Newron
Pharmaceuticals

Annual Report 2008

Corporate Profile

Newron Pharmaceuticals (SIX: NWRN) is a clinical-stage biopharmaceutical company that aims to discover and develop new therapies for diseases of the Central Nervous System (CNS) and pain.

Newron's two lead programmes are both currently in late-stage clinical trials. Newron is undertaking phase III trials with safinamide for the treatment of patients with Parkinson's disease alongside its partner Merck Serono. With ralfinamide, Newron has recently initiated a phase IIb/III trial for the treatment of Neuropathic Low Back Pain (NLBP).

In May 2008, Newron acquired Hunter-Fleming, a private UK-based biopharmaceutical company developing new medicines to treat neurodegenerative and inflammatory disorders. The acquisition added three compounds in clinical development and one in discovery to Newron's pipeline. In addition, Newron continues to broaden its portfolio of early-stage compounds generated through its ion channel drug discovery platform.

Newron is headquartered in Bresso, Italy, with clinical development facilities in Basel, Switzerland, and Bristol, UK.

2008 Highlights

Acquisition and integration of Hunter-Fleming Ltd.

Safinamide:

- Patent protection strengthened by EPO “Intention to Grant”-letter
- Completion of patient enrolment in phase III clinical trial in mid- to late-stage Parkinson’s disease
- Positive top-line results reported for this trial early 2009

Ralfinamide

- Phase II study with ralfinamide in peripheral neuropathic pain completed – results in Nerve Compression and Entrapment subpopulation presented April 16 at the American Academy of Neurology 60th Annual Meeting in Chicago
- Initiation of phase IIb/III study of ralfinamide in patients with Neuropathic Low Back Pain (NLBP)

Positive phase II safety and tolerability results for HF 0220 in patients with mild to moderate Alzheimer’s disease

Dr. Patrick Langlois, Ragnar Linder, Professor Dr. Hanns Moehler and Dr. Hans-Joachim Lohrisch appointed to the Board

CHF 30 million long term-standby equity line secured with YA Global Investments, L.P.

EUR 5 million awarded by the Italian government for R&D and training support and EUR 1 million awarded by Regione Lombardia to a consortium including Newron for R&D on innovative Na(v) 1.7 blockers for the treatment of pain

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Chairman's Letter

Rolf Stahel

Dear Shareholder

In its challenge to find effective new medicines to treat diseases of the Central Nervous System and pain, Newron has completed a very busy and positive year. This applies both in the clinic and in pursuing our goal of broadening the development pipeline and creating a healthy, sustainable business.

In the first part of the year, we completed our acquisition of the UK-based CNS company, Hunter-Fleming, and the integration of the two companies' programmes and teams was successfully completed. Consistent with Newron's growth strategy, the acquisition of Hunter-Fleming enlarges Newron's clinical-stage pipeline, particularly in the area of neuro-inflammation. The consolidation of our expertise in this highly promising field potentially creates exciting new opportunities to treat a range of neurodegenerative diseases. We are particularly looking forward to progressing further in the clinic with the compound HF0220, during the year ahead.

Our lead compound is safinamide, in development in phase III as a combination treatment for Parkinson's disease with our partner Merck Serono who licensed the worldwide rights from us in 2006. During the year we were notified by the European Patent Office that we would be granted a patent for the combination of safinamide with L-dopa to treat Parkinson's disease, extending our intellectual property protection up to 2024 and further strengthening the compound's overall position. Since the year closed, we have reported positive top-line data showing that safinamide significantly improved motor function in patients with advanced Parkinson's disease in a phase III pivotal trial. We look forward, with confidence, to reporting fully on this data during the coming year.

In April, we reported excellent results in the Nerve Compression and Entrapment subpopulation from a phase II trial with ralfinamide in peripheral neuropathic pain at the American Academy of Neurology Annual Meeting in Chicago. This trial had already reported significantly improved efficacy in the overall population in 2007. From the results, we determined to continue development of ralfinamide in Neuropathic Low Back Pain (NLBP) and a phase IIb/III trial has been initiated early in 2009. NLBP is a huge market for which there are no approved drugs. Newron retains full rights to ralfinamide worldwide and we aim to complete the next stage of development with this valuable asset ourselves.

In October the Company announced that the Italian Government had awarded Newron EUR 5 million for its efforts in research and identification of novel compounds for the treatment of diseases of the Central Nervous System.

The ongoing global economic downturn has had a severe effect on the biotechnology industry which depends in general heavily on the need to raise new funds to finance clinical trials. By their very nature, innovative medicines that will improve patients lives, rightly take years of diligent development before they undergo the rigorous approval processes that exist around the world. We have made strenuous efforts to ensure that we have sufficient funds at our disposal to safeguard our ongoing projects and in 2008 this has been a key priority. In December we secured a CHF 30 million long-term standby equity line with US-based YA Global Investments, L.P., which we believe provides Newron with financial flexibility in the current market environment. Under the terms of the agreement, Newron has the option to take up YA Global's commitment to subscribe and pay for newly issued Newron shares to a total value of up to CHF 30 million over a period of 36 months at the sole and exclusive discretion of Newron. We are delighted to have made this agreement giving us the option to raise significant funds over the next three years.

Besides scientific and commercial progress of a company, the visibility of the share in public markets is fundamental to a successful performance. We were therefore very appreciative of the decisions by the SIX Swiss Exchange to include Newron into the SPI Swiss Performance Index as of May 6 and into the SXI Subindices for Life Sciences and Bio+Medtech as of September 22.

During 2008 and in the natural course of an entrepreneurial company becoming more mature, we have welcomed new independent non-executive directors, Dr. Patrick Langlois, Ragnar Linder, Professor Dr. Hanns Moehler and Dr. Hans-Joachim Lohrisch to our Board. I would like to thank our Board members, past and present, for their commitment and input to the business.

As always, an organization is only as strong as the people that work within it and Newron is fortunate to have dedicated, professional and forward-thinking staff, all of whom the Board thanks for their hard work. We are also grateful for the continued support of all our shareholders for whom we intend to deliver a world-class CNS biopharmaceutical company.

Rolf Stahel
Chairman

CEO's Letter

Luca Benatti

Dear Shareholder

In the past year Newron has achieved some major milestones on its path to becoming a leading CNS and pain biopharmaceutical company. Collectively, these position us well for the year ahead as our late-stage clinical pipeline is expanded and progresses.

A good deal of hard work and effort has been carried out by both Newron and our partner, Merck Serono, in the further development of our lead drug, safinamide. This has been rewarded by our recent announcement of the top-line results from a phase III trial in patients with advanced Parkinson's disease. We were very pleased that the six-month primary efficacy endpoint of the study was met. Both doses of 50 mg and 100 mg significantly increased "ON" time – the time during which levodopa-treated patients with mid- to late-stage Parkinson's disease are able to undertake daily activities. The secondary efficacy endpoints of the study, analyzed to date, were also met in both doses. Following the full analysis of the study results, the data will be submitted for presentation at a scientific meeting in 2009. Further phase III trials will complete the full data set and we look forward to reporting on these.

In December we received approval to initiate the first phase IIb/III study of ralfinamide in patients with moderate Neuropathic Low Back Pain (NLBP). The study will evaluate the efficacy and safety of two dose regimens of ralfinamide, compared to placebo. This study is one of the two potentially pivotal studies required for an approval in Neuropathic Low Back Pain, an indication with a prevalence of about 8% of the general population (US, Europe and Japan). The decision to pursue development in this indication was made after data announced in April showed a statistically significant and clinically relevant improvement in patients with neuropathic pain as a result of Nerve Compression/Nerve Entrapment (NCET). There are currently no treatments for NLBP in a very sizeable market and in early 2009, we started the new trial. During 2008, we made significant progress in the development of NW-3509, as well, which is undergoing IND-enabling studies. The compound shows promising efficacy in models of schizophrenia and mania.

In May we completed our acquisition of Hunter-Fleming, a privately-owned, UK company focusing on R&D in CNS diseases with a very interesting development pipeline. Bringing the two companies together has enabled us to create an expanded, broader clinical pipeline as well as strengthen the Newron team with additional expertise in neuro-inflammation – an area which we believe will be increasingly more important as a therapeutic field and in which we intend to play a key role. As a small company, we need to give careful consideration to which clinical programmes that we can give priorities to. HF0220, the lead compound being acquired, was already undergoing a phase II safety and tolerability trial in Alzheimer's disease and in October we announced positive results in patients with mild to moderate disease. These results show HF0220 to be a very valuable asset and we have been reviewing how we take it forward in development and in which neurodegenerative indication in order to give us a clear return-on-investment opportunity. It is our intention to give more details on this front during 2009.

We continue to review all options for creating growth and value at Newron through the expansion and development of our CNS and pain development pipeline. The volatility in the financial markets creates both challenge and opportunity. Our three-year standby equity agreement with YA Global Investments, however, gives us both strengthened financial security and the ability to look at potentially acquiring further assets that will accelerate our further growth.

At Newron, our team is driven by the shared objective to improve the lives of patients with disabling CNS diseases. It is at the core of every research and development decision that we make. During 2009 we expect to make great strides towards making this a reality for the company and its shareholders. I am grateful to the Newron team for all their efforts.

Luca Benatti
Chief Executive Officer

Company Information

19%

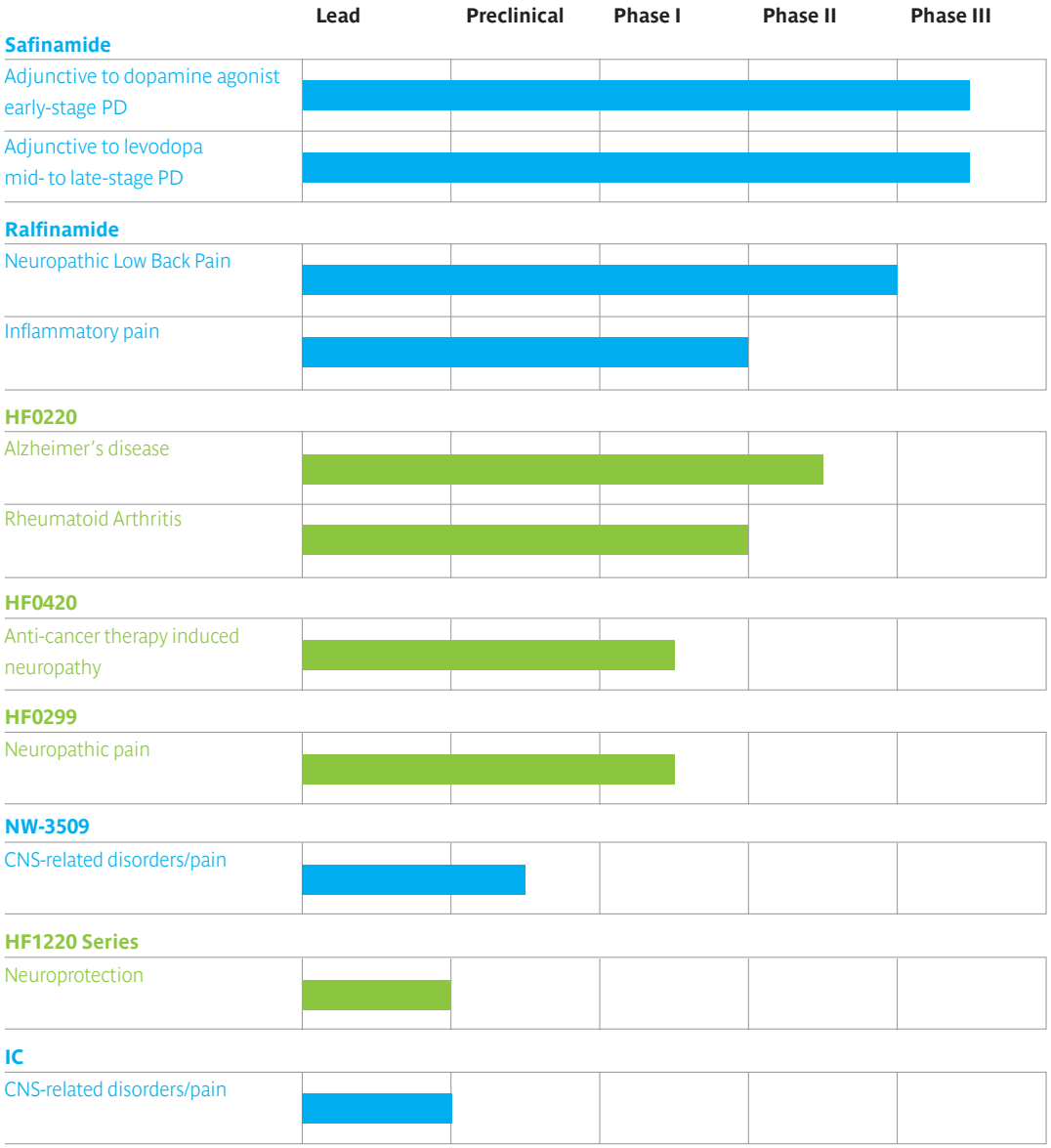
Alzheimer's disease

Alzheimer's disease (AD) is a degenerative disease of the brain, characterized by a progressive deterioration of memory, cognitive function and changes in personality. AD leads to dementia. The likelihood of developing old age AD doubles every 5 years starting from the age of 65. For people over the age of 75, the prevalence is 19%*.

* 2007 Alzheimer's Facts and Figures, Alzheimer's Association

Drug Portfolio

The first positive phase III results of safinamide in patients with mid- to late-stage Parkinson's disease, the initiation of a potentially pivotal phase IIb/III trial with ralfinamide in patients with Neuropathic Low Back Pain (NLBP) and the successful integration of former Hunter-Fleming compounds into the pipeline reflect robust 2008 progress of Newron's CNS late-stage clinical pipeline of highly innovative compounds.



Newron is undertaking Phase III trials with safinamide for the treatment of PD together with its partner Merck Serono
IC= Ion Channel Programme
HF1020 in preclinical development for asthma is part of Newron's equity holding in Trident

Safinamide

Safinamide is an alpha-aminoamide derivative which is orally administered. Safinamide is believed to have a novel dual mechanism of action based on the enhancement of the dopaminergic function (through reversible inhibition of monoamine oxidase-B [MAO-B] and of dopamine uptake) and reduction of glutamatergic activity by inhibiting glutamate release. The compound is currently being developed by Merck Serono and Newron as an add-on treatment for patients with Parkinson's disease.

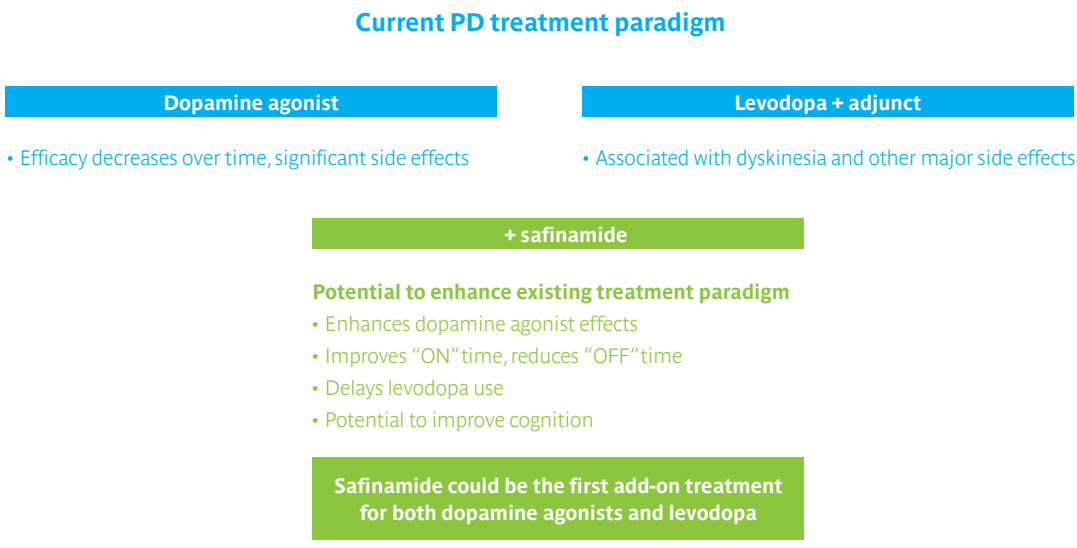
Profile

Safinamide stems from a novel chemical class called alpha-aminoamide derivatives. It enhances brain dopamine by highly selective MAO-B inhibition and dopamine re-uptake inhibition and it antagonizes the stimulated release of glutamate. It is highly bioavailable with absorption unaffected by food, shows linear kinetics and a half-life of 21–24 hours, making it well suited for once a day treatment. To date, it has not shown any tyramine potentiation in animal or human studies; all therapeutic studies are performed without any tyramine restriction.

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 PD, Alzheimer's disease, and other therapeutic applications.

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

Parkinson's disease treatment strategies: potential options with safinamide as add-on



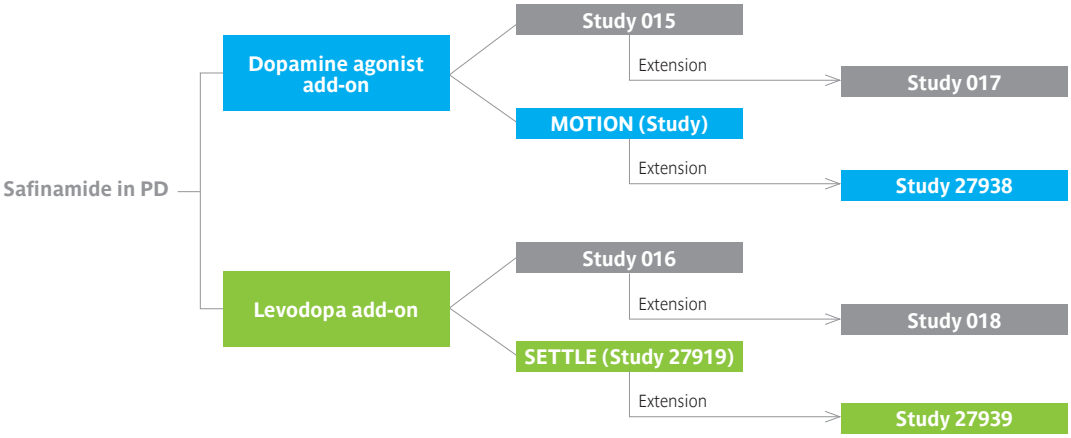
Parkinson's disease is a degenerative disorder of the Central Nervous System that often impairs the patient's motor skills and speech. Parkinson's disease belongs to a group of conditions called movement disorders. It is characterized by muscle rigidity, tremor, a slowing of physical movement (bradykinesia) and, in extreme cases, a loss of physical movement (akinesia). The primary symptoms are the results of decreased stimulation of the motor cortex by the basal ganglia, 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 dysfunction and subtle language problems. Parkinson's disease is both chronic and progressive. It is estimated that more than 3 million people in the industrialized countries suffer from Parkinson's disease. World sales of anti-Parkinsons's drugs for the 12 months to Q3/2008 were at about USD 4.2 bn.*

Key achievements

Safinamide is being developed in clinical phase III for two subindications of PD: As add-on to dopamine agonists in early-stage PD patients, and as add-on to levodopa in mid- to late-stage PD patients.

The development plan foresees two phase III trials each of 6 months' duration per subindication, followed by an extension period of 12 or 18 months for safety purposes. Further efficacy analyses are performed during the extension period, as well, to assess long-term efficacy. These are not required for filing of the compound with health authorities for approval.

Safinamide Clinical Development Plan



Phase II PoC:

A phase II placebo-controlled study in early-stage PD patients on dopamine agonists had already shown a statistically significant and clinically relevant superiority versus placebo at a daily dose of 1 mg/kg (~85 mg) of safinamide on motor symptoms (UPDRS III).

* IMS Knowledge Link, IMS Health Inc. 2009

Studies 015/017:

In 2007, Newron and Merck Serono had completed reporting on the first phase III trial of safinamide as add-on treatment to dopamine agonist therapy in patients with early-stage PD (study 015 and extension study 017) in 270 patients.

Safinamide at a dose of 50 to 100 mg/day added to patients who were still benefiting from dopamine agonist treatment at 6 months showed:

At 6 months:

- Statistically significant, clinically relevant improvement in motor symptoms (UPDRS III)
- Statistically significant improvement in activities of daily living (UPDRS II) and quality of life (EUROQOL)

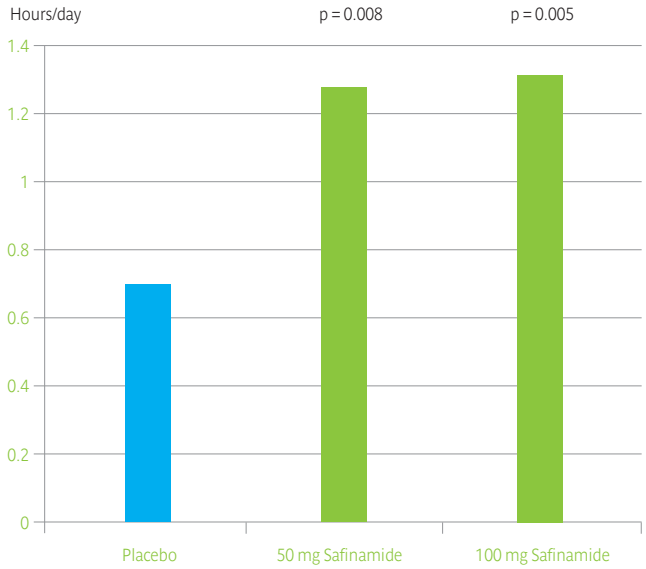
At 18 months:

- Side effects, ECG changes and vital signs abnormalities reported with similar frequency in patients receiving safinamide and in placebo group
- Statistically significant improvement in motor symptoms (UPDRS III) and quality of life (EUROQOL) in a post-hoc analysis
- Potential to reduce the number of patients experiencing interventions in a post-hoc analysis

Study 016:

After completing patient treatment in December 2008, Newron and Merck Serono reported on February 3, 2009, that the first pivotal phase III trial of safinamide as add-on to levodopa in mid- to late-stage patients met its primary endpoint by increasing daily "ON" time in mid- to late-stage Parkinson's disease patients with motor fluctuations by 1.3 hours compared to 0.7 hours for patients in the placebo group. "ON" time represents periods when Parkinson's patients experience their best level of motor functioning.

Average increase of total daily "ON"time versus baseline



This phase III study was a 6-month (24-week), randomized, double-blind, placebo-controlled international trial. It enrolled 669 patients with mid- to late-stage idiopathic Parkinson's disease (more than three years of disease duration) receiving stable doses of levodopa who had motor fluctuations with >1.5 hours of "OFF" time during the day. Additionally, patients may have received concomitant treatment with stable doses of a dopamine agonist and/or an anticholinergic drug. After a four-week levodopa dosage stabilization phase, study participants were randomized to one of the three arms of the trial (1:1:1) to receive either one of two different doses of safinamide (50 or 100 mg once daily: 223 and 224 patients, respectively) or matching placebo tablets (222 patients) as adjunctive treatment to their levodopa therapy. The primary efficacy endpoint of the study was the increase in mean daily "ON" time ("ON" time without dyskinesia plus "ON" time with minor dyskinesia) during an 18-hour period as assessed by patients' recordings on diary cards.

The trial demonstrated statistically significant and clinically relevant efficacy of both 50 mg/day and 100 mg/day of safinamide.

- The primary efficacy endpoint was met: safinamide significantly improved motor symptoms by increasing "ON" time
- Secondary efficacy endpoints analyzed thus far were met:
  - Decrease in daily "OFF" time
  - Decrease in mean "OFF" time following first morning dose of levodopa
  - Mean change from baseline UPDRS Section III (motor) score during "ON" time
  - Mean change in Clinical Global Impression of severity of disease
  - Change in Clinical Global Impression from baseline

The safety assessment of safinamide showed a favourable outcome, as

- The study had a high completion rate (approx. 89%)
  - Incidence of dropouts, serious adverse events or clinically notable events comparable among the three groups of the study
- High rate (over 90%) of rollover into extension study
- The incidence of dropouts, serious adverse events or clinically notable events among the three groups of the study were comparable.

The full study results after completion of ongoing analyses will be submitted for presentation at upcoming scientific meetings.

Newron's management is upbeat on this news, as in addition to increasing "ON" time and reducing total "OFF" time, as well as "OFF" time after a morning dose in patients with mid- to late-stage Parkinson's disease receiving optimized treatment with drugs including levodopa, dopamine agonists, COMT inhibitors, anticholinergics and amantidine, the results indicate a statistically significant improvement of motor function. Previously reported results from phase II and phase III studies have shown improvement of motor symptoms in early Parkinson's disease patients on dopamine agonist monotherapy. These results from both early-stage and advanced Parkinson's disease patients underline safinamide's potential to be used as adjunctive therapy along the continuum of Parkinson's disease.

Newron and Merck Serono are set to complete the development programme towards the registration of safinamide in PD, speeding up the execution of the MOTION clinical trial and initiating the SETTLE clinical trial within a short timeframe.

Patent protection

In February 2008, Newron reported that a patent application directed at the use of safinamide and levodopa for the treatment of PD has been granted by the European Patent Office. This patent will extend protection in Europe to 2024. The same combination therapy patent for safinamide in PD was filed in the US as well and, if granted as in the EU, would extend further the IP protection in the US, which currently lasts up to 2013. If the supplementary extension is obtained, the protection could be extended to 2018.

In October 2008, Newron reported that the European Patent Office (EPO) has granted the company the European patent "Alpha-aminoamide derivatives useful in the treatment of Restless Legs Syndrome". The application was filed by Newron in Europe and in all major countries in 2005. The patent relates to methods for treating Restless Legs Syndrome (RLS) through the administration of safinamide.

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.

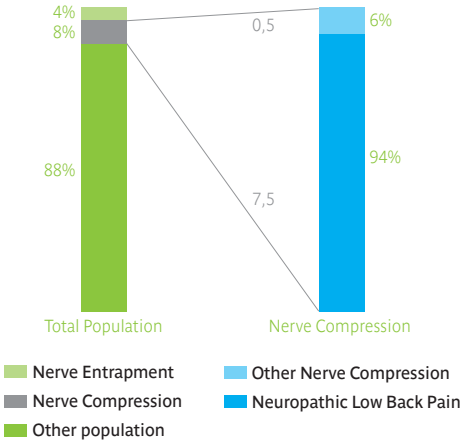
Profile

Discovered through Newron's ion channel programme, ralfinamide stems from a new chemical class. The compound modulates sodium, calcium and NMDA receptors, which are key targets for the control of pain transmission. Out of a number of approved drugs and development compounds, it is the most potent inhibitor of the Na(v) 1.7 channel, as evidenced by third-party publications*.

Ralfinamide shows linear kinetics and excellent drugability. In models of neuropathic pain it has shown long-lasting allodynic and antihyperalgesic effects and did not lead, in either models nor patients to the development of tolerance when given chronically. The compound does not require titration and is administered twice a day.

Newron is developing ralfinamide for the treatment of Neuropathic Low Back Pain (NLBP), a form of chronic pain initiated or caused by the presence of a primary lesion, damage or disruption to some components of sensory neurons involving the area from the lower rib cage to the gluteal folds, leading to aberrant transmission of pain signals. NLBP is by far the most common clinical emergence of neuropathic pain (about 50% of patient prevalence and about 60% of diagnoses)**. About 55 million patients in the USA, Europe and Japan experience NLBP. So far, no drugs have been approved for the treatment of this indication.

NLBP: patient potential for ralfinamide



More than 55 million patients are potential candidates for treatment with ralfinamide for Neuropathic Low Back Pain in US, EU and JP.

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

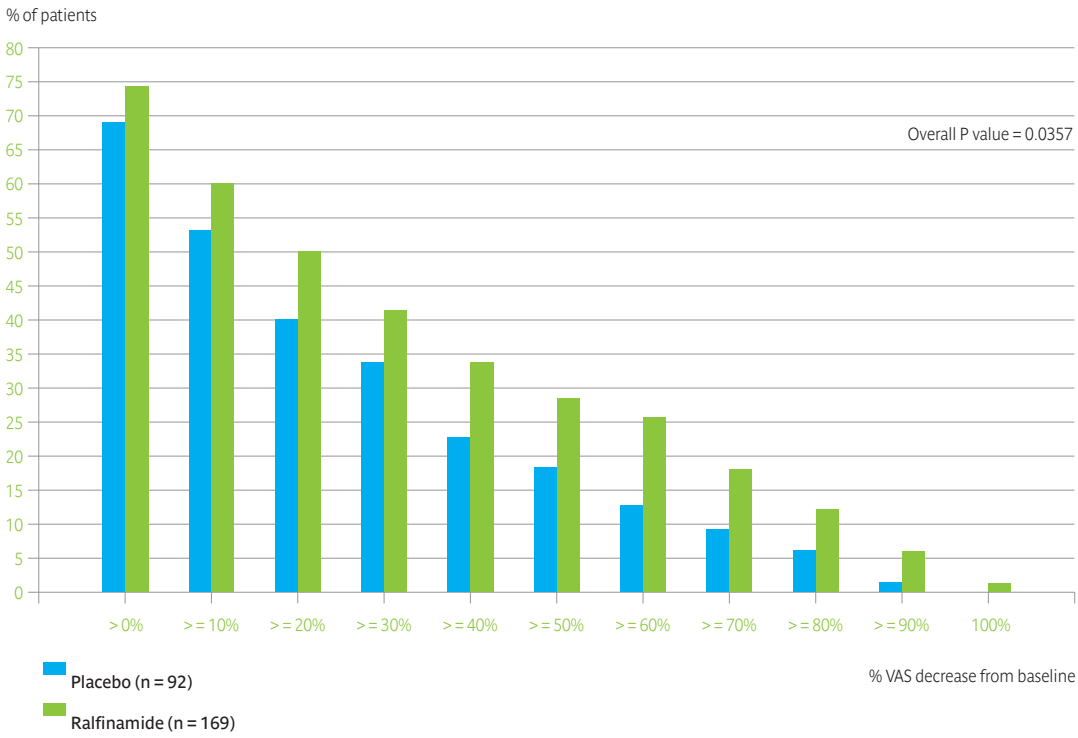
Key achievements

On April 15, 2008, Newron presented the results from the detailed analyses of the phase II trial of ralfinamide in patients with neuropathic pain at the American Academy of Neurology 60th Annual Meeting in Chicago (for trial design and detailed results, see http://www.newron.com/uploads/NewronRalfinamidePhaseIIresultsApril16.pdf).

The trial had been designed to include patients with numerous forms of Peripheral Neuropathic Pain (PNP) conditions to determine if the multiple mechanisms of action of ralfinamide would show a unique benefit in any specific neuropathic pain condition. In the overall study population 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 mean change in the patient-rated Visual Analog Scale (VAS) and Likert Pain Scale – measures of the severity of pain. Responder rates were significantly increased compared to placebo and patients experienced a significant improvement in the quality of sleep and their performance of daily activities.

Ralfinamide efficacy in overall study population in phase II PoC trial:

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



A recent review of the trial population indicated that the largest group, 96 out of 272 patients included, was experiencing neuropathic pain due to Nerve Compression/Nerve Entrapment (NCET). In these patients, treatment with ralfinamide compared to placebo was demonstrated to be highly efficacious as judged by the reduction in the intensity of pain as measured by the VAS and LPS in analyses of mean change from baseline, as well as responder rates in all patients with NCET included in the trial (ITT population).

Management sees these as very exciting results as they demonstrate the benefits of ralfinamide in a large population of patients for whom no other neuropathic pain treatments have been shown to be effective. Using a high threshold to determine the clinical relevance of the benefit, i.e., 50% reduction of pain, significant differences between ralfinamide and placebo were noted. Based on the magnitude of the reduction in pain, significant benefits were also noted in the quality of sleep, daily activities, and type of pain. The robustness of the effect was noted across different analysis populations. As these data were derived from almost 100 patients with NCET, the results can be considered predictive for future trials. As a large number of these patients experience low back pain due to a neuropathic component, the benefits demonstrated suggest that ralfinamide may provide a unique therapeutic benefit for patients with Neuropathic Low Back Pain (NLBP), an indication accounting for about 60% of all neuropathic pain diagnoses.

Newron's regulatory affairs management has spent considerable effort in meeting authorities in Europe and North America to obtain agreement on the further development of ralfinamide.

The NLBP indication, the study design diagnostic criteria, outcome measures and statistical analysis plan have been discussed with major health authorities and the protocol reflects the agreements reached. The registration dossier would require positive results from two pivotal studies, 1,500 unique human exposures and at least 100 patients treated for one year.

Initiation of first phase IIb/III study of ralfinamide in patients with moderate NLBP

Upon such agreement and the confirmation that NLBP will be recognized as an indication by a range of national health authorities as well as the EMEA, Newron has initiated its first phase IIb/III study of ralfinamide in patients with moderate NLBP. The study will evaluate the efficacy and safety of two dose regimens of ralfinamide, compared to placebo. This study is one of the two potentially pivotal studies required for an approval in NLBP, an indication with a prevalence of about 8% of the population with no approved treatments currently available.

The study is a 12-week, randomized, double-blind, international (Europe and Asia), phase IIb/III trial. It will randomize approximately 400 patients with chronic NLBP of at least moderate severity as judged by the patients. Patients will be diagnosed in accordance with the diagnostic criteria proposed by the International Association for the Study of Pain (IASP). Patients will be randomized to treatment with ralfinamide at a daily dose of 160 mg, 320 mg, or matched placebo.

The primary efficacy measure of the trial will be based on the 11-point Likert Pain Scale that measures the intensity of pain as judged by the patient. Secondary efficacy measures will include patients' self-ratings of the Visual Analogue Scale (VAS) as well as responder rates.

Patients who complete the 12 weeks of treatment will be eligible to enter a double-blind 40-week extension. Those who continue the study will remain on the same dose of study medication that they were receiving at the end of the 12-week treatment period.

Results of the study are expected early in 2010.

HF0220

HF0220 has potential to become the first in-class disease-modifying agent for neurodegenerative diseases.

Profile

HF0220 is a naturally occurring human steroid (7β-hydroxy-epiandrosterone), which has shown strong neuroprotective effects in several experimental models of neurotoxicity, both in vivo and in vitro.

The compound stems from the former Hunter-Fleming drug pipeline.

Key achievements

On October 23, 2008, Newron announced the results of its recently completed phase II safety and tolerability study with HF0220 in patients with mild to moderate Alzheimer's disease (AD).

This 28-day, multinational, randomized, double-blind, placebo-controlled pilot study was performed in 42 patients in 10 centres in the UK, Sweden and India. HF0220 (n= 29) was administered at doses ranging from 1 to 220 mg per day versus placebo (n=13). Patients were allowed to continue their current Alzheimer's disease medication.

The data from the titration period were overseen by an independent Data Safety Monitoring Board.

The safety analysis of the data demonstrated that HF0220 in the dose range indicated was very well tolerated and could not be differentiated from placebo.

The very high rate of completion of the study by patients, the absence of clinically relevant or statistically significant changes in safety measures, and the very low number of patients experiencing any adverse events, indicate that HF0220 can be safely administered to patients with Alzheimer's disease who often experience multiple concomitant illnesses and who are more susceptible to the side effects of their usual medications.

These positive results will allow us to take the first step in the systematic development of HF0220. Based on its unique neuroprotective and anti-inflammatory mechanism of action and safety profile in AD patients, HF0220 may have synergistic effects in combination with currently marketed antidementia drugs.

The start of a next clinical trial could occur in 2009.

NW-3509

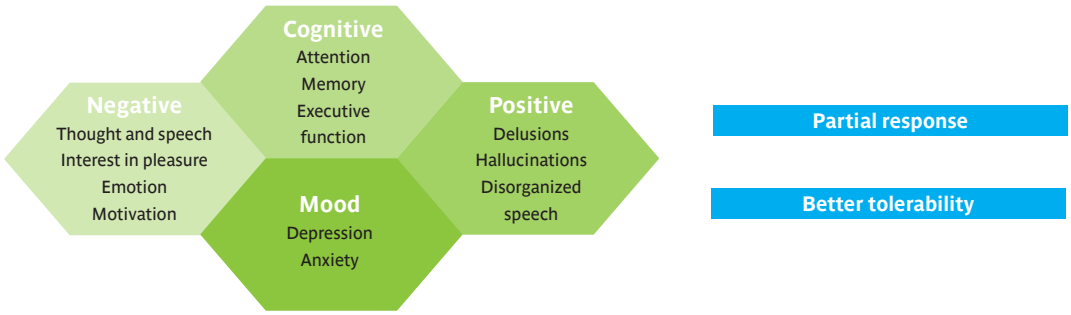
NW-3509 is a compound from a new chemical class, stemming from Newron's ion channel programme. It is a potent and highly specific sodium channel blocker with fast onset of action and an innovative mechanism for the treatment of schizophrenia and bipolar disorder.

Profile

NW-3509 modulates neuronal hyperexcitability, which is involved in several CNS pathologies. It shows fast onset of action and is highly available in the brain. It could address unmet medical need in schizophrenia and bipolar disorder. The compound is currently undergoing IND-enabling studies.

Schizophrenia is a devastating psychiatric disease where several major needs remain unmet by current medications, such as cognitive symptoms, partial response and co-morbidities such as anxiety and depression.

Schizophrenia – a devastating psychiatric disorder characterized by several unmet medical needs:



NW-3509 is active in models of short- and long-term memory impairment. Most antipsychotics have no or even detrimental effect on cognition. It also has shown activity in models of information processing, elicited by different mechanisms, both natural and pharmacological, and anxiety and depression, suggesting that it may address important co-morbidities in schizophrenia.

Bipolar disorder is a complex disorder characterized by oscillation between periods of mania and depression. Bipolar depression is an important unmet medical need. NW-3509 is active in a mania hyperactivity model, showing its potential on the manic phase of the disorder, without inducing sedation. It also showed activity in a model of depression, suggesting a possible effect in the depressive phase of bipolar disorder.

Key achievements

The compound is progressing in the IND-enabling studies, and an IND filing could occur in the second half of 2009. Based on the outcome of development work done so far, the compound could be developed as an add-on treatment for patients with schizophrenia who show inadequate benefit to their current treatment. NW-3509 has the potential to reduce relapse, improving mood as well as cognition in these patients. Additional indications for the compound include adjunctive treatment in mania and bipolar depression.

Hunter-Fleming

On May 13, 2008, Newron completed the acquisition of Hunter-Fleming Ltd., Bristol, a private, UK-based biopharmaceutical company developing new medicines to treat neurodegenerative and inflammatory disorders.

Upon closing, Hunter-Fleming shareholders in their totality received about 3.1% of new Newron shares from a capital increase, with additional milestones of no more than EUR 17 million in new Newron shares potentially adding to that in the coming years. The milestones are strictly linked to development and commercialization success mostly of HF0220, the lead compound.

The acquisition is consistent with Newron's growth strategy, enlarging Newron's clinical-stage pipeline, particularly in the area of neuro-inflammation. Hunter-Fleming provided a pipeline of three compounds in various phases of clinical development and one discovery programme.

In the mean time, the integration of the Hunter-Fleming operations has been successfully completed and the remaining team at the Bristol site together with their counterparts in Basel and Bresso are evaluating the detailed development plans for all compounds.

Newron's Team

The acquisition and integration of Hunter-Fleming has supported the expansion of Newron's in-house capabilities in clinical development; the team by end of 2008 counts 52 full-time employees.

Given the significant importance of the development projects as well as the locations in Milan, Basel and Bristol, in 2008 Newron established a matrix structure with line functions supporting the development projects driven by highly capable project managers focused on commercial success.

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

With the term of the previous members of the Board of Directors (BoD) expiring, the shareholders appointed the BoD for the period ending with the approval of the financial statements for the year 2010. The opportunity was used to establish a BoD with new, independent, and highly experienced experts recognized within the major disciplines of the global pharmaceutical industry. Rolf Stahel, Dr. Luca Benatti, Dr. Francesco Parenti, Hervé Guérin, Renée Aguiar-Lucander and Dr. Hans-Joachim Lohrisch were re-elected to Newron's Board of Directors. Newly elected to the Board were Dr. Patrick Langlois, Ragnar Linder and Professor Dr. Hanns Moehler, replacing former Board members Axel Bolte, Laurent Ganem and Dr. Alexandra Goll. The Board expressed appreciation for the significant contribution of the departing Board colleagues.

Funding

Early December 2008, Newron has entered into an equity funding agreement with YA Global Investments, L.P. (YA Global), to support the continued longer-term development of Newron's product candidates.

Under the terms of the agreement Newron has the option to take up YA Global's commitment to subscribe and pay for newly issued Newron shares to a total value of up to CHF 30 million over a period of 36 months at the sole and exclusive discretion of Newron.

The agreement enables Newron to ask YA Global, at any given time during the 36-month term, to subscribe to newly issued Newron shares in regular tranches of up to CHF 400,000 as well as advance tranches of up to CHF 2 million. YA Global can either accumulate these shares up to a maximum holding in Newron of 9.99 % or place them in the market. YA Global is committed not to sell short or enter into any hedging transactions related to Newron stock.

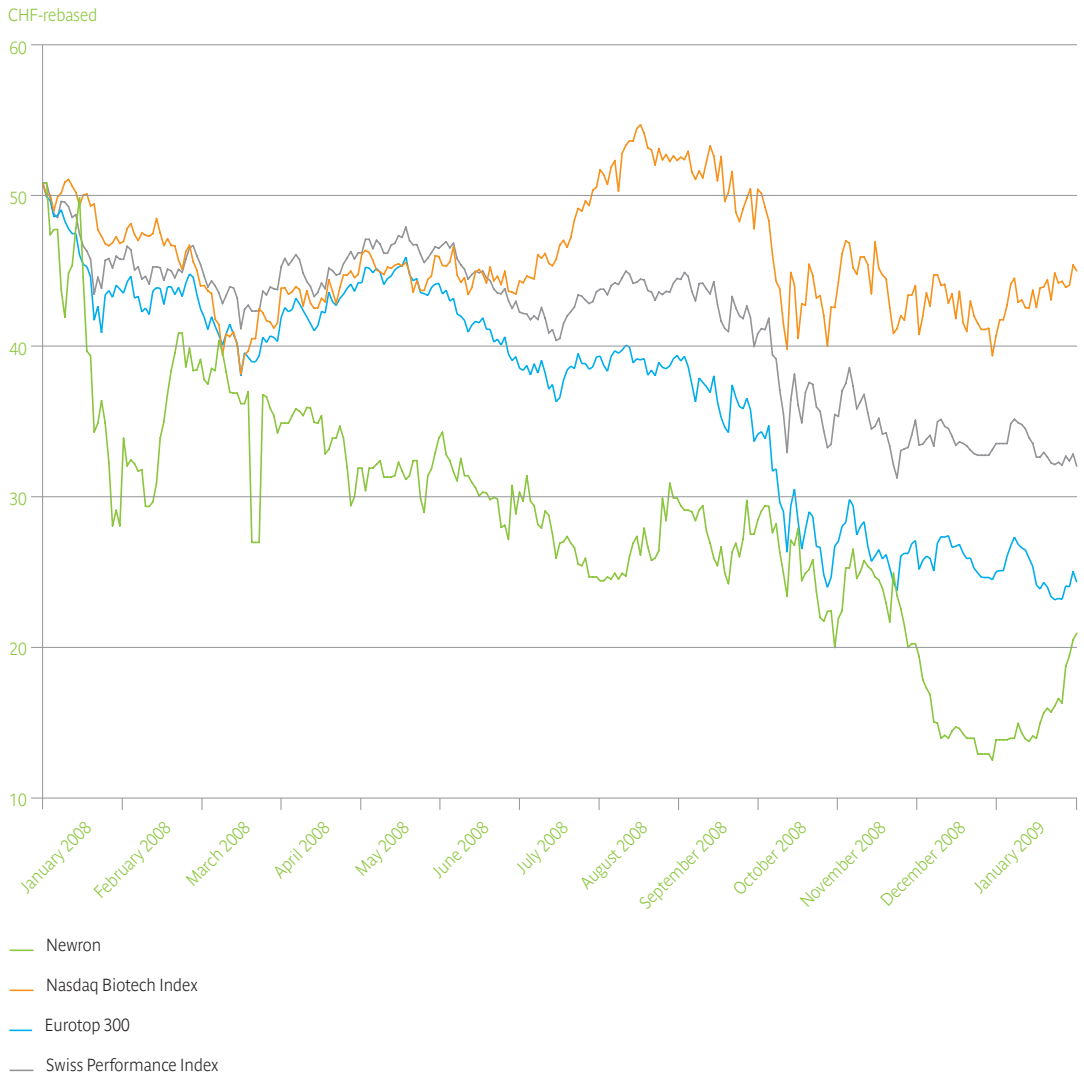
The subscription price for these newly issued shares will be calculated on the basis of the daily volume weighted average price of Newron shares over a period of five consecutive trading days following the date of Newron's notice to draw on the facility, less a 5% discount. Should the market price on certain days fall below a minimum price (set at the sole discretion of Newron in advance), the pro rata subscription for such days will not be executed unless YA Global decides to execute such subscription at the minimum price.

Newron paid to YA Global a one-time commitment fee of CHF 300,000 as well as a legal and structuring fee. The commitment fee was used in compliance with the above criteria by YA Global to subscribe to Newron's shares which are locked-up for a period of 6 months after closing of the transaction.

Management believes that this instrument provides Newron with sensible financial flexibility in the current market environment. As our product pipeline progresses towards commercialization, a strengthened financial position increases our strategic options to create value. The control and flexibility afforded by this additional source of financing will give Newron the option to raise significant funds over a period of three years entirely at our discretion.

Information for Investors

Newron share price development



Stock exchange information

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

Share price data

	FY 2008	FY 2007
Number of shares	6,020,508	5,834,766
Year high (in CHF)	50.0	80.0
Year low (in CHF)	11.0	40.0
Year end (in CHF)	13.9	51.0
Loss per share (in EUR)	2.74	1.90
Cash and cash equivalents as at December 31 (in EUR 1,000)	41,267	63,157
Market capitalization as at December 31 (in CHF)	83,685,061	297,573,066

Major shareholders *

3i Group plc
NPI Services S.a.r.l.
NWB Investissements S.p.r.l.
HBM Bio Ventures (Cayman) Ltd.
HBM Biocapital (EUR) L.P.
TVM Life Science Ventures VI GmbH & Co. KG
Capital Research Global Investors
Threadneedle AM
T. Rowe Price

* With holdings of more than 3 % (to the best of the company's knowledge)

Financial Calendar

April 2, 2009	Year end results 2008
April 27, 2009	Annual General Meeting
September 10, 2009	Half-year results 2009

Contact

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Corporate Governance

1%

Parkinson's disease
Parkinson's disease (PD) is progressive, often beginning with just a hand tremor, lessened facial expression, mild fatigue or stiff arms or legs, but becoming increasingly debilitating. The impact on the quality of life is significant.
It is estimated that more than 3 million people in the industrialized countries suffer from PD. The disease affects about 1% of the population over 60 years of age.

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, 2008. The report is based on the SIX Swiss Exchange Directive on Information Relating to Corporate Governance, in force since July 1, 2002, and January 1, 2007. The Swiss Code of Best Practice for Corporate Governance, in force since July 1, 2002, has also been taken into account, in particular Appendix 1 regarding the recommendations for remuneration levels published in 2007.

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, position vacant since February 13, 2009), the Chief Financial Officer (CFO), the Chief Medical Officer (CMO), the Vice President Clinical Development and Regulatory Affairs, the Vice President Preclinical Research and Development, the Vice President Strategic Marketing and Head of Legal Affairs, and the Director Human Resources.

Related entities

Newron Suisse SA is a joint stock company (Société Anonyme/Aktiengesellschaft) organized under the laws of Switzerland. The company has been registered with the commercial register of the Canton of Basel-Stadt, for an unlimited duration, under the name Newron Suisse SA, 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 registered 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 General Manager (Geschäftsführer). Philippe A. Weber is the sole Board Member (Verwaltungsrat) of the company.

On 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 bio-pharmaceutical company developing new medicines to treat neurodegenerative and inflammatory diseases. By decision of the shareholders' meeting of April 24, 2008, the shareholders have approved this acquisition and increased the share capital of the company accordingly. By May 13, 2008, the transaction was completed. The operations of the company focus on the research and development, manufacturing and distribution of pharmaceutical products and services. Hunter-Fleming Ltd. has its registered office and principal business office in Bristol, UK. The company's share capital of GBP 141,630.33 is split in 14,163,033 ordinary shares of GBP 0.01 nominal value, each. The totality of these shares is held by Newron Pharmaceuticals S.p.A. The operations of the company are managed by Luca Benatti and Stefan Weber as Directors of the company.

During 2002, Newron contributed EUR 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.

Segment reporting

The Company's activities are sufficiently homogeneous to preclude the identification of reportable business or geographical segments.

Listed company

The shares of Newron Pharmaceuticals S.p.A., Via Ludovico Ariosto 21, Bresso (Milan), Italy, are listed on the main segment (Hauptsegment) of the SIX 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, 2008	CHF 83,685,061 (based on 6,020,508 outstanding shares and a share price of CHF 13.90)

Significant shareholders

As far as Newron is aware, the following shareholders had holdings of more than 3% of the equity capital or voting rights of Newron as at December 31, 2008:

3i Group plc	TVM Life Science Ventures VI GmbH&Co. KG
NPI Services S.à.r.l.*	Capital Research Global Investors
NWB Investissements S.p.r.l.**	Threadneedle AM
HBM BioVentures (Cayman) Ltd.	T. Rowe Price
HBM Biocapital (EUR) L.P.	

* Beneficially owned by Atlas Venture Fund VI, L.P
** Indirectly controlled by Apax France VI

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 Swiss Financial Market Supervisory Authority on Stock Exchanges and Securities Trading of October 25, 2008, as amended (the "SESTO-FINMA") (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%, $33\frac{1}{3}$%, 50% or $66\frac{2}{3}$% of the voting rights (whether exercisable or not) of a company shall notify such company and the SIX 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.

No disclosures of shareholders were made during the period under review.

Cross-shareholdings

As of December 31, 2008, there are no cross-shareholdings of Newron with another company or group of companies.

Capital Structure

Amount in euro	2008	2007	2006
Number of ordinary shares with par value of EUR 0.20	6,020,508	5,834,766	5,820,106
Share capital	1,204,101.60	1,166,953.20	1,164,021.20
Number of authorized shares with par value of EUR 0.20 (up to)	983,141	-	-
Authorized share capital (up to)	196,628.20	-	-
Number of conditional shares with par value of EUR 0.20 (up to)	976,339	543,210	273,870
Conditional share capital (up to)	195,267.80	108,642.00	57,774.00

As of December 31, 2008, Newron's outstanding share capital was EUR 1,204,101.60, consisting of 6,020,508 ordinary shares with a nominal value of EUR 0.20 each. All shares are fully paid-up.

As per the same date, Newron in addition had an authorized share capital of EUR 196,628.20, represented by 983,141 shares with a nominal value of EUR 0.20 per share.

Of these, 850,000 shares related to the purchase of 100% of the shares of Hunter-Fleming Ltd. Under the agreement, milestone payments of no more than EUR 17 million in new Newron shares could become due to former Hunter-Fleming Ltd. shareholders. The milestones are strictly linked to development and commercialization success mostly of HF0220, the lead compound. So far, none of the milestones have been achieved. Should any milestones be achieved prior to yearend 2012 (with a potential extension to yearend 2013), the amount due in EUR will be split by the market price of the Company's shares at the time, but no less than CHF 34.40, and the resulting number of shares transferred to the former shareholders of Hunter-Fleming Ltd.

The remaining 133,141 shares of authorized capital are the remainder of originally 583,475 shares of authorized capital of which 450,334 shares were allocated to the conditional capital (see below) for exercise under the Stand-by Equity Distribution Agreement by decision of the Board on December 3, 2008. Under such agreement, Newron has the option within a period of 3 years after December 18, 2008, to ask YA Global Investments L.P. to subscribe newly issued shares of the Company at the market price in a certain period, reduced by a 5% discount in favour of YA Global Investments. The maximum total investment under such agreement is CHF 30 million. By December 31, 2008, no share subscription had occurred.

The authorized capital is valid for a period of five years from the date of the creation by the Company's shareholders' meeting on April 24, 2008.

As per December 31, 2008, Newron had a conditional capital of EUR 195,267.80, represented by 976,339 shares with a nominal value of EUR 0.20 per share.

Of these, 526,005 shares related to 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 "Stock-based remuneration".

The remaining 450,334 shares of conditional capital related to the Stand-by Equity Distribution Agreement mentioned above.

Changes in capital

On November 7, 2006, the shareholders' meeting resolved, among other things, to: (i) change the nominal value of the shares from EUR 0.10 to EUR 0.20 (resulting in the Company's share capital, then equal to EUR 734,500, being comprised of 3,672,500 shares), (ii) list the shares on the SIX Swiss Exchange, and (iii) increase the Company's share capital for payment of up to EUR 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 EUR 2,932.00 from the authorized share capital of EUR 54,774.00 was converted into share capital. The outstanding share capital thus was increased to EUR 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 EUR 56,800, in one or several steps, and to issue up to 284,000 shares of a nominal value of EUR 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.

On April 24, 2008, the extraordinary shareholders' meeting resolved, among other things, to
a) Increase the Company's share capital up to a maximum amount of EUR 80,000.00, corresponding to a maximum amount of 400,000 of Newron' ordinary shares, with par value of EUR 0.20 per share, which could be issued and allotted in one or more instalments in exchange for shares in Hunter-Fleming Ltd., to the exclusion, as permitted under Italian Civil Code Article 2441, paragraph 4, of any pre-emptive right by the Company's current shareholders to subscribe to the share capital increase. Of this capital increase, only 185,742 shares were required and used in the closing of the acquisition of the totality of the share capital of Hunter-Fleming Ltd. By July 31, 2008, the shares not subscribed turned null and void.
b) Increase the Company's share capital up to a maximum amount of EUR 3,000.00, corresponding to a maximum amount of 15,000 of Newron' ordinary shares, with par value of EUR 0.20 per share, which could be issued and allotted in one or more instalments, to the exclusion, as permitted under Italian Civil Code Article 2441, paragraph 8, of any pre-emptive right by the Company's current shareholders to subscribe to the share capital increase, to be offered in the subscription to the employees of the Company and to the employees of the Company's subsidiaries. Of this capital increase, no shares were required and used in the closing of the acquisition of the totality of the share capital of Hunter-Fleming Ltd. By August 31, 2008, the shares not subscribed turned null and void.
c) Granting of powers to the Board of Directors of the Company, as permitted under article 2443 of the Italian Civil Code to increase the Company's share capital up to a maximum amount of EUR 170,000.00, corresponding to a maximum amount of 850,000 of Newron' ordinary shares, with par value of EUR 0.20 per share, which may be issued and allotted in one or more instalments at varying subscription prices, to the exclusion, as permitted under Italian Civil Code Article 2441, paragraph 5, of any pre-emptive right by the Company's current shareholders to subscribe to the share capital increase. The duration of such grant is for five years upon granting date.

d) Granting of powers to the Board of Directors of the Company, as permitted under article 2443 of the Italian Civil Code to increase the share capital up to 10% of the Company's share capital, to the exclusion of any pre-emptive right by the Company's current shareholders to subscribe to such share capital increase, as permitted under Italian Civil Code Article 2441, paragraph 4, second sentence, and under article 6 of the Company's by laws, as eventually amended in accordance with resolution adopted pursuant to point 4 of the agenda above. The duration of such grant is for five years upon grating date.

Shares and participation certificates

As of December 31, 2008, Newron's outstanding share capital was EUR 1,204,101.60 consisting of 6,020,508 ordinary shares with a nominal value of EUR 0.20 each. All shares are fully paid-up. 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 issuance 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.

Dividend-right certificates

Newron has not issued dividend-right 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) 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 fully vested prior to the IPO. The exercise price for each option granted is EUR 18.42 per share, of which EUR 18.22 represents a share premium. Of the total number, 8,260 options terminated because of resignation and 5,938 were exercised. Per December 15, 2008, 7,231 of these options have expired. The remaining 8,521 options will expire by December 15, 2009.

On July 22, 2003, the shareholders' meeting authorized the Board to increase the share capital of the Company by up to EUR 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 EUR 19.60 per share (of which EUR 19.40 represents a share premium) or the amount of total shareholders' equity per share, considering as well, 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, 2008, options to purchase 106,805 shares have been granted to certain employees and Directors 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. 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 EUR 20.00 per share, of which EUR 19.80 represent a share premium. These options will expire May 31, 2010. 37,670 options may be exercised at the exercise price of EUR 19.60 per share, of which EUR 19.40 represent a share premium. These options will expire by December 31, 2009. The remaining 22,000 options are exercisable at the exercise price of EUR 35.03, of which EUR 34.83 represent a share premium. These options will expire by December 31, 2011.

On May 31, 2004, the shareholders' meeting authorized the Board to further increase the share capital of the Company by up to EUR 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. 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 EUR 20.00 per share, of which EUR 19.80 represent a share premium. These options are fully vested and exercisable. They will expire by April 30, 2009.

On April 23, 2007, the extraordinary shareholders' meeting resolved to increase the share capital for payment by up to EUR 56,800, in one or several steps, and to issue up to 284,000 shares of a nominal value of EUR 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, 2008, options to purchase 68,000 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 57,500 options will be EUR 36.83 per share, of which EUR 36.63 represent a share premium. The exercise price of 4,500 options will be EUR 17.81 per share, of which EUR 17.61 represent a share premium. The exercise price of 6,000 options will be EUR 11.66 per share, of which EUR 11.46 represent a share premium. The options will expire by June 18, 2012. Upon the discretion 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, 2008, stock appreciation rights to purchase 152,000 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, 2008, the Board was comprised of nine (9) directors. All of these directors were elected on April 24, 2008, 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, 2010. All Newron Board members are due for re-election at the same time. Board members can be re-elected for an unlimited number of terms. 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	Position	Member since	Relevant external positions
Rolf Stahel	Chairman, non-executive Director	2004	Former Chief Executive Officer of Shire Pharmaceuticals Group plc; non-executive BoD chairman of Cosmo Pharmaceuticals and EUSA Pharma Inc.; executive BoD chairman of Chesyl Pharma Ltd.
Luca Benatti	Managing Director, CEO, executive Director	1998	Former Head of the Molecular Neurobiology Department at Pharmacia & Upjohn S.p.A.
Francesco Parenti	Non-executive Director	1999	Former Chief Scientific Officer of Vicuron Pharmaceuticals; Partner and Director in Livolsi & Partners
Hervé Guérin	Non-executive Director	2006	Former Vice Chairman and COO of Sanofi Synthelabo; former Chairman and CEO of Synthelabo; BoD Member of Ethypharm S.A.
Renée Aguiar-Lucander	Non-executive Director	2006	Partner of Omega Funds
Hans-Joachim Lohrisch, *since January 11, 2008*	Non-executive Director	2008	Former CEO of Altana Pharma and Board member of Altana AG
Patrick Langlois, *since April 24, 2008*	Non-executive Director	2008	Former CFO and Vice Chairman of the Management Board of Aventis; General Partner of PJL Conseils; BoD Member of Shire Pharmaceuticals Inc., Scynexis, Nanobiotix and Exonhit Therapeutics
Ragnar Linder, *since April 24, 2008*	Non-executive Director	2008	Former Managing Director of Amgen in Scandinavia; CEO of Pygargus AB; BoD Member of Umecrine Mood AB and Umecrine Cognition AB
Hanns Moehler, *since April 24, 2008*	Non-executive Director	2008	Member of the Swiss Academy of Medical Sciences and the European Academy of Sciences; Professor em. University of Zurich and Swiss Federal Institute of Technology (ETH) Zurich

None of the non-executive members of the Board as per December 31, 2008, was a member of Newron's management in the three financial years preceding the current year. None of the Members of the Board had significant business connections with the Company or its subsidiaries, unless mentioned below or in section "Compensation, Shareholdings and Loans". None of the Members of the Board exercises official functions or holds 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 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 The Wellcome Foundation (later 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. He was awarded the UK BioIndustry Association's (BIA) Lifetime Achievement Award for 2009.
Permanent management and consultancy functions for Swiss and foreign interest groups besides those mentioned: 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.

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.

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. He is a board member of Ethypharm S.A., Paris.
Permanent management and consultancy functions for Swiss and foreign interest groups: none.

Renée Aguiar-Lucander has been a director since November 2006. She is since February 2009 a partner in Omega Funds, a secondary fund focused on healthcare. Within Omega, she heads up the London office and is responsible for both private and quoted healthcare portfolio companies. As such Ms. Aguiar-Lucander serves on the board of selected, privately held Omega investments. Between 2005 and 2009, she was 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, where she was a senior member of the European portfolio management team with a focus on healthcare assets. From 2000 to 2003, 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 January of 2005. Prior to joining Lehman Brothers in 1999, Ms. Aguiar-Lucander worked for Deutsche Bank and Alex. Brown & Sons, both in the USA 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 Stockholm 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.

Hans-Joachim Lohrisch has been appointed director effective January 11, 2008. He 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, Mr. 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. Mr. Lohrisch served as a member of the Pharma Executive Committee from 1993 to 1999. His 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 programme. Mr. Lohrisch is German. Permanent management and consultancy functions for Swiss and foreign interest groups: none.

Patrick Langlois was the CFO and Vice Chairman of the Management Board of Aventis from 2002 to 2005 and for 30 years served in various senior financial functions in Rhône-Poulenc and Aventis Group in France and the USA. Prior to that, he was with Banque Louis Dreyfuss. He is presently General Partner of PJL Conseils, a consulting firm in healthcare. He holds a doctorate in economics from University of Rennes (France). Patrick Langlois is Board Member of Shire Pharmaceuticals Inc (UK), Scynexis (USA), Nanobiotix (France), and Exonhit Therapeutics (France). He is French.
Permanent management and consultancy functions for Swiss and foreign interest groups: none.

Ragnar Linder was the Managing Director of Amgen in Scandinavia from 2001 to 2004. Prior to that, he was with the Sanofi-Aventis Group from 1980 to 2001 in senior positions in Europe and the USA. His final position was Director New CNS products in the Global Marketing and Medical Group of Aventis. He is now the CEO and member of the board of Pygargus AB, a CRO acting in the Scandinavian region, and serves in the boards of Umecrine Mood AB and Umecrine Cognition AB. He brings to Newron's Board sales and marketing experience of more than 25 years in international pharmaceutical industry. He has a master's degree in science from Royal Institute of Technology, Stockholm. Ragnar Linder is Swedish.
Permanent management and consultancy functions for Swiss and foreign interest groups: none.

Hanns Moehler is Vice Director of the Swiss National Center of Neuroscience Research, of which he was the first Director from 2000 to 2004. He held a professorship in the Department of Applied Biosciences, ETH Zurich, and in the Medical Faculty of the University of Zurich, where he was director of the Institute of Pharmacology from 1988 to 2005. Prior to his academic positions, Hanns Moehler served as Vice Director in the research Department of Hoffmann-La Roche, Basel, Switzerland. Prof. Moehler's research is devoted to the therapeutic neuroscience of brain disorders. It encompassed the discovery of the benzodiazepine receptor, the gene therapy of epilepsy and the neurobiology of emotion and cognition. He is a member of the Swiss Academy of Medical Sciences and the European Academy of Sciences.
Hanns Moehler is German.
Permanent management and consultancy functions for Swiss and foreign interest groups: none.

Responsibilities 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, M&A, licensing, material-lending agreements, variation in share option schemes,

approval of the annual budget, actions on the intellectual property exceeding ordinary administration 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 an unlimited number of 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 an unlimited number of 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 2008, a total of nine meetings of the full Board were called, of which six were held physically and three via phone. In addition, the nomination and compensation subcommittee convened for three times and the audit subcommittee for four 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 usually take between one and three hours. The subcommittee meetings usually take between one and three 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 on a monthly basis 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 subsidiaries, 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). The permanent observation and control of the company's risks is a management objective. For identified risks, mainly clinical development and financial risks, a risk assessment is performed. Relevant measures are defined and executed to minimize the risks. Management and Board of the company regularly review the identified risks, discuss and decide on the measures and reassess the situation after an adequate period of time.

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 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, with the exception described below for the nomination and compensation committee.

The audit committee currently consists of Patrick Langlois (Chairman), Renée Aguiar-Lucander and Hans-Joachim Lohrisch, 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, the annual budgets and issuing recommendations to the Board regarding the acceptance of the Company's annual budgets and 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 (Chairman), Francesco Parenti and Hervé Guérin, 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; furthermore, to determine all aspects of the remuneration and terms and conditions of service of the company's executive directors and senior management, as well as the policy and practice in relation to share option or pension schemes and overall remuneration policy; 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 current members of the Company's board of statutory auditors, who have been appointed by the shareholders' meeting of April 23, 2007:

Name	Position in the Company	Member since
Richard P. Murphy	Chairman of the board of statutory auditors	2002
Giorgio R. Fumagalli	Permanent Auditor	2007
Lucio G. Ricci	Permanent Auditor	2002
Michele Ghiringelli	Alternate Auditor	2007
Luca G. Caretta	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	Position at the Company
Luca Benatti	Chief Executive Officer, Managing Director
Ravi Anand	Chief Medical Officer
Carlos de Sousa *(until February 13, 2009)*	Chief Business Officer
Stefan Weber	Chief Financial Officer
Marco Caremi	Vice President Strategic Marketing and Head of Legal Affairs
Stefano Rossetti	Vice President Clinical Development and Regulatory Affairs
Patricia Salvati	Vice President Preclinical Reasearch 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, institutions and foundations 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. Carlos de Sousa terminated his employment agreement with Newron effective February 13, 2009, for personal reasons.

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 more than 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, Hervé Guérin, Renée Aguiar-Lucander, Axel Bolte (up to April 24, 2008), Laurent Ganem (up to April 24, 2008) and Alexandra Goll (up to April 24, 2008) have each waived their compensation as directors for the fiscal year ended December 31, 2008.

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 2008 is outlined below:

(In thousand euro)	Cash compensation	Stock options	Stock appreciation rights	Total 2008	*Total 2007*
Rolf Stahel, non-executive Chairman	50	-	-	50	*92*
Luca Benatti, executive member*	386	98	(74)	410	*547*
Francesco Parenti, non-executive member	22	-	-	22	*16*
Hervé Guérin, non-executive member	-	-	-	-	*41*
Renée Aguiar-Lucander, non-executive member	-	-	-	-	-
Hans-Joachim Lohrisch, non-executive member *(from January 11, 2008)*	17	-	-	17	-
Patrick Langlois, non-executive member *(from April 24, 2008)*	17	-	-	17	-
Ragnar Linder, non-executive member *(from April 24, 2008)*	14	-	-	14	-
Hanns Moehler, non-executive member *(from April 24, 2008)*	14	-	-	14	-
Axel Bolte, non-executive member *(up to April 24, 2008)*	-	-	-	-	-
Laurent Ganem, non-executive member *(up to April 24, 2008)*	-	-	-	-	-
Alexandra Goll, non-executive member *(up to April 24, 2008)*	-	-	-	-	-
Total	**520**	**98**	**(74)**	**544**	***696***

* 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 2008, the remuneration amounted to a total of thousand EUR 62 (2007: thousand EUR 101). This remuneration is not included in the above table.

For the fiscal year ended December 31, 2008, the aggregate compensation (consisting of statutory auditors' fees) paid by Newron to the Company's board of statutory auditors was thousand EUR 65 (2007: thousand EUR 38).

The total compensation and the highest individual compensation of the members of the senior management in 2008 are outlined below:

(In thousand euro)	Base salary	Bonus	Stock options	Stock appreciation rights	Total 2008	*Total 2007*
Luca Benatti, CEO	318	68	98	(74)	410	*547*
Total senior management	2,198	305	289	(166)	2,627	*2.594*

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, 2008, 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, senior management and parties closely linked to them as of December 31, 2008, are outlined below:

	Shares*	Stock options	of which vested	Stock appreciation rights	of which vested
Rolf Stahel, non-executive Chairman of BoD	-	157,855	157,855	-	-
Luca Benatti, CEO, executive member of BoD	163,305	20,000	6,666	60,000	20,000
Francesco Parenti, non-executive member of BoD	8,195	-	-	-	-
Hervé Guérin, non-executive member of BoD	-	-	-	-	-
Renée Aguiar-Lucander, non-executive member of BoD	-	-	-	-	-
Hans-Joachim Lohrisch, non-executive member of BoD	-	-	-	-	-
Patrick Langlois, non-executive member of BoD	-	-	-	-	-
Ragnar Linder, non-executive member of BoD	-	-	-	-	-
Hanns Moehler, non-executive member of BoD	-	-	-	-	-
Ravi Anand, CMO	-	24,500	8,166	-	-
Carlos de Sousa, CBO**	1,000	10,000	3,333	30,000	10,000
Stefan Weber, CFO	2,101	29,480	24,480	22,500	7,500
Marco Caremi, VP Strategic Marketing and Head of Legal Affairs	-	19,835	18,168	7,500	2,500
Stefano Rossetti, VP Clinical Development and Regulatory Affairs	-	19,835	18,168	7,500	2,500
Patricia Salvati, VP Preclinical Research and Development	163,610	2,500	833	7,500	2,500

* As far as Company is aware
** Until February 13, 2009: Stock options and Stock appreciation rights fell back to Company

The weighted average exercise price of the stock options is EUR 23.78.
The weighted average exercise price of the stock appreciation rights is EUR 36.83.

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

Additional fees and remunerations

Besides the consulting agreement described above, 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 2008.

Loans to governing boards

No loans or credits were granted during 2008 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. Italian law does not foresee explicit rules for shareholders to ask for inclusion of certain topics to the agenda, if the Company is not listed on an Italian market. Yet shareholders representing in the aggregate 10% of the share capital of the company could request the directors to call a shareholders' meeting, implying their right to propose topics to the agenda.

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 provisions 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 August 21, 2008, 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, 2008, 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 since the appointment of Reconta Ernst & Young is Paolo Zocchi.

Reconta Ernst & Young will receive an expected fee of thousand EUR 90 (2007: thousand EUR 90) for the audit of the Company's Italian GAAP Financial Statements as well as the group's consolidated IFRS Financial Statements for 2008.

In addition to the fees described above, aggregate fees of thousand EUR 189 (2007: thousand EUR 349) occurred from work done by Reconta Ernst & Young and international E & Y offices during the year ending December 31, 2008, primarily for audit work related to the acquisition of Hunter-Fleming Ltd.

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, Patrick Langlois, 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 Audit 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 the annual budgets of the Company;

- 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 website (www.Newron.com), provide the regular (annual report, half-year report) and extraordinary reports (directors' dealings, status of authorized capital, ad hoc news and publications) to the SIX 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 2009

Annual General Meeting of Shareholders: April 27, 2009, Milan
Publication of half-year results: September 10, 2009

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CONCERT AREA

IFRS Consolidated Financial Statements

Neuropathic Low Back Pain
Neuropathic Low Back Pain (NLBP) is by far the most common clinical emergence of neuropathic pain with about 50% of patient prevalence and about 60% of diagnoses.
About 55 million patients in the USA, Europe and Japan experience NLBP. So far, no drugs have been approved for the treatment of this indication. NLBP affects about 8%of the population with no approved treatments currently available.

Consolidated Income Statement

(In thousand euro, except per share information)		For the year ended December 31	
	Note	2008	2007
Licence income	6	2,635	4,024
Other income	7	1,298	70
Revenue		3,933	4,094
Research and development expenses	9	(12,881)	(8,474)
Marketing and advertising expenses		(115)	(131)
General and administrative expenses	10	(9,256)	(9,170)
Operating result		(18,319)	(13,681)
Financial income net	11	1,963	2'593
Result before tax		(16,356)	(11,088)
Income tax expense	12	(8)	(1)
Net loss		**(16,364)**	**(11,089)**
Loss per share			
Basic and diluted		**(2.74)**	**(1.90)**

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

Consolidated Balance Sheet

(In thousand euro)	Note	As of December 31 2008	2007
Assets			
Non-current assets			
Property, plant and equipment	13	480	433
Intangible assets	14	11,989	32
Available for sale investments	15	584	0
Non-current receivables	16	250	387
		13,303	852
Current assets			
Inventories		657	523
Receivables and prepayments	17	5,313	5,836
Cash and cash equivalents	18	41,267	63,157
		47,237	69,516
Total assets		**60,540**	**70,368**
Shareholders' Equity			
Share capital	27	1,204	1,167
Share premium	28	60,948	66,978
Share option reserve	29	2,441	2,091
Retained earnings		(18,731)	(12,836)
Translation differences		(51)	0
Total shareholders' equity		45,811	57,400
Liabilities			
Non-current liabilities			
Deferred income	19	0	1,973
Deferred tax liability	5	3,755	0
Long-term borrowings	20	283	561
Employee cash-settled share-based liabilities	23	84	281
Employee severance indemnity	25	600	380
		4,722	3,195
Current liabilities			
Deferred income	19	1,973	2,635
Short-term borrowings	20	626	272
Trade and other payables	21	7,408	6,866
		10,007	9,773
Total liabilities		14,729	12,968
Total shareholders' equity and liabilities		**60,540**	**70,368**

(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 and other reserves	Share option reserve	Foreign currency translation reserve	Retained earning	Total
Balance at January 1, 2007 – Newron stand alone		1,164	82,148	1,803	0	(17,257)	67,858
Previous year loss allocation			(15,509)			15,509	0
Share option scheme				343			343
Issue of shares – 2003 option plan		3	339	(55)			287
Net loss						(11,089)	(11,089)
Balance at December 31, 2007 – Newron Group		1,167	66,978	2,091	0	(12,836)	57,400
Previous year loss allocation			(10,469)			10,469	0
Share option scheme	29			350			350
Issue of shares – Hunter Fleming Limited acquisition	27	37	4,656				4,693
Issuing cost			(419)				(419)
Other share-based payment			202				202
Currency translation differences					(51)		(51)
Net loss						(16,364)	(16,364)
Balance at December 31, 2008 – Newron Group		**1,204**	**60,948**	**2,441**	**(51)**	**(18,731)**	**45,811**

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

Consolidated Cash Flow Statement

(In thousand euro)	Note	For the year ended December 31 2008	2007
Loss before tax		(16,356)	(11,089)
Adjustments for			
Depreciation and amortisation		271	213
Interest income	11	(2,020)	(2,582)
Grants and other non-monetary income		(664)	(70)
Share option expenses		153	625
Employee severance indemnity expense	25	407	220
Changes in working capital			
Inventories		(135)	822
Current receivables and prepayments and deferred cost (excluding grants receivable)		354	3'256
Trade and other payables and deferred income (excluding advances of grants)		(2,588)	(5,371)
Cash used in operations		(20,578)	(13,977)
Cash flows from operating activities			
Cash used in operations	30	(20,578)	(13,977)
Government grants received		695	0
Pension fund paid	25	(187)	(190)
Change in non-current receivables		138	301
Net cash used in operating activities		(19,932)	(13,866)
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(308)	(316)
Purchase of intangible assets	14	(52)	(23)
Acquisition of a subsidiary, net of cash acquired	5	(3,275)	0
Interest received	11	2,020	2,582
Net cash flows from/(used in) investing activities		(1,615)	2,243
Cash flows from financing activities			
Net proceeds from borrowings	20	76	(272)
Proceed from issue of shares (excercise of stock option)		0	287
New shares issuing costs		(419)	0
Net cash flows from financing activities		(343)	15
Net increase/(decrease) in cash and cash equivalents		(21,890)	(11,608)
Cash and cash equivalents at January 1		63,157	74,765
Cash and cash equivalents at the end of the year – Newron Group		**41,267**	**63,157**

(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 the following entities:

- 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 and pain – the parent company;
- Newron Suisse SA, a clinical development fully owned subsidiary based in Basel (Switzerland) established during 2007;
- Hunter-Fleming Limited, a private biopharmaceutical company based in Bristol (United Kingdom) and focused on neurodegenerative and inflammatory disorders, which has been acquired on April 24, 2008.

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 SIX 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 23, 2009.

1.1 Significant events

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 has strengthened the Group's pipeline. As a result of the acquisition Newron also holds a minority interest (17%) in a Special Purpose Vehicle (SPV) set-up to develop a preclinical compound in asthma. The companies have agreed a net amount of EUR 4.7 million for the acquisition of 100% of Hunter-Fleming shares; the price has been entirely paid for by newly issued Newron shares. In addition, the Company and Hunter-Fleming agreed further success-based milestones related to the progression of Hunter-Fleming programmes, up to a maximum of EUR 17 million. The above agreement has been approved by Newron shareholders' on April 24, 2008. For further information, refer also to note 5.

The Company, in December, announced that it is participating in a consortium led by Axxam S.p.A. that has been awarded a grant of EUR 1 million from the Regione Lombardia (Metadistretti) towards a EUR 2.5 million R&D programmes aimed at identifying and developing innovative Na(v) 1.7 sodium channel blockers for the treatment of pain. The grant is non-refundable and will cover R&D expenses over a 36-month period. Newron's partners in the consortium are Axxam S.p.A. and Primm S.r.l., as well as academic groups at the University of Milan Bicocca.

On December 2, 2008 the Company entered into an equity funding agreement with YA Global Investments, L.P. (YA Global), to support the continued longer-term development of Newron' product candidates. Under the terms of the agreement Newron has the option to take up YA Global's commitment to subscribe and pay for newly issued Newron shares to a total value of up to CHF 30 million over a period of 36 months at the sole and exclusive discretion of Newron. The agreement enables Newron to ask YA Global, at any given time during the 36-month term, to subscribe to newly issued Newron shares in regular tranches of up to CHF 400,000 as well as advance tranches of up to CHF 2 million. YA Global can either accumulate these shares up to a maximum holding in Newron of 9.99% or place them in the market. YA Global is committed not to sell short or enter into any hedging transactions related to Newron stock. See also note 27 for further information.

2 Summary of significant accounting policies

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). 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.

A Basis of preparation

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 thousand euro 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. Group'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.

The 2008 consolidated income statement includes the operations of Hunter-Fleming Ltd for the 8-month period started on May 1, 2008; as a consequence 2008 consolidated income statement is not directly comparable to previous year.

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., Newron Suisse SA and Hunter-Fleming Ltd.

The consolidation commences from the date on which the subsidiary has been incorporated or established. As for Hunter-Fleming Ltd, the subsidiary was acquired on April 24, 2008 and has been consolidated starting May 1, 2008 since the effects of the operations of the last week of April 2008 are immaterial to Group accounts. Accordingly, the consolidated financial statements include the operations of the subsidiary of the last 8 months of the year.

The purchase method is used to account for the acquisition of subsidiaries by the Company. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded

as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

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:

IFRIC 11, IFRS 2 Group and Treasury Share Transactions: Effective for annual periods beginning on or after March 1, 2007.

IFRIC 12 Service Concession Arrangements: Effective for annual periods beginning on or after January 1, 2008.

IFRIC 14 –IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interactions: Effective for annual periods beginning on or after January 1, 2008.

IAS 39, IFRS 7 Financial Instruments: Recognition and Measurements, Financial Instruments: Disclosures

The adoption of these standards and interpretations did not have an effect on the financial position nor on the disclosures.

The following new or revised standards and interpretations will be adopted when becoming effective:

IFRIC 13 Customer Loyalty Programmes: Effective for annual periods beginning on or after July 1, 2008. No impacts are expected on the Group's accounts as any customer loyalty programmes exist within the Group.

IFRIC 15 Agreements for the Construction of Real Estate: Effective from January 1, 2009. No impacts are expected since the Group owns no real estate.

IFRIC 16 Hedges of a Net Investment in a Foreign Operation: Effective from October 1, 2008. No impacts are expected on the Group's accounts as Newron does not apply hedge accounting

IFRIC 17 Distributions of Non-cash Assets to Owners: Effective from July 1, 2009. No impacts are expected on the Group's accounts as no non-cash assets to owners are distributed.

IFRIC 18 Transfers of Assets from Customers: Effective from July 1, 2009. No impacts are expected on the Group's accounts as no such transfers are foreseen.

IFRS 2 Share-based Payment: amended. Effective from January 1, 2009. No material impacts are expected on the Group's accounts as Newron's option plans have only service conditions.

IAS 1 (revised) Presentation of Financial Statements: Effective from January 1, 2009. The revised standard requires that gains- and losses-recognized outside profit and loss are presented separately from the statement of changes in equity.

IFRS 8 Operating Segments: Replaces IAS 14 and requires an entity to adopt the "management approach" to reporting on the financial performance of its operating segments. Generally, the information to be reported would be what management uses internally for evaluating segment performance and deciding how to allocate resources to operating segments. IFRS 8 applies to the annual financial statements for periods beginning on or after January 1, 2009, with no effect on the Group's accounts and notes.

IAS 23 Borrowing Costs: revised. Effective from January 1, 2009. No impacts are expected on the Group's accounts as Newron has never sustained borrowings costs.

IFRS 3 Business Combinations: revised. Effective for annual periods beginning on or after July 1, 2009. No impacts are expected on the Group's accounts under the current Group structure.

IAS 27 Consolidated and Separate Financial Statements: revised. Effective for annual periods beginning on or after July 1, 2009. No material impacts are expected on the Group's accounts under the current set-up.

IAS 32 and IAS 1 Financial Instruments and Presentation of Financial Statements: amended. Effective from January 1, 2009. No impacts are expected on the Group's accounts.

IFRS 1 and IAS 27 First Time Adoption of IFRS and Consolidated and Separate Financial Statements: amended. Effective from January 1, 2009. No impacts are expected on the Group's accounts.

IAS 39 Financial Instruments: Recognition and Measurement: amended. Effective from July 1, 2009. No material impacts are expected on the Group's accounts.

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

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, Switzerland and United Kingdom.

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 exchange rates used preparing the present document are detailed in the following table:

	Income statements in Euro (average rates)		Balance sheets in Euro (rates as of)	
	2008	2007	Year-end 2008	Year-end 2007
CHF 1	0.62996	0.60478*	0.67340	0.60434
GBP 1	1.23361**	n/a	1.04987	n/a

* The consolidation of Newron Suisse SA started as of November 1, 2007: the 2007 rate used for the income statements is the average of the last 2 months of the year 2007.

** The consolidation of Hunter-Fleming Limited started as of May 1, 2008, and accordingly the Group has included in the consolidated financial statements the operation of the subsidiary for the last 8 months of the year. As a consequence the exchange rate used to consolidate Hunter-Fleming operations corresponds to the 8-months average exchange rate from May 1, to December 31, 2008.

The exchange rate used to translate Hunter-Fleming opening Balance Sheet as of May 1, 2008, is equal to GBP 1 = EUR 1.26558.

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.

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.

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 worldwide are classified as brands and are shown at historical cost. Brands have a definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the costs over the asset's estimated useful life of three years.

In-process research and development
In-process research and development (IPR&D) projects acquired in a business combination are capitalized as intangible assets if the project meets the definition of an asset and its fair value can be measured reliably. Expenditure incurred on each project after acquisition is accounted for in accordance with the policy stated for internally incurred research and development costs. Before the achievement of the corresponding market authorization IPR&D are tested annually for impairment. When selling approval has been obtained, the projects are reclassified to developed technologies with the subsequent commencement of the amortization process.

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, which foresees that "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 realizable value. Net realizable 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 include 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). As stated by IFRS 2, the cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service condition are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting date). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The total amount to be expensed over the vesting period is measured by reference to the fair value at the date on which the options were granted.

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 Group assigns the rights of ownership to the customer, and collectability 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 recognised as deferred cost and amortised 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 Group 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: market risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management, such as identification, evaluation and management of financial risks, is carried out by the Group's finance department under the policies approved by the Board of Directors. The Board has provided written principles for overall risk management, as well as written policies covering specific area such as investing excess liquidity.

Market risk

The Group operates internationally and is exposed to foreign exchange risk arising from various exposures, primarily with respect to the Swiss francs, UK pounds and US dollars. Foreign exchange risk arises from future purchase and service transactions, recognized assets and liabilities and net investments in foreign operations. To manage foreign exchange risk the Group maintains foreign currency cash balances to cover anticipated future requirements. The Group did not enter into foreign exchange contracts or other financial instruments in order to hedge its foreign exchange risk.

Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instruments or costumer contract, leading to a financial loss. The Group is exposed to credit risk from its operative activities since its receivables are related to only one partner. Credit risk from balances with banks and financial institutions is managed by Group's Finance in accordance with the Group's policies: consequently cash and cash equivalents are held with financial institutions with A+ or better ranking (please refer to note 18 for additional information).

Liquidity risk

Management monitors the Group's cash position on rolling forecasts based on expected cash flow to enable the Group to finance research and development activities. The Group's principal source of liquidity is its cash reserves which were obtained through the issuing of new shares at IPO. The Group's policy states to invest these funds in low risk investments including interest bearing deposits. The ability of the Group to maintain adequate cash reserves to sustain its activities in the medium-long term is highly dependent on the Group's ability to raise further funds from the out-licensing of its development stage products and the issuance of new shares. Consequently, the Group is exposed to significant liquidity risk in the medium-long term.

Interest rate risk

The Group is not exposed to interest rate risk fluctuations. The Group's borrowings are essentially divided into: a loan received from the government at subsidised interest rates, which are unlikely to exceed the market rate in the foreseeable future and a loan received at a fixed interest rate that will expire on August 2009.

4 Critical accounting estimates and assumptions

The preparation of this consolidated financial information requires management to apply accounting methods and policies that are based on difficult or subjective judgements, 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's 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, 2008, 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

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.

Impairment of intangible assets with indefinite useful lives

Intangible assets with indefinite useful lives are not amortized but are tested for impairment annually either individually or at the cash generating unit level in accordance with IAS 36. The Group's impairment test for intangible assets with indefinite useful lives is based on a calculation performed with a discounted cash flow model. The cash flows are derived from the Group's budget and do not include restructuring activities that the Group is not committed to or significant future investments that will enhance the asset base of the cash generating unit being tested. According to this model, the Management performed at year-end an impairment analysis to assess the sustainability of the assets' values and no impairment has been accounted for. The key assumptions used to determine the recoverable amount for the different cash generating units are further explained in the notes 14 and 15.

5 Business combination

Acquisition of Hunter-Fleming Limited

On April 24, 2008, the Group approved the acquisition of 100% of the voting shares of Hunter-Fleming Limited, a private biopharmaceutical company based in Bristol (United Kingdom) developing new medicines to treat neurodegenerative and inflammatory disorders. The total cost of the combination was EUR 5,315 and comprised i) EUR 4,694 paid to former Hunter-Fleming shareholders by means of newly issued Newron' shares (n. 185,742 ordinary shares with par value of EUR 0.20 per share and a premium of EUR 25.07 per share. For further details, please refer to note 14) and ii) costs of EUR 621 directly attributable to the acquisition. In addition, the Company and Hunter-Fleming agreed on further performance-based milestones related to the progression of Hunter-Fleming programmes, up to a maximum of EUR 17 million. The directors considered the achievement of the agreed milestones as not probable. Accordingly, as stated by IFRS 3 as for contingent considerations, the corresponding earnout has not been accounted for. The consolidated financial statements include the results of Hunter-Fleming for the eight-months period from May 1, 2008, to December 31, 2008.

The acquisition has been accounted for using the purchase method, as stated by IFRS 3. The purchase price has been allocated based on a preliminary estimate of the fair value of assets acquired and liabilities assumed at the date of acquisition. The purchase price allocation of the identifiable assets and liabilities of Hunter-Fleming as at the date of acquisition and the carrying amounts immediately before the acquisition were:

	Purchase price allocation euro	Previous carrying value euro
Assets		
Non-current assets	12,568	51
Property, plant and equipment	51	51
Intangible assets	11,933	0
Available for sale investments	584	0
Current assets	557	557
Trade and other receivables	366	366
Prepayments	191	191
Total assets	13,124	608
Liabilities		
Non-current liabilities	3,980	225
Interest bearing borrowings	225	225
Deferred tax liabilities	3,755	0
Current liabilities	3,830	3,830
Interest bearing borrowings	1,988	1,988
Bank account	441	441
Trade and other payables	1,401	1,401
Total liabilities	7,809	4,055
Net assets	**5,315**	**(3,447)**
Purchase price	5,315	

Intangible assets recognized in the context of the purchase price allocation process, amounting to EUR 11,933, entirely refer to in-process research and development (IPR&D) projects. In particular, the Company acquired 4 projects which relate to the development of new medicines to treat neurodegenerative and inflammatory disorders (three compounds in clinical development and one discovery programme).

As a result of the acquisition the Group will also hold a minority interest (17%) in Trident Pharmaceuticals Inc, a Special Purpose Vehicle (SPV) set-up to develop a late-preclinical compound in asthma. Such investment has been classified among available- for-sale investments for an amount of EUR 584.

Deferred tax liabilities of EUR 3,755 have emerged in connection with the values allocated to intangible assets and available for sale investments.

The purchase price has been paid to former Hunter-Fleming shareholders by means of newly issued Newron's shares as described above. The financial negative effect of the operation is equal to EUR 3,275 of which EUR 621 are costs directly attributable to the acquisition and EUR 2,654 is the net financial debt acquired.

Since the date of acquisition, Hunter-Fleming has contributed EUR 3,504 to the net losses of the Group. If the combination had taken place at the beginning of the year, the losses for the Group would have been EUR 17,671.

6 Licence income

(In thousand euro)	For the year ended December 31	
	2008	2007
Licence income	2,635	4,024

Licence income of EUR 2,635 (2007: EUR 4,024) 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 "19 Deferred income".

7 Other income

(In thousand euro)	For the year ended December 31	
	2008	2007
Other income	1,298	70

Other income includes EUR 240 of Grants (2007: EUR 33) and EUR 1,057 of Research and Development Tax Credit (2007: EUR 0) of which EUR 709 booked into the Company's Income Statement and EUR 348 booked into Hunter-Fleming Ltd's one.

In June 2008, the Italian fiscal authorities approved the final operating rules to allow the companies to ask for a partial reimbursement of certain research and development expenses. The approved law refers to the research and development costs incurred during 2007, 2008 and 2009 and identifies all the relevant costs, the structure of the report to be submitted to the competent authorities and the reimbursement procedure. The arising Tax Credit does not expire and can be used to offset any tax disbursement (including VAT and withholding taxes) which the company will have to incur after the filing of the report. The amount shown in other income (EUR 709) corresponds to the Tax Credit estimated as for research and development costs incurred in 2007.

In January 2009 the Italian fiscal authorities has partially revised the rules introducing into the process an high grade of uncertainty: for this reason the Group has decided to write off the Tax credit booked in June 2008 (EUR 377) and to avoid any accrual at year-end.

8 Staff costs

(In thousand euro)	For the year ended December 31	
	2008	2007
Wages and salaries	5,610	3,063
Pension costs – defined contribution plans	1,025	720
Share options granted to directors and employees	350	343
Share appreciation rights granted to directors and employees	(197)	281
Employee severance indemnity costs	398	220
Social security costs	378	95
	7,564	**4,722**

The average number of Group employees in 2008 was 48 (2007: 38), of whom 2 (2007: 2) were part-time.

The increase of EUR 2,842 is mainly related to the combined effect of the following items: (a) significant increase in staff costs as a consequence of a higher headcount (hired 2 new employees in Newron Suisse SA and, starting from May 1, 6 new employees in Hunter-Fleming Ltd) (b) restructuring costs of Hunter-Fleming Ltd – about EUR 1.3 million – and (c) negative impact of share appreciation rights cost due to current Newron's share price.

The cost of share options related to general and administration personnel is EUR 213 (2007: 167); the remaining part is related to R&D.

Due to the global finance market conditions, the fair value of Company's share appreciation rights is significantly decreased: for this reason, the Company has booked an income in the profit and loss with a reduction in the related liability. The amount related to general and administration personnel is EUR 169 (2007: EUR 240); the remaining part is related to R&D.

9 Research and development expenses

(In thousand euro)	For the year ended December 31	
	2008	2007
Services received from subcontractors	6,386	3,987
Staff costs	3,837	2,288
Consultancy fees	1,196	1,102
Material and consumable used	458	312
Laboratory operating lease cost	407	396
Travel expenses	416	277
Depreciation and amortization expense	164	103
Other research and development costs	17	9
	12,881	**8,474**

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 EUR 9,504 in 2008 (2007: EUR 9,477).

Since inception, no development costs have been capitalized with the exception of the intangible assets recognized in the context of the purchase price allocation process (please refer to note 5 for further details).

The item "Travel expenses" has been reclassified from the General and administrative expenses to Research and development expenses, as the vast majority of such costs were related to Research and development.

10 General and administrative expenses

(In thousand euro)	For the year ended December 31	
	2008	2007
Staff costs	3,727	2,434
Consultancy and other professional services	3,008	4,034
Intellectual properties	1,079	671
Travel expenses	371	416
Operating lease cost	297	147
Depreciation and amortization expense	108	110
Other expenses	666	1,358
	9,256	**9,170**

General and administrative expenses increased in 2008 by EUR 86. The increase is related to the combined effect of the following items: (a) significant increase in Staff costs (please refer to note 8 for further details); (b) a capitalization of EUR 0.6 million of Consultancy and other professional services in relation with the acquisition of Hunter-Fleming and (c) a decrease in Other expenses due to the payment of the first milestone relating to the Purdue settlement signed on June 29, 2007 (additional 2.25 million will be paid to Purdue only upon achievement of certain future development success or earlier at sole discretion of Newron. Please refer to note 26 for additional information).

11 Financial income, net

(In thousand euro)	For the year ended December 31	
	2008	2007
Interest income	2,084	2,593
Interest expense	(64)	(11)
Foreign exchange gains	108	45
Foreign exchange losses	(136)	(13)
Other costs, net	(29)	(21)
	1,963	**2,593**

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 18 "Cash and cash equivalents".

12 Income tax expense

As of December 31, 2008 Newron Suisse SA has accrued income taxes of EUR 8 (2007: EUR 1).

No tax charge has been accounted as for other Group's entities as in tax loss position since incorporation or acquisition.

13 Property, plant and equipment

(In thousand euro)	Leasehold improvements	Laboratory and office equipment	Total
Cost			
At January 1, 2007	498	891	1,389
Additions	0	327	327
Disposals	0	(2)	(2)
At December 31, 2007	498	1,216	1,714
Accumulated depreciation			
At January 1, 2007	(326)	(772)	(1,098)
Additions	(88)	(95)	(183)
At December 31, 2007	(414)	(867)	(1'281)
Net book value – Newron Group excluding Hunter-Fleming Ltd	**84**	**349**	**433**
Cost			
At January 1, 2008	498	1,216	1,714
Additions	0	253	253
Disposals	0	(5)	(5)
Exchange differences	0	7	7
At December 31, 2008	498	1,471	1,969
Accumulated depreciation			
At January 1, 2008	(414)	(867)	(1'281)
Additions	79	(174)	(253)
Disposals	0	5	5
Exchange differences	0	0	0
At December 31, 2008	(493)	(1,036)	(1,529)
Net book value – Newron Group excluding Hunter-Fleming Ltd	**5**	**435**	**440**
Cost – Hunter-Fleming Limited			
At May 1, 2008	0	93	93
Additions	0	4	4
Disposals	0	(6)	(6)
Exchange differences	0	3	3
At December 31, 2008	0	94	94
Accumulated depreciation – Hunter-Fleming Limited			
At May 1, 2008	0	(51)	(51)
Additions	0	(7)	(7)
Disposals	0	4	4
Exchange differences	0	0	0
At December 31, 2008	0	(54)	(54)
Net book value – Newron Group	**5**	**475**	**480**

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.

14 Intangible assets

	Licenses and software	Brands	In-process R&D	Total
Cost				
At January 1, 2007	212	49	0	261
Additions	22	0	0	22
At December 31, 2007	234	49	0	283
Accumulated amortization				
At January 1, 2007	(168)	(47)	0	(215)
Additions	(34)	(2)	0	(36)
At December 31, 2007	(202)	(49)	0	(251)
Net book value	**32**	**0**	**0**	**32**
Cost				
At January 1, 2008	234	49	0	283
Additions	51	0	11,933	11'984
Exchange diffences	0	0	0	0
At December 31, 2008	285	49	11,933	12'267
Accumulated amortization				
At January 1, 2008	(202)	(49)	0	(251)
Additions	(27)	0	0	(27)
Exchange diffences	0	0	0	0
At December 31, 2008	(229)	(49)	0	(278)
Net book value	**56**	**0**	**11,933**	**11'989**

Upon completion of the acquisition of Hunter-Fleming Ltd., Newron management performed an allocation of the total purchase price paid to the different development projects of Hunter-Fleming, based on risk-adjusted Net Present Value (NPV). The following table shows the results:

Projects	Development phase	Allocated purchase price
HF0220	Clinical phase II	5,044
HF0420	Clinical phase I	2,404
HF0299	Clinical phase I	3,529
HF1220	Discovery	956
		11,933

IAS 36 requires assessing an asset not in use for impairment on an annual basis by comparing the carrying value to its recoverable amount. The recoverable amount is the higher of the fair value less cost to sell and the value in use.

Management used the risk-adjusted Net Present Value (NPV) to assess the value of the intangible assets per year-end 2008. The assessment was taking into consideration industry average rates for successful development of the projects to the market (5% by end of drug discovery, 13% by end of preclinical development, 21% by end of clinical phase I, 46% by end of clinical phase II and 76% by end of clinical phase III), a usual discount rate to future cash-in and outflows (15 p.a.), the properties of the compounds and their target product profile, the sales potential as well as comparable transaction terms for licensing of the compounds usually after phase II proof of concept.

The impairment test of the recoverable amount of the intangible assets performed did not result in the requirement to recognize impairment of the carrying value of the intangible assets. As uncertainty remains as to whether a final and successful market registration will be achieved, a risk of future adjustments to the carrying amount stays.

15 Available for sale investment

Available for sale investment of EUR 584 (2007: EUR 0) is entirely related to Hunter-Fleming Ltd acquisition: as a result of the acquisition the Group also hold a minority interest (17%) in a Special Purpose Vehicle (SPV) – Trident Pharmaceuticals Inc. – set-up to develop a late-preclinical compound in asthma.

As the value of the investment is completely depending on the value of its core asset, a development compound in pre-clinical phase, the same methodology as under note 14 was applied for the impairment test.

The impairment test of the recoverable amount of the Available for sale investment performed did not result in the requirement to recognize impairment of the carrying value of the asset. As uncertainty remains as to whether a final and successful market registration will be achieved, a risk of future adjustments to the carrying amount stays.

16 Non-current receivables

(In thousand euro)	As of December 31	
	2008	2007
Deferred costs	124	247
Guarantee deposits for leases	126	140
	250	387

17 Receivables and prepayments

(In thousand euro)	As of December 31	
	2008	2007
Receivables	2,316	1,896
Government grants receivable	396	850
Prepayments	1,403	1,572
Deferred costs	123	330
VAT receivable	154	1,002
Other receivables	921	186
	5,313	5,836

The amount classified as Receivables mostly refers 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 in %	Receivables
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 20		
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	243	70	170
Net receivables as per D.D. 2187			170
DGR n. January 24, 2007			
Grants for scientific research	381	50	191
Net receivables as per DGR n. 4032			191
			396

18 Cash and cash equivalents

(In thousand euro)	As of December 31	
	2008	2007
Cash at bank and in hand	13,765	4,861
Short-term investments	27,502	58,296
	41,267	**63,157**

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

19 Deferred income

Deferred income relates to the upfront payment received from Merck Serono International SA and is entirely in the current liabilities. Please refer also to note 6 for additional details.

20 Borrowings

(In thousand euro)	As of December 31	
	2008	2007
At beginning of year	833	1,105
Hunter-Fleming Ltd acquisition	665	0
Repayment	(275)	(272)
Repayment – Hunter-Fleming Ltd	(314)	0
Total borrowings	**909**	**833**
Long term	283	561
Short term	626	272

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

Interest on this loan is charged at a subsidized rate of 1.012% per annum. The loan will be repaid in five equal annual instalments: the third instalment was paid in November 2008 (equal to EUR 275 thousand).

Hunter-Fleming Ltd's loan started in March 2006 (draw-down amount equal to GBP 2 million) with an interest rate equal to 12.25% and previews monthly repayments. The duration, initially established in 36 months, has been rescheduled: the monthly repayment is now equal to GBP 44 thousand and will last till August 2009.

21 Trade and other payables

(In thousand euro)	As of December 31	
	2008	2007
Trade payables	3,923	4,468
Accrued expenses	2,161	1,119
Pension contribution payable	449	379
Social security	165	154
Other payables	710	746
	7,408	**6,866**

22 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)	For the year ended December 31	
	2008	2007
Other (IAS 19)	(198)	(56)
Total taxable differences	(198)	(56)
Other minor	84	349
IPO expenses	3,049	4,574
Deferred income	1,973	4,608
Tax losses carry-forwards	88,913	63,132
Total deductible differences	94,019	72,663
Net temporary differences	**93,821**	**72,607**
Deferred tax asset	25,889	19,967

The above deferred tax asset has been measured using the average tax rates that are expected to apply to the taxable profit of the periods in which the temporary differences are expected to reverse and 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 carry forwards expire as follows:

(In thousand euro)	December 31, 2008
Year of expiration:	
2009	11,502
2010	14,500
2011	8,530
2012	15,774
2013	17,807
No expiry date	20,800
	88,913

The loss identified as "No expiry date" includes EUR 6,008 related to Newron Pharmaceuticals S.p.A. (since they relate to the start-up costs) and EUR 14,792 related to Hunter-Fleming Ltd (equal to GBP 14,089 translated at the year-end exchange rate 1.04987).

The "Tax loss carry-forwards" balance increased by EUR 25,781 due to the combined effects of the following items: (a) introduction of Hunter-Fleming Ltd tax losses equal to EUR 14,792; (b) expiration of 2003 tax losses (EUR 6,818) and (c) insertion of 2008 tax losses equal to EUR 17,807.

23 Contingent assets

R&D tax credit

In June 2008, the Italian fiscal authorities approved the final operating rules to allow the companies to ask for a partial reimbursement of certain research and development expenses. The approved law refers to the research and development costs incurred during 2007, 2008 and 2009 and identifies all the relevant costs, the structure of the report to be submitted to the competent authorities and the reimbursement procedure. In January 2009 the Authorities has partially revised the rules introducing into the process an high grade of uncertainty: for this reason the Group has decided to write-off the Tax credit booked in June 2008 (EUR 377) and to avoid any accrual at year end. New set of rules are expected to be released by the Italian fiscal authorities in the next future: for this reason the Company will probably be able to book the 2008 and 2009 revenues in 2009. The R&D tax credit for 2007 R&D activities was equal to EUR 0.7 million.

New grantable project

In 2008 the Company, announced that it has been awarded a grant of EUR 5 million from the Italian government's Ministero dell' Istruzione, dell' Università e della Ricerca, towards a EUR 5.3 million R&D programme ongoing at the Company: the official contract with the intermediary bank will be signed within the end of March 2009. The Company will probably submit the first report to the Ministry within June 2009: this report will include all the costs incurred by the Company from the beginning of the grantable project (July 1, 2007) to the reporting date and will allow the Company to book also the related revenues.

24 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 SIX Swiss Exchange as at the exercise date, multiplied 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 December 31, 2008, the Board of Directors granted 152,000 Phantom Options as follows:

	Option granted	Exercise price (euro)
At Janurary 1	157,042	36.83
Granted	4,500	17.81
Waived	(9,542)	36.83
At December 31	**152,000**	

25 Employee severance indemnity

Some Group companies provide for its employee severance indemnities (as required, for example, under Italian legislation), which is considered to be a defined benefit scheme.

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

	December 31, 2008
Actuarial assumptions	
Discount rate	5.60%
Inflation rate	3.20%
Future salary increase	1.50%
Future pension (TFR) increase	3.90%

Based on the present value of the estimated obligation, the amount recognized on the balance sheet in respect of the Group's defined benefit plan amounted to EUR 600 thousand in 2007 (2007: EUR 380) and the movements are as follows:

(In thousand euro)	As of December 31	
	2008	2007
Balance as at the beginning of the year	380	350
Total expense charged in the income statement	407	220
Indemnity paid during period, leavers and transfers out	(187)	(190)
Balance as at the end of the year	**600**	**380**

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

(In thousand euro)	As of December 31	
	2008	2007
Current service cost	382	182
Interest expense on obligation	25	16
Actuarial gains/(losses)	0	22
	407	**220**

26 Commitments and contingent liabilities

Operating lease commitments – whereby the Group is the lessee

The Company leases both the offices and laboratories from Zambon Immobiliare S.p.A. Both contracts were renewed for additional 6 years and will last till September 30, 2014, and February 14, 2015, respectively. Newron Suisse SA leases its offices from Livit AG. The lease will expire on July 31, 2012. Hunter-Fleming Limited leases its offices from Regus. The lease will expire on February 2010.

During the year ended December 31, 2008, EUR 704 was recognized as an expense in the income statement in respect of operating leases (2007: EUR 531).

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

(In thousand euro)	As of December 31	
	2008	2007
No later than 1 year	799	621
Later than 1 year and not later than 5 years	3,405	297
	4,204	**918**

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 EUR 9 million. Should the Group decide to close any of these contracts, will not incur in material penalty fees.

Contingent liabilities

As mentioned at note 10, the achievement of certain future development milestones related to ralfinamide project will trigger the assignment of the Purdue patents for an amount of EUR 2,250 and further milestone-based payments to Purdue up to EUR 1,300.

The Company and Hunter-Fleming agreed on further performance-based milestones related to the progression of Hunter-Fleming programmes, up to a maximum of EUR 17 million. The directors considered the achievement of the agreed milestones as not probable.

27 Share capital

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

In connection with the acquisition of Hunter-Fleming, on April 24, 2008, the extraordinary shareholders' meeting resolved, among other resolutions, to increase the share capital through contribution in kind of 100% of Hunter-Fleming Limited shares, by a maximum nominal amount of EUR 80,000, corresponding to n. 400,000 of Newron's ordinary shares with par value of EUR 0.20 per share, also granting the Board of Directors the power to execute the above mentioned capital increase.

Consequently, on May 5, 2008, the Board of Directors' meeting resolved to increase Newron's share capital by EUR 37,148.40 issuing 185,742 ordinary shares, with par value of EUR 0.20 per share and a premium of EUR 25.07 per share. The shares issued have been used to acquire 100% (n. 14,163,033) of Hunter-Fleming Limited' shares officially contributed in kind into Newron Pharmaceuticals S.p.A. on May 13, 2008.

On December 3, 2008, the Board of Directors' meeting resolved to increase Newron's share capital by a maximum nominal amount of EUR 90,066.80, corresponding to n. 450,334 of Newron's ordinary shares with a par value of EUR 0.20 per share. The shares have been issued in relation with the signature of the equity funding agreement with YA Global Investments, L.P. (YA Global), to support the continued longer-term development of Newron's product candidates. The Group has the option to take up YA Global's commitment to subscribe and pay for newly issued Newron shares to a total value of up to CHF 30 million over a period of 36 months at the sole and exclusive discretion of Newron.

As of December 31, 2008, the subscribed share capital was equal to EUR 1,204,101.60, divided into 6,020,508 ordinary shares with nominal value equal to EUR 0.20 each. The authorized share capital is equal to EUR 1,400,729.80 (divided into n. 7,003,649.00 ordinary shares).

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

(In euro)	Total
As of December 31, 2006 – Newron stand alone	1,164,021.20
– issue of ordinary shares (option plan)	2,932.00
As of December 31, 2007 – Newron Group	1,166,953.20
– issue of ordinary share (Hunter-Fleming acquisition)	37,148.40
As of December 31, 2008 – Newron Group	**1,204,101.60**

28 Share premium reserve and other reserves

(In thousand euro)	As of December 31	
	2008	2007
At the beginning of the year	66,978	82,148
Loss allocation	(10,469)	(15,509)
Issue of shares	4,656	0
Issue of shares (option)	0	284
Reclassification from stock option reserve	0	55
Share capital issue costs	(419)	0
Other share-based payment	202	0
At the end of the period	**60,948**	**66,978**

The item "Share capital issue costs" refers to the issuing costs related to the acquisition of Hunter-Fleming Limited.

YA Global Investments L.P. will, as stated into the agreement signed, use the one-time commitment fees of CHF 300,000 (equal to EUR 202) to subscribe newly issued Newron' shares (refer to note 33 for additional details): such an amount has been booked as "Other share-based payment".

29 Share options

To incentivize 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). The options have been awarded free of charge.

On July 18, 2008, the Group's CEO granted to certain employees 4,500 options at an exercise price equal to EUR 17.81 each, exercising a power given to him by the Group's Board of Directors on June 18, 2007.

On December 19, 2008 the Group's Board of Directors granted to some employees, 6,000 options at an exercise price equal to EUR 11.66 each.

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

	Employee Share Option Plans			
	2003	**2004**	**2007**	**Total**
At January 1	84,150	157,855	60,680	302,685
Granted	0	0	10,500	10,500
Waived	0	0	(3,180)	(3,180)
At December 31	**84,150**	**157,855**	**68,000**	**310,005**
Grantable options	0	0	216,000	216,000

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 2008, option grants resulted in personnel expenses of EUR 350 (EUR 137 related to R&D and 213 related to G&A) and in 2007 such grants resulted in personnel expenses of EUR 343 (EUR 176 R&D and EUR 167 G&A).

Exercise price (in euro)	Number outstanding	Weighted-average remaining contractual life (years)	Number exercisable
11.66	6,000	4.00	0
17.81	4,500	4.00	0
19.60	37,670	1.00	37,670
20.00	182,335	0.51	182,335
35.03	22,000	3.00	0
36.83	57,500	3.47	0
	310,005		**220,005**

30 Cash used in operations

(In thousand euro)	Note	For the year ended December 31 2008	2007
Loss before tax		(16,356)	(11,089)
Adjustments for			
Depreciation and amortization		271	213
Interest income	11	(2,020)	(2,582)
Grants and other non monetary income		(664)	(70)
Share option expenses		153	625
Employee severance indemnity expense	25	407	220
Changes in working capital			
Inventories		(135)	822
Current receivables and prepayments and deferred cost (excluding grants receivable)		354	3,255
Trade and other payables and deferred income (excluding advances of grants)		(2,588)	(5,371)
Cash used in operations		**(20,578)**	**(13,977)**

Non-cash transactions

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

31 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 2008	2007
Net loss attributable to shareholders	(16,364)	(11,089)
Weighted average number of shares (thousands)	5,962	5,833
Loss per share – basic (in Euro)	(2.74)	(1.90)

The only categories of potential ordinary shares are the share options granted to employees and directors. During the presented periods, these were antidilutive, 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. 310,005 – see also note 29) may have a dilutive effect on the net profit per shares.

32 Related party transactions

i) Related entity

During 2002, the Company contributed EUR 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 EUR 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, 2008, the Consortium had net equity of EUR 153 (2007: EUR 140) and a net profit of EUR 12 (2007: net profit of EUR 10).

ii) Purchases from related parties

Not applicable.

iii) Key management personnel

The total remuneration, including employer's social security contributions, of key management personnel is as follows:

(In thousand euro)	For the year ended December 31	
	2008	2007
Salaries	2,080	1,745
Bonuses	305	262
Social security contributions	565	489
Share option compensation	124	502
Employee severance indemnity	118	85
	3,192	3,083

33 Events after the balance sheet date

Following the signature of the equity funding agreement with YA Global Investments, L.P. the Company, on January, has increased its share capital by EUR 3,248.40 issuing 16,242 ordinary shares, with par value of EUR 0.20 and a premium of EUR 12.15 per share. On February the Company has increased its share capital by EUR 161.20 issuing 806 ordinary shares, with par value of EUR 0.20 and a premium of EUR 12.29 per share. These two operation have been used to pay the commitment fees and to test the operating procedure of the instrument.

Auditors' Report

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Independent auditors' report

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

1. We have audited the consolidated financial statements of Newron Pharmaceuticals S.p.A. and its subsidiaries (the "Group") as of and for the year ended December 31, 2008, comprising the balance sheet, the statement of income, changes in shareholders' equity and cash flows and the related explanatory notes. The preparation of these financial statements in compliance with International Financial Reporting Standards is the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Our audit was made in accordance with International Standards on Auditing. In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. We were not engaged to perform an audit of the Group's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes also examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.
   For our opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated March 20, 2008.

3. In our opinion, the consolidated financial statements referred to above have been prepared in accordance with International Financial Reporting Standards; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations, the changes in shareholders' equity and the cash flows of the Group for the year then ended.

Milan, March 25, 2009

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 anticholinergics 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 disease 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.

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); non-verbal 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 metabolized 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.

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.

Nerve Compression
Harmful pressure of a nerve especially in nerves that pass over rigid prominences, i.e. a rupture disc in the lower spine causing sciatica.

Nerve Entrapment
When a nerve gets "stuck" to the soft tissue that surrounds it, i.e. muscles, fascia and ligaments.

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

Neuro-inflammation
Chronic sustained injury of the central nervous system, involving the response of microglial cells that contribute to further damage, worsening the disease progression.

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

Neuropathic Low Back Pain (NLBP)
Form of chronic pain initiated or caused by the presence of a primary lesion, damage or disruption to some components of sensory neurons involving the area from the lower rib cage to the gluteal folds, leading to aberrant transmission of pain signals.

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 US 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 preclinical 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.

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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