Newron
Pharmaceuticals

Annual Report 2011

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.

Phase III trials of safinamide for the treatment of Parkinson's disease (PD) have recently been completed and Newron anticipates a potential filing in the EU and US, in 2013. 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 at various stages of preclinical and clinical development, including HF0220 for neuroprotection, NW-3509 for the treatment of schizophrenia, as well as pruvanserin and sarizotan for treatment of CNS diseases.

www.newron.com

Key Corporate Events

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

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

Agreement signed with Meiji Seika for licence to safinamide in Japan and key Asian territories

New data on safinamide presented as late-breaking news at AAN 2011 Annual Meeting

Approval of IND by the US FDA for NW-3509, a novel compound with potential as an add-on treatment for patients with schizophrenia

FDA approval of ralfinamide trial in non-responding patients with severe neuropathic pain of specific causes

Global rights to safinamide regained from Merck Serono

Agreement signed with Merck KGaA to develop two compounds for CNS diseases

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Shareholders' Letter

Rolf Stahel

Luca Benatti

Dear Shareholder

Newron has had an exceptionally busy and challenging 12 months.

Most importantly, and recently, the phase III development programme for safinamide has been completed with promising top-line results. The MOTION and SETTLE phase III pivotal clinical trials are part of the development programme designed to investigate the compound as an add-on therapy to dopamine agonists in patients with early Parkinson's disease and as an add-on to levodopa for advanced Parkinson's disease. Further analyses will be done and the data will be submitted for peer review and presented at a key scientific meeting. It is with great pride in our team that we have reached the stage where we are moving towards preparation of the dossier for filing with the EU and US authorities.

During the year, data from previously completed phase III studies were presented as late-breaking news at the American Association of Neurology annual meeting in Hawaii and at the World Congress on Parkinson's disease and related disorders, in Shanghai.

On receipt of the top-line results for safinamide, we announced a change in executive leadership with CEO Luca Benatti standing down as at 31 May and Stefan Weber, our CFO since 2005, stepping up to take his place. Luca is a co-founder of Newron and has led the company since 1998 with many significant achievements in that time, culminating in the completion of the safinamide development programme and a new licence agreement for its future commercialization, signed with Zambon Group.

In October, we were informed that Merck Serono, part of Merck KGaA, intended to hand back the rights to safinamide, on which we had been collaborating since late 2006. At such a late stage in the compound's development and given its potential as an add-on treatment for all stages of Parkinson's disease, this decision came as a surprise to us and we immediately set about discussions with potential new partners. On May 14 we were able to announce the take-on by Zambon Group of the licence for safinamide in regions outside of Asia. The terms gave us an upfront payment and equity investment of EUR 10m with future milestones and generous royalty rates, as well as Zambon taking on the costs for the preparations of the EU and US regulatory submissions which we intend to file in 2013. In Zambon, we have a partner with a solid 100-year history in pharmaceutical sales and marketing sharing our enthusiasm and belief in the value of safinamide for patients afflicted with Parkinson's disease. They recognize Newron's extensive expertise in CNS development and we are confident of a strong and positive partnership.

In February, we announced a licence agreement with Meiji Seika for the development and commercialization of safinamide for Japan – the world's second-largest pharmaceutical market – and other key Asian markets.

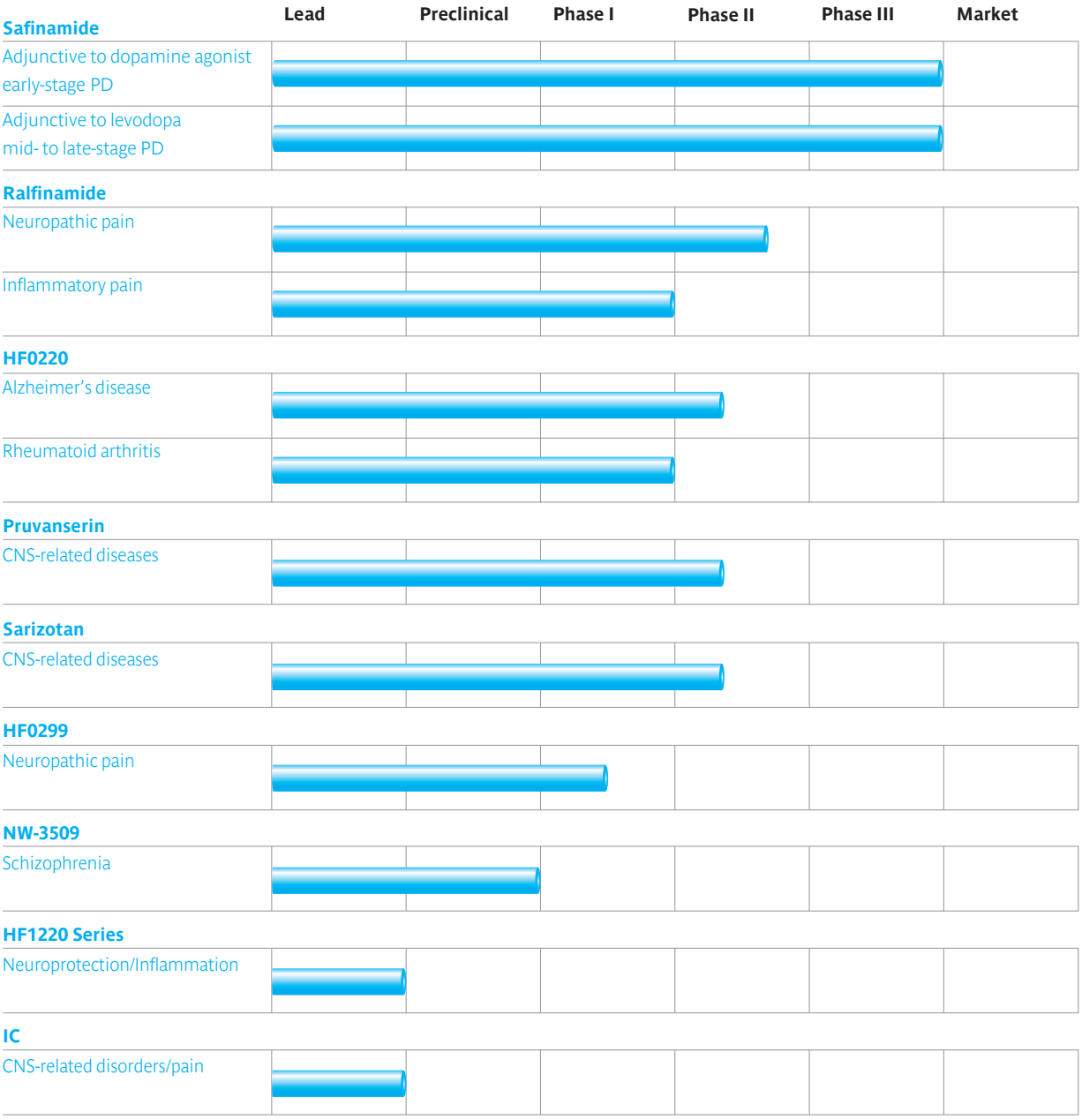
In the prevailing challenging markets, Newron has, as previously stated, been open to a variety of M&A options in order to strengthen our pipeline and cash position. We have held discussions with a number of companies during the year and in September announced an acquisition by Finland's Biotie. The Board and management felt that the combined entity would create shareholder value through the synergies of a complementary pipeline. However, it was not possible to complete the transaction after the rights to safinamide were returned to us.

In August, we received approval for an IND from the US FDA for NW-3509, a novel compound from our own discovery efforts, with potential as an add-on treatment for schizophrenia, an important and under-served market.

At the end of March, we announced a deal with Merck KGaA to take on the re-purposing development of two phase II compounds to which Merck retains buy-back options, exercisable upon completion of proof of concept trials.

Our pipeline of drug candidates is innovative and with potential to create a number of novel treatments for a variety of CNS disorders. This field of therapeutic R&D continues to be one of the largest segments of the pharmaceutical sector.

Drug Portfolio



IC = Ion Channel Programme

HF1020 in clinical phase I development for inflammatory disorders is part of Newron's equity holding in Trident

Financial Outlook

With approximately EUR 16m in cash and the safinamide expenses towards filing covered by Zambon, we expect cash to take us well into 2014. Within this timeframe safinamide should be filed for approval in the EU and the US.

Our key focus is to prepare the regulatory submissions for safinamide alongside Zambon to ensure a robust and compelling dossier is available to the authorities.

Whilst this preparation is being done, we are reviewing our pipeline to determine the priorities for development. We will also remain open to M&A, as our main goal is to strengthen the platform upon which shareholder value will be re-built.

The Board of Newron would like to thank and congratulate our team on completing the development work on safinamide and signing two new partnership deals under considerable time constraints.

We would like also to thank our shareholders for their support and we look forward to updating you on our progress.

Rolf Stahel
Chairman

Luca Benatti
Chief Executive Officer

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 2011	FY 2010
Number of fully paid-in shares as at December 31	7,264,378	7,264,378
Year high (in CHF)	8.7	23.6
Year low (in CHF)	1.68	5.0
Year-end (in CHF)	2.2	5.7
Loss per share (in EUR)	0.89	3.11
Cash and cash equivalents, other short-term financial assets as at December 31 (in EUR 1,000)	5,367	8,087
Market capitalization as at December 31 (in CHF)	15,981,632	41,261,667

Major shareholders*

Great Point Partners
3i Group plc
NWB Investissements S.p.r.l.
TVM Life Science Ventures VI GmbH & Co. KG
Orbimed
Aviva Life & Pensions UK Ltd.

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

Financial calendar

May 31, 2012	Year-end results 2011
June 28, 2012	Annual General Meeting, Milan
September 10, 2012	Half-year results 2012

Contact

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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, 2011. 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 Financial Officer (CFO), the Chief Medical Officer (CMO) and the Vice-President Strategic Marketing and Head of Legal Affairs.

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 Luca Benatti as General Manager (*Geschäftsführer*). Philippe A. Weber, Luca Benatti and Stefan Weber are members of the Board (*Verwaltungsrat*) of the company.

Hunter-Fleming Ltd. is a limited 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 Luca Benatti and Stefan Weber as directors.

The 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. The management has decided not to consolidate the Company's interest in the Consortium.

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	027612440
Ticker Symbol	NWRN
Market capitalization on December 31, 2011	CHF 15,981,632 (based on 7,264,378 outstanding shares and a share price of CHF 2.20)

Significant shareholders

In line with Swiss law, which is not applicable to Newron as an Italian entity, Newron's by-laws ask shareholders to comply with the Ownership Disclosure Laws as set forth in Article 20 of the Swiss Federal Act on Stock Exchanges and Securities Trading of March 24, 1995, as amended (the "SESTA"), as well as pertinent regulations, including Articles 9 ss. of the Ordinance of the Swiss Financial Market Supervisory Authority on Stock Exchanges and Securities Trading of October 25, 2008, as amended (the "SESTO-FINMA") (all such laws and regulations, the "Swiss Ownership Disclosure Laws"). Such Swiss Ownership Disclosure Laws provide, among other things, that persons who, directly, indirectly or in concert with third parties, acquire or dispose of shares or rights or obligations to acquire shares and thereby attain, exceed or fall below the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 33 ⅓%, 50% or 66 ⅔% 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 or voting rights of Newron as at December 31, 2011. The number of shares shown as well as the holding percentages are based on the last disclosure of shareholding received from the shareholder. Please be aware that since then, the information could have become outdated because of changes that did not trigger notifications:

Shareholder	Note	Holding at Dec. 31, 2011	
		Shares	% of share capital
Great Point Partners	1	660,395	9.1%
3i Group plc	2	539,937	7.4%
NWB Investissements S.p.r.l.*	2	410,900	5.7%
TVM Life Science Ventures VI GmbH & Co. KG	2	274,062	3.8%
Orbimed	3	243,000	3.3%
Aviva Investors	2	235,000	3.2%

[1] As per disclosure of shareholding published Jan. 13, 2011
[2] No disclosure in 2011
[3] As per registration to 2011 EGM

Link to access individual significant shareholders' reports:
http://www.six-swiss-exchange.com/shares/companies/major_shareholders_de.html

[*] Indirectly controlled by Apax France VI

726,435 new shares have been subscribed in a transaction announced by the Company as of April 5, 2012, by Zambon Company S.p.A. (for details, see page 18).

Cross-shareholdings

As of December 31, 2011, 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, 2011	December 31, 2010	December 31, 2009
Number of ordinary shares with par value of EUR 0.20	7,264,378	7,264,378	6,557,552
Share capital	1,452,875.60	1,452,875.60	1,311,510.40
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)	526,005	526,005	572,436
Conditional share capital (up to)	105,201.00	105,201.00	114,487.20

As of December 31, 2011, Newron's outstanding share capital was EUR 1,452,875.60, consisting of 7,264,378 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 related to the purchase of 100% of the shares of Hunter-Fleming Ltd. Under the agreement, milestone payments of no more than EUR 17m in new Newron shares could become due to former Hunter-Fleming Ltd. shareholders. The milestones are strictly linked to development and commercialization success mostly of HF0220, the lead compound. So far, none of the milestones have been achieved. Should any milestones be achieved prior to year-end 2012 (with a potential extension to year-end 2013), the amount due in EUR will be split by the market price of the Company's shares at the time, but no less than CHF 34.40, and the resulting number of shares transferred to the former shareholders of Hunter-Fleming.

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

As per December 31, 2011, Newron had a conditional (pre-authorized) capital of EUR 105,201.00, represented by 526,005 shares with a nominal value of EUR 0.20 per share.

Of these, 526,005 shares related to the purpose of implementing stock-based incentive compensation plans for employees and directors of the Company and subsidiaries. As for the term of validity and the terms and conditions of the issuance of these equity securities, please see "Stock-based remuneration", page 19.

Changes in capital

On April 24, 2008, the extraordinary shareholders' meeting resolved, among other things, to a) increase the Company's share capital up to a maximum amount of EUR 80,000.00, corresponding to a maximum amount of 400,000 of Newron's ordinary shares, with par value of EUR 0.20 per share, which may be issued and allotted in one or more instalments in exchange for shares in Hunter-Fleming Ltd., to the exclusion, as permitted under Italian Civil Code Article 2441, Paragraph 4, of any pre-emptive right by the Company's current shareholders to subscribe to the share capital increase. Of this capital increase, only 185,742 shares were required and used in the closing of the acquisition of the totality of the share capital of Hunter-Fleming Ltd. By July 31, 2008, the shares not subscribed turned null and void.
b) increase the Company's share capital up to a maximum amount of EUR 3,000.00, corresponding to a maximum amount of 15,000 of Newron's ordinary shares, with par value of EUR 0.20 per share, which could be issued and allotted in one or more instalments, to the exclusion, as permitted under Italian Civil Code Article 2441, Paragraph 8, of any pre-emptive

right by the Company's current shareholders to subscribe to the share capital increase, to be offered in the subscription to the employees of the Company and to the employees of the Company's subsidiaries. Of this capital increase, no shares were required and used in the closing of the acquisition of the totality of the share capital of Hunter-Fleming Ltd. By August 31, 2008, the shares turned null and void.
c) granting of powers to the Board of the Company, as permitted under Article 2443 of the Italian Civil Code to increase the Company's share capital up to a maximum amount of EUR 170,000.00, corresponding to a maximum amount of 850,000 of Newron's ordinary shares, with par value of EUR 0.20 per share, which may be issued and allotted in one or more instalments at varying subscription prices, to the exclusion, as permitted under Italian Civil Code Article 2441, Paragraph 5, of any pre-emptive right by the Company's current shareholders to subscribe to the share capital increase. The duration of such grant is for five years upon granting date.
d) granting of powers to the Board of the Company, as permitted under Article 2443 of the Italian Civil Code to increase the share capital up to 10% of the Company's share capital, to the exclusion of any pre-emptive right by the Company's current shareholders to subscribe to such share capital increase, as permitted under Italian Civil Code Article 2441, Paragraph 4, second sentence and under Article 6 of the Company's by-laws, as eventually amended. The duration of such grant is for five years upon granting date.

In exercise of the powers granted to the Board in the extraordinary shareholders' meeting as of April 24, 2008, the Board has by decision as of December 3, 2008, reserved 450,334 ordinary shares for the execution of the Standby Equity Distribution Agreement with YA Global Investments, L.P. During 2009, a total of 97,044 shares had been newly issued and delivered to YA Global Investments, L.P., under the agreement, of which 16,242 shares were used to cover the commitment fee under the agreement and 80,802 shares were newly issued in return for about CHF 1.7m proceeds that were received from YA Global Investments, L.P.

As per decision of the Board as of November 27, 2009, the Board has revoked the not yet issued 306,859 shares reserved for the execution of the Standby Equity Distribution Agreement with YA Global Investments, L.P. As per the same date, 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 share capital increase, by an amount of EUR 88,000.00, corresponding to 440,000 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 November 20, 2009, by two groups of leading international institutional investors.

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 an 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 an 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.

Shares and participation certificates

As of December 31, 2011, Newron's outstanding share capital was EUR 1,452,875.60, consisting of 7,264,378 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)

As per year end 2010 (please see Annual Report 2010, pages 37 ff.), Newron under stock-based remuneration plans 2003, 2004, 2007 and 2009 had granted to its employees, members of the Board and certain consultants 284,254 options to acquire one share, each, at nominal value of EUR 0.20, each. In addition, 113,750 stock appreciation rights had been issued, referring to one share, each. Therefore, the total volume of granted rights added up to 398,004 or about 5.5 % of the fully paid-in shares of the Company, as per end of 2010.

In order to harmonize the multitude of applicable rules under these different programmes, to consider the material changes in the tax treatment of stock remuneration programmes under Italian law and to reflect the effect of the financial markets' adverse development in the last years, the Board of Directors has decided to establish the 2011 Stock Option Plan.

2011 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. All 276,945 stock options have vested by March 24, 2012, and will expire as at December 31, 2012. Their exercise price is EUR 5.29.

Furthermore, the Board decided to re-allocate 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, and will expire as at December 31, 2012. Their exercise price is EUR 5.29.

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. All these options will vest by March 24, 2014, and will expire as at March 30, 2020. Their exercise price is EUR 5.29.

The total volume of granted stock options under the above programmes is 469,175 options to acquire one share, each, at nominal value of EUR 0.20, each. As at December 31, 2011, this is an equivalent of 6.5% 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, 2011, the Board was comprised of five (5) directors. All of these directors were elected on April 28, 2011, for a three-year term expiring on the date of the shareholders' meeting scheduled to approve Newron's financial statements for the year ending December 31, 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, Cosmo Pharmaceuticals S.p.A. and EUSA Pharma Inc.; executive BoD chairman of Chesyl Pharma Ltd; member of the Advisory Board of Imperial Business School, Imperial College London
Luca Benatti	Managing Director, CEO, executive director	1998	Former Head of the Molecular Neurobiology Department at Pharmacia & Upjohn S.p.A.; non-executive BoD member of Erydel S.p.A.
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; BoD member of Shire Pharmaceuticals Inc., Scynexis, Nanobiotix and Exonhit Therapeutics
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

None of the non-executive members of the Board as per December 31, 2011, 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 "Compensation, Shareholdings and Loans" (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 also the non-executive Chairman of the Boards of Connexios Life Sciences Pvt Ltd, Cosmo Pharmaceuticals S.p.A. and EUSA Pharma Inc. 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.

Luca Benatti, the Company's Managing Director and Chief Executive Officer since 1998, founded Newron in 1998 along with Dr. Ruggero Fariello and Dr. Patricia Salvati. He has more than 15 years of scientific experience in molecular biology and neurobiology. Dr. Benatti has a degree in molecular biology from Milan University. He started his career as a scientist for Farmitalia Carlo Erba, where he held several positions in its biotechnology department. Following a postdoctoral training at the Oxford University, Dr. Benatti was the head of the Molecular Neurobiology Department at Pharmacia & Upjohn S.p.A., holding that position until he resigned to found Newron in 1998. He holds several patents and has authored publications in peer-reviewed journals. In addition to his position at Newron, he is a non-executive Board member of Erydel S.p.A. Luca Benatti is a member of Emerging Enterprise Board of EuropaBio, of the Italian Association of Biotechnology and since 2004 jury member of the European Biotechnica Award. He is Italian by nationality.

Permanent management and consultancy functions for 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 post-doctoral 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 a Board Member of Shire Pharmaceuticals Inc (UK), Scynexis (USA), Nanobiotix (France) and Exonhit Therapeutics (France). 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.

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

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

The Company's directors are elected at the Company's annual ordinary meeting of shareholders for a term of three financial years. The Company's directors may be re-elected for an unlimited number of consecutive terms. If the shareholders fail to elect a Chairman at the shareholders' meeting, the members of the Board elect, from amongst themselves, the Chairman, and one or more Deputy 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 2011, a total of twelve meetings of the full Board were called, of which five were held physically and seven via phone. In addition, the nomination and compensation subcommittee convened for one time and the audit subcommittee for two times. While the physical meetings are called on a bi-monthly 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 bi-monthly 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 CFO takes this function towards the members of the audit committee. Yet, decisions might be taken by the members of the Board as well as each subcommittee without the attendance of senior management, but following presentation of facts and discussion with senior management.

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

Management provides the Board annually with a consolidated financial budget for the next business year for the 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 bi-monthly basis, required action will be closely monitored via update phone calls. Each member of the Board may demand information on any business of Newron's affairs and may inspect all books, business files and corporate documents.

On a quarterly basis, the Board of Statutory Auditors is updated as well, as required by Italian law (see below). The permanent observation and control of the Company's risks is a management objective. For identified risks, mainly clinical development and financial risks, a risk assessment is performed. Appropriate actions (including for example the performance of additional preclinical or clinical studies, fund-raising 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 an audit committee and a nomination and compensation committee to support its work. The overall responsibility of the Board is not limited by these committees. The role of such committees is to exercise review and control and to report the findings to the full Board and to express certain recommendations to the full Board, while decisions are finally taken by the full Board, with the exception described below for the nomination and compensation committee.

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 page 35.

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 "Compensation, Shareholdings and Loans" (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.

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
Luca Benatti	Chief Executive Officer, Managing Director
Ravi Anand	Chief Medical Officer
Stefan Weber	Chief Financial Officer
Marco Caremi	Vice-President Strategic Marketing and Head of Legal Affairs

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

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

Stefan Weber has been the Company's Chief Financial Officer since April 2005. He holds a master's degree in business management from Fernuniversität Hagen (*Diplom-Kaufmann*). He has more than 20 years of industry experience in finance and serves as the Chief Financial Officer of public and private biotechnology companies since 2000. From 1987 to 1999, he worked for the Lohmann group, a worldwide producer of pharmaceutical, medical, technical and consumer products. His final position was Head of Finance of the Lohmann group. After joining Girindus, a fine chemistry process development and scale-up provider in 1999, he was appointed Chief Financial Officer in 2000. From 2001 to 2005, he was the Chief Financial Officer of Biofrontera, a company active in drug discovery and development. 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 and managed investor relations. He furthermore has been involved in a number of M&A transactions, disinvestments and strategic restructurings. Stefan Weber is German.

Marco Caremi is Vice-President Strategic Marketing and Head of Legal Affairs since 2007. He has been in Vice-President positions with the Company since September 2002. He holds a university degree in natural science from the University of Milan and has successfully completed the Advanced Development Programme at the London Business School. Mr. Caremi has 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.

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, the compensation of the members of the Board since the 2011 shareholders' meeting consists of a fixed annual remuneration of currently thousand EUR 20 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 50. 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, 2011, Luca Benatti has fully waived his compensation as director. The other members of the Board have waived 10% of their fixed annual remuneration for a period of 12 months, from July 1, 2010, to June 30, 2011, to support the Company during its restructuring.

When proposing the maximum total annual compensation for the members of the Board in 2011, the nomination and compensation committee of the Board did not ask for third-party support. Instead, the Board proposed to keep unchanged the remuneration from the previous three-year term, which is deemed to reflect the critical situation of the Company, but still 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 on page 23, 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 com-

pensation consists of base salary, bonus and stock-based remuneration (stock options and stock appreciation rights, for more details see page 19). The bonus for senior management is 30% 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, the mandatory Italian 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 2011, the Company's senior management has not been rewarded any bonus, neither for Company nor individual achievements, by decision of the nomination and compensation committee, in reflection of the critical situation after the termination notice received by Merck Serono with respect to the 2006 collaboration and license agreement on safinamide, the reduced shareholder value as reflected in the share price reduction upon such event and in support of the financial situation during the restructuring phase of the Company. Furthermore, the Company's senior management has voluntarily waived 10% of its base salary for a period of 12 months, from July 1, 2010, to June 30, 2011, to support the Company in the period of restructuring.

The total gross compensation of the members of the Board in 2010 is outlined below:

(In thousand euro)	Cash compensation	Stock options**	Total 2011	*Total 2010*
Rolf Stahel, non-executive Chairman	47	339	386	268
Luca Benatti, executive member*	301	173	474	305
Francesco Parenti, non-executive member	27	0	27	24
Patrick Langlois, non-executive member	24	0	24	24
Hanns Moehler, non-executive member	19	0	19	19
Total	**418**	**512**	**930**	**640**

* Remuneration in his function as 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 2011, the remuneration amounted to a total of thousand EUR 52 (2010: thousand EUR 58). This remuneration is not included in the above table.

For the fiscal year ended December 31, 2011, the aggregate compensation (consisting of statutory auditors' fees) paid by Newron to the Company's Board of Statutory Auditors was thousand EUR 56 (2010: thousand EUR 57).

The total gross compensation and the highest individual compensation of the members of the senior management in 2011 are outlined below.

(In thousand euro)	Base salary	Bonus	Stock options	Total 2011	*Total 2010*
Luca Benatti, CEO	301	0	173	474	305
Total senior management	1,235	0	392	1,627	2,331

Payments to former management and directors

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

Share allotment

In the year ended December 31, 2011, no shares have been allotted to any members of the Board nor the senior management or parties closely linked to them.

The holdings of shares, stock options and stock appreciation rights in Newron of members of the Board, senior management and parties closely linked to them as of December 31, 2011, are outlined below:

	Shares*	Stock options	– of which vested
Rolf Stahel, non-executive Chairman of BoD	0	102,793	0
Luca Benatti, CEO, executive member of BoD	167,305	108,435	0
Francesco Parenti, non-executive member of BoD	0	0	0
Patrick Langlois, non-executive member of BoD	0	0	0
Hanns Moehler, non-executive member of BoD	0	0	0
Ravi Anand, CMO	6,040	43,136	0
Stefan Weber, CFO	4,501	63,177	0
Marco Caremi, VP Strategic Marketing and Head of Legal Affairs	0	30,738	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 2011.

Loans to governing boards

No loans or credits were granted during 2010 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 20% of the Company's share capital. 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 is the presence of shareholders representing more than 20% of Newron's share capital. 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://newron.com/shareholdersmeeting.html).

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 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 ⅓% 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 ⅓% 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 section "Stock-based remuneration" (page 19) 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 reappointed 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 135 (2010: thousand EUR 138) 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.

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 2011, 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 2010, 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, 2011, 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/CFO 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 full 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/Register4Updates.asp. 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 2012

Annual General Meeting of Shareholders: June 28, 2012, in the Company's offices in Bresso (Mi), Italy
Publication of half-year results: September 10, 2012

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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)		For the year ended December 31	
	Note	2011	2010
Licence income	5	280	626
Other income	6	4,009	180
Revenue		4,289	806
Research and development expenses	7 / 8	(3,822)	(15,922)
Marketing and advertising expenses		(51)	(73)
General and administrative expenses	7 / 9	(6,898)	(6,451)
Operating result		(6,482)	(21,640)
Financial result net	10	45	(33)
Result before tax		(6,437)	(21,673)
Income tax expense	11	(8)	1,128
Net loss		**(6,445)**	**(20,545)**
Loss per share			
Basic and diluted	12	**(0.89)**	**(3.11)**
Weighted average number of shares (thousands)			
		7,264	**6,614**

Consolidated Statement of Comprehensive Income

(In thousand euro)	For the year ended December 31	
	2011	2010
Net loss for the period	(6,445)	(20,545)
Currency translation differences	(3)	22
Other comprehensive income / (loss), net of tax	(3)	22
Total comprehensive loss for the period	**(6,448)**	**(20,523)**

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

Consolidated Statement of Financial Position

(In thousand euro)		As of December 31	
	Note	2011	2010
Assets			
Non-current assets			
Property, plant and equipment	13	56	128
Intangible assets	14	5,171	5,188
Available-for-sale investments	15	584	584
Non-current receivables		126	126
		5,937	6,026
Current assets			
Inventories		246	396
Receivables and prepayments	16	2,016	4,623
Cash and cash equivalents	17	5,367	8,087
		7,629	13,106
Total assets		**13,566**	**19,132**
Shareholders' equity			
Share capital	18	1,453	1,453
Share premium and other reserves	19	12,827	36,551
Share option reserve	20	4,152	3,310
Retained earnings		(11,795)	(29,074)
Translation differences		(52)	(49)
Total shareholders' equity		6,585	12,191
Liabilities			
Non-current liabilities			
Deferred tax liability	21	1,718	1,718
Long-term borrowings	22	1,802	0
Employee cash-settled share-based liabilities	23	1	1
Employee severance indemnity	24	633	587
		4,154	2,306
Current liabilities			
Deferred income	25	121	400
Short-term borrowings	22	355	0
Trade and other payables	26	2,351	4,235
		2,827	4,635
Total liabilities		6,981	6,941
Shareholders' equity and liabilities		**13,566**	**19,132**

(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, 2010		1,312	52,399	3,065	(71)	(27,422)	29,283
Total comprehensive loss for the period					22	(20,545)	(20,523)
Previous year loss allocation			(18,893)			18,893	0
Issue of shares		141	3,210				3,351
Issuing cost			(166)				(166)
Share option scheme	20			245			245
Balance at December 31, 2010		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**	**12,827**	**4,152**	**(52)**	**(11,795)**	**6,585**

(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 2011	2010
Loss before tax		(6,437)	(21,673)
Adjustments for			
Depreciation and amortization	13/14	88	149
Impairment of in-process R&D	14	0	3,800
Interest income	10	(66)	(26)
Grants and other non-monetary income		(703)	(1,303)
Share option expenses	20	842	65
Employee severance indemnity expense	24	181	238
Changes in working capital			
Inventories		150	(16)
Current receivables and prepayments and deferred cost (excluding grants receivable)		1,049	2,896
Trade and other payables and deferred income (excluding advances of grants)		(1,885)	(3,193)
Cash used in operations		(6,781)	(19,063)
Cash flows from operating activities			
Cash used in operations		(6,781)	(19,063)
Government grants received	16	1,977	197
Pension fund paid	24	(138)	(271)
Change in non-current receivables		0	10
Net cash used in operating activities		(4,942)	(19,127)
Cash flows from investing activities			
Disposal of financial assets		0	1,602
Purchase of property, plant and equipment	13	(1)	(7)
Interest received	10	66	26
Net cash flows from/(used in) investing activities		65	1,621
Cash flows from financing activities			
Net proceeds from borrowings	22	2,157	(281)
Proceed from issue of shares		0	3,351
New shares issuing costs		0	(166)
Net cash flows from financing activities		2,157	2,904
Net increase/(decrease) in cash and cash equivalents		(2,720)	(14,602)
Cash and cash equivalents at January 1		8,087	22,689
Cash and cash equivalents at the end of the year		**5,367**	**8,087**

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

Notes to the Consolidated Financial Statements

(In thousand euro unless otherwise stated)

1 General information

Newron Group (the Group) is composed of the following entities:

- Newron Pharmaceuticals S.p.A. (the Company), a clinical-stage biopharmaceutical company focused on the discovery and development of drugs for the treatment of Central Nervous System (CNS) disorders and pain – the parent company;
- Newron Suisse SA, a clinical-development fully owned subsidiary based in Basel (Switzerland) established during 2007;
- Hunter-Fleming Limited, a private biopharmaceutical company based in Bristol (United Kingdom) and focused on neurodegenerative and inflammatory disorders, which has been acquired in 2008.

The Company is incorporated and domiciled in Milan, Italy. The address of its registered office is via Ludovico Ariosto 21, Bresso MI 20091, Italy. The Company is listed on the main segment of the SIX Swiss Exchange, Zurich, Switzerland, under the trade name NWRN.

These consolidated financial statements have been approved for issuance by the Board of Directors on May 25, 2012, as the Company applied to SIX Swiss Exchange for an extension to the period of the disclosure of its Annual Report 2011 to May 31, 2012, which was granted by SIX Swiss Exchange, on February 27, 2012. This procedure is also allowed by Italian Civil Code, as stated by the article 2364. The extension was granted to Newron in order to allow the inclusion in the Annual Report of the relevant disclosure related to the material events around its lead compound safinamide, which is currently in the final stages of clinical development and could progress towards regulatory filing in the US and Europe, once the results of the ongoing MOTION and SETTLE clinical Phase III studies have been reported. For additional information please refer to note 31 Events after the balance sheet date.

2 Summary of significant accounting policies

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A Basis of preparation

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

The presentation currency is euro. All figures included in these financial statements and notes to the financial statements are rounded to the nearest 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's liquidity requirements arise primarily from the need to fund its ongoing research and development activities and, although the results of research are substantially positive, it is not certain that the research and development activities will lead to the introduction of new products to the market. Historically, Newron has primarily used capital contributions from shareholders, and limited government grants and loans, to finance the cash needs of its continuing development activities.

Considering the Group's 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's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4.

B Consolidation

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

The consolidated financial statements of Newron Group include the accounts of Newron Pharmaceuticals S.p.A., Newron Suisse SA and Hunter-Fleming Ltd.

The consolidation commences from the date on which the subsidiary has been incorporated or established.

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

Intercompany balances and transaction between group companies are eliminated.

C Change in accounting policies

The accounting policies 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 24 (Revised), "Related party disclosures", (effective January 1, 2011): The revised standard modifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities.

IAS 32 Financial Instruments: Presentation (Amendment): The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

IFRIC 14 (Amendment), "Prepayments of a minimum funding requirement"

IFRIC 19 "Extinguishing financial liabilities with equity instruments"

IFRS 1 (Amendment), "First-time adoption of International Financial Reporting Standard" – Limited exemption from comparative IFRS 7 Disclosures for first-time adopters

In 2011 the Group has implemented various amendments to existing standards and interpretations which have no material impact on the Group's overall results and financial position.

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2011,and not early adopted:

The following new standards, amendments to standards and interpretations have been issued but are not mandatory for the financial year beginning January 1, 2011, 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 January 1, 2013.

IFRS 9 "Financial instruments", and its amendments. The standard issued in November 2009 and amended in 2010 introduces new requirements 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 Instruments: "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 January 1, 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 January 1, 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 January 1, 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 January 1, 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 January 1, 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 July 1, 2012.

IAS 12 (Amendment), "Income taxes". The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair-value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after January 1, 2012.

IAS 19 (Revised), "Employee benefits". The revised standard eliminates the "corridor approach" and thus requires that an entity recognize the actual deficit or surplus of its defined benefits plans in the statement of financial position. IAS 19 revised also introduces the net interest or income, calculated by applying the discount rate to the net defined benefit asset or liability. The defined benefit cost will be split into three categories, of which service cost and net interest cost will be presented in the income statement, whereas actuarial gains and losses will be presented in the statement of comprehensive income. The adoption of IAS 19 revised is expected to have an impact on the Group financial position. The Group will fully asses the impact of the adoption of the revised standard during the year ended December 31, 2012, with the preparation of comparative data. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

IAS 27 (Revised), "Separate financial statements". As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

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 January 1, 2013.

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

The Group is currently assessing the potential impacts of these new and revised standards and interpretations that will be effective from January 1, 2012 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.

D Segment reporting

The Company operates in a single business segment, which is research and development of pharmaceutical drugs. Geographically the research and development activities are performed in Italy, Switzerland and the United Kingdom. The Company does not consider the geographies to be separate segments.

E Related-party transactions

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

F Foreign-currency translation

(i) *Measurement currency*

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates

('the functional currency'). The financial statements are presented in euro, which is the Company's functional and presentation currency.

(2) *Transactions and balances*

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

(3) *Group companies*

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

	Income statements in euro (average rates)		Balance sheets in euro (rates as of)	
	2011	2010	Year end 2011	Year end 2010
CHF 1	0.81154	0.72448	0.82264	0.79974
GBP 1	1.15176	1.16577	1.19717	1.16171

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.

G Property, plant and equipment

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

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

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

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

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

H Operating leases

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

I Research and development

As stated 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.

J Intangible assets

Computer software and licences

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

Brands

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

In-process research and development

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

K Impairment of non-current assets

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

L Investments

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

In December 2006, the Board of Directors approved an investment policy which foresees that "all investments in financial instruments by the Company shall be for capital preservation purposes, aimed at safeguarding its capital, reserves and liquidity until the funds are used in the Company's primary business". It is also stated that "any investment in derivative financial instruments shall need to be previously authorized by the Company's Board of Directors".

M Inventories

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

N Trade and other receivables

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

O Cash and cash equivalents

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

P Share capital

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

Q Borrowings

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

R Current and deferred income taxes

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 non-current assets (liabilities) in the balance sheet. They are offset against each other if they relate to the same taxable entity and tax authority.

S Employee benefits

Employee severance indemnity
(Trattamento di Fine Rapporto, T.F.R.)
In accordance with Italian legislation, an employee benefit is accrued for service to date and is payable immediately when the employee leaves the Company virtually for any reason. Accordingly, the benefit payable will depend on the employee's years of service and compensation.

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

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

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

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

Cash-settled share-based compensation
The Group operates a cash-settled, share-based compensation plan (Stock Appreciation Right). The fair

value of the employee services received in exchange for the grant of the options is recognized, as stated by IFRS 2, as an expense and a corresponding amount is booked as a long-term liability. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. The corresponding social security contribution is recognized as an expense as the related options are exercised.

At each reporting date, the fair value of the liability is 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.

T Revenue recognition

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

Receipts of upfront payments and other similar non-refundable payments relating to the sale or licensing of products or technology are initially reported as deferred income and recognized as income on a straight-line basis over the estimated period of the collaboration required to finalize the development period.

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

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

U Grants

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

3 Financial risk management

A Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. Risk management, such as identification, evaluation and management of financial risks, is carried out by the Group's finance department under the policies approved by the Board of Directors. The Board 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 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 and US dollars exchange rate, with all other variables unchanged. The impact on both Group's 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 18 for additional information).

Liquidity risk

Management monitors the Group's cash position on rolling forecasts based on expected cash flow to enable the Group to finance research and development activities. The Group's principal source of liquidity is its cash reserves which were obtained through the issuing of new shares at IPO and through subsequent fund raisings. The Group's policy states to invest these funds in low-risk investments including interest-bearing deposits. The financial status at December 31, 2011, assures that the Group's operations will be funded well into 2013, 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's ability to raise further funds from the out-licensing of its development-stage products and the issuance of new shares. Consequently, the Group is exposed to significant liquidity risk in the medium term.

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

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**

December 31, 2010

Maturity table	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Short-term borrowings	–	–	–	–	–
Trade and other payables	4,235	–	–	–	4,235
Total	**4,235**	**–**	**–**	**–**	**4,235**

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

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

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

Cost accruals

The Group has numerous contracts with subcontractors who carry out research and development activities. The invoicing dates on these contracts do not coincide with the financial year-end. Thus, management has to exercise 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, 2011, have been treated as expenses as commercial and technical feasibility continues to be assessed. There are no intangible assets in relation to development expenditure.

Deferred tax assets 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 13. The key assumptions used to determine the recoverable amount for the different cash-generating units are further explained in the notes 13 and 14.

5 Licence income

(In thousand euro)	For the year ended December 31	
	2011	2010
Licence income	280	626

Licence income of EUR 280 (2010: EUR 626) is entirely referable to the down-payment received from Merck Serono International SA in October 2006, which is being recognized as revenue on a straight-line basis over the estimated period of collaboration required to finalize the development of safinamide. The portion of the down-payment in excess of the recognized revenue has been recorded as deferred income among current and non-current liabilities: additional information is reported in note 25.

In 2011, the Company revised the recognition period of the payment to align it with the termination of the collaboration – previously estimated to be over on October 31, 2012 – with Merck Serono in accordance with the decision – related to strategic considerations and re-prioritization of its R&D pipeline – taken by Merck Serono, a division of Merck KGaA, Darmstadt, Germany, to return safinamide's global rights to Newron effective on April 17, 2012. Such a change has been accounted for prospectively as a change in estimate, resulting in a increase of 2011 licence income of EUR 38. The change will result also in a corresponding decrease of 2012 licence income of EUR 38.

6 Other income

(In thousand euro)	For the year ended December 31	
	2011	2010
Other income	4,009	180

Other income mainly refer to a payment of EUR 4,000 received in the context of the broadening of the collaboration between Newron and Merck Serono, a division of Merck KGaA, Darmstadt, Germany, as signed and disclosed in March 2011. Amongst others, Newron has received a development licence for two Merck KGaA clinical-stage compounds. Merck KGaA will retain buy-back options for each compound upon completion of proof-of-concept trials. Should these options be exercised by Merck KGaA, Newron will have a co-development option. Further financial details of the agreements will only be disclosed upon affecting the financial statements.

7 Staff costs

(In thousand euro)	For the year ended December 31	
	2011	2010
Wages and salaries	1,781	3,616
Pension costs – defined contribution plans	529	692
Share options granted to directors and employees	842	245
Share appreciation rights granted to directors and employees	(0)	(180)
Employee severance indemnity costs	181	238
Social security costs	135	214
	3,468	**4,825**

The average number of Group employees in 2011 was 31 (2010: 39), of whom 1 (2010: 1) was part-time. Effective July 5, 2010, the Company has placed 16 employees in "*Cassa Integrazione Guadagni*" (CIG). It is a government-supported programme under Italian law which allows to put the employees in a "garden leave" paid by the government, for a given period of time, liable to extension. The employees remain employed with no material cost for the Company, allowing the saving of the whole cost of the workforce in CIG for the given period. On December 31, 2011, the number of employees in CIG was reduced to 10 mainly due to resignations.

The decrease of EUR 1,357 is mainly related to the combined effect of the significant decrease in staff costs occurred as a consequence of the restructuring procedure initiated last year mentioned above, partially counterbalanced by an increase in share options costs following the resolutions approved by the Company Board of Directors on March 24, 2011 (please refer to note 20). Furthermore, the 2010 financials included in the item "Wages and salaries" a one-time payment amounting to approximately EUR 946 that was granted to the managers who left the Company.

8 Research and development expenses

(In thousand euro)	For the year ended December 31	
	2011	**2010**
Services received from subcontractors	1,601	7,661
Staff costs	1,203	2,445
Consultancy fees	578	923
Material and consumables used	93	422
Laboratory operating lease cost	193	272
Travel expenses	103	222
Depreciation and amortization expense	14	3,854
Other research and development costs	37	123
	3,822	**15,922**

Research and development expenses related to the safinamide project are reimbursed by Merck Serono according to the collaboration and licence agreement. Please refer to Note 5 "Licence income" for additional information. Accordingly, research and development expenses are presented net of costs reimbursed to Newron by Merck Serono, amounting to EUR 1,973 in 2011 (2010: EUR 4,259).

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 2011, the company has netted the research and development expenses for an amount equal to EUR 449 (2010: EUR 559) of which EUR 186 (2010: EUR 443) refers to a programme granted by the Italian government's Ministero dell'Istruzione, dell'Università e della Ricerca (M.I.U.R.) and EUR 263 (2010: EUR 116) refers to other minor granted projects. For additional information see also notes 6 and 16.

Services received from subcontractors decreased by EUR 6,060. The variation is mainly explained by the termination, occurred in 2010, of the SERENA trial in Neuropathic Low Back Pain related to the development of the ralfinamide compound.

Since inception, no development costs have been capitalized with the exception of the intangible assets recognized in the context of the purchase price allocation process related to the acquisition of Hunter-Fleming Limited occurred in 2008.

9 General and administrative expenses

(In thousand euro)	For the year ended December 31	
	2011	**2010**
Staff costs	2,265	2,380
Consultancy and other professional services	1,553	1,895
Intellectual properties	825	1,227
Travel expenses	298	323
Operating lease cost	152	203
Depreciation and amortization expense	74	95
Other expenses	1,731	328
	6,898	**6,451**

Other expenses increased by EUR 1,403 mainly because of the break-up fee – equal to EUR 1,500 – recognized by the Company to Biotie Therapeutics Corp. as agreed by the parties.

10 Financial income, net

(In thousand euro)	For the year ended December 31	
	2011	2010
Interest income	72	31
Interest expense	(6)	(5)
Foreign exchange gains	33	35
Foreign exchange losses	(44)	(84)
Other costs, net	(10)	(10)
	45	**(33)**

Financial income increased by EUR 78 with respect to prior year as a consequence of: (i) an increase in average investment return rates and (ii) an improved balance of the foreign exchange rates fluctuations. The Group invested available financial resources pursuant to the policy approved by the Board of Directors as described in note 2 "L Investments". See also note 17 "Cash and cash equivalents".

11 Income tax expense

As of December 31, 2011, the Group accrued income taxes of EUR 8 (2010: EUR 12) due to Newron Suisse operations.

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 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	
	2011	2010
Net loss attributable to shareholders	(6,445)	(20,545)
Weighted average number of shares (thousands)	7,264	6,614
Loss per share – basic (in euro)	(0.89)	(3.11)

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. 469,175 – see also note 20) 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, 2010	498	1,456	1,954
Additions	0	7	7
Disposals	0	(3)	(3)
Exchange differences	0	6	6
At December 31, 2010	498	1,466	1,964
Accumulated depreciation			
At January 1, 2010	(498)	(1,215)	(1,713)
Additions	0	(125)	(125)
Disposals	0	2	2
At December 31, 2010	(498)	(1,338)	(1,836)
Net book value	**0**	**128**	**128**
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**

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, 2010	285	11,933	12,218
Additions	36	0	36
At December 31, 2010	321	11,933	12,254
Accumulated amortization and impairment			
At January 1, 2010	(250)	(2,989)	(3,239)
Impairments	0	(3,800)	(3,800)
Additions	(27)	0	(27)
At December 31, 2010	(277)	(6,789)	(7,066)
Net book value – Newron Group	**44**	**5,144**	**5,188**
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)
Additions	(17)	0	(17)
At December 31, 2011	(294)	(6,789)	(7,083)
Net book value – Newron Group	**27**	**5,144**	**5,171**

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.

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 cashin- and outflows (15 p.a.), the properties of the compounds and their target product profile, the sales potential as well as comparable transaction terms for licensing of the compounds usually after phase II proof of concept.

The following table shows the results of the Net Present Value (NPV) assessment:

Project	Development phase	Book value 2010	Allocated value
HF0220	Clinical phase II	5,044	5,044
HF0299	Clinical phase I	50	50
HF1220	Discovery	50	50
		5,144	**5,144**

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.

15 Available-for-sale investment

Available-for-sale investment of EUR 584 (2010: EUR 584) is entirely represented by a minority interest (17%) held in a Special Purpose Vehicle (SPV) – Trident Pharmaceuticals Inc. – set-up to develop a late-pre-clinical 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 preclinical phase, the same methodology as under Note 14 was applied for the impairment test.

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

16 Receivables and prepayments

(In thousand euro)	As of December 31	
	2011	**2010**
Receivables	876	498
Government grants receivable	547	2,066
Prepayments	142	475
Deferred costs	51	51
VAT receivable	333	31
Other receivables	67	1,502
	2,016	**4,623**

Government grants receivable decreased by EUR 1,519: the variance is due to the combined effect of the following: a) on February 16, 2011, the Company cashed in the first reimbursement of EUR 1,580 related to the grant awarded to the Company by the Italian government's Ministero dell'Istruzione, dell'Università e della Ricerca (M.I.U.R.); b) on March 8, 2011, the Company cashed in EUR 327 (of which EUR 9 were unexpected) related to the last tranche of a scientific project awarded by DGR n. 4032 – January 24, 2007; c) on December 28, 2011, the Company received EUR 70 by Ministero delle Attività Produttive (M.A.P.) related to the last tranche of a scientific project awarded by Law 46, and d) the accrual of EUR 449 related to the ongoing granted projects.

Government grants receivable includes:

(In thousand euro)	Approved amounts	Approved amounts in %	Receivables
Law n° 46 – February 17, 1982			
Grants for technological R&D			
Income grant	673	100	673
Collections as at December 2011			(673)
Net receivables as per Law 46			–
D.D. 2187 – year 2003			
Grants for scientific research	284	70	199
Collections as at December 2011			(170)
Net receivables as per D.D. 2187			29
DGR n. 4032 – January 24, 2007			
Grants for scientific research	1,059	30	318
Collections as at December 2011			(318)
Net receivables as per DGR n. 4032			–
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	73
Collections as at December 2011			(90)
			(17)
Lombardy district – B.U.R.L. n.12 – March 20, 2008			
Grants for scientific research			
Income grant	773	30	346
Collections received during 2010			(75)
			271
			547

17 Cash and cash equivalents

(In thousand euro)	As of December 31	
	2011	2010
Cash at bank and in hand	1,776	4,522
Short-term investments	3,591	3,565
	5,367	**8,087**

The "Short-term investments" are highly liquid investments easily convertible into cash, not subject to significant changes in value and with no withdrawal penalty. In the first four months of 2012, Newron Group cashed in EUR 9,500 as a consequence of the agreements signed with Meiji Seika Pharma Co. Ltd and Zambon Company S.p.A (please refer to note 31 for additional information).

18 Share capital

As of December 31, 2010, 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 is equal to EUR 1,622,875.60 (divided into n. 8,114,378 ordinary shares).

As, during the year, no capital increases were subscribed, the share capital at December 31, 2011, coincides with the one as of December 31, 2010.

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

(In euro)	Total
As of December 31, 2009 – Newron Group	1,311,510.40
– issue of ordinary shares (SEDA executions)	9,286.20
– issue of ordinary shares (capital increase)	132,079.00
As of December 31, 2010 – Newron Group	1,452,875.60
As of December 31, 2011 – Newron Group	**1,452,875.60**

Please refer to note 31 for additional information.

19 Share premium and other reserves

(In thousand euro)	As of December 31	
	2011	2010
At the beginning of the year	36,551	52,399
Loss allocation	(23,724)	(18,893)
Issue of shares	0	3,210
Share capital issue costs	0	(166)
At the end of the period	**12,827**	**36,551**

20 Share options

To incentivize the efforts of employees, directors and certain consultants directed at the growth of the Company and its subsidiaries in the medium term, the Group has approved four Share Option Plans: the first in October 2003 (ESOP 2003); the second in July 2004 (ESOP 2004) expired on April 2009; 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. The options have been awarded free of charge.

On March 24, 2011, the Group's Board of Directors has approved (i) to establish a new option plan (ESOP 2011) and (ii) to modify the existing ones in order to take into consideration the financial markets' adverse development in the last years and Newron's share price fluctuation after the SERENA trial outcome. As a consequence, all holders of stock options or phantom options under the 2007 and 2009 plans from the day of the Board decision onwards and prior to the date of the expiration date under the 2007 and 2009 plans at their discretion can opt to convert four of the stock options or stock appreciation rights they have been assigned under such plans into three new stock options under the same plan. These three new stock options come with a renewed 1-year vesting period and will expire uniformly as at December 31, 2012. Their exercise price will be the market price at the date of assignment. All participants have already converted their old options into the new ones.

During the same meeting, the Group's Board of Directors granted to certain employees and consultants of the Company a total of 192,230 options of which 16,484 under the 2007 plan, 21,892 under the 2009 plan and 153,854 under the 2011 plan. All options have been granted free of charge and have an exercise price equal to EUR 5.29 each. Options granted under 2007 and 2009 plan were all vested on March 24, 2012, and will expire on December 31, 2012; options assigned under the 2011 plan which will be vested on March 24, 2014, and will expire on March 30, 2020.

By December 31, 2011, options to acquire a total of 22,000 shares under the 2003 plan, had expired.

During the year 2011 some employees left the Company waiving a total of 5,250 options granted under the 2007 plan.

A summary of the granted options is as follows:

	Employee Share Option Plans				
	2003	2007	2009	2011	TOTAL
At January 1	22,000	127,378	134,876	0	284,254
Granted	0	192,272	123,049	153,854	469,175
Waived	0	(127,378)	(134,876)	0	(262,254)
Expired	(22,000)	0	0	0	(22,000)
At December 31	**0**	**192,272**	**123,049**	**153,854**	**469,175**

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.

The changes approved during 2009 and on March 24, 2011, have been accounted for based on rules set for by IFRS 2 Share-based Compensation and will result, in the next year, in additional fair-value of awards granted amounting to EUR 137.

In 2011, option grants resulted in personnel net expenses of EUR 842 as a consequence of the combined effects of the following items: a cost of EUR 190 related to the original vesting period; a cost of EUR 652 related to the new fair-value. R&D personnel expenses are equal to EUR 107 (2010: EUR 94) while EUR 735 refers to G&A personnel (2010: EUR 422).

Exercise price (in euro)	Number outstanding	Weighted-average remaining contractual life (years)	Number exercisable
5.29	315,321	1.00	0
5.29	153,854	8.25	0
	469,175		**–**

On March 24, 2012, n. 315,321 options become exercisable and will expire on December 31, 2012; the remaining n. 153,854 options will become exercisable from March 24, 2014, and will expire on March 30, 2020.

21 Deferred tax liabilities

(In thousand euro)	As of December 31	
	2011	2010
Deferred tax liabilities, gross	1,718	2,858
Write-off's effect on deferred tax liabilities	0	(1,140)
	1,718	**1,718**

During 2011 no write-off was required as a consequence of impairment loss recognized on in-process R&D.

22 Borrowings

(In thousand euro)	As of December 31	
	2011	2010
At beginning of year	0	281
Proceeds from DM 593/2000 Art. 10	2,157	0
Repayment	0	(281)
Total borrowings	**2,157**	**0**
Long term	1,802	0
Short term	355	281

In 2008 Newron was awarded a 5 million Euro 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.

On February 16, 2011, the Company cashed-in the first reimbursement equal to 3.7m Euro of which EUR 2,157 will bear interest. The loan has to be reimbursed in two yearly instalments, starting from July 1, 2012, and

ending on January 1, 2018. The first two instalments (short-term borrowings) will be equal to EUR 355 while the long-term borrowings is equal to EUR 1,802.

23 Employee cash-settled share-based compensation

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

The phantom options provide the recipient with the right to obtain from the Group, at the exercise date, payment of a gross amount equal to the positive differential variation between the official price registered on the SIX Swiss Exchange as at the exercise date, multiplied by the number of granted options, provided that in any event that the differential cannot be higher than 150% of the initial price. It should be highlighted that the differential is usually taxable income for the recipients. At the payment date, the Company will apply the deductions and applicable welfare contribution, by paying to the recipient the net amount. The differential is calculated based on the variation (positive) of the ordinary share price of Newron Pharmaceuticals S.p.A. between the grant date and the exercise date.

Exercise of the phantom options by the recipients is permitted solely following the date marking 3 years following the grant date. The exercisable phantom options can be exercised within two years from the exercise start date but no later than December 31, 2012.

As a consequence of what has been approved by the Group's Board of Directors on March 24, 2011, all recipients have waived their phantom options and have been granted new options under the 2007 plan as detailed in note 20. A summary of the granted phantom option is as follows:

	Option granted
At January 1, 2011	113,750
Waived (resignation)	(1,500)
Waived (new options)	(112,250)
At December 31, 2011	**0**

24 Employee severance indemnity

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

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

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

Based on the present value of the estimated obligation, the amount recognized on the balance sheet in respect of the Group's defined benefit plan amounted to EUR 633 in 2011 (2010: EUR 587) and the movements were as follows:

(In thousand euro)	As of December 31	
	2011	2010
Balance as at the beginning of the year	587	620
Total expense charged in the income statement	181	238
Indemnity paid during period, leavers and transfers out	(135)	(271)
Balance as at the end of the year	**633**	**587**

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

(In thousand euro)	As of December 31	
	2011	2010
Current service cost	165	219
Interest expense on obligation	16	19
	181	**238**

25 Deferred income

Deferred income relates to the upfront payment received from Merck Serono International SA. Please refer also to note 5 for additional details.

26 Trade and other payables

(In thousand euro)	As of December 31	
	2011	2010
Trade payables	1,015	2,210
Accrued expenses	829	1,451
Pension contribution payable	179	227
Social security	101	117
Other payables	227	230
	2,351	**4,235**

27 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	
	2011	2010
Other (IAS 19)	(183)	(163)
Total taxable differences	(183)	(163)
Other minor	1	1
Deferred income	120	400
Total deductible differences	121	401
Net temporary differences	(62)	238
Tax losses carried forwards	114,562	108,544
Total differences	**114,500**	**108,782**
Deferred tax asset	31,541	29,969

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, 2011
No expiry date	22,875
No expiry date - DL 98/2011	91,687
	114,562

The loss identified as "No expiry date" includes EUR 6,008 related to Newron Pharmaceuticals S.p.A. (since they relate to the start-up costs) and EUR 16,867 related to Hunter-Fleming Ltd (equal to GBP 14,089 translated at the year-end exchange rate EUR 1 equal to GBP 0.8353).

The "Tax-loss carry-forwards" balance increased by EUR 5,984 due to the combined effects of the following items: (a) exchange rate effect on Hunter-Fleming Ltd. tax losses that results in an increase equal to EUR 500 and (b) inclusion of 2011 estimated tax losses equal to EUR 5,518.

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 offset 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.

28 Commitments and contingent liabilities

Operating lease commitments – whereby the Group is the lessee

The Company leases both the offices and laboratories from Zambon Immobiliare S.p.A. Both contracts were renewed for additional 6 years and will last till September 30, 2014, and February 14, 2015, respectively. At the end of the year the Company has decided to close its laboratories; the contract will expire at the end of March 2012.
Newron Suisse SA leases its offices from Livit AG. Starting from January 2011 the offices' dimensions have been reduced; the annual rent has decreased accordingly. The lease will expire on July 31, 2012.
Hunter-Fleming Limited doesn't rent premises.

During the year ended December 31, 2011, EUR 345 were recognized as net expense in the income statement in respect of operating leases (2010: EUR 475).

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

(In thousand euro)	As of December 31	
	2011	2010
No later than 1 year	264	444
Later than 1 year and not later than 5 years	318	1,164
	582	1,608

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.

Contingent liabilities

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

29 Financial instruments by category

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**

As of December 31, 2010	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	8,087	–	–	–	–	–
Financial assets	–	–	–	584	–	–
Trade and other receivables	4,097	–	–	–	–	–
Total	**12,184**	**–**	**–**	**584**	**–**	**–**
Liabilities						
Trade and other payables	–	–	–	–	–	4,235
Short-term borrowings	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**4,235**

30 Related-party transactions

I) Related entity

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

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

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

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

As of December 31, 2011, the Consortium had net equity of EUR 170 (2010: EUR 166) and a net profit of EUR 4 (2010: net profit of EUR 9).

II) Related-party transactions

No transactions occurred during the current fiscal year.

III) Key management personnel

The total remuneration of key management personnel is as follows:

(In thousand euro)	For the year ended December 31	
	2011	**2010**
Salaries	1,182	1,355
Bonuses	0	0
Social security contributions	207	272
Share option compensation	392	67
One-time payments	0	834
Employee severance indemnity	54	76
	1,835	**2,603**

31 Events after the balance sheet date

On Feburary 14, 2012, the Company announced that a definitive licence agreement was finalized with Meiji Seika Pharma Co., Ltd. ("Meiji"), a subsidiary of the Meiji Holdings Co., Ltd., Tokyo, Japan, covering the research, development, manufacturing, and marketing of safinamide in Japan and key Asian territories. Under the agreement, Newron has received an upfront payment of EUR 4,500 (net of 10% taxes withheld by Japanese's tax authorities).

The Company announced on April 5, 2012, that a strategic collaboration and licence option was signed with Zambon Company S.p.A., the industrial holding of Zambon ("Zambon"), for its lead compound safinamide. Under the terms of the agreement, Zambon has made an immediate equity investment in the Company of 726,435 newly issued shares at market price for a fully diluted 9.1% shareholding. Zambon has also committed to increase its stake in Newron in a future share capital increase. Finally, Zambon has acquired an exclusivity option to a collaboration and license agreement for Newron's lead compound safinamide. Upon the exercise of the option, Zambon would have qualified for one seat in the Board of Directors of Newron.

On May 14, Newron published that upon exercise of the above mentioned option by Zambon, the Italian chemical and pharmaceutical Company, the parties have executed a strategic collaboration and licence agreement for its lead compound safinamide. In aggregate, the total initial Zambon investment in Newron will be EUR 20m, of which EUR 10m will be dedicated to complete the development of safinamide and prepare the applications and file for marketing approval in Europe and the US. Zambon has already made an investment of EUR 5m in Newron equity and an option fee, (please refer to the above paragraph). In addition, Zambon will make a down-payment to Newron of EUR 5m for the agreement, covering the license for safinamide research, development, manufacturing and marketing in all territories of the world with the exclusion of those covered by the recently announced license agreement with Meiji Seika Pharma.

On May 14, the Company announced that the top-line results of its 2 ongoing trials on safinamide (MOTION and SETTLE) were consistent with the positive pattern of efficacy and safety reported in previous phase II/III studies in early (studies 009 and 015) and advanced (study 016) PD. Safinamide benefits were evident on primary and secondary measures: a full analysis of the data will be presented at upcoming scientific meetings.

On the same day Newron's CEO and founder Dr. Luca Benatti has communicated that he will leave the Company, effective as of May 31, 2012, to pursue other opportunities. The new management team will be comprised of Stefan Weber, CEO and member of the Board of Directors, who has been Newron's CFO since 2005; Ravi Anand, MD, its Chief Medical Officer since 2005, Marco Caremi, Executive Vice President Business Development, and Roberto Galli, Vice President Finance, both with the company since 2002. Rolf Stahel, Patrick Langlois, Francesco Parenti, Hanns Moehler and Stefan Weber will serve on Newron' Board of Directors.

Auditors' Report

ERNST & YOUNG

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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, 2011, 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 March 29, 2011.

3. In our opinion, the consolidated financial statements of Newron Group at December 31, 2011 have been prepared in accordance with International Financial Reporting Standards; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations, the changes in shareholders' equity and the cash flows of the Group for the year then ended.

Milan, May 28, 2012

Reconta Ernst & Young S.p.A.

Paolo Zocchi
(Partner)

Glossary

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Endogenous
Produced or synthesized within the organism.

EPO
European Patent Office.

Executive function
Executive function is a collection of varying abilities that involve regulatory control over thought and behaviour in the service of goal-directed or intentional action, problem-solving, and flexible shifting of actions to meet task demands. Clinical data about executive function can be obtained by observing an individual's ability to problem-solving in the natural environment and assessing how flexible a person is when faced with a changing routine.

The major executive functions include response inhibition (which permits impulse control, resistance to distraction, and delay of gratification); non-verbal working memory (which permits the holding of events in the mind and allows self-awareness across time); verbal working memory (which comprises the internalization of speech and permits self-description, questioning and reading comprehension); and self-regulation of emotion and motivation (which permits motivation, persistence toward a goal, and emotional self-control).

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

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

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

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

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

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

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

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

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

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

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

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

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

Mixed peripheral neuropathic pain
Peripheral neuropathic pain of different aetiologies.

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

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

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

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

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

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

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

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

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

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

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

NSAIDs
Non-steroidal anti-inflammatory drugs.

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

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

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

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

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

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

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

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

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

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

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

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

Schizophrenia
Schizophrenia is a psychiatric diagnosis that describes a neuropsychiatric and mental disorder characterized by abnormalities in the perception or expression of reality. It most commonly manifests as auditory hallucinations, paranoid or bizarre delusions, or disorganized speech and thinking with significant social or occupational dysfunction. Onset of symptoms typically occurs in young adulthood, with around 0.4 – 0.6% of the population affected. Diagnosis is based on the patient's self-reported experiences and observed behaviour.

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

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

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

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

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

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

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

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

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

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.

Newron may not actually achieve the plans, intentions or expectations disclosed in forward-looking statements and assumptions underlying any such statements may prove wrong. Investors should therefore not place undue reliance on them. There can be no assurance that actual results of Newron's research programmes, development activities, commercialization plans, collaborations and operations will not differ materially from the expectations set out in such forward-looking statements or underlying assumptions.

Newron does not undertake any obligation to publicly update or revise forward-looking statements except as may be required by applicable regulations of the SIX Swiss Exchange where the shares of Newron are listed.

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