Newron
Pharmaceuticals

Annual Report 2012

Corporate Profile

Newron (SIX: NWRN) is a biopharmaceutical company focused on novel therapies for diseases of the Central Nervous System (CNS) and pain. The Company is headquartered in Bresso near Milan, Italy. Based on the phase III results of safinamide for the treatment of Parkinson's disease, Newron is working to expedite its global filing, together with its partners. Zambon Group has the rights to commercialize safinamide globally, excluding Japan and other key Asian territories, and Meiji Seika has the rights to develop and commercialize safinamide in Japan and other key Asian territories. Newron's additional projects are primarily addressed towards highly promising treatments for rare diseases and are at various stages of preclinical and clinical development, including sNN0031 for Parkinson's disease, sarizotan for Rett's syndrome, sNN0029 for ALS, ralfinamide for specific pain indications, and NW-3509 as potential first add-on therapy for the treatment of schizophrenia.

www.newron.com

Key Highlights

Pipeline development

Licence agreement signed with Meiji Seika Pharma on safinamide covering Japan and other key Asian territories

Agreement signed with Zambon for strategic collaboration, licence to safinamide covering global rights excluding Japan and other key Asian territories, and equity investments

Completion of the phase III development programme for safinamide as an add-on therapy for Parkinson's disease

EU/US regulatory submission in preparation for safinamide

Operational progress

Acquisition of NeuroNova completed and pipeline expanded

Stefan Weber appointed as CEO

Notice of Allowance issued for safinamide combination patent by USPTO extending protection through 2026, plus potential extension of up to 5 years

Private placement closed, raising CHF 4.7 million from international institutional investors

Investor, Zambon and Healthcap strengthening Newron's ownership structure

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Shareholders' Letter

Rolf Stahel

Dear Shareholder,

2012 has been an eventful and exciting year for Newron.

Supported by our shareholders, we finalized the acquisition of the private Stockholm-based company NeuroNova. This has been an important step forward for the company in achieving our previously mentioned goal of strengthening our R&D pipeline. This acquisition allows us to add NeuroNova's two phase II projects, sNN0031 and sNN0029, indicated for Parkinson's Disease (PD) and Amyotrophic Lateral Sclerosis (ALS), respectively. With its focus on areas of high unmet medical need in neurodegenerative diseases, NeuroNova is a very good strategic fit for Newron. Our pipeline, apart from safinamide, now shows four development compounds aimed at orphan or ultra-orphan indications, which we deem to appropriately match the strategic ambitions and resources of an emerging biopharmaceutical company.

Besides expanding our shareholder base with the addition of two important global life science institutions (Investor AB and Healthcap), the funds from the acquisition and our previous fundraising puts us in a healthy cash position, allowing us to continue development of other projects in our portfolio. During 2013 our management team will be working towards a seamless integration of the two companies to optimize the development of the new pipeline.

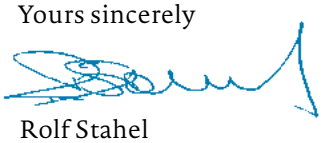
Safinamide continues to be our main focus and after completing our phase III development programme in PD, we are expecting to file safinamide as an add-on therapy for PD both in the US and the EU in Q4/2013. The Zambon Group has the rights for safinamide in regions outside of Asia and is financing the regulatory submissions in both the EU and U.S.

On May 31, Stefan Weber stepped into the role of CEO after Luca Benatti, co-founder and Newron´s CEO since 1999, left the company. Luca has been central to Newron's development from a private, discovery-stage biotechnology company to the late-stage biopharmaceutical company. The Board would like to thank Luca for his significant contributions to Newron. Stefan has been with the company for many years and, in his new role, has been key during the NeuroNova acquisition process, which was not without its challenges. He has the full support of both the Board and the senior managers as he steers Newron confidently through 2013.

Despite a challenging environment, Newron has succeeded in moving forward and bringing patients living with Parkinson's disease a step closer to potentially life changing drugs and creating a company with a balance sheet that allows it to face the future with confidence

The Board of Newron would like to take this opportunity to thank our team for the hard work undertaken during the NeuroNova acquisition process and in completing the development work on safinamide. We would like to also thank our shareholders for their on-going support and confidence in the company's strategy to create a leading Central Nervous System development company.

Yours sincerely



Rolf Stahel
Chairman

Management's Review

Stefan Weber

Dear Shareholder,

Newron has made significant progress in the last year, completing development of our key product, safinamide, and finalising the acquisition of Swedish CNS-focused company NeuroNova.

We are delighted to have completed the phase III programme for our lead compound safinamide in early and advanced Parkinson's disease (PD). The MOTION study examining safinamide as an add-on to dopamine in patients with early stage PD and the SETTLE study examining safinamide as an add-on to levodopa in mid to late stage PD were both completed and top line results disclosed. Following the positive results, global regulatory submission preparations are now ongoing. We are currently in discussion with EU and U.S. health authorities and expect filing to take place in the Q4/2013. Presentations of the full results from MOTION and SETTLE have been scheduled for the 2013 American Academy of Neurology Annual Meeting in San Diego, USA on March 16-23, 2013. We are entering into an exciting period for the company with the very real prospect of our first product coming to the U.S. and EU markets.

During 2012, we were pleased to agree on a strategic collaboration with Zambon Group for the rights to safinamide in all territories excluding Japan and other key Asian territories that are with our partner Meiji Seika Pharma. The agreements with Zambon and Meiji Seika Pharma provided us with upfront and option payments as well as equity investments of EUR 15 million, with attractive future milestones and royalty rates expected. Alongside, Zambon will finance the cost incurred by Newron and third parties related to preparation and submission of the regulatory filings in Europe and the U.S.

In July, Newron received a Notice of Allowance from the United States Patent and Trademark Office (USPTO) anticipating the grant of the patent "Methods for treatment of Parkinson's Disease". This relates to methods for treating PD through the administration of safinamide in combination with levodopa which has already been granted in the EU in 2008. This patent will protect the use of safinamide as an add-on to levodopa until 2026, plus a potential extension under the applicable rules of up to five years. Together with the synthesis patent which has been applied for in the U.S. and Europe, this greatly enhances safinamide's commercial potential in the U.S.

In December, we were pleased to announce completion of the acquisition of Stockholm-based NeuroNova, in exchange for 2.375 million newly issued shares. This transaction further strengthens Newron's portfolio by adding two new phase II CNS compounds: sNN0031 and sNN0029.

- sNN0031 is a novel drug candidate for treatment of Parkinson's disease patients who no longer respond to oral therapy, designed to act on neural stem and progenitor cells in the brain. sNN0031 has been shown to restore motor function and improve neurochemical deficits in animal models of PD. In a phase I/II trial in patients with PD, it was well tolerated and demonstrated preliminary beneficial effects on biochemical markers of the degenerating dopamine system in PD patients. The compound is a natural complement to safinamide. The next development steps of the compund are are funded by a grant from the EU of EUR 6 million.

- sNN0029 is a novel drug candidate for the treatment of amyotrophic lateral sclerosis (ALS). In preclinical in vivo studies, it has demonstrated the ability to slow disease progression and increase life span. It has also been successfully tested in a three month phase I/II safety and tolerability study in ALS patients. As ALS is fatal for most patients within a few years of diagnosis, this compound has the potential to meet a great medical need. In February 2013, the Wellcome Trust granted an award of up to EUR 2.5 million to help fund a phase I/II clinical trial to evaluate the safety and efficacy of higher doses of sNN0029 in patients with ALS. We are grateful for the support shown by the Wellcome Trust and anticipate the trial to begin in 2013.

Besides broadening our pipeline, the acquisition of NeuroNova has benefited Newron by bringing in cash and committed funds of EUR 18.5 million and two leading life science investors: Investor and HealthCap. Jakob Lindberg from Investor has subsequently been appointed to Newron's Board of Directors, increasing the number of Board members from 6 to 7.

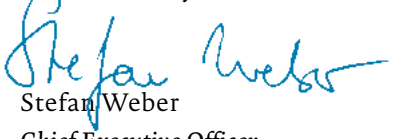
Financial Outlook

In August, we announced that funds of approximately CHF 4.7 million (EUR 3.9 million) were raised through a private placement. This, alongside the cash from the NeuroNova transaction, leaves us at EUR 29.2 million of cash in the bank plus committed funds of EUR 11 million, taking us well into 2015, beyond key expected value inflexion points.

Our two main shareholders confirmed their long-term commitment to Newron, and their support for an independent Board of Directors.This puts us in a strong position during these coming years when we expect to see safinamide come to market and to see the medical potential of the follow-on compounds being disclosed.

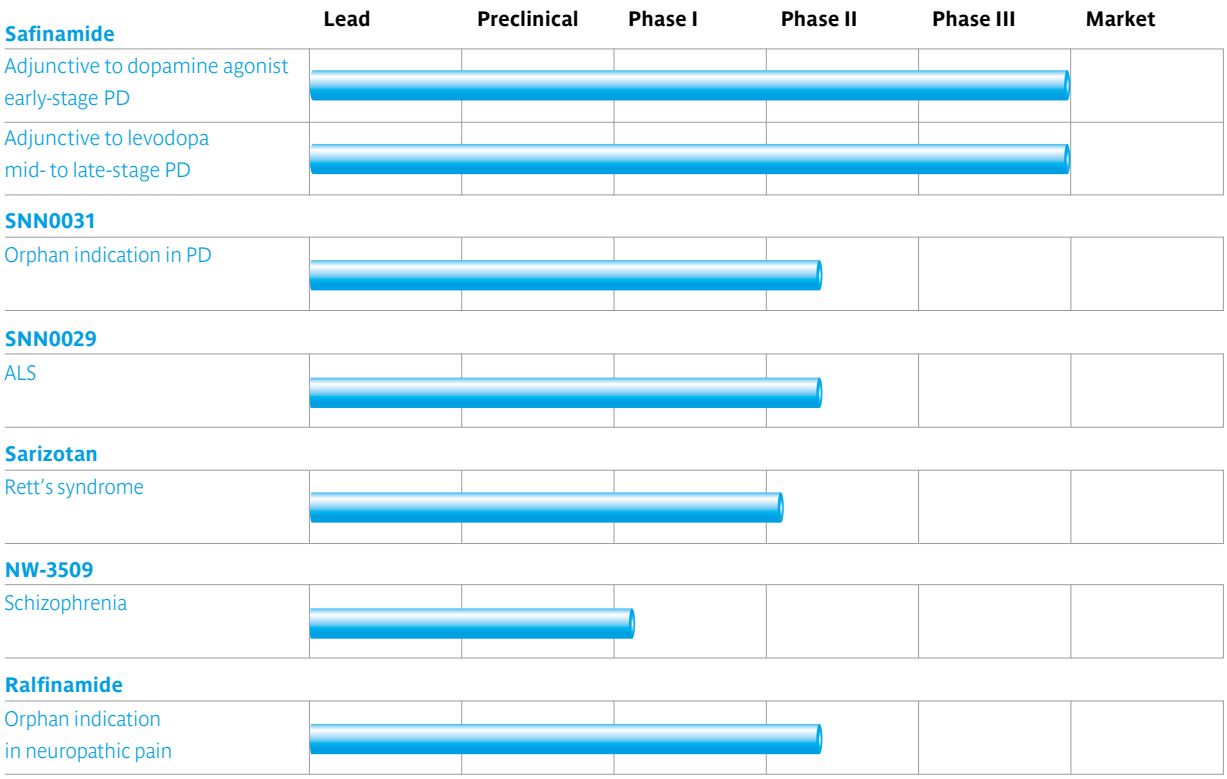
Newron is poised for a bright future and in the coming year we look forward to the global filing of safinamide and to continuing to develop and build our innovative product portfolio.

Yours sincerely



Stefan Weber
Chief Executive Officer

Drug Portfolio



Corporate Governance

Newron's Board of Directors (the "Board") and management are committed to high standards of corporate governance, including transparency and accountability towards its shareholders as well as equal treatment of all shareholders. This report explains how the leadership and the management of the Company are organized and provides background information on the Group's executive officers and bodies, effective December 31, 2012. The report is based on the SIX Swiss Exchange Directive on Information relating to Corporate Governance, in force since July 1, 2009. 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. ("Newron" or the "Company") is a joint stock company (Società per Azioni or S.p.A.) 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 Medical Officer (CMO), the Executive Vice President Business Development, the Vice President Finance and the General Manager of NeuroNova AB.

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 has a share capital of CHF 100,000, divided into 1,000 fully paid-in registered shares with a nominal value of CHF 100 each. All these shares are 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 Stefan Weber as General Manager (Geschäftsführer). Philippe A. Weber and Stefan Weber are members of the Board (Verwaltungsrat) of the company.

NeuroNova AB is a Swedish limited liability company, incorporated under the laws of Sweden. The company has been registered with the Swedish Companies Registration Office with a share capital of SEK 3,130,284.30 divided into 330,110,154 shares of different classes with a par value of SEK 0.0094825 each, and registered office at Fiskartorpsvägen 15 A-D, 114 33 Stockholm, Sweden. All shares are held by Newron Pharmaceuticals S.p.A. The Company is a biopharmaceutical company engaged in the development of novel therapies for the treatment of disorders of the central nervous systems. The operations of the company are managed by Anders Haegerstrand, Marco Caremi and Stefan Weber as General Managers. Anders Haegerstrand, Marco Caremi and Stefan Weber are members of the Board of the company.

Hunter-Fleming Ltd. is a limited liability company incorporated under the laws of England with its registered office and principal business office in Bristol, UK. The company has a share capital of GBP 222,044.64, divided into 22,204,464 ordinary shares of GBP 0.01 nominal value, each. All these shares are held by Newron Pharmaceuticals S.p.A. The operations of the company are managed by Stefan Weber and Marco Caremi as directors. Operations related to the development compounds of the company are taken care of by Newron Suisse SA and Newron Pharmaceuticals S.p.A.

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. By letter dd. October 24, 2012, Newron has terminated its partnership in the Consorzio, which has been acknowledged by the partnership effective December 20, 2012.

Segment reporting

The Company is in a development stage and its 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 according to the main standard of the SIX Swiss Exchange AG, Zurich, Switzerland.

Swiss Security Number	2 791 431
ISIN	IT0004 147 952
Common Code	27612440
Ticker Symbol	NWRN
Market capitalization on December 31, 2012	CHF 91,543,255 (based on 11,385,977 outstanding shares and a share price of CHF 8.04)

Significant shareholders

In line with Swiss law, which is currently 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 1/3%, 50% or 66 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.

Newron's information about the exact holding position of individual shareholders is depending on and deriving from the reports filed with SIX Swiss Exchange and Newron by such shareholders.

To the best of Newron's knowledge, the following shareholders had holdings of more than 3% of the equity capital and therefore, voting rights of Newron as at December 31, 2012. The number of shares shown as well as the holding percentages are based on the last disclosure of shareholding communicated by the shareholder (report of material shareholding, registration for shareholders' meeting, etc.) or otherwise known to the company (resulting from a corporate transaction). Please be aware that since then, the information could have become outdated because of changes that did not trigger notification duties:

Shareholder	Note	Holding at Dec. 31, 2012	
		Shares	% of share capital
Investor AB	1	1,519,961	13.3%
Zambon	2	1,398,060	12.3%
Healthcap	1	785,963	6.9%
Aviva Investors	2	540,000	4.7%
3i	2	539,937	4.7%
Omega Fund Management	2	341,932	3.0%

[1] Newly issued shares allocated under the agreement to acquire NeuroNova AB
[2] As per registration to Dec 5, 2012, EGM

Please see below the link to access individual significant shareholders' reports:
http://www.six-swiss-exchange.com/shares/companies/major_shareholders_de.html

Cross-shareholdings

As of December 31, 2012, there are no cross-shareholdings in excess of 5% of capital or voting rights with any other company.

Capital Structure

Amount in euro	December 31, 2012	December 31, 2011	December 31, 2010
Number of ordinary shares with par value of EUR 0.20	11,385,977	7,264,378	7,264,378
Share capital	2,277,195.40	1,452,875.60	1,452,875.60
Number of authorized shares with par value of EUR 0.20 (up to)	850,000	850,000	850,000
Authorized share capital (up to)	170,000.00	170,000.00	170,000.00
Number of conditional shares with par value of EUR 0.20 (up to)	230,781	526,005	526,005
Conditional share capital (up to)	46,156.20	105,201.00	105,201.00

As of December 31, 2012, Newron's outstanding share capital was EUR 2,277,195.40, consisting of 11,385,977 ordinary shares with a nominal value of EUR 0.20 each. All shares are fully paid-in.

As per the same date, Newron in addition had an authorized share capital of EUR 170,000, represented by 850,000 shares with a nominal value of EUR 0.20 per share.

These 850,000 shares originally 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 have become due to former Hunter-Fleming Ltd. shareholders, conditional to certain development and commercialization success. As per the long stop date under the agreement, December 31, 2012, none of the milestones have been achieved, and as no extension of the long stop date has been triggered, there won't be any more claims to milestones under this agreement. 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, and is therefore expected to expire in April 2013.

As per December 31, 2012, Newron had conditional (pre-authorized) capital of EUR 46,156.20, represented by 230,781 shares with a nominal value of EUR 0.20 per share, exclusively related to the purpose of implementing stock-based incentive compensation plans for employees and directors of the Company and subsidiaries.

Changes in capital

On April 2, 2010, the extraordinary shareholders' meeting resolved, among other things, to

a) increase the Company's share capital with option right by the Company's current shareholders pursuant to Article 2441 of the Italian Civil Code, in one or more tranches, up to a maximum par value of EUR 375,844.00, corresponding to a maximum amount of 1,879,220 Newron ordinary shares, of which a maximum of 230,781 new ordinary shares to be offered to employees of the Company or its subsidiaries with exclusion of the option right pursuant to Article 2441, paragraph 8, of the Italian Civil Code.

b) revoke, for the non-executed part, the December 3, 2008, Board resolution – as amended by the November 27, 2009, Board resolution – and increase the Company's share capital up to 10% of the Company's share capital as permitted by Article 2441, paragraph 4, second sentence of the Italian Civil Code.

As per decision of the Board as of December 16, 2010, the Board has decided to increase the Company's share capital, excluding any pre-emptive rights by the Company's current shareholders to subscribe to such capital increase, by a nominal amount of EUR 132,079.00, corresponding to 660,395 new Newron ordinary shares with a par value of EUR 0.20 per share. These shares have been subscribed in a private placement announced by the Company as of December 22, 2010, by a leading international institutional investor.

On April 28, 2011, the extraordinary shareholders' meeting resolved, among other things, to increase the Company's share capital, excluding any pre-emptive rights by the Company's current shareholders to subscribe to such capital increase, by a nominal amount of EUR 145,287.00, corresponding to 726,435 new Newron ordinary shares with a par value of EUR 0.20 per share. These shares have been subscribed in a transaction announced by the Company as of April 5, 2012, by Zambon Company S.p.A.

On June 28, 2012, the extraordinary shareholders' meeting resolved, among other things, to

a) increase the Company's share capital in one or more tranches, with option right by the Company's current shareholders pursuant to Article 2441 of the Italian Civil Code, up to a maximum par value of EUR 400,000.00, corresponding to a maximum amount of 2,000.000 Newron ordinary shares, of which a maximum of 400.000 new ordinary shares to be offered to employees of the Company or its subsidiaries with exclusion of the option right pursuant to Article 2441, paragraph 8, of the Italian Civil Code.

b) increase the Company's share capital, excluding any pre-emptive rights by the Company's current shareholders to subscribe to such capital increase, by up to 10%, or the equivalent of an amount of up to EUR 159.816.00, corresponding to up to 799.080 new Newron ordinary shares with a par value of EUR 0.20 per share. These shares have been subscribed in several transactions, the completion of which was announced by the Company as of August 20, 2012, by existing shareholders and new international institutional investors.

On December 5, 2012, the extraordinary shareholders' meeting resolved, among other things, to

a) Increase the share capital, severable, by up to nominal EUR 475.000,00, plus a premium, by issuance for payment and with exclusion of the option right pursuant to article 2441, paragraph 4, of the Italian civil code, of up to n. 2.375.000 ordinary shares of Newron Pharmaceuticals S.p.A. having a par value of EUR 0.20 each, to be subscribed via contribution in kind of shares of NeuroNova AB

b) Revocation of the increase in the Company's share capital resolved by the shareholders' meeting on 28 June 2012, severable, with option right for the Company's current shareholders pursuant to Article 2441 of the Italian Civil Code, for payment, up to a maximum par value of EUR 400,000.00, of which a quarter of the newly issued ordinary shares to be offered to employees of the Company or its subsidiaries with exclusion of the option right pursuant to Article 2441, paragraph 8, of the Italian Civil Code.

Shares and participation certificates

As of December 31, 2012, Newron's outstanding share capital was EUR 2,277,195.40, consisting of 11,385,977 ordinary shares with a nominal value of EUR 0.20 each. All shares are fully paid in. Each share is entitled to one vote at the shareholders' meeting. 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, in particular 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 (*Genussscheine*).

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. No restrictions apply to the transferability of Newron shares.

Convertible bonds

Newron has no convertible bonds outstanding.

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

2011 Stock Option Plan

By decision of the Board dated March 24, 2011, the 2011 Stock Option Plan was established. Under such programme, all holders of stock options or stock appreciation rights under the previous plans have opted to convert four of the stock options or stock appreciation rights they had been assigned under such previous plans into three new stock options under the 2011 plan.

Of the 398,004 rights under the old plans, prior to March 24, 2011, 28,750 rights had either expired or were waived. Therefore, 369,254 rights under the previous plans have been converted into 276,945 stock options under the 2011 plan, which have vested by March 24, 2012. The exercise price of these options was EUR 5,29. Of these 276,945 options, 210,264 have been exercised and 750 have been waived prior to the end of 2012, the remaining 65,931 have not been exercised and have expired as per December 31, 2012.

Furthermore, the Board decided to reallocate a total of 38,376 rights, which had been returned by employees leaving the Company, under previous plans. All 38,376 stock options have vested by March 24, 2012. The exercise price of these options was EUR 5.29. Of these 38,376 options, 10,820 have been exercised prior to the end of 2012, the remaining 27,556 have not been exercised and have expired as per December 31, 2012.

Finally, in execution of the rights granted to it by decision of the extraordinary shareholders' meeting of April 2, 2010, the Board has allocated up to 230,781 stock options to the 2011 Stock Option Plan, of which by December 31, 2011, a total of 153,854 options have been granted to Company employees. Prior to the end of 2012, 23,625 options have been waived; by December 31, 2012 a total of 130,229 options were granted to Company employees. All these options will vest by March 24, 2014, and will expire as at March 30, 2020. Their exercise price is EUR 5.29.

As per December 31, 2012 the total volume of granted stock options under the above programmes was 130,229 options to acquire one share, each, at nominal value of EUR 0.20, each, an equivalent of 1,1% of the total number of fully paid-in ordinary shares of the Company.

In January 2013, Newron's Board of Directors has established a new 2013 Stock Option Plan, of a total volume of up to 560,000 options/share based rights, of which 493,496 options have been granted to employees, directors and consultants of the company and its subsidiaries. The vesting period of such options/share based rights will be 24 months for 50% of the options/share based rights, 36 months for another 25% of the options/share based rights and 48 months for the remaining 25%. The strike price of the granted options/share based rights is EUR 6.32. The options/share based rights will expire in March 2023.

The total volume of granted stock options/share based rights, including the 2013 Stock Option Plan, is 623,725 options to acquire one share or share based rights. As at December 31, 2012, this would have been an equivalent of 5.5% of the total number of fully paid-in ordinary shares of the Company.

Board of Directors

Members of the Board of Directors

The Company's by-laws establish that the Board shall consist of a minimum of four (4) and a maximum of seven (7) members. As per December 31, 2012, the Board was comprised of seven (7) directors. Four of these directors were elected on April 28, 2011. Three members were newly elected in 2012. All directors are elected for the three-year term expiring on the date of the shareholders' meeting scheduled to approve Newron's financial statements for the year ending December 31, 2013. 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 Board members, 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 CEO of Shire Pharmaceuticals Group plc; non-executive BoD chairman of Connexios Life Sciences Pvt Ltd; executive BoD chairman of Chesyl Pharma Ltd; member of the Advisory Board of Imperial Business School, Imperial College London
Stefan Weber	Managing Director, CEO, executive director	June 28, 2012	Former CFO of Biofrontera and Girindus, Head of Finance Lohmann Group
Francesco Parenti	Non-executive director	1999	Former Chief Scientific Officer of Vicuron Pharmaceuticals; partner and director in Livolsi & Partners
Patrick Langlois	Non-executive director	2008	Former CFO and Vice-Chairman of the Management Board of Aventis; General Partner of PJL Conseils; Chairman of the BoD of BioAlliance and Stallergenes and BoD member of Innate and mAbRx
Hanns Moehler	Non-executive director	2008	Vice-Director of Swiss National Center of Neuroscience Research, 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
Roberto Consonni	Non-executive director	June 28, 2012	CEO of Zambon Company, BoD member of DOC Generici, Axxam and Italia Assistenza
Jakob Lindberg	Non-executive director	December 17, 2012	CEO of Oncopeptides Investor Growth Capital Europe

None of the non-executive members of the Board as per December 31, 2012, was a member of Newron's management in the three financial years preceding the current year. None of the Board members had significant business connections with the Company or its subsidiaries, unless mentioned below or in section *Note "Compensation, Shareholdings and Loans" on page* 29. None of the Board members exercises official functions or holds political posts.

Rolf Stahel has been the Chairman of the Board since 2004. Mr. Stahel, a Swiss national, is a graduate in Business Studies (KSL, CH) and attended the 97th AMP at Harvard Business School. From March 1994 to March 2003, Rolf Stahel was the Chief Executive Officer of Shire Pharmaceuticals Group plc (now Shire plc). He was also a Main Board Director and Chairman of the Executive Committee of Shire Pharmaceuticals. From 1967 to 1994, he worked for The Wellcome Foundation (later Wellcome plc) in Switzerland, Italy, Thailand, Singapore and the United Kingdom. As regional Director, based in Singapore, he was responsible for 18 Pacific Rim countries. From 1990 to 1994, Rolf Stahel was Wellcome's Director of Group Marketing, based in London and Beckenham. In addition to his position at Newron, he is the non-executive Chairman of the Board of Connexios Life Sciences Pvt Ltd. Rolf Stahel is also the Executive Chairman of Chesyl Pharma Ltd. This company supports the services provided by him. Rolf 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 Life Sciences", 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 in January 2009.

Permanent management and consultancy functions for important Swiss and foreign interest groups besides those mentioned: none.

Stefan Weber was appointed Chief Executive Officer of Newron effective June 1, 2012. He had been Chief Financial Officer of the Company since April 2005. Stefan holds a master's degree in business management from FernUniversität Hagen (Diplom-Kaufmann). He has more than 25 years of industry experience in finance and has been serving as Chief Financial Officer of public and private biotechnology companies since 2000. From 1987 to 1999, he was with Lohmann Group, a worldwide producer of pharmaceutical, medical, technical and consumer products. His final position was Head of Finance of the 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. Stefan Weber has been responsible for executing numerous substantial financing transactions, including debt, equity and mezzanine financing as well as national and European grants. He has executed IPOs to the stock exchanges in Frankfurt and Zurich. He furthermore has been involved in a number of M&A transactions, disinvestments and strategic restructurings. Stefan Weber is German.

Permanent management and consultancy functions for important 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 Bio-search 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 important Swiss and foreign interest groups: none.

Patrick Langlois, a director since April 2008, was the CFO and Vice-Chairman of the Management Board of Aventis from 2002 to 2005 and served for 30 years in various senior financial functions in Rhône-Poulenc and Aventis Group in France and the USA. Prior to that, he was with Banque Louis-Dreyfus. 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 Chairman of the Board of Directors of BioAlliance Pharma S.A. and Stallergenes S.A. and Board of Directors member of Innate Pharma S.A. (all France) and mAbRx Inc. (USA). He is French.

Permanent management and consultancy functions for important Swiss and foreign interest groups: none.

Hanns Moehler, a director since April 2008, 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 a 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. He is a member of the Swiss Academy of Medical Sciences and the European Academy of Sciences. Hanns Moehler is German and Swiss.

Permanent management and consultancy functions for important Swiss and foreign interest groups: none.

Roberto Consonni, a director since June 28, 2012, is the CEO of Zambon Company after being CEO of the Pharma Business in Zambon Group for 5 years. Previously he spent 27 years in Unilever managing Personal Care, Food &Beverage and ending as General Manager of the Italian Detergent Business and as European General Manager Household Cleaner. After a short period as Business Director in a medium and growing Food Italian Company, he joined Lavazza Company as Operational General Manager in the period 2000-2006. Then he became Industrialist in Residence Consultant for 3i Private Equity Fund. Additionally he was Board member in Ducati Motor Holding and in the chemical Radici Film Company. Roberto Consonni holds an Economic Science degree at Bocconi University. In addition to his position at Newron, he is also a Board Member of DOC Generici s.r.l., Axxam S.p.A. and Italia Assistenza S.p.A. (all Italy). Roberto Consonni is Italian.

Permanent management and consultancy functions for important Swiss and foreign interest groups: none.

Jakob Lindberg, a director since December 17, 2012, joined the Investor Growth Capital Europe team in 2005. He focuses primarily on investments in the healthcare sector. In addition, Jakob is the CEO of Oncopeptides, a pharmaceutical company working to develop more effective chemotherapeutic treatments for cancer. Prior to joining IGC, Jakob worked at McKinsey & Company as an active member of the healthcare practice and was the co-founder and CEO of Cellectricon, a Swedish company developing functional, cell-based screening devices for drug discovery. Jakob is a licensed Swedish physician with an M.D. and Medical Licentiate thesis from the Karolinska Institute, and a B.A. in Finance from Stockholm University. He is Swedish.

Permanent management and consultancy functions for important 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 and actions on the intellectual property exceeding ordinary administration to the Company's Managing Director, Stefan Weber, 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, as at December 31,

2012, 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 up to 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 Chairmen and/or Managing Directors.

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

Meetings

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

In 2012, due to the extraordinary developments, a total of 26 meetings of the full Board were called, of which 4 were held physically and 22 by phone. In addition, the nomination and compensation subcommittee convened for 11 times, of which 10 times by phone and the audit subcommittee for twice by phone. The specific nomination committee met twice, of which once physically. While the physical meetings are called on a bimonthly 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 half an hour and three hours. The subcommittees have a predetermined annual agenda to ensure that important reviews take place at the appropriate time throughout the year and they undergo a periodic self-review to ensure continued effectiveness.

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 Board ensures that it receives sufficient information from senior management to perform its supervisory duty and to make decisions that are reserved for the Board. The Board obtains the information required to perform its duties through several means:

The members of the Board receive on a monthly to bimonthly basis 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 subject to discussion during the Board meetings, 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 Vice President Finance 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 parent company and the subsidiaries, and regularly, senior management presents to the Board strategic considerations for review, discussion and decision.

The Board and the subcommittees closely follow the progress on the major activities, as presented by management. Analysis of deviations are to be provided and explained in writing on a monthly to bimonthly 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. Appropriate actions (including for example the performance of additional preclinical or clinical studies, fundraising activities etc.) are defined and executed to minimize the risk. Management and Board of the Company during the Board meetings 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 two permanent committees, an audit committee and a nomination and compensation committee, to support its work. Furthermore, in December 2012, a separate specific nomination committee was formed exclusively for the purpose of evaluating the current board size, structure, and to assess the independence of members of the Board. 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 Board and to express certain recommendations to the Board, while decisions are finally taken by the Board, with the exception described below for the nomination and compensation committee.

As at December 31, 2012, the audit committee currently consists of Patrick Langlois (Chairman) and Francesco Parenti, 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. For further detail with respect to the audit committee, please see *Note "Auditors" on page 37*.

As at December 31, 2012, the nomination and compensation committee consists of Rolf Stahel (Chairman) and Francesco Parenti, each of whom is a non-executive and independent member of the Board. The main task of the nomination and compensation committee is to issue recommendations to the Board regarding (i) the appointment and resignation of directors and senior managers, (ii) the Company's system of compensation (including equity and cash incentive programmes), and (iii) the overall compensation packages of the members of the Board and the Company's senior managers; on the following tasks, the subcommittee has the power to decide on its own: details of the remuneration and terms and conditions of service of the Company's executive members of the Board and senior management, of share option or pension schemes; further tasks are described in *Note "Compensation, Shareholdings and Loans" on page 29*. 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.

As at December 31, 2012, the specific nomination committee consists of Rolf Stahel, Patrick Langlois, Roberto Consonni, Jakob Lindberg and Stefan Weber. No chairman has been elected for this committee. The sole task of the committee is to analyse the size and structure of the current board and to assess the criteria for independence of members of the Board of Directors. The committee is expected to report its findings to the full board in time for the General Assembly scheduled for April 18, 2013. The committee is supported in its assessment by a leading human resources agency.

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.

The Company's current Board of Statutory Auditors has been elected on April 2, 2010, for a three-year term expiring upon the approval of the Company's financial statements for the year ending December 31, 2012. 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 2, 2010.

Name	Position	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
Luca G. Caretta	Alternate auditor	2007
Chiara Peja	Alternate auditor	2010

Each of the members of the Company's Board of Statutory Auditors also serves as statutory auditors for several other Italian and pharmaceutical companies.

Senior Management

Members of the senior management

Name	Position at the Company
Stefan Weber	Chief Executive Officer, Managing Director
Ravi Anand	Chief Medical Officer
Marco Caremi	Executive Vice President Business Development
Roberto Galli	Vice President Finance
Anders Haegerstrand	General Manager NeuroNova AB

For a biography of Stefan Weber, 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. None of them has previously covered functions for Newron or one of Newron's subsidiaries besides those mentioned below.

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. Since 2003, Dr. Anand has been acting as a consultant for Newron and other clients. 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 7 international new drug applications. He has published extensively, including over 50 papers and 200 abstracts, posters and presentations.

Marco Caremi is Executive Vice President Business Development since June 1, 2012. He has been in Vice President positions with the Company since September 2002. Marco 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 almost 30 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.

Roberto Galli is Vice President Finance since June 1, 2012. He joined Newron in 2002. Since, he has covered various managerial positions within the Finance Department and was involved in the IPO, M&A and other strategic corporate transactions. He started as auditor at Coopers&Lybrand (CL), then joining PricewaterhouseCoopers (PwC) where he served as Senior Auditor & Business Advisor dealing with companies from the pharmaceutical, fashion, energy and automotive industries. He has more than 16 years experience in biotech, finance and auditing. He holds a degree in Business Economics from the University – Luigi Bocconi – in Milan and he is Chartered Auditor. Roberto Galli is Italian.

Anders Haegerstrand is the General Manager of NeuroNova AB and member of the Newron Group Management Team since December 17, 2012. He joined NeuroNova in 2000, as CEO and first employee, and from 2004 as Chief Scientific Officer, focusing on the translation of the sNN0031 and sNN0029 programs from the discovery phase through pre-clinical and early clinical development He received his training as MD at Karolinska Institute in Stockholm from which he also received a PhD degree and became associate professor in Neuroscience and where he established a lab with a focus on regenerative medicine and cell transplantation during 1990-1995. From 1995 to 1998 he was Project Leader for a US biotech collaboration and later VP of Discovery Research, both at Astra Pain Control (a part of the former Astra Group). This included responsibilities for programs ranging from early stage drug discovery to Phase I/II clinical trials. Following the merger between Astra and Zeneca in 1998, he was VP in the CNS and Pain Research Area Management team. Dr Haegerstrand has pharmaceutical industry and biotech experience including small molecules, peptides, proteins, cells and medical devices. He has actively participated in several investigational new drug applications and as Principal Investigator for substantial non-dilutive research grants. He has published extensively, including app. 50 original papers and multiple posters and presentations. Anders Haegerstrand is Swedish.

Management contracts

The Company does not have management contracts with third parties.

Compensation, Shareholdings and Loans

In line with Italian law, the maximum total annual compensation for the members of the Board is proposed to the shareholders' meeting by the Company's management and Board and approved by decision of the shareholders' meeting. The proposal for such maximum total annual compensation was last elaborated by the nomination and compensation committee of the Company's Board in 2011, prior to the election of the current Board members by the shareholders during the shareholders' meeting. Since then, the maximum total remuneration for the members of the Newron Board is thousand EUR 220, unchanged from the previous three-year term. The allocation of all or a part of the maximum total remuneration to the individual members is up to the decision by the Board. As per decision of the Company's Board held on May 25, 2012, the compensation of the members of the Board consists of a fixed annual remuneration of currently thousand EUR 25 per capita and an additional remuneration for members of Board subcommittees of currently thousand EUR 5 per capita and per subcommittee membership. The chairman's remuneration is thousand EUR 55. It is the current policy not to pay a variable remuneration to non-executive members of the Board. For the fiscal year ended December 31, 2012, Stefan Weber has waived his compensation as director. To reflect the extraordinary efforts undertaken by all directors in the very intense year 2012, the board has decided upon proposal by the nomination and compensation committee on May 25, 2012 to pay to all its members thousand EUR 10 as one-time payment; the Chairman and the CEO waived such a payment.

When proposing the maximum total annual compensation for the members of the Board in 2012, the nomination and compensation committee of the Board did not ask for third-party support. Instead, the Board did an assessment of the remuneration of the peer companies below and proposed to moderately increase the remuneration from the previous three-year term, still deemed to reflect the challenging situation of the Company, but allow the Company to win internationally experienced senior executive managers from a variety of disciplines (R&D, marketing, finance, general management) in the pharmaceutical industry with the competence to execute the duties of the Board as described in Note "*Board of Directors*" *on page* 18, especially the management of the Company, to the extent it is not delegated to the senior management, and the control of management in the mid- and long-term interest of the shareholders, as measured by the development of the market capitalization of the Company. The nomination and compensation committee is aware that the successful recruitment of qualified Board members as well as senior managers will depend on an overall remuneration that is competitive to companies of the same industry and comparable market capitalization. The nomination and compensation committee has qualified the following companies that are active in drug discovery and development as peers for such purposes: Santhera Pharmaceuticals, Liestal, CH; Cosmo Pharmaceuticals, Lainate, I; Evolva, Reinach, CH; MondoBiotech, Stans, CH, and Paion AG, Aachen, D.

The compensation of the members of the senior management is set and reviewed annually by the nomination and compensation committee of the Board, in accordance with Newron's compensation policies. The review is based on experience of the members of the committee, publicly available information as well as advice from leading human resources consulting firms with regards to remuneration packages required to attract internationally experienced

senior executive managers from the biopharmaceutical industry, including information available on peer companies, as mentioned in the previous paragraph. The nomination and remuneration committee is required to inform the Board of the decisions taken. The compensation consists of base salary, bonus and stock-based remuneration (stock options and stock appreciation rights, for more details see Note *"Stock-based remuneration (stock options, stock appreciation rights)" on page* 16). The bonus for senior management is 30% (33% for a Swedish General Manager) of the base salary, half of this based on Company and half on individual performance objectives. In addition, Newron offers to senior management company cars, mandatory social security payments and certain life insurance coverage.

The nomination and compensation committee of the Board decides on an annual basis on the level of achievement of the Company performance objectives 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 upon at the beginning of each year. The achievement on individual performance objectives is determined by the nomination and remuneration committee of the Board compared to individual targets agreed at the beginning of each year. The nomination and remuneration committee is required to inform the Board of the decisions taken.

For 2012, the Company's senior management been been rewarded a bonus reflecting the full achievement of the Company objectives, including the successful regaining of the rights of safinamide from Merck Serono, the re-licensing of the rights to Meiji Seika Pharma and Zambon, as well as the acquisition of NeuroNova, with the effects of strengthening the development pipeline and the cash balance of the Company.

The total gross compensation of the members of the Board in 2012 is outlined below:

(In thousand euro)	Cash compensation	Stock options**	Total 2012	Total 2011
Rolf Stahel, non-executive Chairman	53	66	119	386
Stefan Weber, executive member*	427	26	453	372
Francesco Parenti, non-executive member	43	0	43	27
Patrick Langlois, non-executive member	38	0	38	24
Hanns Moehler, non-executive member	33	0	33	19
Roberto Consonni, non-executive member (from June 28, 2012, on)	13	0	13	0
Jakob Lindberg, non-executive member (from December 18, 2012, on)	0	0	0	0
Total	**607**	**92**	**699**	**828**

* Full year remuneration in his function as CFO/CEO
** Evaluation under IFRS rules, not necessarily reflecting personal income

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 2012, the remuneration amounted to a total of thousand EUR 99 (2011: thousand EUR 52). This remuneration is not included in the above table.

For the fiscal year ended December 31, 2012, the aggregate compensation (consisting of statutory auditors' fees) paid by Newron to the Company's Board of Statutory Auditors was about thousand EUR 60 (2011: thousand EUR 56).

The total gross compensation and the highest individual compensation of the members of the senior management in 2012 are outlined below.

(In thousand euro)	Base salary	Bonus	Stock options	Total 2012	Total 2011
Stefan Weber, CEO	338	89	26	453	372
Total senior management	1,173	253	59	1,485	1,153

A former member of senior management left the company in May 2012. His total remuneration for 2012, which is not included in the above numbers, was thousand EUR 830.6, including a separation payment of thousand EUR 484.0, a success based bonus payment of thousand EUR 100.0 and consultancy fees of thousand EUR 17.5.

Payments to former management and directors

In 2012, there were no compensation payments to former members of the Board, nor of senior management beyond the above mentioned payments to a former senior manager, neither were options issued to these persons.

Share allotment

In the year ended December 31, 2012, 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 by members of the Board, senior management and parties closely linked to them as of December 31, 2012, are outlined below:

	Shares*	Stock options	– of which vested
Rolf Stahel, non-executive Chairman of BoD	71,000	0	0
Stefan Weber, CEO, executive member of BoD	10,501	18,899	0
Francesco Parenti, non-executive member of BoD	8,195	0	0
Patrick Langlois, non-executive member of BoD	0	0	0
Hanns Moehler, non-executive member of BoD	0	0	0
Roberto Consonni, non-executive member of BoD	0	0	0
Jakob Lindberg, non-executive member of BoD	0	0	0
Ravi Anand, CMO	6,040	26,338	0
Marco Caremi, Executive VP BD	0	10,377	0
Roberto Galli, VP Finance	2,500	9,937	0
Anders Haegerstrand, General Manager NeuroNova AB	5,127	0	0

* As far as the Company is aware.

The weighted average exercise price of the stock options is EUR 5.29.
The exercise ratio in all cases is 1 share for 1 stock option.

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 2012.

Loans to governing boards

No loans or credits were granted during 2012 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, if necessary, shareholders may also be called to 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 is the presence of shareholders representing at least 50% of the Company's share capital (in the first call), whilst the following calls do not require any quorum for the validity of the meeting. In the event that the ordinary meeting is convened for a sole call, then the quorum provided for the ordinary meeting in second call shall apply. 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 (i) in first call is the presence of shareholders representing at least 50% of Newron's share capital; (ii) in second call is the presence of shareholders representing plus than one third of Newron's share capital; (iii) in third call is the presence of shareholders representing at least one fifth of Newron's share capital. In the event that the extraordinary meeting is convened for a sole call, then the quorum provided for the extraordinary meeting in third call shall apply. At extraordinary meetings, resolutions must be approved by at least two-thirds of the share capital represented at such meetings (save for specific matters which require special majorities).

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 MF Milano Finanza or, in the case that MF Milano Finanza 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.

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 5% of the share capital; (2) may be called by the Board 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 (see http www.newron.com/ENG/Default.aspx?SEZ=5&PAG=96&PRV=ON).

Shareholders may appoint proxies by written means according to 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 shares of a company are not listed on an Italian market. Yet, shareholders representing in the aggregate 5% 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 0.1% 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 present 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 currently 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 Company's 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-FINMA 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 Company's 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.

Should the Company as per the assessment by the Board experience an extraordinary transaction of severe impact on its corporate structure, the stock options and stock appreciation rights as evidenced in *Note "Stock-based remuneration (stock options, stock appreciation rights)" on page 16* which have not vested by that point in time will automatically vest upon such assessment and decision by the Board.

No other applicable agreements or schemes that benefit members of the Board and senior management do include change of control clauses

Auditors

Upon proposal by the management and Board of the Company, on April 2, 2010, 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 financial years ending December 31, 2012. The recommendation by the Company's management and Board, who had asked alternative audit companies to provide offers for a 3-year period (as foreseen by Italian law) of collaboration was based on the high quality of the audit team proposed by E&Y, its audit experience in the pharmaceutical industry, the capability to support international projects and the financial terms offered for the work expected to be done for Newron.

The auditor in charge since the first appointment of Reconta Ernst & Young in 2007 is Paolo Zocchi.

Reconta Ernst & Young will receive an expected fee of thousand EUR 138 (2011: thousand EUR 135) exclusively due to the audit of the Company's Italian GAAP Financial Statements, the financial statements of the subsidiaries under the local GAAP standards, and the Group's consolidated IFRS Financial Statements. Further fees of € 57 were charged by Reconta Ernst & Young for other audit-related services (among which the fees for the Listing Prospectus for the capital increase executed in August 2012).

Supervisory and control instruments pertaining to the audit

The Board has installed an audit committee, whose task it is to discuss with the auditors the audit scope, audit and review procedures, significant reporting matters and fees and to assess the auditors' performance. 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 coordination 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.

In 2012, the audit committee has held two meetings with Reconta Ernst & Young S.p.A., during which the members were presented the planned audit scope, timelines, budget and results of the work performed by Ernst & Young S.p.A. in auditing the IFRS Consolidated Financial Statements for the year 2011, the Italian GAAP Financial Statements for Newron Pharmaceuticals for the year 2011 and reviewing the Interim Consolidated Financial Statements for the six months ended June 30, 2012, as well as the other services provided by Ernst & Young S.p.A. The members of the audit committee do regularly give their input to such presentations and might ask for changes or a special focus of the audit/review work, thereby controlling audit focus, performance and cost.

During these meetings Reconta Ernst & Young S.p.A. reports any material findings of their audit and review procedures to the members of the committee as well as the CEO/VP Finance of the Company. In a separate part, to which members of the management of the Company do not attend, the members of the committee interrogate Reconta Ernst & Young S.p.A. for any potential weaknesses in the Company's systems of internal control. The essence of the results of these meetings is reported by the Chairman of the audit subcommittee to the members of the Board.

The committee on an annual basis evaluates the performance of Ernst & Young S.p.A. and decides on its recommendation to the Board whether Ernst & Young S.p.A. should be proposed to the shareholders' meeting for re-election, when due.

Criteria applied include technical and operational competence, independent and objective view, sufficient and competent resources employed, focus on areas of importance to Newron, willingness to challenge, ability to provide appropriate and pragmatic recommendations and effective communication as well as open dialogue and coordination, with the committee and management.

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 free and timely notification of potentially price-sensitive facts via our web page pull service, http://www .newron.com/ENG/Default.aspx?MOD=NWS&P AG=1 03&SEZ=4. 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 2013

Annual General Meeting of Shareholders: April 18, 2013, in the Company's offices in Bresso (Mi), Italy
Publication of half-year results: September 10, 2013

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Non-applicability/negative disclosure

It is expressly noted that any information not contained or mentioned herein is non-applicable or its omission is to be construed as a negative declaration (as provided in the SIX Swiss Exchange Corporate Governance Directive and the Commentary thereto).

IFRS Consolidated Financial Statements

Consolidated Statement of Income

(In thousand euro, except per share information)	Note	For the year ended December 31 2012	2011
Licence income	6	8,907	280
Other income		17	4,009
Revenue		8,924	4,289
Research and development expenses	7/8	(3,534)	(3,822)
Marketing and advertising expenses		(62)	(51)
General and administrative expenses	7/9	(8,025)	(6,898)
Operating result		(2,697)	(6,482)
Financial result net	10	200	45
Result before tax		(2,497)	(6,437)
Income tax expense	11	122	(8)
Net loss		**(2,375)**	**(6,445)**
Loss per share			
Basic and diluted	12	**(0.29)**	**(0.89)**
Weighted average number of shares (thousands)			
		8,158	**7,264**

Consolidated Statement of Comprehensive Income

(In thousand euro)		For the year ended December 31 2012	2011
Net loss for the period		(2,375)	(6,445)
Currency translation differences		58	(3)
Actuarial gain/(loss) on benefit plan for employees	23	(78)	0
Other comprehensive income / (loss), net of tax		(20)	(3)
Total comprehensive loss for the period		**(2,395)**	**(6,448)**

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

Consolidated Statement of Financial Position

(In thousand euro)	Note	As of December 31 2012	2011
Assets			
Non-current assets			
Property, plant and equipment	13	72	56
Intangible assets	14	11,199	5,171
Available for sale investments	15	584	584
Non-current receivables		45	126
		11,900	5,937
Current assets			
Inventories		233	246
Receivables and prepayments	16	3,271	2,016
Cash and cash equivalents	17	29,243	5,367
		32,747	7,629
Total assets		**44,647**	**13,566**
Shareholders' equity			
Share capital	18	2,277	1,453
Share premium and other reserves	19	31,333	12,827
Share option reserve	20	1,541	4,152
Retained earnings		(7,549)	(11,795)
Translation differences		6	(52)
Total shareholders' equity		27,608	6,585
Liabilities			
Non-current liabilities			
Deferred tax liability	21	3,531	1,718
Long-term borrowings	22	1,447	1,802
Employee cash-settled share-based liabilities		0	1
Employee severance indemnity	23	476	633
		5,454	4,154
Current liabilities			
Deferred income	24	4,396	121
Other current financial liabilities	5	539	0
Short-term borrowings	22	355	355
Trade and other payables	25	6,295	2,351
		11,585	2,827
Total liabilities		17,039	6,981
Shareholders' equity and liabilities		**44,647**	**13,566**

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

Consolidated Statement of Changes in Equity

(In thousand euro)	Note	Share capital	Share premium	Share option reserve	Foreign currency translation reserve	Retained earnings	Total
Balance at January 1, 2011		1,453	36,551	3,310	(49)	(29,074)	12,191
Total comprehensive loss for the period					(3)	(6,445)	(6,448)
Previous year loss allocation			(23,724)			23,724	0
Share option scheme	20			842			842
Balance at December 31, 2011		1,453	12,826	4,152	(52)	(11,795)	6,585
Net loss						(2,375)	(2,375)
Currency translation differences					58		58
Actuarial gain/(loss)	23					(78)	(78)
Total comprehensive loss for the period		0	0	0	58	(2,453)	(2,395)
Previous year loss allocation			(6,617)			6,617	0
Advance payment for future capital increase	19		1,724				1,724
Share option scheme	20			210			210
Exercise of options	18/19	44	3,946	(2,821)			1,169
Issue of shares	18/19	305	5,395				5,700
Issuing cost	19		(215)				(215)
Issue of shares – Acquisition of NeuroNova AB		475	14,274				14,749
IAS 19 revised, opening						82	82
Balance at December 31, 2012		**2,277**	**31,333**	**1,541**	**6**	**(7,549)**	**27,608**

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

Consolidated Statement of Cash Flow

(In thousand euro)	Note	For the year ended December 31 2012	2011
Loss before tax		(2,497)	(6,437)
Adjustments for:			
Depreciation and amortization	13/14	63	88
Impairment of In-process R&D	14	784	0
Interest income		(68)	(66)
Grants and other non monetary income		293	(703)
Share option expenses	20	210	842
Employee severance indemnity expense	23	46	181
Changes in working capital:			
Inventories		13	150
Current receivables and prepayments and deferred cost (excluding grants receivable)		(1,796)	1,049
Trade and other payables and deferred income (excluding advances of grants)		8,780	(1,885)
Cash used in operations		5,828	(6,781)
Cash flows from operating activities			
Cash used in operations		5,828	(6,781)
Government grants received		74	1,977
Pension fund paid	23	(158)	(138)
Change in non-current receivables		81	0
Net cash used in operating activities		5,825	(4,942)
Cash flows from investing activities			
Purchase of property, plant and equipment		(11)	(1)
Acquisition of a subsidiary, net of cash acquired	5	9,971	0
Interest received		68	66
Net cash flows from/(used in) investing activities		10,028	65
Cash flows from financing activities			
Net proceeds from borrowings	22	(355)	2,157
Proceed from issue of shares	18/19	8,593	0
New shares issuing costs	19	(215)	0
Net cash flows from financing activities		8,023	2,157
Net increase/(decrease) in cash and cash equivalents		23,876	(2,720)
Cash and cash equivalents at January 1,		5,367	8,087
Cash and cash equivalents at the end of the year		**29,243**	**5,367**

(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 by 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 in 2008;
- NeuroNova AB, a private biotechnology company based in Stockholm (Sweden) developing new medicines to treat illnesses caused by necrosis of the Central Nervous System (CNS), which has been acquired on December 17, 2012.

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 15, 2013.

2 Basis of preparation

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.

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

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

Since its inception, the Group has incurred significant costs for the funding of its research and development activities without generating revenues to sustain them. Group' 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.

Considering the Group' current cash position and the level of spending according to management's plan and budgets, the directors believe the Group will be able to meet all of its obligations at least for a further 12 months as they fall due and, hence, the consolidated financial statements have been prepared on a going concern basis.

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' 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 *"Critical accounting estimates, assumptions and judgements" on page* 56.

A Basis of consolidation

Subsidiaries in which the Company has direct or indirect controlling interest are consolidated.

The consolidated financial statements of Newron Group include the accounts of Newron Pharmaceuticals S.p.A., Newron Suisse SA, Hunter-Fleming Ltd and NeuroNova AB as of December 31, 2012. The three subsidiaries are fully owned by Newron Pharmaceuticals S.p.A., the parent company.

Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intragroup balances, transactions, unrealised gains and losses resulting from intragroup transactions and dividends are eliminated in full.

NeuroNova AB has been incorporated from December 17, 2012 (date at which the official closing of the business combination occurred).

B Summary of significant accounting policies

a) Business combination and goodwill

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

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognized either in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

b) 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, United Kingdom and Sweden. The Company does not consider the geographies to be separate segments.

c) Related party transactions

Transactions with related parties are made on terms equivalent to those that prevail in arm's length transactions; please refer to Note 29 "*Related-party transactions*" *on page* 70 for additional details.

d) Foreign currency translation

Measurement currency

Items included in the financial statements of the Company are recognised and subsequently 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.

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.

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)	
	2012	2011	Year end 2012	Year end 2011
CHF 1	0.82967	0.81154	0.82836	0.82264
GBP 1	1.23320	1.15176	1.22534	1.19717
SEK1	0.11570 *	n/a	0.11652	n/a

* The consolidation of NeuroNova AB started as of December 17, 2012 (the Closing Date) and accordingly the Group has included in the consolidated financial statements the operation of the subsidiary for the last 15 days of the year. As a consequence the exchange rate used to consolidate NeuroNova operations corresponds to the 15-days average exchange rate from December 17th to December 31st 2012. The exchange rate used to translate NeuroNova opening Balance Sheet as of December 17, 2012 is equal to SEK 1 = EUR 0.11423

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 recognized in the other comprehensive income.

e) 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 straightline 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	3 –10 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 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.

f) 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.

g) Research and development

As stated by 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.

h) 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' name and logo and obtaining their exclusive use world-wide are classified as brands and are shown at historical cost. Brands have a definite useful life and are carried at cost less accumulated 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.

i) Impairment of non-current assets

Assets that are subject to depreciation and amortisation 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.

j) 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".

k) Inventories

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

l) 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. Changes in the provision are recognized in the income statement.

m) Cash and cash equivalents

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

n) 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.

o) 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.

p) Current and deferred income taxes

The income tax charge is based on profit for the year and includes deferred taxes.

Deferred taxes are calculated using the liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on enacted or substantially enacted tax rates as of the balance-sheet date.

Deferred tax assets and liabilities are not discounted and are classified as noncurrent assets (liabilities) in the balance sheet. They are offset against each other if they relate to the same taxable entity and tax authority.

q) 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.

The Group voluntarily changed its accounting policy for the defined benefit plan to recognize all actuarial gains and losses in full in the period in which they occur in other comprehensive income in accordance

with IAS 19.93A. Previously, the Group recognized the net cumulative unrecognized actuarial gains and losses, which exceeded the greater of 10% of the defined benefit obligation and the fair value of the plan assets at the closing date of the previous reporting period over the remaining working periods of the employees, in accordance with IAS 19.93. This is sometimes referred to as the "corridor approach". Further details are disclosed in Note 23 "*Employee severance indemnity*" *on page* 67.

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 remeasured 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.

r) 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 recognized as deferred cost and amortized over the relevant period of collaboration.

The reimbursements received in relation to the licensing and collaboration agreement with Merck Serono and Zambon Company SpA are booked as a decrease of the related costs incurred since they are not considered as "ordinary operating activities" under the Group's business model.

s) 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. Government grants for the acquisition of tangible fixed assets reduce the asset's carrying acquisition cost.

t) Change in accounting policies

The accounting policies used in the preparation of the consolidated financial statements are consistent with those applied in the previous year, except for the adoption of new or revised Standards, amendments to Standards and interpretation as noted below:

IAS 19 (revised), "Employee benefits". The Group has assessed its accounting policy with regard to the recognition of actuarial gains and losses arising from its two defined benefit plans. The Group previously recognized only the net cumulative unrecognized actuarial gains and losses of the previous period, which exceeded 10% of the greater of the defined benefit obligation and the fair value of the plan assets in accordance with IAS 19.93. As a consequence, the Group's statement of financial position did not reflect a significant part of the unrecognized net actuarial gains and losses. During 2012, the Group determined that it would change its accounting policy to recognize actuarial gains and losses in the period in which they occur in total in other comprehensive income, as it believes this policy is more consistent with the practice of its industry peers. The Group is unable to determine how much of the pension scheme is attributable to actuarial gains and losses since inception of the pension scheme because that information was not required to be determined in those earlier periods. Consequently, it is impractical to determine the amount of actuarial gains and losses that would have been recognized in OCI before 1 January 2002. Please refer to *Note 23 "Employee severance indemnity" on page* 67 for the reconciliation between the Corridor and the Defined Benefit Obligation approach.

IFRS 7 "Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements", (effective July 1, 2011). The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognized assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment has been no effect on the Group's financial position, performance or its disclosures.

The following new standards, amendments to standards and interpretations have been issued but are not mandatory for the financial year beginning January 1, 2012 and have not been early adopted:

IFRS 7 (amendments), "Disclosures – Transfers of financial assets". The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 9 "Financial instruments", and its amendments. The standard issued in November 2009 and amended in 2010 introduces new requirement of financial assets and financial liabilities, including their derecognition. IFRS 9 requires all recognized financial assets and liabilities that are within the scope of IAS 39 Financial Instrument: "Recognition and Measurement" to be subsequently measured at amortized cost of fair value. Fair value gains or losses must be recognized in profit or loss, except for the effects of changes in the liability's credit risk, which are recognized directly in other comprehensive income. This standard becomes effective for annual periods beginning on or after 1 January 2015.

IFRS 10 "Consolidated financial statements", replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation – Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 "Joint arrangements", replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Ventures. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 "Disclosure of interests in other entities", includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 "Fair value measurement", establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 1 (amendments), "Presentation of items of other comprehensive income".The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has there no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 28 (revised), "Investments in associates and joint ventures". As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 (amendments), "Financial Instruments: Offsetting of financial assets and financial liabilities". The amendment becomes effective for annual periods beginning on or after 1 January 2014.

The following improvements have been issued in 2012, are effective for annual periods beginning on or after 1 January 2013 and have not been early adopted:

IAS 1 "Presentation of Financial Statements": this improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 16 "Property Plant and Equipment": this improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

IAS 32 "Financial Instruments, Presentation": this improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

IAS 34 "Interim Financial Reporting": the amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

The Group is currently assessing the potential impacts of these new and revised standards and interpretations that will be effective from 1 January 2013 and beyond, and which the Group has not early adopted. The Group does not anticipate that these will have a material impact on the Group's overall results and financial position.

3 Financial risk management

A Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management program 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' finance department under the policies approved by the Board of Directors. The Board of Directors has provided written principles for overall risk management, as well as written policies covering specific area such as investing excess liquidity. There is no use of valuation techniques for financial assets or liabilities.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise four types of risk: interest rate risk, currency risk, commodity price risk and other price risk, such as equity price risk. Financial instruments affected by market risk include loans and borrowings, deposits, available-for-sale investments and derivative financial instruments. Newron Group is mainly exposed to currency risk whereas it is not exposed to commodity price risk, other price risk and interest rate risk fluctuations since the Group's borrowing is essentially a loan received from the government at subsidized interest rates.

The Group operates internationally and is exposed to currency risk arising from various exposures, primarily with respect to the Swiss francs, UK pounds, Swedish Krona 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. Management has performed a sensitivity analysis applying reasonably possible change in the Swiss francs, UK pounds, Swedish Krona and US dollars exchange rate, with all other variables unchanged. The impact on both Group' Income before tax and Equity is not material.

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 approved financial institutions with A+ or higher ranking (please refer to *Note 17 "Cash and cash equivalents" on page 64* for additional information).

Liquidity risk

Management monitors the Group' 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 and through subsequent fund raisings. The Group' policy states to invest these funds in low risk investments including interest bearing deposits. The financial status at December 31, 2012 assures that the Group' operations will be funded well into 2015, not taking into account further revenue streams. The ability of the Group to maintain adequate cash reserves to sustain its activities in the medium term is highly dependent on the Group' 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 term.

The table below summarizes the maturity profile of the Group's financial liabilities based on the contractual undiscounted payments as of:

December 31, 2012

Maturity table	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Short-term borrowings	177	178	–	–	355
Long-term borrowings	–	–	1,265	182	1,447
Other current financial liabilities	539	–	–	–	539
Trade and other payables	6,295	–	–	–	6,295
Total	**7,011**	**178**	**1,265**	**182**	**8,636**

December 31, 2011

Maturity table	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Short-term borrowings	177	178	–	–	355
Long-term borrowings	–	–	1,258	544	1,802
Trade and other payables	2,351	–	–	–	2,351
Total	**2,528**	**178**	**1,258**	**544**	**4,508**

4 Critical accounting estimates, assumptions and judgements

The preparation of this consolidated financial information requires management to apply accounting methods and policies that are based on difficult or subjective judgments, estimates based on past experience and assumptions determined to be reasonable and realistic based on the related circumstances. The application of these estimates and assumptions affects the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of income and expenses during the reporting period. Actual results may differ from these estimates given the uncertainty surrounding the assumptions and conditions upon which the estimates are based. Below are summarized the Group' accounting estimates that require the most subjective judgment 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 q) *"Employee benefits" on page 50*.

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 estimations 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, 2012 have been treated as expenses as commercial and technical feasibility continues to be assessed. There are no intangible assets in relation to development expenditure but the In-process R&D.

Deferred tax assets and liabilities

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 impairment has been accounted for as disclosed in *Note 14 "Intangible assets" on page 62*. The key assumptions used to determine the recoverable amount for the different cash generating units are further explained in the *Note 14 and Note 15 on page 63*.

5 Business combination

Acquisition of NeuroNova AB

On December 17, 2012, the Group acquired 100% of the voting shares of NeuroNova AB, a private biopharmaceutical company based in Stockholm (Sweden) that develops new medicines to treat illnesses caused by necrosis of the Central Nervous System (CNS). The total cost of the combination paid to NeuroNova AB shareholders comprises: i) EUR 14,749 paid by means of newly issued Newron' shares (n. 2,375,000 ordinary shares with par value of EUR 0.20 per share and a premium of EUR 6.01 per share) and ii) EUR 115 directly attributable to the issuance of shares related to the acquisition.

The acquisition has been accounted for using the acquisition method, as stated by IFRS 3. The purchase price has been provisionally allocated based on the estimate of the fair value of assets acquired and liabilities assumed at the date of acquisition. The fair value of the identifiable assets and liabilities of NeuroNova AB as at the date of acquisition were:

(In thousand euro)	Purchase price allocation
Assets	
Property, plant and equipment	55
Intangible assets	6,825
Non-current receivables	12
Non-current assets	6,892
Receivables and prepayments	381
Cash and cash equivalents	14,008
Current assets	14,389
Total assets	**21,281**
Liabilities	
Deferred tax liability	2,047
Non-current liabilities	2,047
Other current financial liabilities	539
Trade and other payables	3,946
Current liabilities	4,485
Total liabilities	**6,532**
Purchase price	**14,749**

The Group issued 2,375,000 ordinary shares as consideration for the 100% interest in NeuroNova AB. The fair value of the shares was the published price of the shares of the Group at the acquisition date, which was EUR 6,21 each. The fair value of the consideration given is therefore EUR 14,749.

Intangible assets recognized in the context of the purchase price allocation process, amounting to EUR 6,825, entirely refer to in-process research and development ("IPR&D") projects. In particular, the Company acquired 2 projects: the sNN0029 and the sNN0031 whose main indications are respectively Amyotrophic Lateral Sclerosis (ALS) and Parkinson's disease. For additional information please refer to *Note 14 "Intangible assets" on page 62*.

Deferred tax liabilities of EUR 2,047 have emerged in connection with the values allocated to intangible assets.

The agreement signed among the parties provided that, at closing, NeuroNova AB should have had a certain Net Financial Position. Any excess or shortfall of cash compared to the agreed amount should have been settled by the parties within a defined period. After closing, the parties agreed that the Net Financial Position of NeuroNova AB exceeded the amount agreed and therefore former NeuroNova' shareholders obtained the right to an amount equal to EUR 539. The debt has been accounted for in the caption "Other current financial liabilities" and has been included in the purchase price allocation.

Since the date of acquisition, NeuroNova AB has contributed EUR 402 to the net losses of the Group. Should the combination had taken place at the beginning of the year, the losses for the Group would have been EUR 7.546.

Transaction costs have been expensed and are included in administrative expenses. The attributable costs of the issuance of the shares of EUR 115 have been charged directly to equity as a reduction in share premium.

6 Licence income

(In thousand euro)	For the year ended December 31	
	2012	2011
Licence income	8,907	280

Licence income, amounting to EUR 8,907 (2011: EUR 280), is related: i) by EUR 5 million to the upfront payment received from Meiji Seika Pharma Co. Ltd., a subsidiary of Meiji Holdings Co.Ltd. (Tokyo, Japan) upon the finalization of the licence agreement covering the research, development, manufacturing and marketing of safinamide in Japan and other key Asian territories, ii) by EUR 1.5 million to the option fee obtained from Zambon Company S.p.A. ("Zambon") as part of the exclusivity agreement related to safinamide, iii) by EUR 121 to the residual part of the down-payment received from Merck Serono upon the finalization of the safinamide license agreement, terminated on April 17, 2012 and iv) by EUR 2,286 to the down-payment – amounting to a total of EUR 5 million – received from Zambon Company S.p.A. in May 2012, which is recognized as revenue on a straight-line basis over the estimated period of collaboration required to finalize the development of safinamide, prepare the applications and file for marketing approval in Europe and the U.S. The portion of the down-payment in excess (equal to EUR 2,714) of the recognized revenue has been recorded as "Deferred income" among current liabilities.

7 Staff costs

(In thousand euro)	For the year ended December 31	
	2012	2011
Wages and salaries	3,267	1,781
Pension costs – defined contribution plans	609	529
Share options granted to directors and employees	210	842
Share apreciation rights granted to directors and employees	(1)	(0)
Employee severance indemnity costs	46	181
Social security costs	135	135
	4,266	**3,468**

The average number of Group employees in 2012 was 23 (2011: 31), of whom 1 (2011: 1) was part-time. On October 2012 all the employees placed in "*Cassa Integrazione Guadagni*" (CIG) were dismissed. CIG is a government-supported program under Italian law, which allows to put the employees in a "garden leave" paid by the government; as part of the dismissal process, the employees were granted with a total indemnity of approximately EUR 500.

The increase by EUR 825 is mainly related to the combined effect of i) the one-time payment granted to managers and employees who left the Company amounting to approximately EUR 1,161, including the CIG indemnities above mentioned, ii) the increase in cost due to the additional 7 employees working in NeuroNova AB, starting from December 17, 2012 and

iii) the decrease in share options costs. The above effects were partially counterbalanced by the reduction in headcounts as a consequence of the restructuring procedure initiated last year mentioned above.

8 Research and development expenses

(In thousand euro)	For the year ended December 31	
	2012	2011
Services received from subcontractors	923	1,601
Staff costs	1,502	1,203
Consultancy fees	91	578
Material and consumable used	28	93
Laboratory operating lease cost	142	193
Travel expenses	50	103
Depreciation and amortization expense	785	14
Other research and development costs	13	37
	3,534	3,822

Research and development expenses related to safinamide have been reimbursed by Merck Serono until April 17, 2012, when the Termination Agreement was finalized and the exclusive worldwide safinamide's rights were returned to Newron. Notwithstanding the above, pursuant to the agreement signed with Zambon and effective since May 14, 2012, the new partner will reimburse the expenses borne by Newron Group to complete the development of Safinamide, prepare the applications and file for marketing approval in Europe and the U.S. As Newron doesn't apply on such expenses any kind of handling fees or even profit and given that – even if relevant – this is not the ordinary activity of the Company, research and development expenses are presented net of reimbursements.
The Research and development expenses are presented also net of the costs that will be reimbursed by other external parties (i.e. Tax Authorities, Ministries; etc.) according to different scientific research programmes granted to the Group. As of December 2012, the Company has netted the Research and development expenses for an amount equal to EUR 25 (2011: EUR 449) of which EUR 24 refers to a project granted by the European Community to Newron Pharmaceuticals S.p.A. whereas the remaining EUR 1 refers to a project granted to NeuroNova AB, acting as the coordinator of the consortium conducting a clinical safety and efficacy study in patients diagnosed with Parkinson's disease, by the European Community Seventh Framework Programme on December 2011, for a total amount of EUR 6 million.

The table below shows the net effects.

(In thousand euro)	For the year ended December 31	
	2012	2011
Research and development expenses, gross	8,359	6,244
Granted project	(25)	(449)
Reimbursed by Merck Serono and Zambon	(4,800)	(1,973)
	3,534	3,822

Services received from subcontractors decreased by EUR 678. The variation is mainly explained by the cost containment process, started in 2012, executed on the development projects except safinamide; Staff costs increased mostly due to one-time payments to leaving employees and managers. In addition, an impairment charge on HF0220 was recognized (please refer to Note 14 *"Intangible assets" on page* 62 for additional information).

Since inception, no development costs have been capitalized with the exception of the Intangible assets recognized in the context of the purchase price allocation processes related to the acquisition of i) Hunter-Fleming Limited (occurred in 2008) and ii) NeuroNova AB (occurred on December 17, 2012).

9 General and administrative expenses

(In thousand euro)	For the year ended December 31	
	2012	2011
Staff costs	2,764	2,265
Consultancy and other professional services	2,945	1,553
Intellectual properties	964	825
Travel expenses	242	298
Operating lease cost	128	152
Depreciation and amortization expense	62	74
Other expenses	920	1,731
	8,025	**6,898**

Consultancy and other professional services increased by 1,392 as a consequence of the costs sustained as part of the transactions completed and agreements signed by the Group during the 2012.

10 Financial income, net

(In thousand euro)	For the year ended December 31	
	2012	2011
Interest income	84	72
Interest expense	(16)	(6)
Foreign exchange gains	163	33
Foreign exchange losses	(7)	(44)
Other costs, net	(24)	(10)
	200	**45**

Financial income increased by EUR 155 with respect to prior year mostly as a consequence of the recognition of gains on foreign exchange. The Group invested available financial resources pursuant to the policy approved by the Board of Directors as described in Note 2 j) "*Investments*" *on page* 49. See also Note 17 "*Cash and cash equivalents*" *on page* 64.

11 Income tax expense

As of December 31, 2012 the Group accrued income taxes of EUR 113 (2011: EUR 8) of which EUR 12 (2011: EUR 8) due to Newron Suisse operations and EUR 101 (2011: EUR 0) due to Newron Pharmaceuticals SpA regional taxes (the so called I.R.A.P. Imposta Regionale sulle Attività Produttive). According to the impairment of in-process R&D detailed in Note 14 *on page* 62, the Company has released EUR 235 of deferred tax liabilities as a tax profit; the balance at year end is a net revenue of EUR 122.

12 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 outstanding 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	
	2012	2011
Net loss attributable to shareholders	(2,375)	(6,445)
Weighted average number of shares (thousands)	8,158	7,264
Loss per share – basic (in euro)	(0.29)	(0.89)

The only category of potential ordinary shares are the share options granted to employees and directors. During the presented periods, these were anti-dilutive, as their conversion would have decreased the loss per share. Thus, the values of the basic and diluted loss per share coincide.

In case of future profits, options granted to employees (as of today n. 230,781 – see also Note 20 "*Share options reserve*" *on page* 66) may have a dilutive effect on the net profit per share.

13 Property, plant and equipment

(In thousand euro)	Leasehold improvements	Laboratory and office equipment	Total
Cost			
At January 1, 2011	498	1,466	1,964
Additions	0	1	1
Exchange differences	0	(6)	(6)
At December 31, 2011	498	1,461	1,959
Accumulated depreciation			
At January 1, 2011	(498)	(1,338)	(1,836)
Additions	0	(67)	(67)
At December 31, 2011	(498)	(1,405)	(1,903)
Net book value	**0**	**56**	**56**
Cost			
At January 1, 2012	498	1,461	1,959
NeuoNova opening	0	1,269	1,269
Additions	0	14	14
NeuoNova additions	0	10	10
Disposals	0	(127)	(127)
Exchange differences	0	(13)	(13)
At December 31, 2012	498	2,614	3,112
Accumulated depreciation			
At January 1, 2012	(498)	(1,405)	(1,903)
NeuoNova opening	0	(1,208)	(1,208)
Additions	0	(39)	(39)
NeuoNova additions	0	(16)	(16)
Disposals	0	127	127
At December 31, 2012	(498)	(2,542)	(3,040)
Net book value	**0**	**72**	**72**

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

(In thousand euro)	Licences and software	In-process R&D	Total
Cost			
At January 1, 2011	321	11,933	12,254
At December 31, 2011	321	11,933	12,254
Accumulated amortization and impairment			
At January 1, 2011	(277)	(6,789)	(7,066)
Impairments	0	0	0
Additions	(17)	0	(17)
At December 31, 2011	(294)	(6,789)	(7,083)
Net book value – Newron Group	**27**	**5,144**	**5,171**
Cost			
At January 1, 2012	321	11,933	12,254
NeuroNova additions	0	6,825	6,825
At December 31, 2012	321	18,758	19,079
Accumulated amortization and impairment			
At January 1, 2012	(294)	(6,789)	(7,083)
Impairments	0	(784)	(784)
Additions	(13)	0	(13)
At December 31, 2012	(307)	(7,573)	(7,880)
Net book value – Newron Group	**14**	**11,185**	**11,199**

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 a risk-adjusted NPV assessment to test for impairment the above intangible assets. The assessment was performed based on 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.

As uncertainty remains as to whether a final and successful market registration will be achieved, a risk of additional future adjustments to the carrying amount of the above in-process R&D stays.

Hunter-Fleming Limited

Upon the acquisition of Hunter-Fleming Ltd. in 2008, an amount of EUR 11,933 was allocated to four development projects – currently three as in year 2009 one compound was returned to its inventor – based on a risk-adjusted Net Present Value (NPV) assessment. These projects have been classified as in-process R&D. The following table shows the results of the Net Present Value (NPV) assessment:

Project	Development phase	Book value 2011	Allocated value	Write-off	Deferred tax effect
HF0220	Clinical phase II	5,044	4,260	(784)	235
HF0299	Clinical phase I	50	50	0	0
HF1220	Discovery	50	50	0	0
		5,144	**4,360**	**(784)**	**235**

As the Group has limited amount of cash available, the Management has decided to give priority to the development of other compounds within the pipeline: as a consequence of this decision, during the next years, further development work of HF0220 will be delayed and a limited amount of money will be dedicated to evaluate the potential of the compound in cognitive deficits as part of neurodegenerative disease. Accordingly the HF0220 allocated value decreased by EUR 784. In the meanwhile, following the recent acquisition of NeuroNova, which is expanding the development pipeline, Newron is assessing the chances to partner HF0220 in order to have a third party support the further costly development in cognitive deficits. The deferred tax effect has been calculated using a tax rate of 30%: please refer to Note 21 *"Deferred tax liabilities" on page* 67 for additional information.

NeuroNova AB

Upon completion of the acquisition of NeuroNova AB., Newron management performed a provisional allocation of the purchase price paid to the development projects of NeuroNova, based on risk-adjusted Net Present Value (NPV). The following table shows the results:

Project	Development phase	Allocated purchase price	Deferred tax effect
sNN0029	Clinical phase I	1,469	441
sNN0031	Clinical phase II	5,356	1,607
		6,825	**2,048**

15 Available-for-sale investment

Available for sale investment of EUR 584 (2011: EUR 584) is entirely represented by a minority interest (17%) held in a Special Purpose Vehicle (SPV) – Trident Pharmaceuticals Inc. – setup to develop a late-preclinical compound in asthma. The investment was acquired in 2008 upon the finalization of Hunter Fleming deal.

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 *"Intangible assets" on page* 62 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 Receivables and prepayments

(In thousand euro)	As of December 31	
	2012	2011
Receivables	1,511	876
Government grants receivable	460	547
Prepayments	508	142
Deferred costs	437	51
VAT receivable	291	333
Other receivables	64	67
	3,271	**2,016**

Receivables are almost entirely represented by the accruals related to the reimbursement of safinamide's research and development costs as these expenses are charged by the Group to its partners. The increase reflects the work performed by the Group to finalize the development of safinamide, prepare the applications and file for marketing approval in Europe and the U.S.

Government grants receivable includes:

(In thousand euro)	Approved amounts	Approved amounts in %	Receivables
D.D. 2187 year 2003			
Grants for scientific research	284	70	199
Collections as at December 2012			(199)
Net receivables as per D.D. 2187			–
DM 593 – August 8, 2000 – Art. 10			
Grants for scientific research			
Income grant	3,502	55	1,843
Collections as at December 2011			(1,580)
			264
European Community – FP7-HEALTH-2007-2.2.1-8: From mood disorders to experimental models			
Grants for scientific research			
Income grant	198	35	98
Collections as at December 2012			(135)
			(37)
Lombardy district – B.U.R.L. n.12 – March 20, 2008			
Grants for scientific research			
Income grant	773	30	346
Reduction of approved amount			(38)
Collections received during 2010			(75)
			233
			460

17 Cash and cash equivalents

(In thousand euro)	As of December 31	
	2012	2011
Cash at bank and in hand	25,602	1,776
Short-term investments	3,641	3,591
	29,243	**5,367**

The "Short-term investments" are highly liquid investments easily convertible into cash, not subject to significant changes in value and with no withdrawal penalty. The significant increase, compared to December 31, 2011, is explained by the cash-in obtained from Meiji and Zambon deals, by the capital increase transactions performed during the current fiscal year and by the consolidation of cash and cash equivalents owned by NeuroNova AB as at year-end.

18 Share capital

As of December 31, 2011, the subscribed share capital was equal to EUR 1,452,875.60, divided into 7,264,378 ordinary shares with nominal value equal to EUR 0.20 each. The authorized share capital was equal to EUR 1,622,875.60 (divided into n. 8,114,378 ordinary shares).

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

(In euro)	Total
As of December 31, 2010 – Newron Group	1,452,875.60
As of December 31, 2011 – Newron Group	1,452,875.60
– issue of ordinary share (Capital Increase)	145,287.00
– issue of ordinary share (Capital Increase)	159,816.00
– issue of ordinary share (NeuroNova AB acquisition)	475,000.00
– issue of ordinary share (Stock options exercise)	44,216.80
As of December 31, 2012 – Newron Group	**2,277,195.40**

Following the finalization, on May 14, 2012 of the collaboration and license agreement with Zambon, the Group's share capital increased by EUR 145 through the issuance of 726,435 ordinary shares with a par value of EUR 0.20 and a premium of EUR 2.24; the related amounts were paid-up by Zambon Company S.p.A.

On June 28 2012 the extraordinary shareholders' meeting resolved, among other items, to increase the Company's share capital by up to 10%, or the equivalent of an amount of up to EUR 159.816.00, corresponding to up to 799.080 new Newron ordinary shares with a par value of EUR 0.20 per share. The extraordinary shareholders' meeting resolved to exclude any pre-emptive rights to the Company's current shareholders to subscribe such capital increase. The above shares have been subscribed in several transactions by existing shareholders and new international institutional investors; the completion of the placement was announced by the Company as of August 20, 2012.

On December 5, 2012, the extraordinary shareholders' meeting resolved, among other items, to increase the share capital by up to nominal EUR 475.000,00, plus a premium, by issuance for payment and with exclusion of the option right – pursuant to article 2441, paragraph 4, of the Italian civil code – of up to n. 2.375.000 ordinary shares of Newron Pharmaceuticals S.p.A. having a par value of EUR 0.20 each. The share capital was subscribed, via contribution in kind, by previous NeuroNova AB shareholders through 100% of NeuroNova AB existing shares.

During the last days of December, n. 221,084 options have been exercised by employees, managers and directors of the Company corresponding to 221,084 new ordinary shares of Newron Pharmaceuticals S.p.A. having a par value of EUR 0.20 each.

As of December 31, 2012, Newron's outstanding share capital was EUR 2,277,195.40, consisting of 11,385,977 ordinary shares with a nominal value of EUR 0.20 each. As per the same date, Newron in addition had an authorized share capital of EUR 170,000, represented by 850,000 shares with a nominal value of EUR 0.20 per share. These 850,000 shares originally 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 have become due to former Hunter-Fleming Ltd. shareholders, conditional to the achievement of certain development and commercialization milestones within December 31, 2012 – the "long-stop date". As none of the milestones has been achieved, and no extension of the long stop date has been triggered, there won't be any more claims to milestones under this agreement. 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, and is therefore expected to expire in April 2013.

19 Share premium and other reserves

(In thousand euro)	As of December 31	
	2012	2011
At the beginning of the year	12,827	36,551
Loss allocation	(6,617)	(23,724)
Advance payment for future capital increase	1,724	0
Issue of shares	5,395	0
Issue of shares (exercise of options)	1,125	0
Reclassification from share option reserve	2,821	0
Share capital issue costs	(215)	0
Issue of shares – Acquisition of NeuroNova AB	14,274	0
At the end of the period	**31,333**	**12,827**

Under the Collaboration and Licence Agreement, Zambon Company S.p.A. has also contributed into Newron share capital of an additional EUR 1,724 as advance payment for future capital increase.

As a consequence of the exercise of options, the cost accrued into the Share options reserve throughout the vesting period has been reclassified into the share premium reserve.

20 Share options reserve

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 five Share Option Plans: the first in October 2003 (ESOP 2003); the second in July 2004 (ESOP 2004); the third in June 2007 (ESOP 2007); the fourth in April 2009 (ESOP 2009) and the fifth in March 2011 (ESOP 2011) as described below. On December 31, 2012, all Share Option Plans have expired except for the ESOP 2011. All options have been awarded free of charge.

During the year 2012 some employees left the Company waiving a total of 24,375 options granted under the 2007 and 2011 plan.

During the year, 221,084 options have been exercised by employees, managers and directors of the Company corresponding to 221,084 new ordinary shares of Newron Pharmaceuticals S.p.A. having a par value of EUR 0.20 and a premium of EUR 5.09. For additional details please refer to *Note Note 18 and Note 19* above.

On December 31, 2012 the non-exercised options expired.

A summary of the granted options is as follows:

	Employee Share Option Plans			
	2007	2009	2011	TOTAL
At January 1,	192,272	123,049	153,854	469,175
Waived	(750)	0	(23,625)	(24,375)
Exercised	(143,263)	(77,821)	0	(221,084)
Expired	(48,259)	(45,228)	0	(93,487)
At December 31,	**0**	**0**	**130,229**	**130,229**

The Group's Board of Directors can grant further options only under the ESOP 2011 plans.

The options granted are recognized as personnel expenses over the original vesting period.

In 2012, option grants resulted in personnel net expenses of EUR 210 which were composed by a cost of EUR 31 related to the original vesting period and a cost of EUR 179 related to the new fair-value. R&D personnel expenses are equal to EUR 37 (2011: EUR 107) while EUR 173 refers to G&A personnel (2011: EUR 735).

Exercise price (in euro)	Number outstanding	Weighted-average remaining contractual life (years)	Number exercisable
5.29	130,229	7.25	0

On March 24, 2014 n. 130,229 options will become exercisable and will expire on March 30, 2020.

For additional information please refer to Note 30 *"Events after the balance sheet date" on page 71.*

21 Deferred tax liabilities

(In thousand euro)	As of December 31	
	2012	2011
Deferred tax liabilities, gross	1,718	1,718
Purchase price allocation	2,048	0
Write-off,s effect on deferred tax liabilities	(235)	0
	3,531	**1,718**

Please refer to Note 14 *"Intangible assets" on page 62* for additional information.

22 Borrowings

(In thousand euro)	As of December 31	
	2012	2011
At beginnig of year	2,157	0
Proceeds	0	2,157
Repayment	(355)	0
Total borrowings	**1,802**	**2,157**
Long term	1,447	1,802
Short term	355	355

In 2008 Newron was awarded with a EUR 5 million grant by the Italian government's Ministero dell' Istruzione, dell' Università e della Ricerca – M.I.U.R.. About 60% of the grant bears interest of 0.5% per year and is required to be fully repaid within 10 years from the grant date through two yearly instalments (January 1 and July 1) ending on January 1, 2018.

23 Employee severance indemnity

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

The main assumptions underlying the Company's actuarial valuation were as follows:

	December 31, 2012	December 31, 2011
Actuarial assumptions		
Discount rate	2.70%	4.75%
Inflation rate	2.00%	2.00%
Future salary increase	1.50%	1.50%
Future pension (TFR) increase	3.00%	3.00%

Based on Defined Benefit Obligation, the amount recognized on the balance sheet in respect of the Group's defined benefit plan amounted to EUR 476 (2011: EUR 551). The following table shows the reclassification from the Corridor approach to the Defined Benefit Obligation one:

(In thousand euro)	As of December 31	
	2012	2011
Balance at the beginning of the year – Corridor approach	633	587
Opening adjustments on retained deficit	(82)	(31)
Defined Benefit Obligation at the beginning of the period	**551**	**556**
Service cost	34	140
Interest costs	12	41
Indemnity paid out	(158)	(54)
Actuarial (gains)/losses	79	(51)
Transferred to other parties	(42)	(81)
Defined Benefit Obligation at the end of the period	**476**	**551**

Since the Group is unable to determine how much of the pension scheme is attributable to actuarial gains and losses since inception of the pension scheme because that information was not required to be determined in those earlier periods. Consequently, it is impractical to determine the amount of actuarial gains and losses that would have been recognized in OCI before January 1, 2002.

24 Deferred income

Deferred income of EUR 4,396 (2011: EUR 121) relates
i) by EUR 2,714 to the upfront payment received in May from Zambon Company S.p.A. (please refer also to Note 6 for additional details) that will be recognize as revenue in 2013 and
ii) by EUR 1,682 to the advance payment received by NeuroNova AB in 2012 from the European Community.

25 Trade and other payables

(In thousand euro)	As of December 31	
	2012	2011
Trade payables	1,881	1,015
Accrued expenses	1,837	829
Pension contribution payable	249	179
Social security	235	101
Other payables	2,093	227
	6,295	**2,351**

Other payables mostly refer to the advance payment received from the European Community by NeuroNova, acting as coordinator of a Consortium, that will recognized to the other members as far as the development of the project progresses.

26 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	
	2012	2011
Other (IAS 19)	(195)	(183)
Total taxable differences	(195)	(183)
Other minor	1	1
Deferred income	0	120
Total deductible differences	1	121
Net temporary differences	(194)	(62)
Tax losses carry forwards	123,695	114,562
Total differences	**123,502**	**114,500**
Deferred tax asset	33,223	31,541

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, 2012
No expiry date	31,995
No expiry date – DL 98/2011	92,136
	123,695

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); EUR 19,806 related to Hunter-Fleming Ltd (equal to GBP 16,164 translated at the year-end exchange rate EUR 1 equal to GBP 0.8353) and EUR 5,745 related to NeuroNova AB (equal to SEK 49,300 translated at the year-end exchange rate EUR 1 equal to SEK 8.5822).

In 2011 the Italian Tax Authorities issued a new set of rules that modified the previous treatment of tax losses carry forwards. According to what has been stated by the D.L. 98/2011, at the end of 2011, all existing tax losses carry forwards will never expire but they can off-set only the 80% of the taxable income of the year. The new rules don't affect the tax loss carry forwards that refer to the start-up period, defined as the first three years of operations starting from the inception of the Company.

27 Commitments and contingent liabilities

Operating lease commitments – whereby the Group is the lessee

The Company leases the offices from Zambon Immobiliare S.p.A. The contract will last till September 30, 2014. During the year, the rented office space has been reduced resulting in a decrease of the annual rent.

Newron Suisse SA leases its offices from Livit AG. Starting from January 2011 the offices' dimensions has been reduced; the annual rent has decreased accordingly. The lease will expire on July 31, 2013.

NeuroNova AB leases its offices from Kungliga Djurgårdsförvaltningen. The lease is automatically renewed every year.

Hunter-Fleming Limited doesn't rent premises.

During the year ended December 31, 2012 EUR 270 was recognized as net expense in the income statement in respect of operating leases (2011: EUR 345).

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

(In thousand euro)	As of December 31	
	2012	2011
No later than 1 year	294	264
Later than 1 year and not later than 5 years	141	318
	435	**582**

Should the Company decide to leave its offices, it has to pay 6 months remittance period only.

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 0.6 million. Should the Group decide to close any of these contracts, this will not incur material penalty fees.

28 Financial instruments by category

As of December 31, 2012	Loans and receivables	Assets at fair value through profit or loss	Held-to-maturity investments	Available-for-sale financial assets	Liabilities at fair value through profit or loss	Other financial liabilities at amortized cost
Assets						
Cash and cash equivalents	29,243	–	–	–	–	–
Financial assets	–	–	-	584	–	–
Trade and other receivables	2,326	–	–	–	–	–
Total	**31,569**	**–**	**–**	**584**	**–**	**–**
Liabilities						
Trade and other payables	–	–	–	–	–	4,536
Other current financial liabilities	–	–	–	–	–	539
Short–term borrowings	–	–	–	–	–	355
Long–term borrowings	–	–	–	–	–	1,447
Total	**–**	**–**	**–**	**–**	**–**	**6,877**

As of December 31, 2011	Loans and receivables	Assets at fair value through profit or loss	Held-to-maturity investments	Available-for-sale financial assets	Liabilities at fair value through profit or loss	Other financial liabilities at amortized cost
Assets						
Cash and cash equivalents	5,367	–	–	–	–	–
Financial assets	–	–	–	584	–	–
Trade and other receivables	1,823	–	–	–	–	–
Total	**7,190**	**–**	**–**	**584**	**–**	**–**
Liabilities						
Trade and other payables	–	–	–	–	–	2,351
Short-term borrowings	–	–	–	–	–	355
Long-term borrowings	–	–	–	–	–	1,802
Total	**–**	**–**	**–**	**–**	**–**	**4,508**

29 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.

In the previous years, 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.

The Company has left the Consortium in October 2012: on December 20 ,2012 the Consortium has officially acknowledged such decision. The remaining value on EUR 1 has been written-off as of December 2012.

ii) Related-party transactions

The following tables provide the total amount of transactions that have been entered into with related parties during the twelve month periods ending December 31, 2012, and December 31, 2011, as well as balances with related parties as of December 31, 2012, and December 31, 2011:

As of December 31, 2012	Sales to related parties	Purchases from related parties	Amounts owed by related parties, net	Amounts owed to related parties
Zambon (whole group)	7,865	191	411	36

As of December 31, 2011	Sales to related parties	Purchases from related parties	Amounts owed by related parties, net	Amounts owed to related parties
Zambon (whole group)	0	375	0	7

iii) Key management personnel

The total remuneration of key management personnel is as follows:

(In thousand euro)	For the year ended December 31	
	2012	2011
Salaries	1,338	1,182
Bonuses	355	0
Social security contributions	326	207
Share option compensation	98	392
One time payments	484	0
Employee severance indemnity	64	54
	2,665	1,835

The figures for 2012 include the full remuneration of i) previous CEO until he left the Company, in June 2012 and ii) yearly costs of new Vice President Finance even if he has been appointed in June 2012. The remuneration of Swedish personnel is included from the closing date.

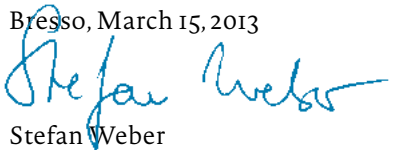
One-time payments includes amounts granted to leaving managers.

30 Events after the balance sheet date

On January 18, 2013 Newron's Board of Directors approved to grant additional n. 493,496 stock options from a new plan (ESOP 2013). The new plan was set up in order to incentivise the efforts of employees, directors and certain consultants directed at the growth of the Company and its subsidiaries in the medium term. As of January 18, 2013 the Company has granted a total of n. 623,725 options.

On February 4, 2013 Newron announced that its newly acquired subsidiary, Stockholm-based NeuroNova AB, received an award of up to EUR 2.5 million from the Wellcome Trust. The funding will support a phase I/II clinical trial for Newron's experimental compound sNN0029 for the treatment of Amyotrophic Lateral Sclerosis (ALS). The trial is expected to start in 2013.

Bresso, March 15, 2013



Stefan Weber
Chief Executive Officer
Newron Pharmaceuticals S.p.A.

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, 2012, comprising the statement of financial position, the statement of income, the statement of comprehensive income, statement of changes in 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 Standard 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 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 May 28, 2012.

3. In our opinion, the consolidated financial statements of Newron Group at December 31, 2012 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 and the cash flows of the Group for the year then ended.

Milan, March 18, 2013

Reconta Ernst & Young S.p.A.

Paolo Zocchi
(Partner)

Information for Investors

Stock exchange information

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

Share price data

	FY 2012	FY 2011
Number of fully paid-in shares as at December 31	11,385,977	7,264,378
Year high (in CHF)	9.43	8.7
Year low (in CHF)	2.20	1.68
Year-end (in CHF)	8.04	2.2
Loss per share (in EUR)	0.22	0.89
Cash and cash equivalents, other short-term financial assets as at December 31 (in EUR 1,000)	29,243	5,367
Market capitalization as at December 31 (in CHF)	91,543,255	15,981,632

Major shareholders*

Investor AB
Zambon
HealthCap
Aviva Investors
3i Group plc
Omega Fund Management

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

Financial calendar

Publication of Annual Report 2012	March 19, 2013
Press and Analyst Conference	March 19, 2013
Annual Shareholders' meeting	April 18, 2013
Half year report 2013	September 10, 2013

Contact

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Important Notices

This document contains forward-looking statements, including (without limitation) about (1) Newron's ability to develop and expand its business, successfully complete development of its current product candidates and current and future collaborations for the development and commercialization of its product candidates and reduce costs (including staff costs), (2) the market for drugs to treat CNS diseases and pain conditions, (3) Newron's anticipated future revenues, capital expenditures and financial resources, and (4) assumptions underlying any such statements. In some cases these statements and assumptions can be identified by the fact that they use words such as "will", "anticipate", "estimate", "expect", "project", "intend", "plan", "believe", "target", and other words and terms of similar meaning. All statements, other than historical facts, contained herein regarding Newron's strategy, goals, plans, future financial position, projected revenues and costs and prospects are forward-looking statements.

By their very nature, such statements and assumptions involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other outcomes described, assumed or implied therein will not be achieved. Future events and actual results could differ materially from those set out in, contemplated by or underlying the forward-looking statements due to a number of important factors. These factors include (without limitation) (1) uncertainties in the discovery, development or marketing of products, including without limitation negative results of clinical trials or research projects or unexpected side effects, (2) delay or inability in obtaining regulatory approvals or bringing products to market, (3) future market acceptance of products, (4) loss of or inability to obtain adequate protection for intellectual property rights, (5) inability to raise additional funds, (6) success of existing and entry into future collaborations and licensing agreements, (7) litigation, (8) loss of key executive or other employees, (9) adverse publicity and news coverage, and (10) competition, regulatory, legislative and judicial developments or changes in market and/or overall economic conditions.

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