-life
The time required for half the amount of a drug introduced in an organism to be metabolised or excreted; most commonly refers to drug plasma levels.

Inflammatory pain
Triggered by nerve endings that become irritated when surrounded by inflamed tissue.

In vitro
A biological or chemical process occurring outside a living organism, i.e. conducted on cultured cells.

In vivo
A biological or chemical process occuring inside a living organism.

Ion channels
Pore-forming proteins that help to establish and control the voltage gradient that exists across the plasma membrane of all living cells by allowing the flow of ions down their electrochemical gradient. They are present in the membranes that surround all biological cells.

Levodopa
A drug which is used to treat Parkinson's disease which helps restore levels of dopamine, a chemical messenger in the brain responsible for smooth, coordinated movement and other motor and cognitive functions.

Mania
Mania is a severe medical condition characterized by extremely elevated mood, energy, and unusual thought patterns.

MAO-B (Monoamine oxidase B)
An enzyme that is responsible for the metabolism of dopamine and phenylethylamine in the brain. Thus, inhibiting MAO-B is a therapeutic strategy for the treatment of PD.

MAO-B inhibitor
A drug which inhibits the MAO-B enzyme activity.

Migraine
A neurological disease that can cause a wide range of symptoms during an attack, most commonly headaches.

Mild Cognitive Impairment
Mild Cognitive Impairment is a general term most commonly used to describe a subtle but measurable memory disorder. According to this definition, a person with Mild Cognitive Impairment has memory problems greater than normally expected with aging, but does not show other symptoms of dementia, such as impaired judgment or reasoning.

Mixed peripheral neuropathic pain
Peripheral neuropathic pain of different aetiologies.

N-type calcium channels
A calcium channel subtype, belonging to the high voltage activated (HVA) calcium channels, that is particularly involved in the process of synaptic neurotransmitter release.

Neurons
Cells that constitute nervous tissue, that have the property of transmitting and receiving nervous impulses.

Neurodegenerative
Relating to or characterized by the degeneration of nervous tissue.

Neuropathic pain
The International Association for the Study of Pain (IASP) has defined neuropathic pain as "pain initiated or caused by a primary lesion or dysfunction of the nervous system". These lesions may be in the peripheral or central nervous system, and frequently both systems are involved with chronic neuropathic pain states. Examples include phantom limb and spinal cord injury pain, painful diabetic neuropathy, post-herpetic neuralgia, sciatica, trigeminal neuralgia, and drug-induced (e.g., vinca alkaloids) neuropathy.

Neurotransmitter
A chemical substance in the brain that either excites or inhibits neural function.

New Chemical Entity (NCE)
A compound of a completely new chemical form, which has not been previously approved, and therefore can be patented.

Nociceptors
Sensory receptors responsible for nociception, the perception of pain in response to potentially damaging stimulus.

NSAIDs
Non-steroidal anti-inflammatory drugs.

Off-label
The use of a drug for a medical condition other than for which it was officially approved and marketed.

Onset of action
The length of time it takes for a medicine to start to work.

On time
During on times, patients report they feel relatively fluid, clear, and in control of their movements. Often, symptoms of PD may be invisible to all but professionals.

Open label
A study in which all parties (patient, physician and study coordinator) are informed of the drug and dose being administered.

Opioids
A synthetic drug (such as methadone) possessing narcotic properties similar to opiates but not derived from opium.

Parkinson's disease (PD)
PD is a degenerative disorder of the central nervous system that affects the control of muscles, and so may affect movement, speech and posture. Parkinson's disease belongs to a group of conditions called movement disorders. It is often characterized by muscle rigidity, tremor, a slowing of physical movement (bradykinesia), and in extreme cases, a loss of physical movement (akinesia). The primary symptoms are the result of excessive muscle contraction, normally caused by the insufficient formation and action of dopamine, which is produced in the dopaminergic neurons of the brain. Secondary symptoms may include high-level cognitive function and subtle language problems. PD is both chronic, meaning it persists over a long period of time, and progressive.

Pivotal study
Usually a phase III study which presents the data that the governmental agencies responsible for approving the marketing of pharmaceutical products (e.g., the U.S. FDA and EMEA) use to decide whether or not to approve a drug. A pivotal study will generally be well-controlled, randomized, of adequate size, and whenever possible, double-blind.

Placebo
An inactive substance designed to resemble the drug being tested. It is used as a control to rule out any psychological effects testing may present.

Product Candidate (or Clinical Compound)
A molecule that is selected at the end of pre-clinical studies to be the subject of the clinical phase of development.

Randomized/Randomization
Study participants are usually assigned to groups in such a way that each participant has an equal chance of being assigned to each treatment (or control) group. Since randomization ensures that no specific criteria are used to assign any patients to a particular group, all the groups should be comparable.

Receptor
A protein complex within a cell or on the membrane surface characterized by selective binding of a specific substance and a specific physiologic effect that accompanies the binding.

Restless Legs Syndrome (RLS)
Restless legs syndrome (RLS) is a Sleep disorder/movement disorder that causes tingling, pulling, creeping or painful sensations in the legs at night. This sensation is brought on by lying down in bed or sitting for prolonged periods, such as while driving or at a theatre. RLS typically occurs in the evening, making it dif-

ficult to fall asleep. Often, people with RLS want to walk around and shake their legs to help relieve the uncomfortable sensation.

Reuptake

Reuptake is the process by which a neurotransmitter, after it has performed its function of transmitting a neural impulse, is transported back into the cell for reuse.

Substance P

Substance P is a neuropeptide: a short-chain polypeptide that functions as a neurotransmitter and as a neuromodulator. It is a molecule that acts as a messenger for the sensation of pain.

Substantia nigra

An area of the brain where there are cell bodies of dopaminergic neurons projecting to the striatum, a circuit involved in motor control. The death of dopaminergic neurons in the substantia nigra is one of the causes of PD.

Titration-up

Administration of small incremental doses of a drug until a desired clinical effect is reached.

Tricyclic

Molecular structures which contain three rings of atoms. The term "tricyclic antidepressant" is related to imipramine, desimipramine, amitriptyline, etc.

Tetrodotoxin

A potent neurotoxin, extracted from puffer fish, that binds and blocks the great majority of sodium ion channels in cellular membranes.

Tetrodotoxin-resistant

A sodium ion channel which is resistant to the blocking activity of TTX.

Tetrodotoxin-sensitive

A sodium ion channel which is sensitive to the blocking activity of TTX.

Tyramine

A monoamine compound derived from the amino acid tyrosine-a member of the phenethylamine family.

UPDRS

The Unified Parkinson's disease Rating Scale is the standard tool for tracking Parkinson's disease progress and response to therapy, subdivided into three scales including cognitive and mood aspects (Part I), Activities of Daily Living (Part II) and motor aspects symptoms (Part III), as well as dyskinesia aspects (Part IV). A lower score indicates a better condition than a higher score.

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