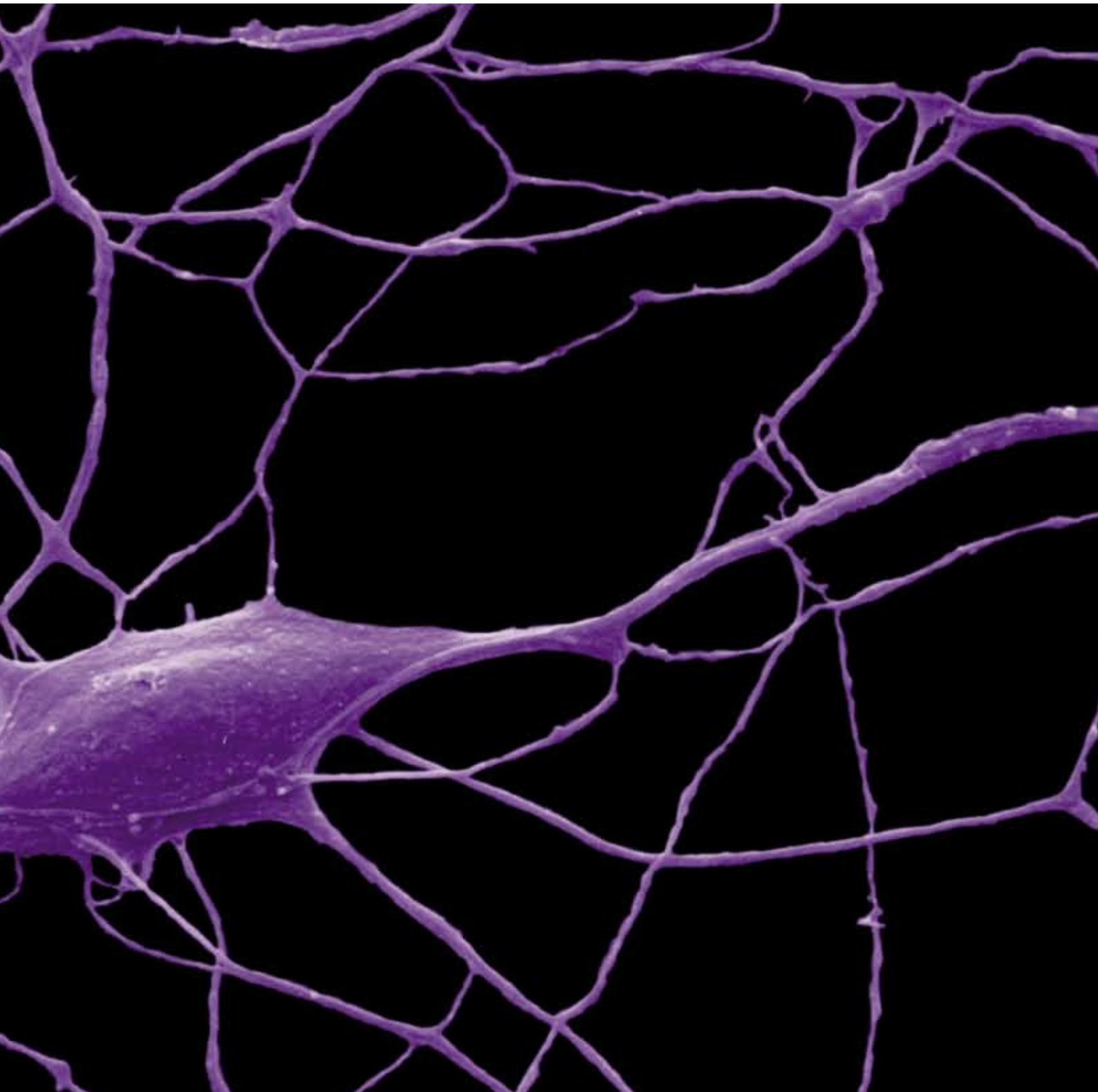
Newron Pharmaceuticals

Annual Report 2006



2006 Highlights

Safinamide confirms efficacy and safety in a Phase III trial for Parkinson's disease

Safinamide shows very promising effects on cognition, giving the drug potential as a treatment for Alzheimer's disease and Mild Cognitive Impairment

Global Development and Commercialisation agreement for safinamide signed with Merck Serono, worth up to $ 200 million – plus royalties – to Newron

Start of a pivotal Phase III trial with safinamide in mid to late-stage Parkinson's disease patients

Ralfinamide set up to generate Phase II MTD data in neuropathic pain by mid-2007 and design of trial for use in inflammatory pain

IPO completed on the SWX Swiss Exchange raises € 74.3 million – one of the largest biotech IPOs of 2006

Corporate Profile

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

The products that we are developing include safinamide, in late-stage trials for the treatment of patients with Parkinson's disease, and ralfinamide to treat neuropathic pain and inflammatory pain.

Newron's clinical pipeline is supported by a portfolio of early-stage proprietary compounds generated by its ion channel drug discovery platform.

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Dear Shareholder

Rolf Stahel

Luca Benatti

The importance of finding effective new treatments for diseases of the Central Nervous System is well understood. Conditions such as Parkinson's disease carry an enormous burden for the patients, their families and carers, and the healthcare systems that provide drug treatments and rehabilitation care. Europe and the US both have approximately 53,000 new cases of Parkinson's disease each year. According to a recent report, between now and 2030, the number of patients could more than double. Current treatments, some of which have been around since the 1960's, carry significant long-term side effects.

The team at Newron have proven research and development expertise within the CNS field. Many of them have been involved previously in the development and commercialisation of major CNS drugs. We are confident that, as a team, we will build on these successes within Newron. Since 1999 we have had many achievements in the development of our clinical pipeline. We are a young company, however, and there is more to do, but we are fully committed to successfully achieving our goal of bringing important new treatments to patients whose lives are blighted by disease.

2006 was a landmark year for Newron. Safinamide's development was highlighted with excellent data from the first Phase III trial. Not only did we confirm the safety and efficacy data seen previously in our Phase II study, but we were also able to show very promising effects on cognition compared to patients on dopamine agonist therapy. This could mean that safinamide is a potential treatment for cognitive decline in Parkinson's disease as well as the larger indications of Alzheimer's disease and Mild Cognitive Impairment.

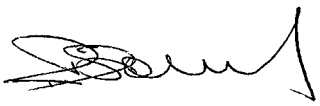
With such positive results, we renewed our discussions with potential pharmaceutical partners and concluded a deal with Serono, now Merck Serono, in September. Merck Serono is the right partner both for Newron and for safinamide. The collaboration is extremely positive and our teams share a joint dedication to progress safinamide in PD towards regulatory filing in 2009.

One of the additional benefits of our agreement with Merck Serono is the option for us to consider co-marketing safinamide in certain European countries. This could potentially accelerate our objective to build a small, focused, CNS specialty sales force whereby we can retain the value of our future marketed products. In the meantime, we look forward to reporting data from existing trials with both safinamide and ralfinamide and the commencement of new trials.

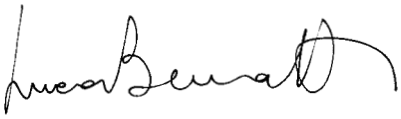
In 2006, our drug discovery programmes were focused on the ion channel target class. The main objective of these programmes was to provide leads and product candidates to fuel the Company's pipeline. Chemistry optimization work has resulted in the synthesis of lead molecules which showed significant activity in several CNS disease models. The most advanced of these compounds could enter preclinical development in 2007.

As a result of our good data, the opportunities that we have with both our lead drugs, and the global agreement with Merck Serono, we felt the time was right for us to seek new funds through an IPO on the SWX Swiss Exchange. We were delighted with the response to our road show and the fact that international investors across Europe and the US have shared our vision for Newron's future. The IPO raised € 74.3 million and was amongst the largest biotech fund-raising initiatives during 2006. Our intentions are to use these funds by supporting the ongoing and new clinical development programmes, licensing or acquiring new products to expand our Central Nervous System (CNS) pipeline, and begin the development of a specialty sales and marketing force once we have the appropriate products ready for launch.

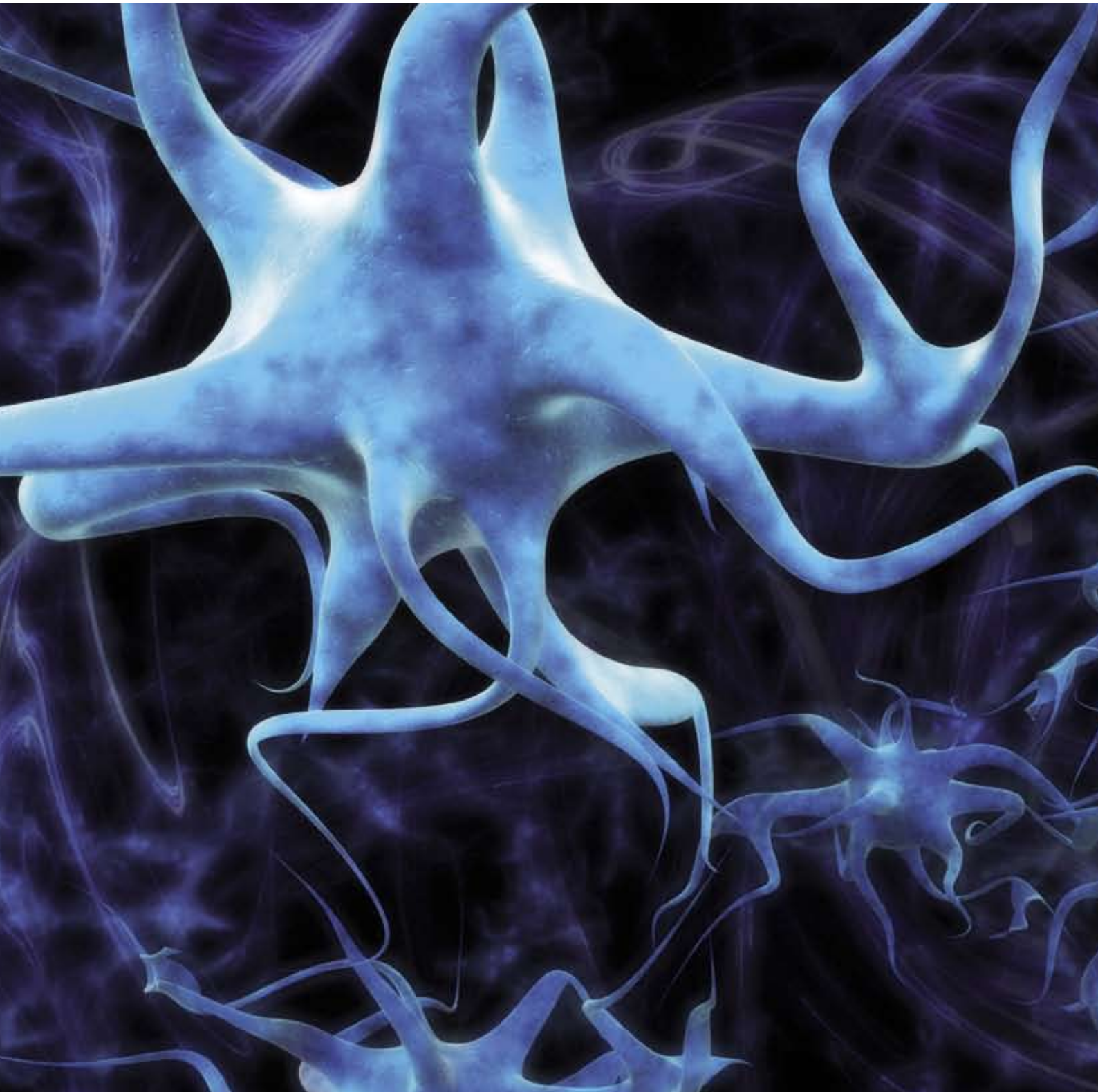
Based on the achievements of 2006, Newron is well positioned to build further on its CNS expertise and focus. This is only possible through the expertise and commitment of our team and we thank them for their ongoing support. As a public company, Newron has entered an exciting new phase and we believe that we are well positioned for continued growth.



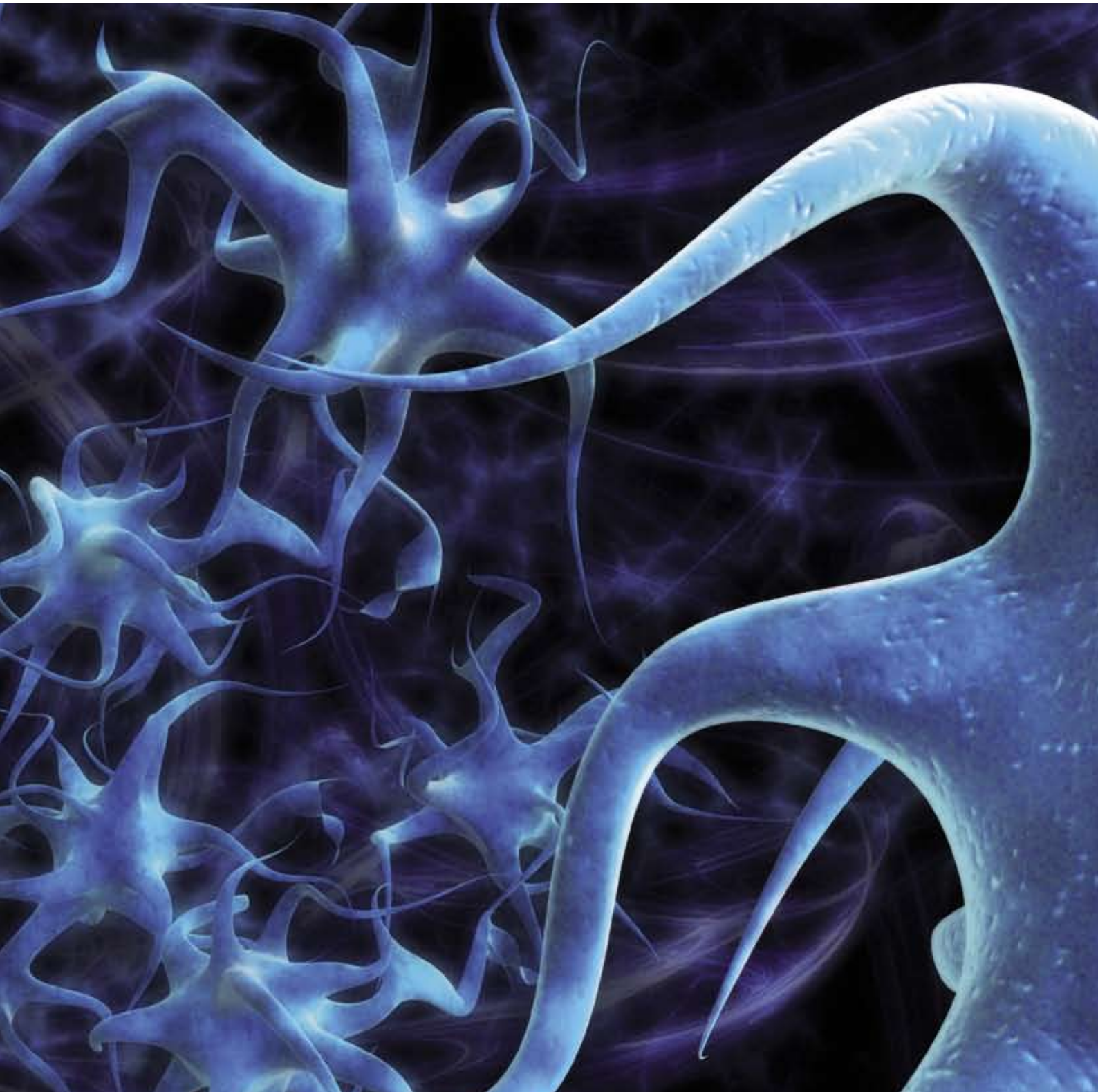
Rolf Stahel
Chairman



Luca Benatti
Chief Executive Officer



Company Information



A Focus on CNS

Newron's goal is to become a fully integrated biopharmaceutical company focused on the discovery, development and commercialisation of drugs for the treatment of CNS-related diseases and pain.

The likelihood of developing old age Alzheimer's disease doubles every 5 years starting from the age of 65.

The old age dilemma

It seems like a twist of fate: modern man, due to better medical care, nutrition and education, benefits from an increasing life expectancy from generation to generation.

Yet, there is a price to pay: progressive diseases that often seriously debilitate patients go hand in hand with aging. The most prominent amongst these are Parkinson's disease (PD) and Alzheimer's disease (AD). The likelihood of developing old age AD, for example, doubles every 5 years starting from the age of 65, leaving every second human being at risk of developing the disease at the age of 85. Today's PD population is estimated to number about four and a half million patients worldwide, and is expected to double by the year 2030 as per a 2007 Neurology publication.

Patients and their families are often left in despair: because of the tremendous capacity of the brain to compensate for the early damage, once the disease is diagnosed, it has already destroyed vast areas of the brain, for which there is currently no cure. Families are left to see their loved ones lose their memory or control over their body. Once strong and vivacious characters are often left to 24 hour care.

The pharmaceutical industry has realized that the improvement of a patient's life who is affected by these diseases of the Central Nervous System is one of the major challenges for the future. Already, the size of the market for drugs addressing diseases of the CNS and pain has surpassed cardiovascular diseases to become the largest segment of the global pharmaceutical market, at about $ 100 bn. in annual sales. Sales of symptomatic treatments for AD and PD grow annually at double digit rates.

Strongly increasing research efforts by pharma and biotech companies might, in the future, allow even a cure for these diseases, perhaps by applying stem cell based methods, yet this is still years away. For the time being, the aim remains to delay and reduce the progression of the disease and to improve the daily life of patients to the best possible level.

It all started with safinamide, acquired from Pharmacia by the founders of Newron.

A true CNS story

When Newron's activities started in 1999, the three founders, Luca Benatti, Ruggero Fariello and Patricia Salvati acquired a compound from Pharmacia & Upjohn, a predecessor of today's Pfizer Corp., which their teams had discovered while working for the company. At the time the compound, now called safinamide, was at an early stage of preclinical development and was expected to be used as a treatment for epilepsy. Yet the further characterization and development steps taken by Newron showed that the drug might be significantly more effective in treating PD, Restless Leg Syndrome (RLS), and, as most recent clinical data suggest, AD. Safinamide has the potential to significantly improve the daily life of PD patients in all stages of the disease and to improve cognitive capabilities of patients with diseases such as AD. It is currently in clinical phase III development – the last stage prior to approval and launch of the drug on the market – for PD and expected to start a clinical phase IIb development in AD.

In the years following the start of the company's activities, the Newron team discovered another innovative compound called ralfinamide and identified its significant potential for both neuropathic as well as inflammatory pain, with certain types of pain being another major segment of CNS diseases. Ralfinamide has been advanced into clinical phase II development for neuropathic pain.

Besides these two advanced clinical compounds Newron has a number of early compounds which show promising characteristics for use in treatment of CNS diseases. The most advanced of these should enter preclinical development in 2007.

Comprehensive know-how

Today, Newron's senior management team has an average of 25 years of extensive experience in discovery, research, clinical development, licensing, regulatory approval, finance, marketing and business development gained at leading pharmaceutical companies such as Pharmacia & Upjohn, Roche, Novartis, Schering Plough, Schwarz Pharma and Organon. Members of the team have been closely involved with bringing numerous drugs for CNS-related diseases and pain to the market, including cabergoline and entacapone for PD, clozapine for schizophrenia, oxcabazepine for epilepsy and neuropathic pain, rivastigmine for AD and Lewy Body Dementia, and zolpidem, flunitrazepam and temazepam for sleep disorders.

The competence of the people within Newron, as evidenced by the profiling and development of safinamide for PD and additional indications, the identification of ralfinamide and development for neuropathic and inflammatory pain and the identification of promising earlier compounds, allowed the company to close significant commercial and financial transactions. Since its foundation, not only has Newron been able to raise a total of € 62.2m from premium life science investors (HBM, TVM, Atlas, Apax and 3i) and substantial grants from both the Italian government and the EU, but it has also successfully closed an IPO on the main segment of the SWX Swiss Exchange as of December 12, 2006, resulting in proceeds of € 74.3m. Cash needed for future years was significantly reduced by the signature of a global licensing agreement on safinamide with Serono, today Merck Serono, a global pharmaceutical company leading the field in Multiple Sclerosis, another major CNS disease.

Pursuant to the safinamide collaboration and licence agreement, Merck Serono has agreed to bear the costs and devote the other resources necessary to complete the clinical development of and commercialise safinamide. In addition, Newron has the option to co-promote safinamide

in Italy and/or Spain, thus enabling the Company to build marketing and sales capabilities in these markets of manageable size.

Newron still has the worldwide rights to exploit the commercial potential of ralfinamide and it may now focus more of its resources on completing its clinical development for both neuropathic and inflammatory pain. Furthermore, the financial terms of the safinamide collaboration and licence agreement will provide Newron with additional resources to accelerate its development into a fully integrated biopharmaceutical company, including the development, at the appropriate time, of a sales force targeting specialists and/or selected prescribers and the expansion of its pipeline.

Newron – the next 5 years

Newron's goal is to become a fully integrated biopharmaceutical company focused on the discovery, development and commercialisation of drugs for the treatment of CNS-related diseases and pain, thus providing maximum value and return to our shareholders. The key elements of this strategy are:

Complete the development of safinamide in PD and expand its potential into additional indications with Merck Serono.

Safinamide

Newron and Merck Serono plan to complete the ongoing extension of its phase III trial of safinamide as an adjunctive treatment to dopamine agonists by end of QII/2007, complete a phase III trial of safinamide as an adjunctive treatment to levodopa which has been initiated at the end of 2006 and start further phase III trials in PD. The partners have begun planning a clinical trial of safinamide as a treatment for AD, which will probably be initiated in the second half of 2007. Finally, they are considering the further clinical development of safinamide in RLS, as well as in other diseases in which cognition is either the primary or secondary symptom.

Maximise the commercial potential of ralfinamide.

Ralfinamide

Newron intends to advance the clinical development of ralfinamide by completing a phase II dose-titration, tolerability and preliminary evidence of efficacy study, consisting of a double-blinded, placebo-controlled trial in mixed peripheral neuropathic pain patients, the results of which are expected by the end of June 2007. Ralfinamide has also shown pre-clinical evidence of efficacy in the treatment of inflammatory pain and Newron intends to explore its potential in this area as well by conducting a clinical phase II trial in patients with dental pain. With regards to a potential out-licensing of ralfinamide, we will develop a partnership strategy maximizing the value of the compound for Newron's shareholders, exploiting the drug's significant sales potential, while potentially retaining the right to promote ralfinamide in certain key markets.

Expand the current portfolio of product candidates in the area of CNS-related diseases and pain.

Research

Newron aims to advance its ion channel inhibitors, such as NW-3509, which have shown potential for the treatment of multiple CNS indications. Newron's other chemical scaffolds have shown promising characteristics of in vivo and in vitro activity and are available to be fully explored. Newron also intends to obtain from third parties the rights to develop other compounds, in order to further expand its discovery and development pipeline.

Develop a sales force targeting specialists and/or selected categories of prescribers.

Sales force

A specialised sales force will be an essential component in achieving the goal of becoming a fully integrated biopharmaceutical company. The global licensing agreement with Merck Serono offers the Company a first opportunity to begin developing a sales force specialised in marketing to neurologists. For its other product candidates, Newron anticipates that it will either retain all rights or co-promotion rights in certain key markets. In addition, Newron may seek to acquire or in-license additional sales rights to products that are marketable to selected categories of prescribers.

Diseases and Markets

Newron addresses unmet medical needs in Parkinson's disease, Alzheimer's disease, Restless Leg Syndrome, neuropathic pain and inflammatory pain.

Parkinson's disease is progressive, often beginning with just a hand tremor, lessened facial expression, mild fatigue or stiff arms or legs, but becoming increasingly debilitating.

Parkinson's disease

PD is a progressive disease of the Central Nervous System that involves the degeneration of neurons that release the neurotransmitter dopamine. These neurons project into the striatum from a specialized region of the mid-brain called the substantia nigra (black substance, due to its colour). Dopamine acts on neurons in the basal ganglia (putamen and nucleus caudatus) where, interacting with other neurotransmitters such as acetylcholine, GABA, and glutamate, it ensures smooth initiation and execution of movements. The shortage of dopamine results in a number of symptoms, including resting tremors, generalised slowness, stiffness of the limbs and gait or balance problems and more general changes in the ability to produce smooth, consistent and controlled muscular activity.

The disease is progressive, often beginning with just a hand tremor, lessened facial expression, mild fatigue or stiff arms or legs, but becoming increasingly debilitating. Typically only one side of the body is affected which spreads to the other side as the disease progresses. Rigidity and slow movements of all muscles affect mobility, coordination, balance and posture. It is unclear how or why the dopamine neurons selectively die or degenerate in PD. Probably free radicals, toxins and genetic factors are all involved to some extent.

Cognitive impairment is also a characteristic of the disease, which occurs even in non-demented and early-stage PD patients. It has been clearly recognised that in PD there are deficits related to attention, alertness, perception, motivation, intelligence and also executive function. These deficits in a large percentage of patients, in particular in early PD patients, are not extensive and are not severe enough to be classified as dementia. Moreover, in a high percentage of these patients the deficits do not progress to dementia. In some individuals cognitive decline can develop in the presence of mild PD-related cortical pathology and, conversely, widespread cortical lesions do not necessarily lead to cognitive decline.

No known cure for PD

The PD treatments available are aimed at alleviating symptoms such as dopamine agonists or dopamine precursors. By replenishing dopamine levels in the brain or reinforcing dopamine tone in the needed areas, motor symptoms improve. Other types of treatment for PD are being developed: these include stimulation of deep brain structures, which is becoming widely accepted to treat severe complications late in the disease, or an attempt to replace lost cells with implant of cell types known to produce dopamine. As the disease progresses, in most cases treatment becomes more difficult with patients ending up taking several different drugs.

Many people do not recognize the early symptoms of PD, as they simply attribute them to aging, and for this reason there are probably a significant number of people with undiagnosed PD. The proportion of people older than 60 years with the disease is approximately 1 % (Lancet, 2004), however, as people continue to live longer, a larger number of people are likely to reach this age, resulting in more people suffering from this and other diseases that affect the elderly. According to IMS Health, drugs to treat PD accounted for $ 3.0 billion of sales for the 12-month period ended September 30, 2006 and grew by 11 % on a fixed exchange rate basis over the previous 12-month period. According to the Decision Resources report published in 2004, the PD drug market is expected to grow steadily as the average age of the population increases and the number of patients taking standard levodopa preparations declines in favour of new, more expensive therapies.

Alzheimer's disease is a disease of the brain occurring mainly in the elderly, causing dementia.

Alzheimer's disease

AD is a progressive, neurodegenerative disorder of the semium that is characterised by worsening of activities of daily living, behavioural disturbances, and worsening of cognition (memory, attation, language, etc.) that leads to dementia.

Dementia is a general term used to refer to the loss of higher brain function such as memory and executive functions, e.g. thinking, learning, problem solving and planning. Although it is the most common form of dementia, AD is just one form of dementia, which particularly affects memory, judgment and reasoning. This disease is irreversible and progressive and there is currently no cure.

There are two physical features of AD: the formation of amyloid plaques and the presence of intracellular neurofibillary tangles, both occurring in the brain. The formation of amyloid plaques, abnormal clumps of beta-amyloid neuron fragments, is a multi-step process starting with the production of amyloid precursor protein (APP). Although normally broken down to harmless, soluble fragments, in AD, specific enzymes break APP down to insoluble peptides which then form the thread-like structures called amyloid fibrils. The fibrils eventually clump to form the plaques. Researchers are also exploring the role of apolipoprotein-E (APO-E) as a control mechanism to plaque formation. When the protein tau is expressed in axons and becomes hyperphosphorylated, it moreover greatly contributes to neurofibrillary tangle formation. These tangle formations are believed to be closely related to the degree of dementia observed.

Age is the most significant factor

There are rare familiar forms of AD with a disease onset at an earlier age. Several genes have been identified in those families, all having to do with the metabolism of the beta-amyloid protein. Age is a significant risk factor, as the occurrence of the disease doubles every five years after the age of 65. Other risk factors may include head injuries, chronic hypertension and over expression of the APO-E gene.

Although there are no known cures for AD, there are some treatments available which are intended to control the behavioural symptoms of the disease, such as anxiety and wandering, or to stabilize the deterioration caused by the disease. A number of medicines act to stabilize the condition by helping to maintain the level of acetylcholine in the brain, by inhibiting the enzyme that normally breaks it down. Acetylcholine is produced in the neurons primarily, but not exclusively, affected by AD.

Estimates suggest that as many as 10 % of all people over the age of 65 and up to 50 % of people over 85 suffer from AD (Alzheimer's Association, US, 2006). The number of people affected by this disease is rising as people continue to live longer. According to IMS Health, worldwide sales of anti-AD drugs totalled approximately $ 4.4 billion in the 12-month period ended September 30, 2006, growing at a rate of approximately 15 % (on a fixed exchange rate basis) over the preceding 12-month period. As research continues in this area, a growing number of dementia syndromes are being identified. For example, intracellular accumulation of abnormal filaments of the tau protein is a common pathological feature of a diverse group of dementias and movement disorders termed "tauopathies", some of which used to be known as Fronto Temporal Dementia (FTD). Distinct isoforms of the tau protein expressed in different neuronal populations lead to the different types of tauopathies.

RLS is a common, but often misdiagnosed or underdiagnosed, sleep movement disorder which is characterised by a distressing urge to move the legs and sometimes also other body parts.

Restless Leg Syndrome

RLS is usually accompanied by a marked sense of discomfort or pain in the legs. It is typically triggered by rest or inactivity and its symptoms are temporarily relieved or suppressed by movement. The urge to move the legs is accompanied by unpleasant sensations in the lower extremities, e.g. burning, creeping, tugging or tingling inside the legs, ranging from being uncomfortable to painful. The symptoms begin to worsen during periods of inactivity, particularly at night, and interfere with sleep. The particular mechanism triggering RLS is not currently known. Recent research suggests that it affects about 10 % of adults in North America and Europe (National Sleep Foundation, US, 2003).

The disputed disease – is it for real ?

RLS sufferers are often misdiagnosed as having PD, poor circulation, arthritis and back problems, or they do not seek treatment at all. It has been estimated that only about 10 % of those affected by RLS receive treatment for it, indicating that RLS may also be significantly underdiagnosed. According to a study of more than 15,000 persons, the results of which were reported in the Archives of Internal Medicine in June 2005, approximately 7.2 % of the participants reported having RLS symptoms of any frequency. Of the 2.7 % of the participants who were termed RLS sufferers (i.e., moderate or severely distressing symptoms at least twice a week), 81 % (2.2 % of the total participants) reported discussing their symptoms with a primary care physician, but only 6.2 % (0.14 % of the total participants) were given a diagnosis of RLS.

The most common symptom of neuropathic pain is a tingling in the toes or fingers, which spreads up the body and may intensify to a burning sensation or 'pins and needles'.

Neuropathic pain

Neuropathic pain is a chronic, frequently progressive condition that seriously impacts the quality of life of patients who suffer from it. The disease is caused by damage to, or dysfunction of, the nervous system and typically results from damage to nerve cells.

Different people experience different symptoms of this disease. The most common is a tingling in the toes or fingers, which spreads up the body and may intensify to a burning

sensation or "pins and needles". These sensations may occur constantly, or periodically, and can be very painful or make the area very sensitive to other stimuli that result in feeling everything in an exaggerated way, so that even gentle stimuli cause pain or irritation (allodynia). Painful stimuli are also perceived in an exaggerated way (hyperalgesia).

A variety of causes for severe neuropathic pain

A range of causes are connected with neuropathic pain, though in many cases a cause cannot be established. One of the most common causes of neuropathic pain are trauma direct to the nerves and diabetes mellitus. Other causes include alcohol abuse, poor blood supply to the hands and feet, vitamin B12 deficiency, toxic substances, liver disease, kidney disease and certain infections, such as leprosy and HIV. In some cases, neuropathic pain is hereditary and may occur alongside problems with other parts of the nervous system. The mechanism through which these factors cause the neuropathic pain is not well understood.

As the disease is caused by a lesion in the nervous system, most frequently in the peripheral nerves but also occasionally in the pathways that carry the sensation to the brain and elaborate the pain sensation, thus neuropathic pain is distinguished in two main forms: the one with peripheral origin and the other of central origin. A form of "central neuropathic pain" is seen when a cerebro vascular accident involves part of the thalamus, a structure of the brain that elaborates pain perception. In these cases, excruciating pain is perceived in parts of the body opposite the affected thalamus. A mixed form of central and peripheral neuropathic pain is termed the "phantom limb". After a peripheral lesion of the nerves, mostly as a consequence of amputation, the residual stump re-grows disorderly. Abnormal impulses generated from the stump travel to the brain building up a self-sustained circuit projecting the image of the missing limb. Thus, the patient still perceives the limb as if it were intact.

Similarly to what happens in epilepsy, the injured area sends abnormal messages. These signals are created using channels in the neuronal membrane that selectively allow the passage of specific ions (electrically charged atoms), thereby generating currents that trigger the firing of nerves.

Approximately 26 million patients worldwide (including 10 million in the United States, three million in Europe and 1.5 million in Japan) suffer from some form of neuropathic pain, according to a report by Espicom in 2005. Combined sales of drugs prescribed for neuropathic pain in the US and five major European markets (Germany, France, the UK, Italy and Spain) are forecast to reach approximately € 4.3 billion by 2008, according to a 2003 report prepared by IMS Health. As the currently available treatments for neuropathic pain provide only partial pain relief, there is a strong need for new agents with novel mechanisms of action that lead to improved drug profiles.

Inflammatory pain can happen with penetration wounds, burns, extreme cold, fractures, arthritis, autoimmune conditions, excessive stretching, infections and vasoconstriction.

Inflammatory pain

Inflammatory pain is precipitated by an insult to the integrity of tissues at a cellular level. This can happen with penetration wounds, burns, extreme cold, fractures, arthritis, autoimmune conditions, excessive stretching, infections and vasoconstriction. During inflammation, a complex neuro-immune interaction results in primary hyperalgesia. A large range of inflammatory molecules induce and maintain the altered nociceptor sensitivity observed as hyper-

algesia. This has been called the inflammatory soup. These include compounds released or synthesised as a result of cellular breakdown, such as prostaglandins and bradykinin. The hyperaemia associated with inflammation delivers further mediators of hyperalgesia such as nitric oxide and bradykinin precursors. The primary afferent neuron itself secretes neuropeptides which can cause sensitisation. Immune cells secrete a range of both pro (e.g. cytokines, neurotrophins, serotonin and histamine) and anti-hyperalgesic molecules (e.g. opioids and cannabinoids).

This chemical soup of inflammatory mediators can directly affect nociceptors or may sensitize them to touch or movement, even at some distance from the inflammatory field. In this way, one inflammatory mediator may sensitize more distant pain receptors to another inflammatory mediator.

Inflammation-induced central sensitization, characterized by an enhanced neuronal activity in the spinal dorsal, is also an important component of inflammatory pain.

From baby's blue spot to severe chronic disease

Rheumatoid (RA) and osteoarthritis (OA) are chronic, debilitating diseases. Pain in both of these conditions is generally perceived to arise from inflammation, but emerging data indicate that RA/OA pain results from a combination of peripheral and central mechanisms, being central sensitization involved. Pain control could be improved by blocking both the cascade that leads to initiation/amplification of inflammatory processes and maintenance of central sensitization. Pain in OA and RA is characterized by spontaneous pain as well as lowered pain thresholds and increased sensitivity to pressure and temperature. According to a Reuters report published in 2004, there are an estimated 47 million patients with osteoarthritis-related pain across the seven major pharmaceutical markets (the US, Japan and the top five European countries) of which more than 18 million are in the United States alone. According to IMS Health, the NSAIDs' annual sales for the 12 months ended September 30, 2006 totalled approximately $ 9.2 billion, mainly covering the inflammation market. The sales value of this market increases up to about $ 19 billion in the same period when extending the consideration to immunology-based drugs addressing RA and topical formulations of NSAIDs.

Drug Pipeline

Newron has established a late-stage product pipeline including its lead compound, safinamide, in phase III development with Merck Serono, and ralfinamide, currently in phase II trials for neuropathic pain.

Notes:

1) Phase IIb study on Alzheimer's disease expected to start H2 '07

2) Phase II study in inflammatory (dental) pain expected to start 2007

Safinamide is a unique molecule with multiple mechanisms of action. Recent results of a phase III trial in PD demonstrated its benefit in motor symptoms and activities of daily living, as well as its improvement in cognitive function, and good tolerability.

Safinamide

Safinamide might improve patients' lives not only for early, mid and late stage PD, but AD, other cognitive diseases and RLS as well. The story of a multitasking drug.

Safinamide is an alpha-aminoamide derivative which is administered orally. The drug uniquely combines the inhibition of dopamine re-uptake and MAO-B, two key mechanisms involved in the control of dopamine modulation in the brain in addition to the inhibition of stimulated release of glutamate. Based on the results of clinical trials completed thus far, safinamide, as an adjunctive treatment to dopamine agonists and levodopa, promises a competitive advantage over current therapies for PD and the potential to become a leading approach in the treatment of this serious and prevalent disease.

The benefit on cognition noted in the completed phase III trial suggested great potential for safinamide in the treatment of cognitive decline in PD and that it could be developed for cognitive dysfunction in AD and more generally for cognitive disorders. In addition, preliminary Phase II results indicated also safinamide potential for the treatment of RLS, another attractive commercial opportunity.

The use of safinamide in PD

Currently, the standard of care for PD patients is dopamine agonist monotherapy for early PD and levodopa for mid to late-stage PD. We expect dopamine agonists to be increasingly used as the preferred category of drugs for the treatment of early-stage PD. Levodopa will probably continue to be used when dopamine agonists start to lose efficacy. A major shift in the market paradigm will occur once an effective drug becomes available to answer to the following unmet need:

- delay the introduction and reduce the dose of levodopa needed in PD patients being treated with dopamine agonists,
- reduce levodopa-induced dyskinesias in late-stage PD patients,
- slow the progression of the disease overall.

Safinamide has the potential to become:

- the first adjunctive therapy to dopamine agonists for early PD patients
- the most favourable adjunctive therapy to levodopa for mid to late-stage PD patients with potential to reduce dyskinesia
- an effective and well-tolerated treatment for PD in all stages of the disease with potential to slow cognitive decline

Such a drug could certainly be one of the most significant new treatments for PD introduced in the last 10 years.

The results of Newron's completed six-month phase III trial of safinamide in early PD (Study 015, June 2006) show that safinamide has the potential to improve motor symptoms, Activities of Daily Living, the quality of life and cognition in patients with early PD. In this double-blind, randomised, placebo controlled trial conducted in Europe, South America and Asia in 270 early stage PD patients, safinamide in the daily dose range of 50 to 100 mg or 150 to 200 mg or a placebo was added to patients on a stable dose of a single dopamine agonist. Results of this study indicated that safinamide was associated with a consistent pattern of benefit on the primary

efficacy variable, i.e. the severity of the motor symptoms evaluated by Part III of the Unified Parkinson's disease Rating Scale (the "UPDRS-III") in the intent-to-treat population, using the pre-specified primary analysis method (mixed linear model). At the endpoint, patients on a single dopamine agonist who received treatment with safinamide at a daily dose range of 50 to 100 mg differed from patients treated with a single dopamine agonist who received a placebo ($p<0.04$). The benefit on motor symptoms was noted both in mean changes from baseline and in the responder rate. Additional significant benefits were noted in Activities of Daily Living and the researcher's global assessment of the patient by the Clinical Global Impression Scale compared with baseline conditions. Further support for the benefit of safinamide as an adjunctive treatment for patients on dopamine agonist monotherapy was noted in the EuroQol scale, which measures quality of life, completed by the patient.

At the daily dose range of 50 to 100 mg, safinamide was very well tolerated and did not show any increase in drop-outs, adverse events, abnormal vital signs, laboratory abnormalities or adverse changes in ECGs compared to the placebo. In addition, safinamide was not associated with blood pressure changes, despite the fact that patients' dietary intake of tyramine, present in foods such as cheese, red wine and soy sauce, was not restricted in the trial.

By the end of November 2006, we initiated the second phase III pivotal study of safinamide, in patients with mid to-late stage PD with motor fluctuations.

This international, six month, double-blind, randomized, placebo-controlled, parallel-group study, has been designed to demonstrate the efficacy and safety of safinamide in comparison to placebo in patients who were receiving stable doses of L-dopa with or without additional treatment with dopamine agonists and/or anticholinergic drugs. The study has been designed to demonstrate the efficacy of safinamide in increasing "on time" periods, i.e. periods of good functioning compared with placebo. Following completion of six months of dosing, patients will continue for one additional year of treatment under blinded conditions designed to demonstrate a reduction in dyskinesias, i.e. involuntary, jerky movements that incapacitate PD patients treated chronically with L-dopa.

The study will also evaluate changes in cognitive function that have been shown to be improved by safinamide in a previous phase III trial in early PD patients treated with dopamine agonists.

The use of safinamide in RLS

In 2004, Newron decided to expand the development of safinamide into the treatment for RLS because it represents an attractive commercial opportunity for the Company and safinamide has been shown to have multiple interactions on the dopaminergic system and to be well-tolerated.

Until the approval of Requip®, the only treatments for RLS were off-label dopamine agonists, opioids, benzodiazepines and anticonvulsants. Requip®, a dopamine agonist, is the first drug approved for the treatment of RLS in the United States. However, RLS patients treated with dopamine agonists have shown side effects similar to those documented when PD patients are treated with dopamine agonists. For example, the FDA's Approval Package (formerly known as a Summary Basis of Approval Equivalent) for one major marketed dopamine agonist shows high incidences of nausea (60 %), syncopy (12 %), dizziness (40 %) and vomiting (12 %). Unlike another leading dopamine agonist which is being marketed for RLS as well, safinamide does not require titration, and data obtained so far have shown that it is better tolerated and not associated with adverse effects on sleep (fragmentation of sleep architecture, sleep attacks, etc.). Accordingly, we believe that there is an unmet medical need for an RLS treatment which is safe

and efficacious and may be used as monotherapy or as an adjunctive treatment to other approved therapies for RLS.

In a pilot, open-label phase II trial of safinamide for RLS, ten severe RLS patients were given an oral dose of 100 mg/day of safinamide at bedtime. The patients were treated for two weeks.

The drug was well tolerated and patients showed improvement in the relevant end points: IRLS-10 score, Clinical Global Impression and quality of life. Unlike existing treatments, the sleep architecture was not modified and sleep fragmentation was reduced. This preliminary data shows that safinamide has significant therapeutic potential for the treatment of RLS.

In its International Preliminary Report issued in August 2006, the European Patent Office acknowledged the novelty and the inventive steps of the claims of Newron's use patent for safinamide in RLS. Safinamide's development for RLS will be determined in partnership with Merck Serono.

The use of safinamide in cognitive disorders

In the phase III trial (Study 015) for safinamide as an adjunctive treatment to dopamine agonists, cognition was evaluated in a subset of patients. Patients treated with dopamine agonists showed a clinically significant deterioration of cognition prior to starting treatment with study medication. There was an improvement in cognitive function in patients receiving safinamide in conjunction with a dopamine agonist as compared to patients who received a dopamine agonist alone. This improvement was judged by changes in tests of executive function, spatial working memory and reaction time using the Cog-Test battery, a battery of tests validated for use in PD patients. Therefore, safinamide's cognitive effect was noted in multiple domains of cognition. While safinamide-treated patients improved in tests of executive function with time, dopamine agonist monotherapy patients showed progressive worsening.

Therefore safinamide has potential as a cognitive enhancer in PD patients as well as for other CNS indications involving cognitive deterioration, and has significantly larger market opportunities even than PD.

Cognitive deterioration has been noted in a wide variety of medical, neurological, and psychiatric diseases and appears to become more prevalent with age. Cognitive disorders of the senium include AD, mild cognitive impairment, vascular dementia, PD, frontal temporal dementia, Lewis Body disease, stroke, multiple sclerosis and Huntington's disease. AD appears to be the most common of these disorders.

Merck Serono and Newron have begun planning a phase IIb trial of safinamide as a treatment for AD, to be initiated in 2007.

Newron is conducting phase II trials with ralfinamide for the treatment of neuropathic pain.

Ralfinamide

Our second compound covers a very large field with very few effective drugs and even less such drugs without severe side effects. Ralfinamide has the potential to generate major therapeutic value for pain patients and has a huge upside for Newron's shareholders.

Ralfinamide was discovered through our ion channel programme. It is an innovative therapeutic agent for pain conditions. Ralfinamide is structurally related to safinamide, but has a distinct pharmacological profile. It is a potent inhibitor of both sodium and calcium channels involved in pain transmission. The drug has already shown encouraging preliminary phase II data in an open-label, pilot study.

2006 – year of transition

Currently it is being evaluated in a phase II dose-titration, tolerability and preliminary evidence of efficacy study, consisting of a double-blinded, placebo-controlled trial with 259 mixed peripheral neuropathic pain patients. The trial aims at identifying the maximal tolerated dose and the sub-types of neuropathic pain that respond best to the compound, with the results expected by the end of June 2007.

Despite a wide range of available pain relievers, certain types of pain, such as neuropathic pain, are difficult to treat. Newron's pharmacological profiling of ralfinamide has indicated its potential therapeutic value for the treatment of neuropathic pain.

A successful test in inflammatory pain could open new markets

Newron also plans to further evaluate ralfinamide's potential in the treatment of inflammatory pain by starting a clinical phase II trial in dental pain in 2007.

The use of ralfinamide in neuropathic pain

In pre-clinical studies, ralfinamide has shown the ability to block both sodium and calcium channels, displaying the mode of action believed to be most suited to successfully treat neuropathic pain. Ralfinamide has been demonstrated to inhibit sodium currents of dorsal root ganglion neurons in a voltage and use-dependent manner, showing low micromolar activity in conditions of hyperexcitability. It has also shown blockage of high voltage-activated (HVA) calcium currents (including N-type currents) in peripheral sensory neurons, supporting a mechanism for the consequent inhibition of substance P release in the spinal cord.

First indications of high efficacy and low side effects

In diverse laboratory models of neuropathic pain, ralfinamide has been shown to be more effective than other treatments such as gabapentin, thus supporting the Company's belief that ralfinamide is more efficacious and causes fewer side effects than other treatments.

Ralfinamide demonstrated a pharmacokinetic profile with a half-life of 12 hours, which suggests potential for twice daily treatment.

An open label, observer blinded, single-centre ascending dose clinical trial using daily doses of ralfinamide ranging from 80 mg to 320 mg in 18 patients with mixed neuropathic pain for a period of four weeks was completed in 2004. The dose range of 80 mg/day to 320 mg/day was well tolerated with no evidence of laboratory, ECG, or vital signs abnormalities. Preliminary evidence of efficacy was based on the findings that the treatment with ralfinamide was associated with improvement in 82 % of patients as judged by the Visual Analogue Scale which measures

pain through a subjective assessment by the patients of their pain. Treatment with ralfinamide was also associated with improvement in allodynia and pin prick allodynia in 77 % of patients.

Newron intends to develop the plan for completing clinical development and commercialisation of ralfinamide with a potential partner or licensee.

The use of ralfinamide in inflammatory pain

Pain signals are generated and transmitted in response to local factors such as acidity, heat or the presence of inflammation mediators. Clinical and experimental data suggests that changes in voltage-gated sodium channels play a role in inflammatory pain, and that sodium channel blockers have therapeutic potential. The analgesic effects shown by local anaesthetics, used at doses well below those that block nerve impulse propagation, and by tricyclic antidepressants, may at least partly be due to blockage of sodium channels.

Indicators for efficacy in inflammatory pain, too

We thus believe that ion channel inhibitors such as ralfinamide will be effective in alleviating inflammatory pain. Ralfinamide has also shown an ability to inhibit the release of substance P, one of the endogenous mediators of local inflammation. In addition, it has been shown that ralfinamide does not interact with the pathways leading to the damage of the gastrointestinal mucosa and has a good gastrointestinal tolerability profile in laboratory experiments. Based on this data and ralfinamide's promising gastrointestinal side-effect profile compared to NSAIDs, Newron is considering further exploration of the potential of ralfinamide in inflammatory pain indications by starting a clinical phase II trial in dental pain in 2007.

Newron's clinical pipeline is supported by a portfolio of early-stage proprietary compounds generated by its ion channel drug discovery platform.

Research programmes

Newron's research programmes are focused on the selection of new generation ion channel blockers for the treatment of CNS-related diseases and pain. The most prominent validation for the Company's competence and experience in this field is the identification and optimisation of ralfinamide, now in phase II development for the treatment of neuropathic pain.

Newron's neurobiology expertise includes molecular biology, platform-based assays for small-molecule screening, cell-based assays for high content screening, high-throughput electrophysiology functional assays (for the study of the electrical properties of cell membranes and their pharmacological modulation), and other assays. We routinely conduct a wide range of laboratory tests for neuropathic and inflammatory pain, motor dysfunction, convulsions, migraine and neurodegeneration. We believe that our expertise in developing multi-dimensional pharmacological profiles for our compounds through a wide range of pharmacological tests is one of our most valuable competencies, which enables us to quickly and directly assess, early in the discovery process, the full potential of product candidates, in terms of the efficacy and side-effects profile.

Newron's drug discovery programmes are focused on the ion channel target class. The main objectives of these programmes are to provide leads and product candidates to fuel the Company's pipeline, as well as to strengthen its intellectual property profile.

Chemistry optimization work has resulted in the synthesis of several lead molecules. Amongst these, we identified potent, use-dependent sodium channel blockers, i.e. their potency increases with the frequency of neuronal stimulus, suggesting that the compounds could be more active under pathological rather than physiological conditions. In in vitro tests, some compounds showed low inhibition of the major metabolising cytochromes, suggesting low potential for drug-drug interactions together with low toxicity in cellular assays. Some showed activity in several disease models, such as epilepsy, pain, mania and a model of cognitive impairment in schizophrenia. The most advanced of the compounds, NW 3509, could enter pre-clinical development in 2007.

Strong Partnership

In September 2006 Newron and Serono (now Merck Serono) entered into a collaboration and licence agreement under which Merck Serono have been granted the exclusive worldwide rights to develop and commercialise safinamide for the treatment of PD, RLS and cognitive disorders. The deal is worth up to $ 200 million of downpayment and milestones plus royalities to Newron and gives the company the option to co-promote safinamide in Italy and Spain.

Merck Serono has shown strong commitment to continue the successful work that was started with Serono.

Serono, a global player in CNS

When Newron analysed the first clinical phase III data of safinamide in the use for Parkinson's disease prior to publishing key data in June 2006, it became obvious that the results especially in cognition opened completely new indication possibilities and markets for the compound like AD, multiplying its commercial potential. Yet, in order to fully uncover such potential, numerous significant clinical trials have to be performed, a major organizational and financial task.

Thus we had to decide to either develop safinamide step by step for the different indications, delaying the launch in some of the major indications, or find a partner with strong expertise in developing, launching and distributing CNS drugs. Such a partner needed to have a strong financial standing and presence in global markets, as well as a complementary product pipeline.

Finally, a global licensing agreement was announced with Serono, now Merck Serono, in October 2006. As part of this, Newron has granted Merck Serono the exclusive right and licence to develop, make, use, market and sell safinamide on a worldwide basis for the treatment of PD, RLS, "Cognitive Disorders" (disorders involving impairment in cognitive function, such as AD, Mild Cognitive Impairment and dementia) and other therapeutic applications. In exchange for this licence, Merck Serono will take over all development costs including certain Newron FTEs and overheads and pay upfront and milestone payments of up to a total of $ 200m plus significant royalties on net sales of safinamide.

According to the safinamide collaboration and licence agreement, if the outcome of the remaining phase III trials of safinamide for PD are favourable and Merck Serono receives regulatory marketing approval of safinamide for this indication in major pharmaceutical markets, it is expected that Merck Serono will launch safinamide for PD within about 12 months of the completion of the clinical trials. Based on the successful commercialisation of safinamide in PD and assuming positive results in clinical trials of safinamide in certain cognitive disorders and RLS, it is expected that Merck Serono would eventually market safinamide for the treatment of these indications as well.

In the context of its agreement with Merck Serono, Newron has retained the option to co-promote safinamide in Italy and/or Spain. Newron is considering the exercise of this option to commercialise safinamide as a treatment for PD and any other indications for which Merck

Serono receives marketing approval by distributing it through a focused sales and marketing organisation, which would promote safinamide to neurologists in the co-promotion markets.

By February 2007, Merck KGaA, Darmstadt, Germany, has announced that it has taken over the majority of shares in Serono. Newron's "new" partner, Merck Serono, has shown strong commitment to continue the successful work that was started with Serono. Given the quality of the collaboration experienced so far and the significantly stronger R&D and marketing power of the new merged entity Merck Serono, we are confident that this development will further enhance the value of our leading asset, safinamide, for our shareholders.

Newron's Team

Newron's senior management has an average of 25 years of experience in developing and bringing to the market drugs for CNS diseases such as AD, PD, epilepsy, sleep disorders, etc. In addition, senior executives from the pharmaceutical and life science venture capital industry serve on the Board of Directors.

Newron's management has a track record in CNS therapeutics, with members having been involved in the development of drugs such as Comtan™, Cabaser™, Exelon™ and Clorazil™.

Extensive experience

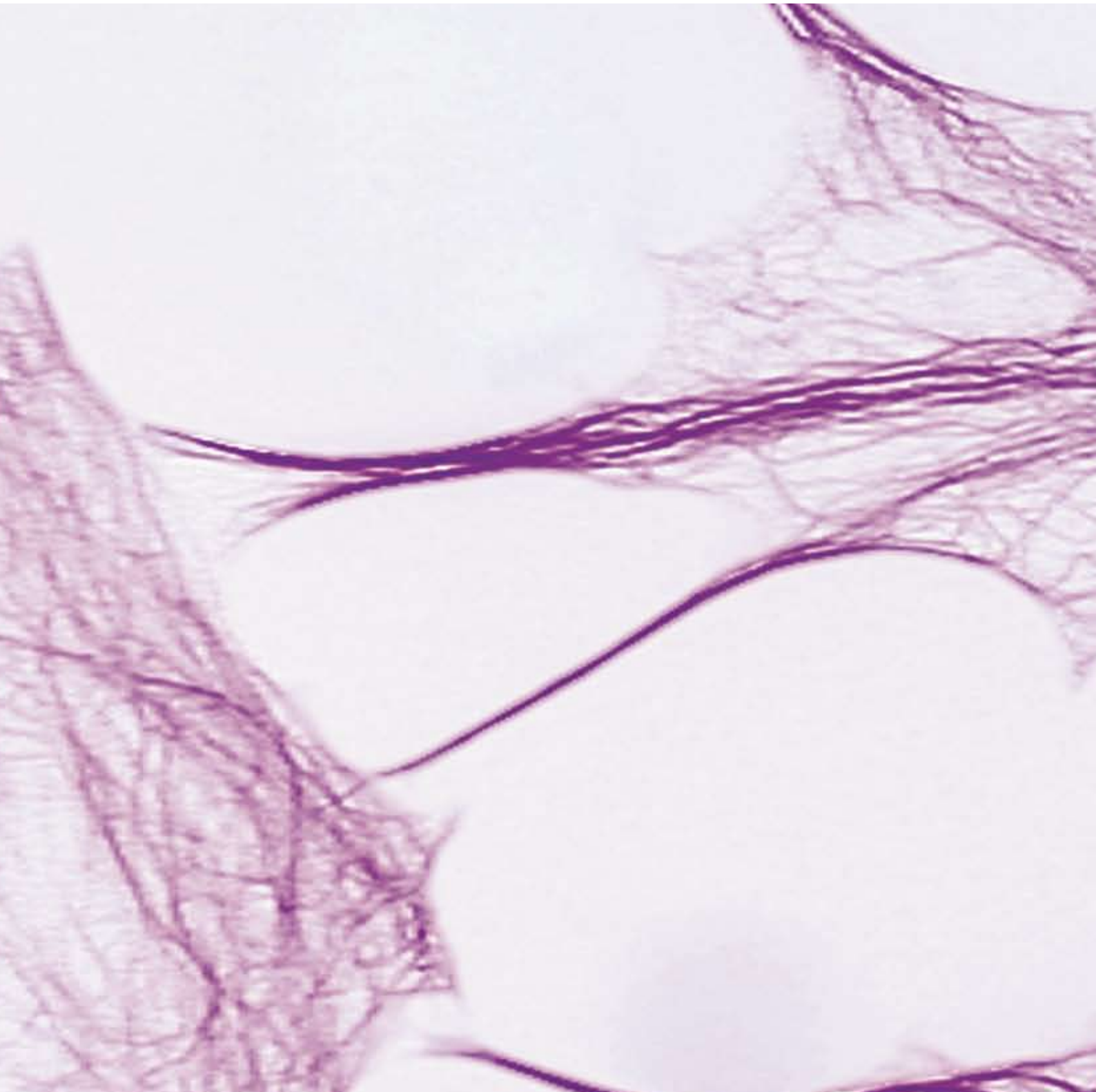
At the end of 2006, Newron's team totalled 32 employees, of which about two thirds are active in the discovery and development of compounds, and one third supports the process in administrative, marketing and general management functions. This team of professionals is supported by an external group of outstanding development consultants. Given the broadening of the later stage clinical pipeline of products, we intend to increase our internal development teams in the future.

The executive management team of Newron on average has accumulated 25 years in the pharmaceutical industry, mostly active in discovery, development, launch and distribution of drugs for the treatment of CNS diseases. The team is challenged and supported by a highly qualified board of directors, with members stemming from the pharma and biotech industries as well as premium life science investors. For more details, please see "Corporate Governance", "Board of Directors" and "Senior Management".

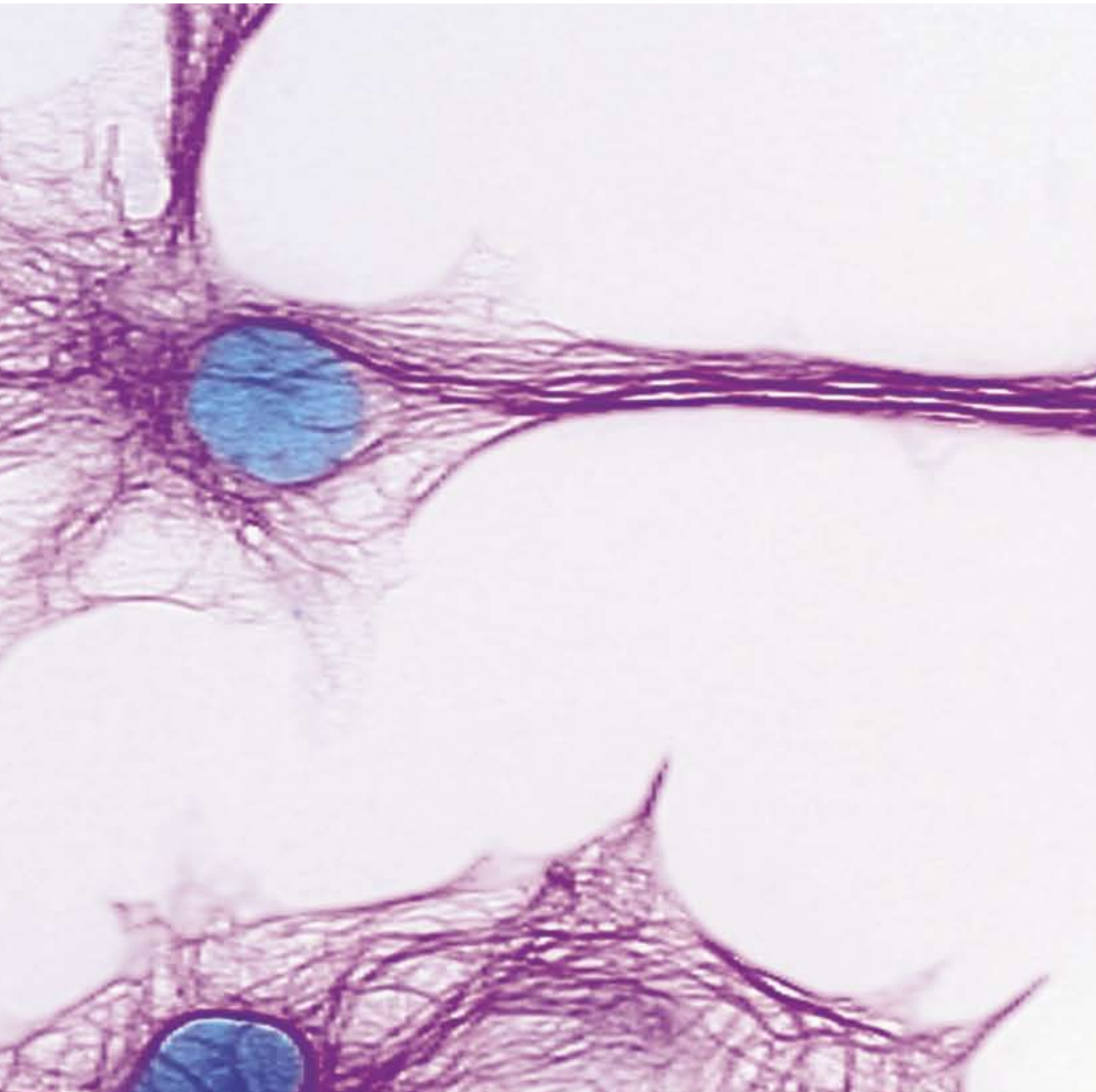
Scientific and clinical advisors

We are advised by the following prominent scientists in the area of CNS-related diseases and pain as well as experts in the pharmaceutical industry:

Name	Activities
Dr. J. William Langston	Scientific Director, COO and Founder of the Parkinson's Institute in Sunnyvale, California
Abraham Lieberman, M.D.	Founder of the Lieberman Parkinson Clinic in Miami, Florida
Paolo Marchettini, M.D.	Head of the Pain Medical Centre at the San Raffaele Hospital in Milan, Italy
Prof. Charles Warren Olanow, M.D., F.R.C.P. (C)	Professor and Chairman of the Department of Neurology at Mount Sinai School of Medecine in New York, N.Y.
Professor Marco Onofrj	Associate Professor at the University of Chieti, Italy and Chairman of the Neurology Unit at Pescara Hospital, Italy
Emilio Perucca, M.D.	Professor of Medical Pharmacology at the Univeristy of Pavia, Italy, First Vice President of the International League Against Epilepsy, (ILAE), Epilepsy expert for the EMEA
Prof. Ze'ev Seltzer, D.M.D.	Senior Research Professor, Chair in Comparative Pain Genetics, University of Toronto
Fabrizio Stocchi, M.D.	Professor of Neurology, University of Rome "La Sapienza"



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 Company's executive officers and bodies, effective December 31, 2006. The report is based on the SWX Swiss Exchange Directive on Information Relating to Corporate Governance and the Swiss Code of Best Practice for Corporate Governance, both in force since July 1, 2002.

Group Structure and Shareholders

Newron Pharmaceuticals S.p.A. is a joint stock company *(Società per Azioni or S.p.A.) ("Newron" or the "Company")* organised 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 Medical Officer (CMO), the Vice President of Development, the Vice President of Discovery, the Vice President of Business Development and the Chief Financial Officer (CFO), all of whom are lead by the Chief Executive Officer (CEO).

Related entity

During 2002 Newron contributed 26 thousand euros to the capital of Consorzio Italbiotec (ex 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. The management has decided not to consolidate the Company's interest in the Consortium. (See also Note 26 "Related party transaction")

Segment reporting

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

Listed company

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

Swiss Security Code:	2 791 431
ISIN:	IT0004 147 952
Common Code:	027612440
Ticker symbol:	NWRN
Market capitalisation on December 31, 2006:	CHF 310,211,650 (based on 5,820,106 outstanding shares and a share price of CHF 53.30)

Significant shareholders

As far as Newron is aware, the following shareholders had holdings of more than 5 % as at December 31, 2006:

3i Group plc, England	16.1 %
NPI Services S.a.r.l., Luxembourg*	12.5 %
HBM BioVentures (Cayman) Ltd., Cayman Islands	7.3 %
NWB Investissements S.p.r.l., Belgium**	7.1 %

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

** indirectly controlled by Apax France VI, France

The venture capitalist investors, holding a total of 54.3 % of the outstanding capital as of December 31, 2006 (as far as Newron is aware), have entered into individual lock-up agreements with the Joint Global Coordinators of the IPO for a term of 9 months as of the first day of trading of the shares, which was December 12, 2006.

The founders and members of the Board have entered into individual lock-up agreements with the Joint Global Coordinators of the IPO for a term of 12 months as of the first day of trading of the shares.

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

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

Cross-shareholdings

As of December 31, 2006, there are no cross-shareholdings of Newron with another company or group of companies.

Capital Structure

As of December 31, 2006, Newron's outstanding share capital was € 1,164,021,20, consisting of 5,820,106 ordinary shares with a nominal value of € 0.20 each. All shares are fully paid-up.

As per the same date, Newron also had a pre-authorised share capital of up to € 54,774.00, represented by 273,870 shares with a nominal value of € 0.20 per share, solely for the purpose of implementing stock-based incentive compensation plans for employees and directors of the Company and subsidiaries. As for the term of validity and the terms and conditions of the issuance of these equity securities, please see below under "Stock Options" and "Compensation, Shareholdings and Loans".

Amount in Euro	2006	2005	2004
Number of ordinary shares with par value of Euro 0.20	5,820,106	3,672,500	2,172,500
Share capital	1,164,021.20	734,500.00	434,500.00
Number of pre-authorised shares with par value of Euro 0.20 (up to)	273,870	273,870	273,870
Pre-authorised share capital (up to)	54,774.00	54,774.00	54,774.00

Events post the closing date and establishing of this report:

Of the pre-authorized share capital of € 54,774.00, as per decision of the Board as of February 7, 2007, an amount of € 2,932.00 was converted into share capital. The outstanding share capital thus was increased to € 1.166.953,20 and the pre-authorized capital free to be utilized was reduced to "up to € 51.842.00".

Changes in capital

On April 16, 2004, the shareholders' meeting resolved to, among other things, change the nominal value of the shares from € 1.00 to € 0.10 which resulted in the share capital, then equal to € 434,500, being divided into 4,345,000 shares.

On May 31, 2004, the shareholders' meeting authorised the Board to increase the Company's share capital by up to € 27,040 by issuing up to 270,400 shares, nominal value of € 0.10 per share, a pre-authorised capital increase solely for the purpose of implementing stock-based incentive compensation plans for employees and directors of the Company and subsidiaries (if any). After the change was made to the nominal value of shares on November 7, 2006 (as discussed below), this pre-authorised capital increase currently allows the Board to authorise the issuance of up to 135,200 shares.

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

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

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

On November 7, 2006, the shareholders' meeting resolved, among other things, to: (i) change the nominal value of the shares from € 0.10 to € 0.20 (resulting in the Company's share capital, then equal to € 734,500, being comprised of 3,672,500 shares), (ii) list the shares on the SWX Swiss Exchange, and (iii) increase the Company's share capital for payment of up to € 500,000, by issuing up to 2,500,000 shares in the offering, while delegating to the Board as a whole, the Chairman of the Board and Company's Managing Director, and each of them individually, the power to determine the exact amount by which the Company's share capital is to be increased and the number of shares to be issued, each for the offering. On December 7, 2006, the Company decided to offer 2,147,606 shares in the offering, at a price of CHF 55 per offered share. By November 7, 2006, holders of all preferred shares previusly issued by the Company converted them into an equal number of shares.

Shares and participation certificates

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

Bonus certificates

Newron has not issued bonus certificates.

Transfer of shares

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

Convertible bonds

Newron has no convertible bonds outstanding.

Stock options

In December 2001, the Company adopted a stock option plan for the Company's employees, comprising options to purchase 29,950 (after giving effect to subsequent changes in the nominal value of the shares) shares currently held by Luca Benatti, Ruggero Fariello and Patricia Salvati. This plan was adopted by the Board in order to provide an incentive for certain employees of the Company identified by the Board and for the recruitment of highly qualified personnel. All options available to be granted under this plan were granted as of December 31, 2006. The exercise price for each option granted is € 18.42 per share, of which € 18.22 represents a share premium. All options granted are fully vested and exercisable between the first and the fifteenth day of March, June, September and December of 2007 and 2008, except that in the event of a listing of the shares, any shares acquired pursuant to the plan are subject to a lock-up commencing one month preceding and ending 12 months following such listing.

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

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

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

Board of Directors

Members of the Board of Directors

The Company's By-laws establish that the Board shall consist of a minimum of seven (7) and a maximum of eleven (11) members. Currently, the Board is comprised of nine (9) directors. Six of these directors were elected on February 15, 2005 for a three-year term expiring on the date of the shareholders' meeting scheduled to approve Newron's financial statements for the year ending December 31, 2007. Of the remaining three directors, Alexandra Goll was appointed at the shareholders' meeting on September 27, 2005 for a term expiring at the above described shareholders' meeting and Renee Aguiar-Lucander and Hervé Guérin were each appointed at a Board meeting held on November 17, 2006 pursuant to article 2386 of the Civil Code for a term expiring at the shareholders' meeting approving the financial statements for the year ending December 31, 2007. All members are due for re-election at the same time. In case of replacements of members of the Board of Directors, the new members take over the mandate for the remaining period of the leaving member. The shareholders' meeting elects the new members by individual vote.

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

Name	Age	Position	Member Since	Relevant External Positions
Rolf Stahel	62	Chairman, non-executive member	2004	Former Chief Executive Officer of Shire Pharmaceuticals Group plc
Luca Benatti	46	Managing Director, CEO, executive member	1998	Former Head of the Molecular Neurobiology Department at Pharmacia & Upjohn SpA
Ruggero Fariello	64	Non-executive Director	1998	Professor of Neurology at Thomas Jefferson University
Axel Bolte	35	Non-executive Director	2005	Investment Advisor of HBM Partners
Francesco Parenti	66	Non-executive Director	1999	Former Chief Scientific Officer of Vicuron Pharmaceuticals
Hervé Guérin	65	Non-executive Director	2006	Former Vice Chairman and COO of Sanofi Synthelabo
Renée Aguiar-Lucander	44	Non-executive Director	2006	Partner of 3i Group plc
Laurent Ganem	48	Non-executive Director	2002	Partner of Apax Partners
Alexandra Goll	50	Non-executive Director	2005	General Partner of TVM Capital

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

Luca Benatti, the Company's Managing Director and Chief Executive Officer since 1998, founded Newron in 1998 along with Dr. Ruggero Fariello and Dr. Patricia Salvati. He has more than 15 years of scientific experience in molecular biology and neurobiology. Dr. Benatti has a degree in molecular biology from Milan University. He started his career as a scientist for Farmitalia Carlo Erba, where he held several positions in its biotechnology department from 1986 to 1991. After the merger of Farmitalia Carlo Erba with Pharmacia & Upjohn SpA, Dr. Benatti became the project leader for the combined company's endothelin programme. From 1991 to 1998, Dr. Benatti was the head of the Molecular Neurobiology Department at Pharmacia & Upjohn SpA, holding that position until he resigned to found Newron in 1998.
He holds several patents and has authored publications in peer-reviewed journals such as Proceedings of the National Academy of Sciences, Journal of Clinical Investment, Journal of Biological Chemistry and Journal of Neuroscience. Luca Benatti is a member of the Board of Europa Bio (EE) and of Assiobiotec, the Italian association of biotechnology companies. He is Italian.
Permanent management and consultancy functions for Swiss and foreign interest groups besides those mentioned: none.

Ruggero Fariello, a Director since 1998, is a physician certified by the American Board of Psychiatry and Neurology. Dr. Fariello served as the Company's Chief Scientific Officer from 1999 until May 2005. Prior to co-founding Newron in 1998 with Luca Benatti and Patricia Salvati, he set up a consulting firm for technological transfer in neuroscience in 1992. Dr. Fariello has held several positions in pharmaceutical companies, including as Director of the Central Nervous System R&D at Farmitalia Carlo Erba and senior consultant to Pharmacia & Upjohn SpA. He is a former professor and Chairman of Neurological Sciences Department at Rush University in Chicago, Illinois in the United States. Since 1990, he has held a research professorship at the Department of Neurology at Thomas Jefferson University in Philadelphia, Pennsylvania in the United States. He has authored over 150 papers and edited books on epilepsy and movement disorders. Ruggero Fariello is of Italian nationality.
Permanent management and consultancy functions for Swiss and foreign interest groups: none.

Axel Bolte, a Director since 2005, is Investment Advisor at HBM Partners AG, a provider of investment advisory services in the life sciences industry. Previously, Mr. Bolte was an investment manager of NMT New Medical Technologies AG, a Swiss venture capital company focused on life sciences. Prior to joining NMT, Mr. Bolte held a position in R&D management at Serono S.A., a biotechnology company. He currently serves on the board of directors of PTC Therapeutics, Inc., Nabriva Therapeutics Forschungs GmbH, Lux Biosciences, Inc., and MPex Pharmaceuticals, Inc., four privately held biotechnology companies. Mr. Bolte received his M.B.A. from the University of St. Gallen, Switzerland and his degree in biochemistry at the Swiss Federal Institute of Technology, Zurich, Switzerland. He is Swiss by nationality.
Permanent management and consultancy functions for Swiss and foreign interest groups: none.

Francesco Parenti, a Director since 1999, holds a Ph.D. 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 Biosearch Italia prior to its merger with Versicor in 2003 which created Vicuron). A biologist with over 30 years of experience in the pharmaceutical industry, Dr. Parenti has served as Vice President of Hoechst Marion Roussel, President (Europe, Middle East and Africa) for Marion Merrell Dow and General Manager of Dow Lepetit Italy and has overseen the creation of the Antinfective Research Center at the Merrell Dow Research Institute. He has also served on the board of directors of several biotechnology companies. Francesco Parenti is Italian.
Permanent management and consultancy functions for Swiss and foreign interest groups: none.

Laurent Ganem, a Director since 2002, has been a partner of Apax Partners since 1994 and is currently in charge of investments in healthcare and biotechnology. He began his career in the United States at Baxter International. In France, he founded a company specializing in life science technology transfers where he was the General Manager until 1993. In addition to Newron, he is currently a member of the board of directors of Hybrigenics, Neuro3D, Neurotech, Galapagos, Corevalve, DBV, Vedici, Opica and Biolipox. Mr. Ganem is a graduate of the Paris University of Medicine and holds a Master in Business Administration from Columbia University (New York, United States). He is French.
Permanent management and consultancy functions for Swiss and foreign interest groups: none.

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

Hervé Guérin, a director since November 2006, has 30 years of pharmaceutical management expertise. Since 2005, he has been a director of Xytis Pharmaceuticals. From 1999 to 2004, he was a director of Sanofi Synthelabo. From 1999 to 2001, he was the Vice Chairman and Chief Operating Officer of Sanofi Synthelabo. Prior to the merger of Sanofi and Synthelabo in 1999, Mr. Guérin had been the Chairman and Chief Executive Officer of Synthelabo since 1989. Mr. Guérin had also previously held positions as Regional President UK, Northern Europe, Middle East, Asia, Pacific & Africa for Rhône Poulenc and May and Baker. He was also Financial Vice President for Europe and Regional President for Canada, Latin America, Asia & Pacific for Revlon Healthcare. Mr. Guérin, who is French, is a graduate from HEC and holds an MBA from Harvard Business School. He also received the chevalier de la Légion d'Honneur, the leading French civil and military order.
Permanent management and consultancy functions for Swiss and foreign interest groups: none.

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

Cross-involvement

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

Responsabilities and organization

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

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

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

The Company's directors are elected at the Company's annual ordinary meeting of shareholders for a term of three financial years. The Company's directors may be re-elected for consecutive terms. If the shareholders fail to elect a chairman at the shareholders' meeting, the members of the Board elect, from amongst themselves, the chairman, and one or more deputy 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 2006, a total of 11 meetings of the full Board were called, of which 4 were held physically and 7 via phone. Both the remuneration and the audit subcommittee were called on November 17, 2006, for the first time in order to constitute and approve with the full Board the scope of their responsibility. While the physical meetings are called on a quarterly basis and usually take one business day, the phone board meetings are called upon requirement and might take up to several hours.

Members of senior management regularly attend 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, in the discussion prior to a vote being taken by the Board.

Information and control instruments

The members of the Board receive a comprehensive monthly management report designed to provide them with an update on business activities in general and relevant developments with regards to clinical trials and preclinical activities, the collaboration with licensing partners, as well as on legal, business development and financial matters. The reports are the object of discussion during the board meetings, which senior management regularly attends. With regards to the subcommittees as described below, the CEO is the main contact for the members of the nomination and compensation committee, while the CFO provides the same function to the members of the audit committee. However, 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 financial budget for the next business year, and regularly, senior management presents to the board strategic consideratons for review, discussion and decision.

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

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

Subcommittees

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

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

The nomination and compensation committee currently consists of Rolf Stahel (chairperson), Hervé Guérin 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. 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, which was elected on April 16, 2004 for a three-year term expiring upon the approval of the Company's financial statements for the year ending December 31, 2006, 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.

Name	Age	Position in the Company	Member Since
Antonio Ortolani	60	Chairman of the Board of Statutory Auditors	2004
Massimo Conti	49	Permanent Auditor	1999
Richard Paul Murphy	43	Permanent Auditor	2002
Lucio Giulio Ricci	39	Alternate Auditor	2002
Luca Angeretti	33	Alternate Auditor	2002

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

Senior Management

Members of the senior management

Name	Age	Position at the Company
Luca Benatti	46	Chief Executive Officer, Managing Director
Patricia Salvati	57	Vice President, Discovery
Stefano Rossetti	54	Vice President, Development
Marco Caremi	50	Vice President, Business Development
Stefan Weber	42	Chief Financial Officer
Ravi Anand	50	Chief Medical Officer

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

Patricia Salvati has been the Company's Vice President, Discovery since 1999. She co-founded Newron in 1998 along with Dr. Benatti and Dr. Fariello. She is a pharmacologist with over 25 years of experience in research and development in the pharmaceutical industry. After receiving a doctoral degree in biological sciences from the University of Bologna with honours, she underwent post-doctoral training in pharmacology at the University of Pavia, followed by additional training at the University College (London, United Kingdom); Prostaglandin Unit of the Wellcome Research Laboratory (Beckenham, Kent, United Kingdom); New York Medical College (Valhalla, New York, United States); the Biophysics Institute of Aarhus University (Denmark) and Shimane University (Izumo, Japan). Having gained extensive experience in gastro-intestinal pharmacology and cardiovascular research, she devoted her research to neuropharmacology beginning in 1991. She holds over 60 patents and is the author of over 90 publications. Dr. Salvati has extensive experience in leading drug development projects in the industry. In 1978, she joined Farmitalia Carlo Erba where she became the head of Cardiovascular Pharmacology in 1986 and then the director of Cardiovascular Research in 1990. After the merger with Pharmacia & Upjohn, she was appointed the head of CNS Pharmacology and Project Leader of the antiepileptic project in 1995 and held that position until she co-founded Newron in 1998 along with Dr. Benatti and Dr. Fariello. Patricia Salvati is Italian.

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

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

Stefan Weber has been the Company's Chief Financial Officer since April 2005. He holds a master's degree in business management from Fernuniversitaet Hagen (Diplom-Kaufmann). He has 20 years of industry experience in finance, including nine years in senior management, of which seven years were spent as the chief financial officer of public and private biotechnology companies. From 1987 to 1999, he worked at the Lohmann group, a worldwide producer of pharmaceutical, medical, technical and consumer products. From 1997 to 1999, he was the head of finance, reporting to the chief financial officer 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. In his senior management positions at these companies, he was responsible for executing numerous substantial financing transactions, including debt, equity and mezzanine financing as well as national and European grants. As chief financial officer of Girindus, he managed the company's initial public offering and post-initial public offering investor

relations. He furthermore has been involved in a number of M&A transactions, disinvestments and strategic restructurings. Stefan Weber is German.

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 (The Netherlands). From 1993 to 1997, he was the Medical Director of CNS, Clinical Research at Sandoz Research Institute. From 1997 to 2001, he served as the international head of CNS Medical Affairs at Novartis. From 2001 to 2003, he served as the global head of CNS Clinical Research at Organon. Between 2003 and 2005, Dr. Anand was an independent consultant.
During his tenure in the pharmaceutical industry, Dr. Anand has worked in all phases (I through III) of drug development as well as in medical commercialisation (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 more than seven new international drug applications. He has published extensively, including over 50 papers and 200 abstracts, posters and presentations.

Management Contracts

The Company does not have management contracts with third parties.

Compensation, Share-holdings and Loans

Newron has established a remuneration system which aims to be competitive in the market environment, reward achievement and retain best competence.

All Newron employees should have base salaries that are market competitive and permit Newron to attract and retain high-calibre employees at all levels.

Newron seeks to encourage and reward superior performance by taking into account individual performance, company performance, market comparisons and the competitive pressures in the pharmaceutical and biotechnology industries. Newron's Annual Bonus is designed to drive and reward performance based on the dynamics of the biotechnology, which is Newron's business.

Furthermore, Newron offers long-term incentives which are granted to provide an incentive primarily for directors and key employees responsible for the growth and success of the company.

For exceptional performance, we strive to provide the opportunity to earn remuneration that approaches the top tier of the market.

To achieve these objectives regarding remuneration, Newron's CEO has the right to propose individual remuneration packages and their structure, which will then be subject to approval by the Board of Directors remuneration committee. The remuneration packages for employees will be decided by the executive team within the framework of this compensation policy and the approved annual budget.

For the year ended December 31, 2006, the aggregate compensation (consisting of directors' remuneration) paid by Newron to the Directors was € 91 thousand. Luca Benatti, Axel Bolte, Joel Jean-Louis Besse, a director until November 17, 2006, Laurent Ganem and Alexandra Goll have each waived their compensation as directors for the fiscal year ended December 31, 2006.

For the fiscal year ended December 31, 2006, the aggregate compensation (consisting of statutory auditors' fees) paid by Newron to the Company's board of statutory auditors was € 55 thousand.

For the year ended December 31, 2006, the aggregate compensation (consisting of salaries, bonuses, and employee severance indemnity, but excluding stock options) paid to the Company senior management, was € 1,803.6 thousand and the compensation paid to the most highly compensated individual manager was € 395.6 thousand. This also is the highest total sum of compensation for a member of the Board. The recipient was not allocated any stocks or stock options during 2006.

Payments to former Management and Directors

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

Share allotment

In the year ended December 31, 2006, no shares have been allotted to any members of the Board nor the senior management or parties closely linked to them.

Ownership of Shares and Options by the Company's Directors, Company's Managers and Parties closely linked to them.

As at year-end 2006, non-executive directors and parties closely linked to them owned 171,805 shares in Newron. The executive member of the Board, the members of the senior management and parties closely linked to them owned a total of 327,215 Newron shares.

As per the same date, non-executive directors and parties closely linked to them held 157,855 stock options. The executive member of the Board, the members of the senior management and parties closely linked to them held 59,150 stock options.

As for the year of assignment and the exercise price see the below statement:

Year of assignment	**2002**	**2003**	**2004**	**2005**	**Total**
Number of stock options to					
- Senior executive officer	25,995	17,335		24,480	67,810
- Non executive BoD		6,000	157,855		163,855
- Other		3,000			3,000
Grand total	25,995	26,335	157,855	24,480	234,665
Exercise price	€ 19.60	€ 19.60	€ 20.00	€ 20.00	
Weighted average					**€ 19.90**

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

As per year-end 2006, the expiry date for the stock options is June 30, 2008, with the exception of 157,855 stock options, for which expiry date is April 30, 2009.

Additional fees and remuneration

Besides the consulting agreement described below, no additional fees or remuneration 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 2006.

Rolf Stahel has a consulting agreement with Newron pursuant to which he provides business and strategic advice to Newron for a fixed fee of € 25,000 per year plus a per diem fee for each actual day worked as a consultant, plus related exepenses. The agreement may be terminated by either party, but not earlier than April 30, 2007. In 2006, the remuneration amounted to a total of € 189 thousand.

Loans to governing boards

No loans were granted during 2006 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 of the end of the fiscal year (180 days in particular circumstances) for the approval of the financial statements. At ordinary meetings, shareholders may also appoint directors and statutory auditors, determine their remuneration, vote on whether the Company should take action against any directors or statutory auditors, and vote on any business matter submitted by the directors. The quorum required for an ordinary shareholders' meeting of Newron on first call is the presence of shareholders representing at least 50 % of the Company's share capital. On the second and third calls, there is no quorum requirement. In all such cases, resolutions are approved by the shareholders representing the majority of the shares present or represented at the meeting.

Extraordinary meetings

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

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

Notice of meetings

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

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

In addition, pursuant to Article 2366 of the Italian Civil Code, a meeting will be deemed duly convened if shareholders representing 100 % of the Company's share capital, together with the majority of directors and the majority of members of the board of statutory auditors, are

present at the meeting. Persons attending may object to discussions of matters of which they have not been sufficiently informed.

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

Attendance and voting rights

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

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

Minority shareholders' rights

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

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

Each shareholder may submit a complaint to the board of statutory auditors regarding facts that such shareholder deems to be censurable, and the board of statutory auditors must take any such complaint into account in its report to the meeting of the shareholders. If shareholders collectively representing 2 % of the company's share capital submit a complaint, the board of statutory auditors must promptly undertake an investigation and 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 By-laws to comply with the Tender Offer Laws as set forth in Article 22 ss. SESTA, including Article 32 of the SESTA, and pertinent regulations, including articles 24 ss. SESTO-FBC and the Ordinance of the Takeover Board on Public Takeover Offers of July 21, 1997, as amended ("TOO") (all such laws and regulations the "Swiss Tender Offer Laws"). The Swiss Tender Offer Laws provide, among other things, that if a person acquires shares of a company, whether directly or indirectly or acting in concert with third parties, which, when added to the shares already held by such person, exceed the threshold of 33 1/3 % of the voting rights (whether exercisable or not) of such company, that person must make an offer to acquire all of the listed shares of that company.

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

As of December 31, 2006, none of the agreements or schemes that benefit members of the Board and senior management do include change of control clauses.

Auditors

PricewaterhouseCoopers S.p.A. ("PwC"), at Via Monte Rosa, 91, Milan, Italy, has been the Company's independent accountants since 2002. On April 16, 2004, the Newron shareholders' meeting appointed PwC as independent accountants in relation to the audit of the Company's financial statements for the three years ending December 31, 2006.

The auditor-in-charge is Gerolamo Negroni, who took over the mandate in PwC upon completion of Newron's IPO in December 2006.

PwC will receive an expected fee of € k40 for the audit of the IFRS Financial Statements and Italian GAAP Financial Statements for 2006.

In addition to the fees described above, aggregate fees of € k 625 were billed by PwC during the year ending December 31, 2006, primarily for audit work related to the IPO of Newron on December 12, 2006.

Supervisory and control instruments pertaining to the audit

The Board has installed an audit subcommittee in November 2006, whose task it will be to discuss with the auditors the audit scope, audit and review procedures, significant reporting matters and fees. The chairperson of the subcommittee will inform the Board about the meetings.

The duties of the Committee are:

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

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

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

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

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

Information Policy

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

We regularly update the new corporate webpage *(www.newron.com)*, provide the regular (annual report, half-year report) and extraordinary reports (directors dealings, status of pre-authorized capital, adhoc news and publications) to the SWX Swiss Exchange and the general public, routinely visit conferences to present the Company to opinion leaders and public opinion makers and talk to analysts and the press. All interested parties have the possibility to directly receive from Newron *(http://www.newron.com/Register4Updates.asp)* free and timely notification of potentially price-sensitive facts. It is our aim to reach out to all potentially interested addressees in the field and, once attracted to Newron, keep them up to date. 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 2007 are as follows:

Annual General Meeting of Shareholders: April 23, 2007
Publication of half-year results: September 14, 2007

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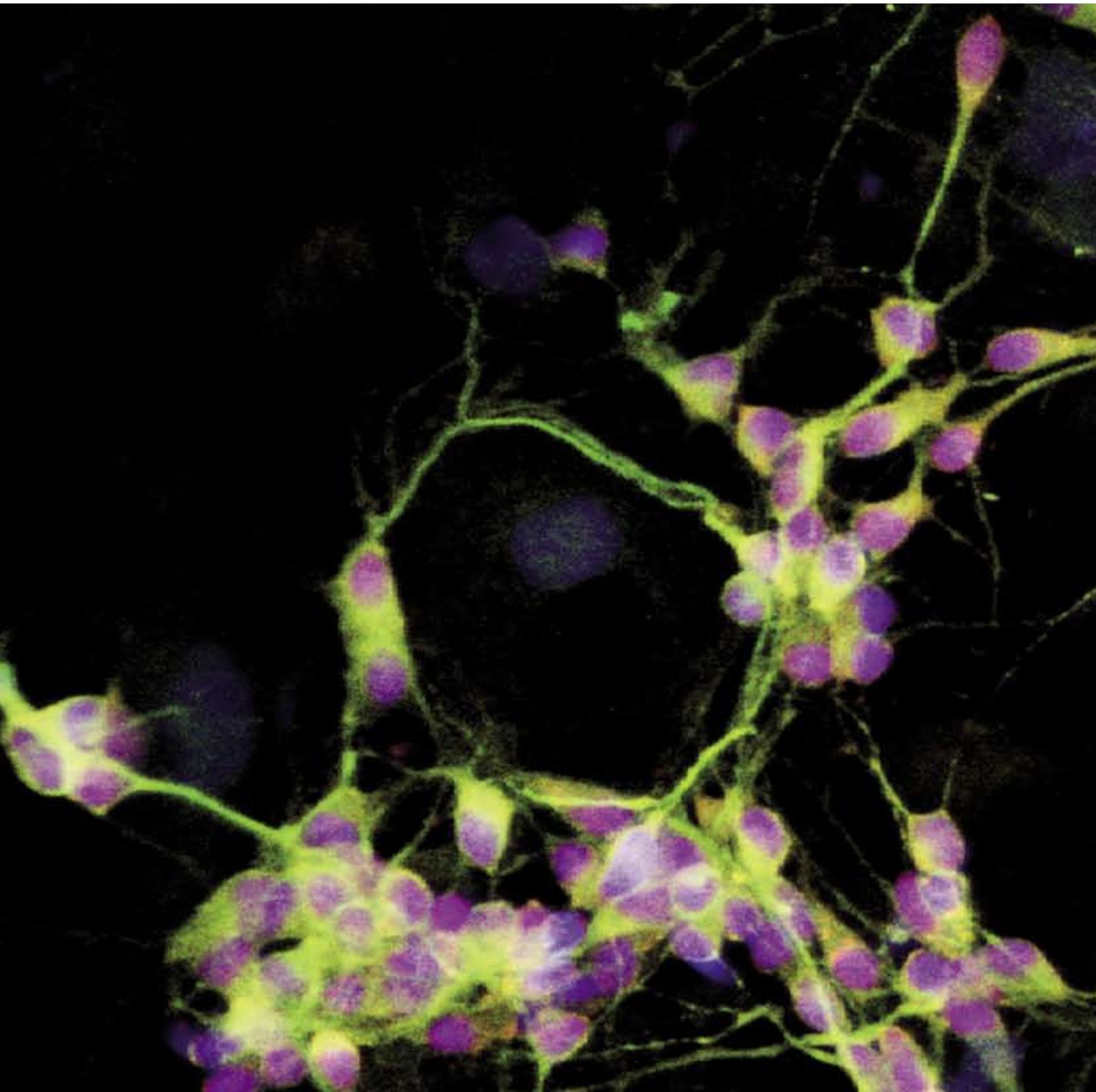
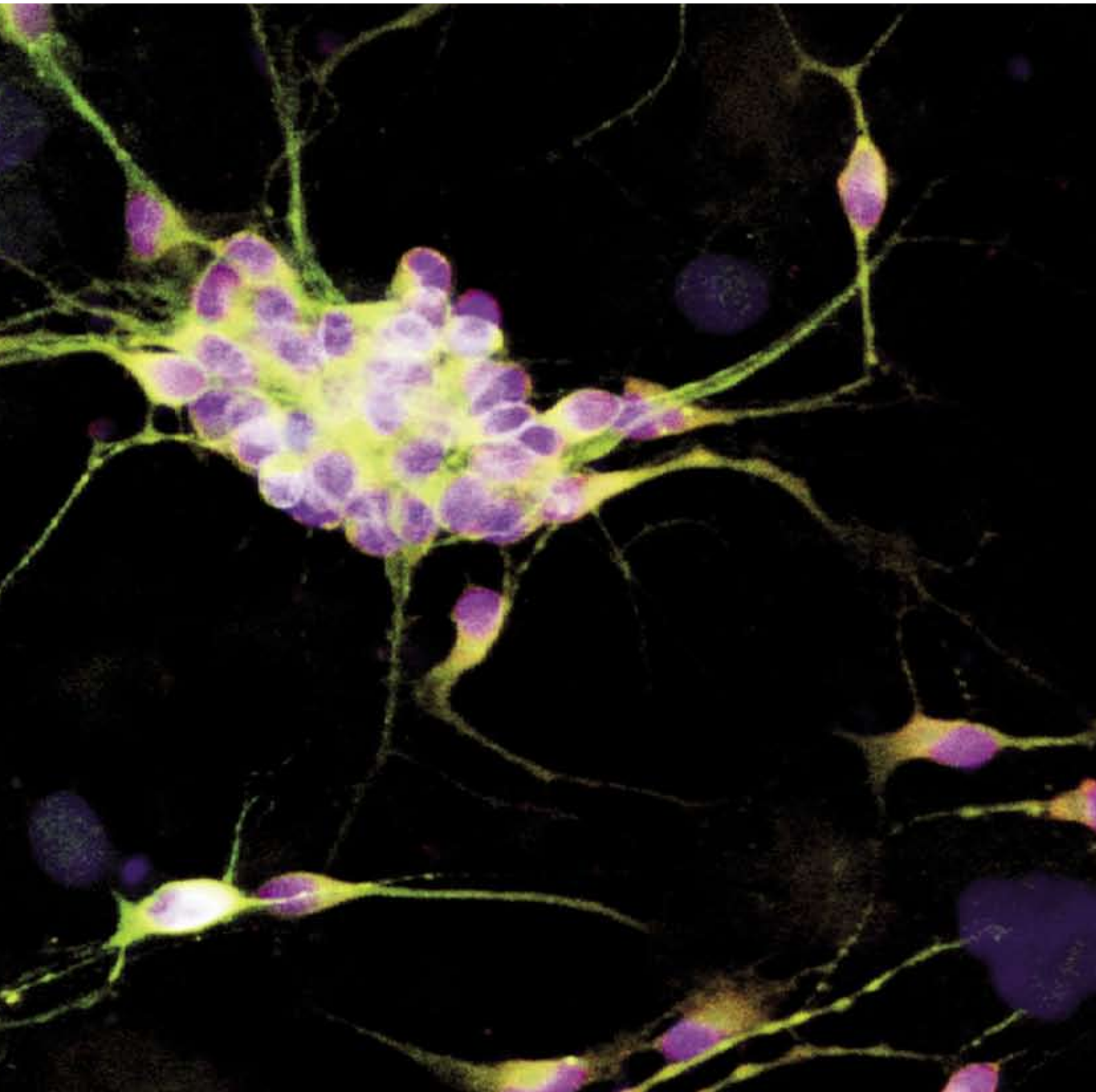


IFRS Financial Statements



Income Statement

(In thousand Euro, except per share information)		As of December 31,	
	Note	2006	2005
Licence income		1,191	0
Research and development expenses	6	(11,488)	(10,599)
Grants		219	154
Marketing and advertising expenses		(55)	(87)
General and administrative expenses	7	(6,619)	(4,544)
Operating loss		(16,752)	(15,076)
Financial income, net	8	351	157
Loss before tax		(16,401)	(14,919)
Income tax expense		0	0
Net loss		**(16,401)**	**(14,919)**
Loss per share			
Basic	**25**	**4.32**	**5.29**
Diluted	**25**	**4.32**	**5.29**

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

Balance Sheet

(In thousand Euro)	Note	As of December 31, 2006	2005
Assets			
Non-current assets			
Property, plant and equipment	10	291	441
Intangible assets	11	46	85
Receivables	12	688	1,691
		1,025	2,217
Current assets			
Inventories		1,345	739
Receivables and prepayments	13	9,022	3,095
Cash and cash equivalents	14	74,765	17,446
		85,132	21,280
Total assets		**86,157**	**23,497**
Shareholders' equity			
Share capital	21	1,164	735
Share premium	22	82,148	30,565
Stock option reserve	23	1,803	1,196
Retained deficit – previous years		(856)	0
Net loss		(16,401)	(15,476)
Total shareholders' equity		67,858	17,020
Liabilities			
Non-current liabilities			
Deferred income	15	4,327	0
Borrowings	16	833	1,037
Employee severance indemnity	19	350	322
		5,510	1,359
Current liabilities			
Deferred income	15	4,304	0
Borrowings	16	272	0
Trade and other payables	17	8,213	5,118
		12,789	5,118
Total liabilities		18,299	6,477
Total equity and liabilities		**86,157**	**23,497**

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

Statement of Changes in Shareholders' Equity

(In thousand Euro)	Note	Share capital	Share premium	Stock option reserve	Other reserve	Retained deficit	Total
Balance at January 1, 2005		435	12,814	567	92	(12,206)	1,702
Net loss						(14,919)	(14,919)
Stock option scheme				629			629
Loss allocation			(11,649)			11,649	0
Issue of shares		300	29,700				30,000
Share capital issue costs			(300)				(300)
Disposal of available-for-sale financial assets					(92)		(92)
Balance at December 31, 2005		735	30,565	1,196	0	(15,476)	17,020
Net loss						(16,401)	(16,401)
Stock option scheme	23			607			607
Loss allocation			(14,620)			14,620	0
Issue of shares – IPO	21, 22	429	73,827				74,256
Share capital issue costs			(7,624)				(7,624)
Balance at December 31, 2006		1,164	82,148	1,803	0	(17,257)	67,858

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

Cash Flow Statement

(In thousand Euro)	Note	As of December 31,	
		2006	2005
Cash flows from operating activities			
Cash used in operations	24	(10,981)	(14,595)
Government grants received		462	974
Pension fund paid	19	(114)	(137)
Change in non-current receivables		1,003	(571)
Net cash used in operating activities		(9,630)	(14,329)
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(42)	(69)
Purchase of intangible assets	11	(10)	(32)
Proceeds from sale of available-for-sale financial assets		0	760
Interest received		301	97
Net cash flows from/(used in) investing activities		249	756
Cash flows from financing activities			
Net proceeds from borrowings	16	68	0
Proceeds from issue of shares, net	22	66,632	29,700
Net cash flows from financing activities		66,700	29,700
Net increase/(decrease) in cash and cash equivalents		57,319	16,127
Cash and cash equivalents at the beginning of the year		17,446	1,319
Cash and cash equivalents at the end of the year		**74,765**	**17,446**

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

Notes to the Financial Statements

1 General information

Newron Pharmaceuticals SpA (the Company) is a clinical stage biopharmaceutical company focused on the discovery and development of drugs for the treatment of central nervous system (CNS) diseases and pain.
The Company is incorporated and domiciled in Milan, Italy. The address of its registered office is via Ludovico Ariosto 21, Bresso MI 20091, Italy.

In September 2006, Newron and Serono International SA (now Merck Serono International SA) entered into a collaboration and licence agreement, pursuant to which Newron granted Merck Serono the exclusive worldwide right and licence to develop and commercialise safinamide for the treatment of PD, RLS and disorders which cause impairment in cognitive function. In exchange, Merck Serono has made a non-refundable upfront payment to Newron and has agreed to make additional payments to Newron based on the achievement of certain development milestones and sales targets in the major pharmaceutical markets. If all such milestones and targets are met, Newron would receive, together with the upfront payment, a total of $ 200.5 million. Newron also has an option to co-promote safinamide in two major European countries which, if exercised, would entitle it to 50 % of the "distributable profits" (net sales less related costs) from sales of safinamide in the co-promotion markets and require it to bear a certain percentage of the total costs to develop safinamide in order to co-promote safinamide from the date of the collaboration and licence agreement to completion of development.
In connection with the agreed-upon development plan for safinamide, Newron is expected to: (i) complete the ongoing extension of its phase III trial of safinamide as an adjunctive treatment to dopamine agonists, (ii) complete the new ongoing phase III trial of safinamide as an adjunctive treatment to levodopa, and (iii) continue its ongoing pre-clinical development studies for safinamide. Pursuant to the agreement, Merck Serono is responsible for: (i) all of its and Newron's development costs for safinamide, (ii) the conduct of all additional clinical trials of safinamide, and (iii) the overall development programme for the compound.

On December 12th 2006, the Company listed its shares on the SWX Swiss Exchange. The process has been managed by Lehman Brothers and Morgan Stanley as joint global co-ordinators and Bank Vontobel AG and Sal. Oppenheim jr. & Cie as co-lead managers. The offering, comprising of more than 2 million new ordinary shares, consisted of a public offering in Switzerland, an offering to institutional investors outside the United States and Switzerland in reliance on "Regulation S" under the US Security Act and private placements to qualified institutional buyers in the US in reliance on "Rule 144A".
The offer price was CHF 55.00 per share and the total amount of funds raised was equal to Euro 74.3 million, gross of underwriting discounts, commissions and incentive fees. Shares were subscribed by leading institutional investors both in Europe and the US. On March 9, Newron's free float was equal to 36.9 %; the share price was CHF 55.70 and the capitalization was around Euro 201 million.

On January 9, 2006, the USPTO declared an interference between the ralfinamide U.S. patent, owned by Newron, and a second patent application owned by the Purdue Neuroscience Company (Purdue). The interference was declared to determine which of the two parties was first to invent certain commonly claimed subject matter, and should thus, under U.S. patent laws, be permitted to retain patent claims to methods of treating pain, including neuropathic pain, using a class of alpha-aminoacetamide compounds. On January 12, 2007, the USPTO decided that Purdue's application lacks an enabling disclosure of a method of treating or ameliorating pain. The USPTO held that Purdue is therefore unable to contest priority of invention, and ordered that final judgement on priority of invention be awarded against Purdue. On the same basis, the USPTO further ordered that Purdue is not entitled to any of the claims in its reissue application. Purdue may seek judicial review within two months.
In the meanwhile, Newron and Purdue have started business negotiations to achieve a worldwide commercial settlement of this situation.
These financial statements have been approved for issue by the Board of Directors on March 21, 2007.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these 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 financial statements of Newron Pharmaceuticals SpA have been prepared in accordance with International Financial Reporting Standards (IFRS). 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.

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

The directors believe, based on their best knowledge and estimates, that the cost reduction related to the license and collaboration agreement signed on September 22nd with Merck Serono International SA (from now on, Merck Serono) the related up front fees cashed and the net proceeds raised during the IPO process, should provide the Company with the necessary funds to continue the ongoing research and development activities and to support the evolution of the Company.

Therefore, based on the above, the directors considered it appropriate to prepare the financial statements on a going-concern basis.

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

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

The adoption of all of the new International Financial Reporting Standards, Amendments and Interpretations effective as of January 1, 2006 has had no impact on the Company's accounting polices.

New Standards and Interpretation that are not yet effective have not been early adopted by the Company. The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Company.

B Segment reporting

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

C Foreign currency translation

(1) Measurement currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in euros, 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 recognised in the income statement. There are no translation differences on non-monetary items.

D Property, plant and equipment

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

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

E 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.

F Research and development

Costs incurred on development projects (relating to testing of new or improved small molecule drugs) are recognised 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 recognised as an expense. Since inception, all research and development costs have been treated as expenses as commercial and technical feasibility continues to be assessed. There are no intangible assets in relation to development expenditure.

G Intangible assets

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

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

H Impairment of non-current assets

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

I Investments

The Company 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 every reporting date.

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

J Inventories

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

K Cash and cash equivalents

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

L 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.

M Borrowings

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

N Current and deferred income taxes

Deferred itax is recognised in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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

O 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.

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

Share-based compensation

The Company operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted.

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

P Revenue recognition

Revenue comprises the sale of licenses and is recognised when the Company 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 for the relevant period of collaboration.

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

Q Grants

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

3 Financial risk management

A Financial risk factors

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

Foreign exchange risk

The Company is exposed to foreign exchange risk arising from various purchase and service contracts that generate currency exposures, primarily with respect to Swiss francs and US dollars. However for the year 2006, this risk was limited due to the following factors:

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

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

Interest rate risk

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

B Fair value estimation

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

The Company has no derivative financial instruments or hedging activities.

4 Critical accounting estimates and judgements

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

Estimates and judgments 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

The Company has granted stock options to some of its employees and directors. The options granted have different vesting, maturity and exercise dates. Since there is no market for trading stock options, management must use a fair value method to value the stock options. Fair value methods require management to make several assumptions, the most significant of which are the selection of a fair value model, stock price volatility and the average life of an option. The fair value of each of the stock options is determined separately by an external appraiser using an enhanced binomial model. Estimates have been based on company 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 stock options would be traded for cash. Should different assumptions be used, the expenditure recognized could be different. Additional information is reported in the Note "O Employee benefits – Share-based compensation".

Cost accruals

The Company 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 judgment 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 of the two years ended Dec 31, 2006 and 2005, have been treated as expenses as commercial and technical feasibility continues to be assessed. There are no intangible assets in relation to development expenditure.

Deferred tax assets

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

In determining the recognition of deferred tax assets and liabilities, the Company'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 Company 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 recognised. Should different events and assumptions be used, the deferred tax assets recognised could be different.

Impairment of property, plant and equipment

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

5 Staff costs

(In thousand Euro)	As of December 31,	
	2006	2005
Wages and salaries	2,824	2,802
Pension costs – defined contribution plans	694	671
Stock options granted to directors and employees	607	629
Employee severance indemnity costs	142	133
Social security costs	75	55
Other payroll related costs	103	153
	4,445	4,443

The average number of employees in 2006 was 33 (2005: 38), of whom 2 (2005: 2) were part-time.
The stock options cost is inclusive of an amount equal to about Euro 80 thousand due to the effect of the changes described in Note 23 to the stock option plans

The cost of options related to general and administration personnel is equal to Euro 571 thousand, the remaining part is related to R&D.

6 Research and development expenses

(In thousand Euro)	As of December 31,	
	2006	2005
Services received from subcontractors	7,464	5,895
Staff costs	2,194	2,631
Consultancy fees	927	1,034
Material and consumables used	381	474
Laboratory operating leasing cost	392	384
Depreciation and amortisation expense	118	181
Other research and development costs	12	0
	11,488	**10,599**

The amounts of the costs incurred and reimbursed by Merck Serono is equal to 3.490 (see also Note 13). Since inception, no development costs have been capitalised.

7 General and administrative expenses

(In thousand Euro)	As of December 31,	
	2006	2005
Staff costs	2,251	1,812
Consultancy and other professional services expenses	2,437	948
Intellectual properties	602	278
Travelling expenses	504	479
Operating leasing cost	134	137
Depreciation and amortisation expense	127	142
Other office and administration expenses	564	748
	6,619	**4,544**

The line "Consultancy and other professional services" increased during 2006 especially because of the legal costs incurred by Newron to handle the interference dispute with Purdue (see also Note 1 "General information").

8 Financial income, net

(In thousand Euro)	As of December 31,	
	2006	2005
Interest income	318	97
Interest expense	(12)	(11)
Profit on sale of available-for-sale financial assets	0	92
Foreign exchange gains	70	5
Foreign exchange losses	(8)	(22)
Other costs, net	(17)	(4)
	351	**157**

9 Income tax expense

No tax charge has been recorded in the current or prior years as the Company incurred losses in such years.

The nil tax charge on the Company's result differs from the theoretical amount that would arise using the tax rates enacted at the year end. This is due to unrecognised deferred tax assets, primarily tax loss carry forwards (Note 18).

The Company is subject to income taxes in Italy (IRES), at an enacted tax rate of 33 % for the year ended December 31, 2006. Italian entities are also subject to a 4.25 % local income tax (IRAP tax). Net operating tax loss carry forward amounts for Italian entities may be utilized only to offset taxable income for IRES tax.

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the IRES tax rate applicable to profits of the company as follows:

(In thousand Euro)	As of December 31,	
	2006	2005
Loss before tax	(16,401)	(14,919)
Tax income calculated on IRES tax rate	(5,412)	(4,923)
Income not subject to tax	-	-
Expenses not deductable for tax purposes	(51)	(29)
Deferred tax assets/liabilities not recognised on temporary differences	(2,546)	(109)
Deferred tax assets not recognised on tax losses of the year	(2,815)	(4,785)
Tax charge	**-**	**-**

10 Property, plant and equipment

(In thousand Euro)	Leasehold improvements	Laboratory and office equipment	Total
Year ended December 31, 2005			
Opening net book amount	350	285	635
Additions	-	69	69
Depreciation charge	(89)	(174)	(263)
Closing net book amount	261	180	441
As of December 31, 2005			
Cost	498	844	1,342
Accumulated depreciation	(237)	(664)	(901)
Net book amount	261	180	441
Year ended December 31, 2006			
Additions	-	47	47
Disposals	-	(5)	(5)
Depreciation charge	(89)	(108)	(197)
Closing net book amount	172	114	286
As of December 31, 2006			
Cost	498	886	1,384
Accumulated depreciation	(326)	(767)	(1,093)
Net book amount	172	119	291

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

The Company 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's fair value less costs to sell exceeds its carrying amount, and no impairment write-down is required.

11 Intangible assets

(In thousand Euro)	Licenses and software	Brands	Total
Year ended December 31, 2005			
Opening net book amount	87	27	114
Additions	23	9	32
Amortisation charge	(44)	(17)	(61)
Closing net book amount	66	19	85
As of December 31, 2005			
Cost	202	49	251
Accumulated amortisation	(136)	(30)	(166)
Net book amount	66	19	85
Year ended December 31, 2006			
Additions	10	0	10
Amortisation charge	(32)	(17)	(49)
Closing net book amount	44	2	46
As of December 31, 2006			
Cost	212	49	261
Accumulated amortisation	(168)	(47)	(215)
Net book amount	44	2	46

12 Non-current receivables

(In thousand Euro)	As of December 31,	
	2006	2005
Deferred costs	543	0
VAT receivable	0	1,540
Guarantee deposits for leases	145	151
	688	1,691

As reported in Note 2 "P Revenue recognition", the consulting costs related to the signing of the Merck Serono agreement has been deferred over the relevant period of collaboration. The line "Deferred costs" reflects the non current portion of this deferred amount.

The Company, according to what is stated in the Merck Serono agreement, will be reimbursed on a quarterly basis all safinamide's research and development expenses incurred from the date of the agreement. The safinamide development plan allows the company to expect that, by the end of 2007, all the VAT receivable will be set off against the debt arising from the above invoices. Therefore, the company considered the receivable as "current" (Note 13).

13 Receivable and prepayment

(In thousand Euro)	As of December 31,	
	2006	2005
Receivables	3,490	0
Government grants receivable	780	1,183
Prepayments	991	792
Deferred costs	539	0
VAT receivable	2,454	516
Other receivables	768	604
	9,022	3,095

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

The line "Deferred costs" is related to the current portion of the cost described in Note 12.

Government grants receivable includes:

(In thousand Euro)	Approved amounts	Approved amounts %	Receivables
Law n° 451 of July 19, 1994			
Grants for scientific research	6,219	100	6,219
Advance payment 20 %	(1,244)	100	(1,244)
Collections as at December 2005			(4,000)
Collections received during 2006			(280)
Net receivables as per Law 451			695
Law n° 46 of February 17, 1982			
Grants for technological R&D			
Total approved loan	1,621	95	1,540
Loan received as at December 2006	Amount not included: see analysis in Note 16		
Income grant	672	95	639
Collections as at December 2005			(431)
Collections received during 2006			(173)
Net receivables as per Law 46			35
D.D. 2187 year 2003			
Grants for scientific research	200	25	50
Net receivables as per D.D. 2187			50
			780

14 Cash and cash equivalents

(In thousand Euro)	As of December 31,	
	2006	2005
Cash at bank and in hand	72,266	17,446
Short term deposits guaranteed with government bonds	2,499	0
	74,765	**17,446**

The "Cash at bank" amount includes the IPO proceeds.

15 Deferred income

Deferred income relates to the upfront payment received from Serono International SA (now Merck Serono) described in Note 1 "General information" and is divided into a non-current portion of Euro 4,327 and a current portion of Euro 4,304.

16 Borrowings

(In thousand Euro)	As of December 31,	
	2006	2005
At beginning of year	768	1,037
Increase	337	0
Total borrowings	**1,105**	**1,037**
Long term	833	1,037
Short term	272	0

In each of the periods considered, borrowings comprise a loan received from the Italian government. The total loan initially approved was Euro 1,621 thousand, however as the project was completed ahead of schedule this was reduced to Euro 1,540 thousand of which Euro 1,334 thousand has been received (of which Euro 337 thousand in 2006). The remaining loan of Euro 166 thousand is to be disbursed to the Company on receipt of final approval from the Ministry.
Interest on this loan is charged at a subsidised rate of 1.012 % per annum. The loan will be repaid in five equal annual instalments: the first instalment was paid in November 2006 (equal to Euro 269 thousand). In November 2007, the company will pay Euro 272 thousand.

17 Trade and other payables

(In thousand Euro)	As of December 31,	
	2006	2005
Trade payables	3,965	2,346
Accrued expenses	2,530	1,292
Advance payment of government grant	515	684
Pension contribution payable	336	122
Social security	113	226
Other payables	754	448
	8,213	**5,118**

"Trade payable" and "Accrued expenses" are in line with the increase in work done during the year.

18 Deferred income taxes

The Company'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,	
	2006	2005
Other	0	(16)
Total taxable differences	0	(16)
Start-up costs recognised in the income statement in prior years	1	3
Other	172	0
IPO expenses	6,099	0
Deferred income	8,632	0
Share option adjustment	1,803	1,196
Tax losses carry forwards	53,569	45,039
Total deductible differences	70,276	46,238
Net temporary differences	**70,276**	**46,222**
Deferred tax asset at standard IRES (national income tax) rate of 33 %	23,191	15,253

The above deferred tax asset has not been recognised in the Company's 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 2006
Year of expiration:	
2007	6,211
2008	6,818
2009	11,502
2010	14,500
2011	8,530
No expiry date	6,008
	53,569

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

19 Employee severance indemnity

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

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

(In thousand Euro)	December, 31 2006
Actuarial assumptions	
Discount rate	4.60 %
Inflation rate	2.00 %
Future salary increase	3.50 %
Future pension increase	3.00 %

Based on the present value of the estimated obligation, the amount recognised on the balance sheet in respect of the Company's defined benefit plan amounted to Euro 350 thousand in 2006 (2005: Euro 322 thousand) and the movements are as follows:

(In thousand Euro)	As of December 31,	
	2006	2005
Balance as at the beginning of the year	322	326
Total expense charged in the income statement	142	133
Indemnity paid during period, leavers and transfers out	(114)	(137)
Balance as at the end of the year	**350**	**322**

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

(In thousand Euro)	As of December 31,	
	2006	2005
Current service cost	162	139
Interest expense on obligation	2	15
Actuarial gains	(22)	(21)
	142	133

20 Commitments

Operating lease commitments – where the Company is the lessee

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

During the year ended December 31, 2006 Euro 524 thousand was recognized as an expense in the income statement in respect of operating leases (2005: Euro 521 thousand).

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

(In thousand Euro)	As of December 31,	
	2006	2005
No later than 1 year	583	573
Later than 1 year and no later than 5 years	596	1,113
	1,179	1,686

21 Share capital

As of December 31, 2005 the Company had 1,794,010 ordinary shares, 2,550,990 preferred A shares and 3,000,000 preferred B shares.

Following a resolution passed at an extraordinary general meeting on November 7, 2006: (i) all the preferred A and B shares were converted into ordinary shares of the Company (ii) the nominal value of each share was redefined to Euro 0.20 per share, thus consolidating two old shares of nominal value Euro 0.10 into one share of nominal value Euro 0.20. The effect of this was to decrease the number of issued shares from 7,345,000 to 3,672,500.

On November 7, 2006 the shareholders' meeting resolved also to list the shares on the SWX Swiss Exchange, and to increase the Company's share capital by payment of up to Euro 500,000 by issuing up to 2,500,000 shares in this Offering. On December 7th 2006 the Company decided to offer 2,147,606 shares in the offering, corresponding to a share capital equal to Euro 429,521.20 at a price of CHF 55.00 (rounded to Euro 34.576): those shares were fully subscribed on December 12, 2006.

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

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

In Euro	Total
As of December 31, 2004	434,500.00
- issue of preferred B shares	300,000.00
As of December 31, 2005	734,500.00
- issue of ordinary shares (subscribed)	429,521.20
As of December 31, 2006	1,164,021.20

22 Share premium

(In thousand Euro)	As of December 31,	
	2006	2005
At the beginning of the year	30,565	12,814
Loss allocation	(14,620)	(11,649)
Issue of shares	73,827	29,700
Share capital issue costs	(7,624)	(300)
At year end	82,148	30,565

The funds raised during the offering of new shares were equal to Euro 74,256 thousand of which Euro 73,827 thousand are share premium (rounded at Euro 34.376 per share) and the remaining amount is share capital. Share capital issue cost includes: underwriting discounts, commission, incentive fees and other estimated offering-related expenses. The net proceeds raised were about Euro 66,632 thousand.

23 Stock options

To incentivise the efforts of employees, directors and certain consultants directed at the growth of the company in the medium term, the shareholders resolved to empower the board of directors to execute one or more capital increases for a maximum, after the share consolidation

described in Note 21, of 273,870 ordinary shares with a nominal value of Euro 0.20 each at a subscription price to be determined by the Board. The options may be awarded free of charge. The method of settlement is in shares, and the Company has no legal or constructive obligation to repurchase or settle the options in cash. As part of the IPO process, the Company decided to modify the employee stock option plan established on July 22, 2003 as follows: (i) allowing vesting of all unvested options from the 2003 plan on the day preceding the IPO (December 11th, 2006) and (ii) introduction of a lock-up period of one year during which options cannot be exercised. The effects of the above modification has been considered in the computation of the employees' service costs of the period. The related increase for the period ending on December 31, 2006 is equal to Euro 38 thousand, while the 2007 effect will be equal to Euro 9 thousand. Additional information regarding the evaluation model is reported in Note 2 "Employees' benefits" and Note 4 "Critical accounting estimates and judgements".
No new share options schemes have been issued during the year. As of December 31, 2006, 234,665 options had been awarded at an average price of Euro 19.90 each.

The expense for the value of employees' services exchanged for the stock options in 2006 amounted to Euro 607 thousand (2005: Euro 629 thousand). No stock options were exercised during the period.

24 Cash used in operations

(In thousand Euro)	Note	December 31,	
		2006	2005
Net loss		(16,401)	(14,919)
Adjustments for:			
Depreciation and amortisation		245	324
Profit on sale of investments		0	(92)
Interest income	8	(318)	(97)
Grants	23	(219)	(154)
Stock option expenses		607	629
Employee severance indemnity expenses	19	142	133
Changes in working capital:			
Inventories		(606)	(359)
Current receivables and prepayments and deferred cost (excluding grants receivables)		(6,171)	(481)
Trade and other payables and deferred income (excluding advances of grants)		11,740	421
Cash used in operations		**(10,981)**	**(14,595)**

Non cash transactions

The principal non-cash transactions relate to: (i) grants income which has not yet been received and (ii) interest income earned on the funds received at IPO.

25 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 unless otherwise stated)	For the year ended December 31,	
	2006	2005
Net loss attributable to shareholders	(16,401)	(14,919)
Weighted average number of shares (thousands)	3,796	2,821
Loss per share – basic (in Euro)	(4.32)	(5.29)

The only category of potential ordinary shares are the stock 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.

26 Related party transactions

i) Related entity

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

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

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

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

As of December 31, 2006 the Consortium had net assets of Euro 130 thousand (2005: Euro 90 thousand) and a net profit of Euro 15 thousand (2005: net profit of Euro 3 thousand). During the year a new shareholder joined the Consortium who increased the share capital by about Euro 25 thousand.

ii) Purchases from related parties

Not applicable.

iii) Key management personnel

The total remuneration of key management personnel is as follows:

(In thousand Euro)	As of December 31,	
	2006	2005
Salaries	1,383	1,106
Social security contributions	350	266
Bonuses	420	145
Stock option compensation	114	95
Employee severance indemnity	57	357
	2,324	1,969

Auditors' Report

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
NEWRON PHARMACEUTICALS SPA

1 We have audited the financial statements of Newron Pharmaceuticals SpA, consisting of the balance sheet, income statement, cash flows statement, statement of changes in shareholders' equity and related explanatory notes as of and for the year ended 31 December 2006. These financial statements are the responsibility of Newron Pharmaceuticals SpA's management. Our responsibility is to express an opinion on these financial statements based on our audit.

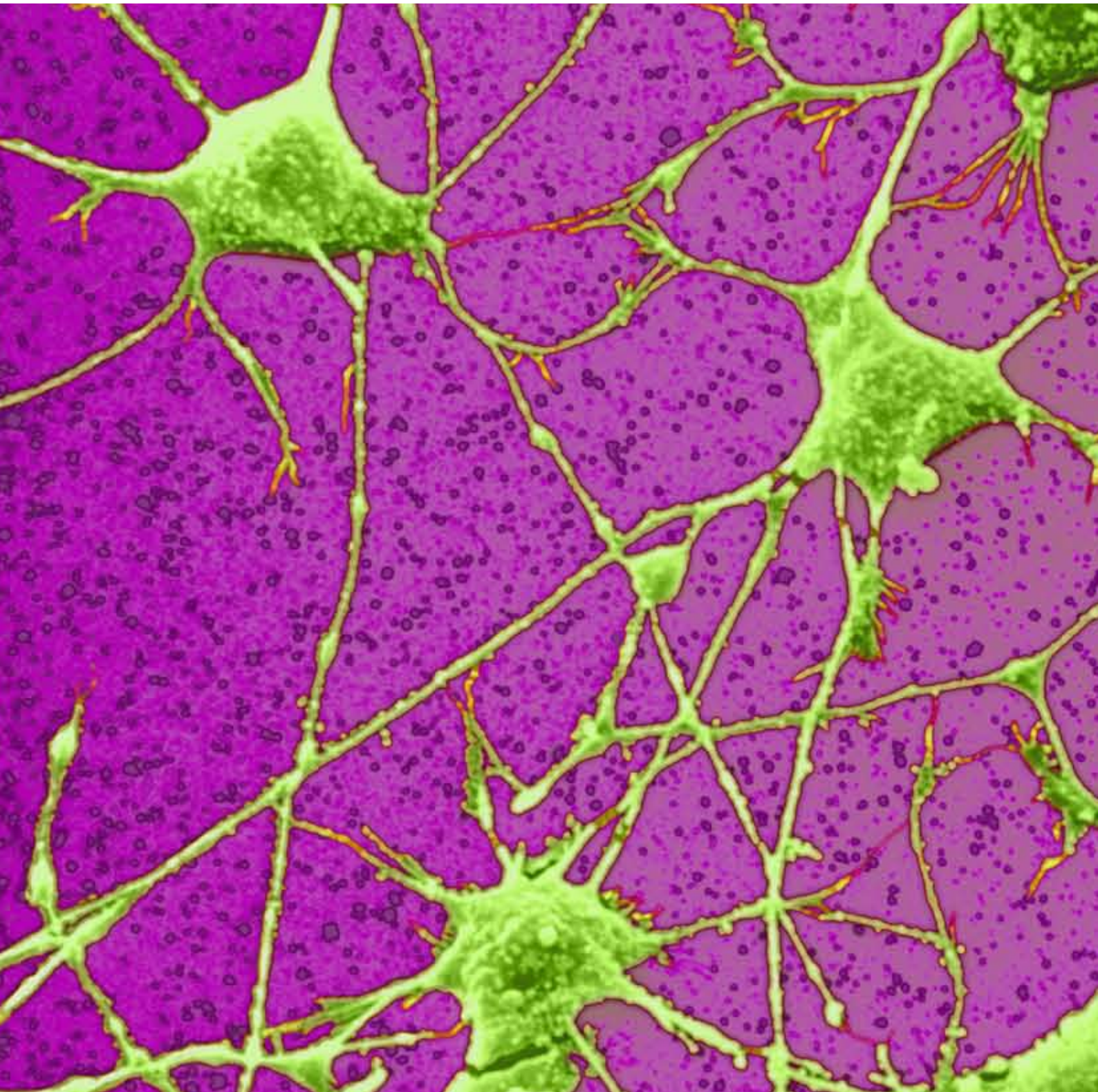
2 We conducted our audit in accordance with International Standards on Auditing. Those standards and criteria require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3 In our opinion, the accompanying financial statements give a true and fair view of the financial position of Newron Pharmaceuticals SpA as of 31 December 2006, and of the results of its operations and cash flows for the year then ended in accordance with the International Financial Reporting Standards.

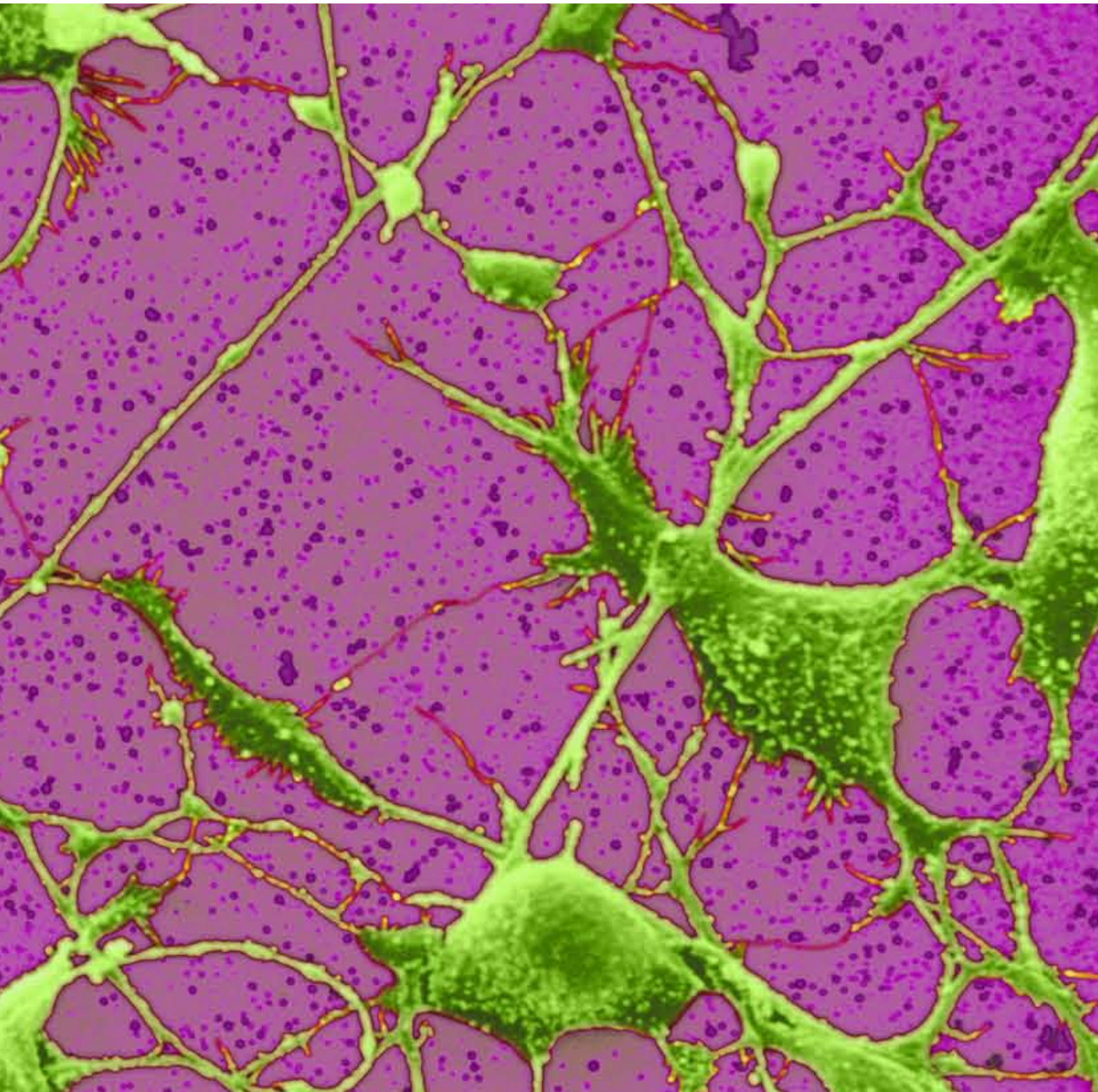
Milan, 21 March 2007

PricewaterhouseCoopers SpA

Gerolamo Negroni
(Partner)



Italian GAAP
Financial Statements



Directors' Report

Dear shareholders,

The financial statements for the year ended December 31, 2006, which we submit for your approval, comprising the balance sheet, the income statement and the notes to the financial statements, have been prepared in compliance with the applicable provisions of the Italian Civil Code.

The financial year closed with a net loss of Euro 23,433,145.

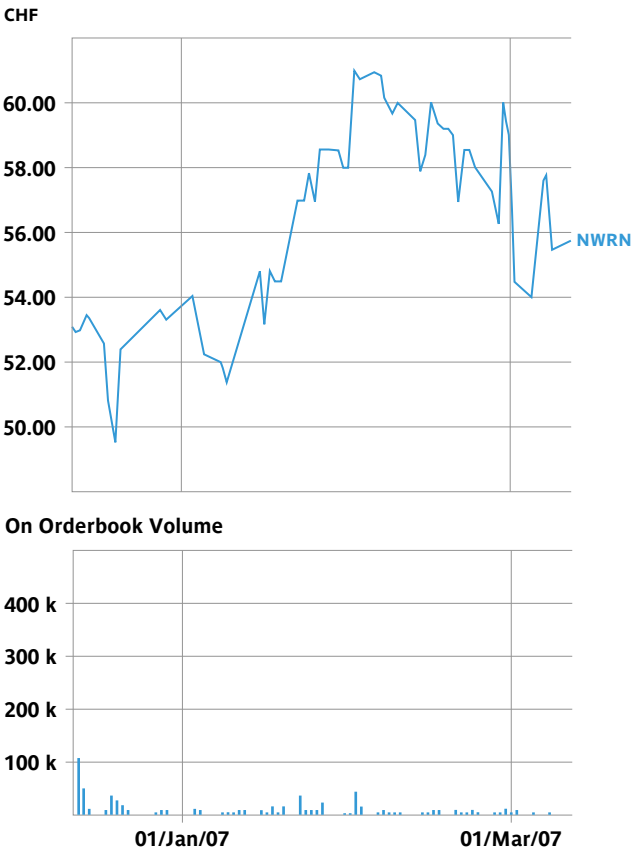
Newron Pharmaceuticals S.p.A. ("the company" or "Newron") is a pharmaceutical company whose business purpose is applied research in the field of neurosciences. Its mission is to develop, at the pre-clinical and clinical stage, original and innovative drugs for the treatment of central nervous system (CNS) disorders. Following the spin-off from Pharmacia & Upjohn in the course of 1999, Newron acquired industrial property rights to safinamide – today Newron's lead compound – and a series of other molecules (among which the company identified and developed ralfinamide) with preliminary and interesting activities in animal models for neurological disorders.

The work conducted by the company in the past few years has permitted to expand the existing pipeline in terms of number of compounds for different therapeutic indications and development phases. The company's pipeline currently comprises safinamide, undergoing Phase III trials for the treatment of PD and Phase II for the treatment of RLS and AD; ralfinamide, a drug undergoing Phase II trials that so far is well tolerated by patients and with preliminary evidence of efficacy in treating neuropathic pain; and, finally, new molecules identified in our laboratories with interesting pre-clinical data for the treatment of CNS related diseases and pain.

General information

On December 12, 2006, Newron Pharmaceuticals S.p.A. was floated on the SWX Swiss Exchange. The flotation process was managed by a syndicate comprising Morgan Stanley, Lehman Brothers, Bank Vontobel and Sal. Oppenheim. The flotation involved more than 2 million newly issued shares (capital increase through the issue of shares at a premium) offered both in the Swiss market and to institutional investors worldwide in accordance with the provisions of the U.S. Securities Act. In the course of the book-building, the offering was more than twice oversubscribed. Following the share placement at a price of CHF 55 per share, the company collected about Euro 74.3 million, before paying commissions to the placement syndicate and fees to the other consultancies involved. The shares were placed with prestigious institutional investors reasonably divided between Europe (mainly Switzerland, the United Kingdom and Germany) and the United States. As of March 9, 2007, free float amounted to 36.9 %. The opening quotation was CHF 55.70, therefore the company's capitalisation was about Euro 201 million.

The following chart shows the trend of the share (value and trading volume) from the flotation to March 9, 2007:



Source: http://swx.com

On September 22, 2006 the company entered into an agreement with Serono International SA (currently Merck Serono International SA), granting it exclusive, worldwide rights to develop, manufacture and sell pharmaceuticals based on the compound safinamide. Merck Serono International SA ("Merck Serono") will bear all future development, manufacturing and selling expenses – including those incurred by Newron since the date of the agreement and those which the company will incur in the future by mutual consent and on behalf of the counterparty – made a non-refundable up-front payment to the company (on October 6, 2006) of USD 12.5 million and will make subsequent payments to Newron, on the achievement of pre-defined development and selling milestones, up to a possible maximum amount of USD 200.5 million (including the up-front payment). Moreover, Newron will be entitled to royalties on the revenues made by Merck Serono in all markets. The agreement also gives Newron the option, under certain conditions, to decide whether to co-promote the product in two important European markets: in that case the revenues relating to those markets will be split 50 % – 50 % between the parties. The development costs incurred by the company will be recharged on a quarterly basis.

By the license to Merck Serono of the rights to use safinamide, we have met two important objectives: (a) validation by the market of our leading-edge project, and (b) a dramatic reduction of development costs that enables Newron to focus its resources on ralfinamide, the new products/molecules originating from its basic research activities or possible in-licensing agreements.

Grant as per Law No. 451/94

In February 1999 the company submitted to the Ministry of Education, University and Research (MIUR) a project containing an application for a grant pursuant to the above law. The related agreement awarded Newron a grant covering both "research" expenses, for a total of Euro 5,546 thousand (equal to 75 % of the maximum admissible cost) and "training" expenses, equal to 100 % of costs incurred. The project was completed on June 19, 2004. The costs incurred by the company are substantially in line with the amounts sought when the project was approved and were verified by inspectors sent by the MUIR in December 2005. In November

2006 we received a further disbursement of Euro 280 thousand, therefore we expect no substantial limitation to the refund of the balance outstanding.

Grant as per Law No. 46/82

By a decree dated November 18, 2002, the Ministry of Production Activities (MAP) approved the application for a facilitated loan submitted by the company in November 2001. The project relates to the "Clinical development of a new treatment for Parkinson's disease". The project has been completed: the bank acting as an intermediary between the company and the Ministry inspected the supporting evidence on the company's premises and, in June 2006, paid Euro 510 thousand (whereof Euro 337 thousand as a loan and the remainder as a forgivable loan). The receivable currently booked is equal to Euro 201 thousand and will be collected in its entirety only after the so-called "final test" to be conducted by the Ministry.

EU financing

On September 16, 2004, the European Union approved a research project called "A sequential high throughput ion channel screening system for drug discovery in neurological and psychiatric disorders" submitted by a consortium of companies and public entities resident in the European Union, led by Newron. The term of the agreement is 24 months. During that period the EU will give the consortium a maximum forgivable loan of Euro 1,275 thousand. In October 2004, the EU made a payment on account to Newron of Euro 812 thousand which the company, in accordance with the terms of the consortium agreement, redistributed to the other members in proportion to their stake in the consortium.
The project was completed in November 2006 and in the first half of January 2007 the company submitted to the European Union the second and last financial report: the expenses incurred and amount receivable are summarised as follows:

(Thousands of Euro)

Cost incurred			Amount claimed
Management	**Research**	**Total**	**Total**
64	466	530	298

Loan as per Directorial Decree No. 2187 of 2003 – Fund for Investment in Basic Research (FIRB)

On September 30, 2005, the MIUR approved a research project called "Neurosciences: from molecules to pathology" submitted by a consortium of companies including Newron. The duration of the project, whose official start date was November 1, 2005, is 36 months. The overall cost approved by the MIUR is Euro 2,733 thousand, Euro 286 thousand of which is a receivable for the company: the grants given by the FIRB are equal to 70 % of the costs incurred. To date the company has recorded costs of about Euro 71 thousand, and revenues of Euro 50 thousand.

Research

General information

Focus

Newron's drug discovery programmes are focused on the ion channel target class. The main objective of these programmes is to provide leads and product candidates to fuel the Company's pipeline.

The ion channel as a therapeutic target

Ion channels are integral membrane proteins that enable the passage of selected inorganic ions across cell membranes, and play a key role in electrical signalling, governing a number of physiological processes. An ion channel may be activated by either modifying the electrical potential difference on the two sides of the membrane (Voltage-gated channels), or by the interaction of an agonist with its receptor (Ligand-gated channels). Moreover, certain ion channels are not opened by changes in voltage or chemical messengers but by mechanical stress or pressure (somato-sensitive receptors).
In particular, the voltage gated ion channels form a protein superfamily of more than 140 members. It is one of the largest groups of signal transduction proteins, and many family members are the molecular targets for toxins and therapeutic agents.
Our programmes are in particular devoted to the search of selective modulators of voltage gated calcium and sodium channels.

The concept that malfunctioning of ion channels has important implications in the pathophysiology of many

central nervous system (CNS) disorders is now well established in the scientific community.
Further proof of the importance of these channels is that several CNS disorders (for instance epilepsy and migraine) have been linked to gene mutations in specific ion channels.
More recently, a strong scientific rationale created by a broad literature of molecular biology, electrophysiology and pharmacology data, has supported the role of the molecular targets selected by Newron, i.e. sodium and calcium channels, and their subtypes, in numerous CNS disorders.

Voltage-gated sodium channels (VGSCs) play a key role in generating and propagating action potentials in neurons and other cells. Compounds blocking VGSCs have long found empirical use in pharmacology as local anaesthetics, anti-arrhythmic, analgesic and antiepileptic drugs. However, the recent discovery of a multi-gene family of sodium channels, together with the identification of specific tools for studying those subtypes, has opened the way to research on the role in pathophysiology of specific VGSCs subtypes.
Obtaining selective inhibitors will possibly provide compounds that are more effective in specific disorders and have fewer side effects.
So far 10 different genes have been identified that encode for the alfa subunit of the sodium channel, giving rise to as many subtypes variously expressed at both central and peripheral nervous system level. Subtypes Nav1.1, Nav1.2, Nav1.3, Nav1.5 and Nav1.6 are abundantly expressed in the CNS, whereas subtypes Nav1.7, Nav1.8 and Nav1.9 are preferably expressed in the peripheral nervous system (PNS). Moreover, they are divided into two groups based on their different sensitivity to tetrodotoxin (TTX): TTX resistant (Nav1.8, Nav1.9 and Nav1.5) and TTX sensitive (Nav1.1, Nav1.2, Nav1.3, Nav1.6 and Nav1.7).

As to calcium channels, ten separate subunits α 1 have been identified, cloned and expressed so far, identifying 10 separate subtypes of calcium channel. In electrophysiology terms, six calcium currents (L,N,P,Q, R,T) have been identified.
Type N channels, corresponding to the sub-type Cav 2.2, have been implicated not only in pain but also in neurodegenerative disorders (such as epilepsy, stroke, Alzheimer's disease, amyotrophic lateral sclerosis). These channels are found exclusively in neurons, where they act as regulators of pre-synaptic release of neurotransmitters in the CNS and PNS. This peculiar mechanism suggests that those channels play a role in many nervous disorders, in particular in those caused by excitotoxic damage.
The reference compound for Cav 2.2 channel blockers is Ziconotide (SNX-111), a conopeptide obtained from a Conus family shell that has recently been approved by the FDA as treatment of serious neuropathic pain. This compound, while being proof that the mechanism blocking Cav 2.2 channels has promising therapeutic indications, has strong limitations due to its peptidergic nature, and the fact that it must be administered by intrathecal delivery.
This means the medical class has a strong need for other compounds which have this mechanism of action but a better side effect profile, and justifies the research effort Newron intends to pursue in this area.

Specialized Technologies in Ion Channel Drug Discovery

The electrophysiological patch clamp technique is the most direct method to show effects of drugs on ion channels in the cell membrane, and as such it remains essential as a secondary screen to the fluorescence assay. Furthermore, screening by patch clamp may be the first choice for ion channel targets, as it is the only useful technique for use-dependent drug-channel interactions. Currently Newron has a specialized Laboratory for Electrophysiological Evaluations, including a TEVC platform for High Throughput Screening and patch clamp instruments.

Drug Discovery Programmes in 2006

Electrophysiological screening was conducted in 2006 for the selection of new ion channel blockers with state and frequency dependant characteristics, as these characteristics suggest the compounds have an improved safety and tolerability profile. In particular we selected voltage and use –dependent blockers of the sodium channels.
Selected Lead molecules have been tested in several CNS disease animal models, demonstrating potential in epilepsy and pain, with a good safety profile.

Therapeutic premises on the validity of Newron products

Safinamide

Safinamide in Parkinson's disease

PD is a degenerative disorder of the CNS, second only to AD in terms of epidemiologic importance. A recent epidemiologic article published in the prestigious journal Neurology has estimated that in 2005 the number of individuals suffering from Parkinson's disease worldwide was about 4.1–4.5 million and this number will double in the next 20–25 years, bringing the number of patients suffering from this disorder to about 9 million in 2030.

Since the late 1960's levodopa (L-dopa), a precursor of dopamine, the neurotransmitter that is found reduced in PD as a result of the early death of a group of neurons situated deep inside the brain, has been the most widely used treatment for PD. However, after a few years' treatment, the effect of L-dopa wears off and serious motor complications arise that are characterised by a reduced ability to move alternating with a mobility associated with involuntary movements, together defined as "late motor fluctuations". A therapeutic strategy that has proved effective is to inhibit the enzymes that break down dopamine in the brain (known by the acronyms MAO-B and COMT), which makes it possible to reduce the dosage of L-dopa administered to the patient thus causing fewer side effects. Another promising therapeutic strategy is to inhibit the excitatory transmission between neurons that occurs through the release of glutamate, an amino acid involved in the processes of exitotoxicity and neurodegeneration that is suspected of accelerating cell death also in PD. Therefore, in spite of the primary role of L-dopa in alleviating Parkinson's symptoms, the onset of late motor fluctuations makes it necessary to adopt a different course of treatment. Among the most common methods recommended by experts in the field are the delayed introduction of L-dopa and its maintenance at a minimum dosage when necessary. The use of L-dopa may be delayed thanks to the so-called dopamine agonists, which directly stimulate the receptor for dopamine involved in the motor function, and whose kinetics (the distribution and permanence of the drug in the body) is mostly more favourable than L-dopa's. The data collected so far from clinical trials of safinamide, used both at an early stage of the disease in addition to dopamine agonists, and at more advanced stages in addition to L-dopa, indicate that safinamide might help limiting the problem connected with long term use of L-dopa. Safinamide has multiple mechanisms of action, inhibiting the MAO-B enzyme, dopamine re-uptake and the release of glutamate, and could therefore prove an effective approach to the treatment of PD, improving patients' motor functions and slowing down the course of the disease.

Safinamide in the treatment of "restless leg syndrome" (RLS)

Safinamide has also proven it can be effective in RLS. This recently identified condition, which based on US statistics affects over 5 % of persons aged over 50, is characterised by involuntary leg movements during sleep, associated with an uncomfortable feeling and disruption of sleep architecture. In the morning patients are tired, have not rested and complain of somnolence during the day. In the pilot study conducted, safinamide alleviated RLS symptoms without disrupting sleep patterns as do the other drugs currently in use.

Safinamide in the treatment of cognitive disorders

Promising effects in improving the cognitive function have been observed in the first phase III clinical trial in a sub-group of patients treated with safinamide in addition to a dopamine agonist when compared with patients treated with the dopamine agonist alone. These results, together with the neuroprotective effect observed in animal models of neurodegeneration, suggest that safinamide may be useful in improving cognitive functions in patients suffering from PD and other CNS disorders where those functions have deteriorated, for instance AD, vascular dementia, dementia with Lewy bodies, multiple sclerosis, Huntington's disease/chorea, mild cognitive impairment. Among these disorders, AD appears to be the most widely spread. According to an article published in the Archives of Neurology in 2003, about 4.5 million Americans suffer from AD. Ageing is the main risk factor: according to an article published in the JAMA in 1989, 10 % persons over 65 years of age and almost 80 % of those over 85 years of age suffer from it.

Ralfinamide

Neuropathic pain, i.e. pain caused by direct damage to the nerves, represents a series of conditions that, besides having a significant adverse impact on the quality of life of millions of people, is a serious therapeutic problem because nerve pain responds to conventional pain therapy only to an insufficient and partial degree. Therefore, neuropathic pain is an important "unmet clinical and therapeutic need", for a market that industry experts estimated to be worth close to 5 billion dollars in 2006 and that is expected to reach nearly 7.5 billion dollars in the next ten years.

Research conducted by Newron in animal models of neuropathic pain has proved the excellent activity of a new molecule that blocks the sodium and calcium channels of nerve cells, with good selectivity for subtypes of channels that are believed to be involved in the genesis and continuation of neuropathic pain. Animal studies have demonstrated excellent tolerability, without significant side effects up to doses that based on our calculations should be much higher than the therapeutic dosage. A pilot study in patients affected by various types of mostly peripheral neuropathic pain has proved that ralfinamide is well tolerated at doses capable of producing significant pain relief. These data need to be confirmed in controlled trials, i.e. trials where the beneficial effect produced by the drug is compared with that of a placebo.

Work conducted

Safinamide

Pre-clinical development

Pre-clinical development of safinamide has continued according to plan.

Carcinogenicity studies in two rodent species (rats and mice) and with duration of exposure to the drug equal to 2 years, started in late 2005, are under way and continue according to plan and to the trial protocols discussed and approved by the competent regulatory committees.

Chemical pharmaceutical development allowed the identification of the pharmaceutical form most suitable to continue with clinical trials for registration purposes. The new registration trials, which were planned in the course of 2006, will use the form of tablets. The change to this pharmaceutical form has been submitted to the competent regulatory authorities and authorisation to proceed has been obtained. The pre-clinical development plan has been submitted to the main regulatory authorities in Europe and in Canada, to the European agency (EMEA) and the US Food and Drug Administration (FDA). Based on all toxicology studies conducted and completed so far, the various regulatory authorities consulted have agreed that the results obtained allow clinical development of the drug to continue. The FDA required additional toxicology studies aimed at assessing which organs may potentially be toxicity targets at higher dosages than those used so far in the chronic toxicology studies whose results are already available. Those studies are in progress. Some of the remaining toxicology studies required by the FDA are being defined and will be conducted under the responsibility of Merck Serono. Newron outsourced the above-mentioned activities to specialist entities. Newron staff planned and coordinated the activities and conducted the analysis of the resulting data.

Clinical development

The main clinical and regulatory activities performed in the course of 2006 are summarised below:

1) In 2006 the plan for the clinical development and registration of safinamide as a treatment for PD in addition to a treatment with stable doses of a dopamine agonist, in patients at an early stage of the disease, and in addition to stable doses of L-dopa, at more advanced stages of the disease, previously submitted to the main regulatory authorities in Europe, Canada and the USA, was submitted to and assessed by the European drug-approval Agency (EMEA). All the regulatory agencies we consulted expressed a favourable opinion on the plan submitted.

2) The first phase III clinical trial in PD with safinamide as an additional therapy to a stable dose of a dopamine agonist completed the first treatment stage of 6 months and its results were analysed, while the second stage extending the trial for another 12 months is still in progress and is expected to be completed in early 2007, with analysis of the results planned for the first half of 2007.

The results of this double blind, placebo controlled, 24-week trial (protocol NW-1015/015/II/2003) on 270 patients randomly selected for treatment with two dose ranges of safinamide (50–100 mg and 150–200 mg) or placebo, indicate that the addition of safinamide

to the dopamine agonist is associated with a significant improvement in the various efficacy parameters being assessed.
In particular, at the end of the trial, patients that were administered safinamide at a dosage of 50–100 mg/die in addition to the DA agonist showed a significant improvement of motor symptoms, assessed using the Unified Parkinson's Disease Rating Scale ("UPDRS") Part III, compared with patients receiving the DA agonist plus a placebo ($p<0.04$).
Additional benefits were also observed in terms of improvement in ADL ("activities of daily living"), assessed using the UPDRS Part II and in the average change from the base CGI ("investigator's global assessment of the patient").
The improvements observed with the addition of safinamide to the DA agonist are also supported by data about the patients' quality of life, measured using the EuroQOL scale. The addition of 150–200 mg/die of safinamide in addition to the DA agonist does not show any additional benefit in clinical parameters compared with the dosage of 50–100 mg/die.
Safinamide has shown promising effects in improving the cognitive function, measured in a subgroup of patients using a specific psycometric battery and validated for patients suffering from Parkinson's disease (CogTest PD), with improvements in executive function, operating spatial memory and reaction and attention spans.
Safinamide at a dosage of 50–100 mg/die was well tolerated and there were no differences with the placebo in the onset of adverse events, early interruption of the trial, vital signs and ECG. In spite of no dietary restrictions to the intake of tyramine, no significant pressure changes were observed, which confirms that safinamide can continue being administered regardless of the patient's diet.

3) Based on the results of the preceding trial (point 2) we finalised the protocol for the second phase III clinical trial of safinamide as an additional treatment to L-dopa in patients suffering from PD at a more advanced stage. This is an experimental design, double blind, placebo controlled, 18-month trial with three treatment groups (receiving two different doses of safinamide, 50 and 100 mg/die respectively, and a placebo) in addition to a stable dose of L-dopa in a population of at least 600 patients. The trial, divided into two clinical stages, will make it possible to confirm the results of the phase II pilot trial, yet for the medium (6 months) and long term (18 months) versus L-dopa administered alone. The trial protocol was discussed and agreed with international experts and assessed and approved by the main regulators (FDA, EMEA).
In the course of 2006 the trial protocol was submitted to the regulatory authorities of the countries taking part in the trial (India, Italy and Romania) and to the respective ethics committees of about 50 neurology centres with specific experience in the treatment of patients suffering from Parkison's. The trial has already obtained regulatory approvals in the respective countries. For certain clinical centres, also the ethics committee's approval has been obtained or is being assessed. Opening of the trial centres is expected in the first quarter of 2007, patient enrolment, for the centres already approved, in the early months of 2007.

4) Together with our partner Merck Serono we have set up a Joint Steering Committee with members representing both Newron and Merck Serono, to oversee all development and commercialization of safinamide.

Ralfinamide

Pre-clinical development

The remaining toxicity and metabolism studies have been planned to complete the pre-clinical development plan required to prepare the file for registration of the pharmaceutical product. Performance of those studies will be assessed in the course of 2007. All these activities are necessary to support clinical trials and to obtain an in-depth understanding of the compound's properties.
At the same time, chemical-pharmaceutical development has been planned in order to define and optimise the synthesis process and the development of new tablets of more appropriate dosage, for use in clinical trials. All pre-clinical development activities were outsourced to specialist entities, while Newron staff were responsible for planning and co-ordination.

Clinical development

A phase II clinical trial aimed at determining the clinical efficacy and tolerability of ralfinamide is in progress with patients suffering from mixed forms of peripheral neuropathic pain. This is a double blind, placebo controlled, 8-week trial using increasing doses of ralfinamide versus a placebo.

The trial involves centres of excellence in the diagnosis and treatment of neuropathic pain located in various European countries. The trial was originally expected to be completed in late 2006, but due to growing difficulties encountered by the European centres in effective screening of patients to be included in the trial, it became necessary to involve a higher number of centres to ensure completion of the trial, which inevitably postponed the timetable for completion.

We identified clinical centres of excellence with experience in the treatment of patients suffering from neuropathic pain and serving a high number of patients, located in India.

All the necessary regulatory procedures have been put in place to obtain approval from the central regulatory authority of India and from the ethics committees of the clinical centres involved.

The approvals were obtained in late 2006 and the work has started in India in January 2007. With the substantial contribution of the Indian centres, completion of the trial is expected in the first quarter of 2007 and the results of the analysis within the second quarter of 2007.

Performance

Summary income statement

(Amounts in thousands of Euro)

	December 31		Change	Change %
	2006	**2005**		
Revenue from sales and services	4,681	0	4,681	-
Other income	222	160	62	39 %
Revenues	4,903	160	4,743	2964 %
Cost of purchases (R&D)	416	474	58	-12 %
Cost of services	24,049	9,937	(14,112)	142 %
- R&D	*11,802*	*7,045*	*(4,757)*	*68 %*
- other	*12,248*	*2,892*	*(9,356)*	*324 %*
Personnel costs	3,341	3,553	212	-6 %
- R&D	*2,052*	*2,498*	*446*	*-18 %*
- other	*1,289*	*1,055*	*(234)*	*22 %*
Other costs	649	658	9	-1 %
- R&D	*392*	*384*	*(8)*	*2 %*
- other	*257*	*274*	*17*	*-6 %*
Operating charges	28,455	14,622	(13,833)	-95 %
EBITDA	(23,552)	(14,462)	9,090	-63 %
Amortization/Depreciation	248	325	77	-24 %
- R&D	*118*	*181*	*63*	*35 %*
- other	*130*	*144*	*14*	*10 %*
EBIT	(23,800)	(14,787)	9,013	-61 %
Net financial income	368	176	192	109 %
Extraordinary charges	0	(9)	9	100 %
EBT	(23,433)	(14,620)	8,813	60 %
Income tax	0	0	0	-
Loss for the period	(23,433)	(14,620)	8,813	60 %

Sales revenues originate from the agreement, effective September 22, 2006, between Newron and Merck Serono International SA. The amount includes two distinct elements: (i) the portion attributable to the period of the licence right collected in 2006, and (ii) the recharge to Merck Serono of all research expenses incurred by the company on the safinamide project from September 22, 2006 (the effective date of the agreement) to December 31, 2006.

The company's operating charges, equal to Euro 28,703 thousand, may be analysed as follows:

- Research and development expenses (R&D): equal to Euro 14,780 thousand and related to the categories Cost of purchases, Cost of services, Personnel costs, Other costs and Amortisation/Depreciation;
- General and administrative expenses: equal to Euro 13,923 thousand and relating to all the ordinary operating charges not included in the above item, as well as the costs incurred in the course of 2006 to float Newron's shares on the SWX Swiss Exchange.

Compared with 2005, R&D expenses increased by Euro 4,198 thousand mainly as a result of: (i) a new phase III trial of safinamide started in the second half of 2006, which increased cost of services and consulting, and (ii) an increase in costs related to the phase II trial of ralfinamide.

The increase of General and administrative expenses, from Euro 4,365 to 13,923 thousand, is almost entirely attributable to the cost of the flotation (commission paid to the joint global co-ordinators and other consultants) and legal expenses incurred in 2006 to solve the interference case opened by the USPTO on the use patent for ralfinamide that is discussed at length in the paragraph "Significant events occurring after the balance sheet date" to which reference is made.

Net financial income (in this item are classified both financial income and charges and exchange gains and losses) increased in comparison with 2005. The increase is attributable to additional cash becoming available from the flotation and to significant exchange gains, mainly related to the depreciation of the US dollar.

Cash flow statement

(Amounts in thousands of Euro)	December 31		Change	Change %
	2006	2005		
Loss for the period	(23,433)	(14,620)	(8,813)	60 %
Deferred charges and income	7,550	0	7,550	-
Other, non-monetary costs and income	169	334	(165)	-49 %
Cash flow before changes in working capital (A)	(15,714)	(14,286)	(1,428)	10 %
Inventories	(606)	(359)	(246)	69 %
Trade debtors	(3,490)	0	(3,490)	-
Net grants receivable	629	948	(320)	-34 %
Trade creditors	2,857	325	2,532	779 %
Other debtors/creditors	(292)	(1,074)	782	-73 %
Cash generated from/(used in) ordinary working capital movements (B)	(902)	(160)	(742)	463 %
Investment in intangible assets	(10)	(32)	21	-66 %
Investment in tangible assets	(47)	(69)	22	-32 %
Investment in financial assets	5	5	0	0 %
Cash generated from/(used in) investing activities (D)	(52)	(96)	43	-45 %
Other financing creditors (short and long-term)	(269)	0	(269)	-
Cash generated from/(used in) financing activities (D)	(269)	0	(269)	-
Share capital increase (including share premium)	74,256	30,000	44,256	148 %
Cash generated from/(used in) financing activities (E)	74,256	30,000	44,256	148 %
Net cash flow for the period (F) = A + B + C + D + E	57,319	15,458	41,860	271 %
Cash and cash equivalents at the beginning of the period (G)	17,446	1,988	15,460	778 %
Cash and cash equivalents at the end of the period (H) = F + G	74,765	17,446	57,320	329 %

The item "Deferred charges and income" relates to the agreement with Merck Serono. As better explained in the Notes to the financial statements, only a portion of the up-front payment received when the agreement was signed relates to the financial year ended December 31, 2006: the remainder must be deferred over the estimated period between the effective date of the contract and the date when it is expected that Merck Serono will make the next milestone payment (January 2009). Also the costs directly attributable to the drafting and execution of the agreement are to be deferred and amortised over the same period.

The item "Trade debtors" is directly related to the agreement between the company and Merck Serono: this is the account receivable as of December 31, 2006 originating from the recharge to the counter party of the costs incurred by Newron to develop safinamide. The terms of the agreement provide, among other things, that Merck Serono shall: (i) refund the costs incurred by the company on a quarterly basis, and (ii) gradually take on all development activities. In contrast to what was agreed, the activities delegated by Merck Serono to Newron have been growing and could grow significantly in the short term. Therefore, we are currently considering possible solutions enabling the company to fund development of safinamide without incurring the related financing costs.

Summary balance sheet

(Thousands of Euro)	December 31		Change	Change %
	2006	2005		
Fixed capital	484	680	(196)	-29 %
Staff leaving indemnity (TFR)	(406)	(366)	(40)	11 %
Net deferred income	(7,550)	-	(7,550)	
Inventories	1,345	739	606	82 %
Net working capital	253	(479)	732	-153 %
Total Capital employed – allocations of funds	(5,874)	574	(6,448)	-1123 %
Net financial position	(73,676)	(16,406)	(57,270)	349 %
Shareholders' equity	67,802	16,980	50,822	299 %
Total borrowings and own funds – sources of funds	(5,874)	574	(6,448)	-1123 %

"Fixed capital", comprising intangible, tangible and financial assets, decreased due to the combined effect of: (a) a decrease in intangible and tangible assets following the recording of purchases of the period (equal to Euro 58 thousand) less the related amortisation and depreciation allowances (Euro 248 thousand), and (b) a decrease in financial assets of Euro 5 thousand. Expenditure in the period was focused on replacing both laboratory equipment and electric and electronic machines.

"Net working capital" (current assets, excluding inventories, less short-term payables) increased by Euro 734 thousand. The increase was due to the combined effect of the following movements:

- A trade debtor account of Euro 3,490 thousand relating to the agreement with Merck Serono to which, since September 22, 2006, in quarterly invoices, the company has recharged the entire costs incurred for developing the safinamide project;
- An increase in "Other current assets", from Euro 2,856 to 3,393 thousand, mainly attributable (for Euro 399 thousand) to an increase of the VAT balance receivable, equal to Euro 2,454 thousand. In the course of 2007, the company will offset part of that amount (Euro 516 thousand) against VAT payable as allowed by the law and we expect that the remaining amount receivable will be entirely recovered within the next fiscal year trough offsetting against VAT payable on the invoices that will be issued to Merck Serono;
- An increase of Euro 2,857 thousand in "Trade creditors" as a result of the increased volume of R&D activities as illustrated above; and
- An increase of Euro 410 thousand, in "Other short-term liabilities" mainly as a result of bonuses provided for employees in respect of FY 2006, which were significantly higher than those paid in 2005.

Net financial position

(Thousands of Euro)	December 31		Change	Change %
	2006	2005		
Cash and bank	74,765	17,446	57,319	329 %
Other cash movements	16	(3)	19	-633 %
Short-term net financial position	74,781	17,444	57,337	329 %
Other financing creditors	(1,105)	(1,037)	(68)	7 %
Long-term net financial position	(1,105)	(1,037)	(68)	7 %
Net financial position	**73,676**	**16,406**	**57,270**	**-1631 %**

"Cash and bank" also includes repurchase agreements (REPOs) that on the balance sheet, in accordance with correct accounting principles, are reclassified within "Short term investments". The balance is included in cash and bank because the investment horizon is very short.

The balance of "Other financing creditors" is the amount actually paid by the MAP following approval of the project funded by Law No. 46, an increase compared with the 2005 balance due to the combined effect of: (i) a receipt recorded in 2006 (equal to Euro 337 thousand) and (ii) the disbursement of the first instalment of Euro 269 thousand. This amount differs from that reported on the balance sheet because the purpose of the above analysis is to highlight cashflow movements: therefore, the above amount corresponds to the net balance of the debt reported on line D5 within liabilities and the asset reported on line CII5 within current assets.

Production

The company has no production facilities at present and does not plan to acquire any in the near future. Newron outsources manufacturing of the active ingredient and capsules/tablets used in the clinical trials from third parties.

Research and development

The research and development costs connected with the safinamide project are expensed as incurred and entirely refunded by Merck Serono. The research and development costs connected with the other com-

pounds in Newron's pipeline are at risk to generate future benefits in terms of either internal use or sale to third parties, and therefore are entirely expensed as incurred.

Transactions with parent companies, subsidiaries or associated undertakings

The company owns only a stake in Consorzio Italbiotec, based in Lodi, with which it did not trade in the course of 2006. The company has no transactions with its shareholders other than refunds of expenses incurred on its behalf.

Branches

Newron has no branches.

Number and nominal value of own shares held or purchased

The company does not hold, nor did it hold in the course of the year, own shares or shares in parent companies or associated undertakings.

Foreseeable development of operations

The two important objectives achieved in the course of 2006, i.e. the licence agreement for safinamide and the floating of the company's shares on the Zurich stock exchange, which raised Euro 74.3 million in new capital, offer Newron sufficient financial resources to meet its medium-term development requirements that focus on: (i) completing development of safinamide and launching the product on the global market (to be borne entirely by the partner Merck Serono); (ii) continuing development of ralfinamide by completing the phase II trial currently in progress and planning the next phases in the near future, including possible licence and development agreements with pharmaceutical manufacturers as partners; (iii) continuing our research projects where we hope to obtain new, promising molecules to bring to the development stage; (iv) licensing interesting molecules or projects from universities or other companies to strengthen our pipeline, and (v) further enhancing our competence by recruiting new specialist staff.

Newron operates in an extremely dynamic and strongly growing market: according to the data in our possession (source: IMS) in the year to September 2006, the overall worth of the global pharmaceutical market exceeded 590 billion dollars. In particular, the share of the pharmaceutical market relating to the therapeutic area of the CNS exceeded 98 billion dollars during the same period and is the top segment by therapeutic area of the pharmaceutical market. In the period considered, the CNS segment grew by 6 % over the previous year and forecasts are consistent with this growth rate. If we consider only the area of treatments for Parkinson's disease (PD), where Newron expects to launch its lead product safinamide through the licensing agreement with Merck Serono, for the coming years analysts forecast growth of between 5 % and 10 % per annum. In the year to September 2006 the market for antiparkinson drugs exceeded 3 billion dollars, up 11 % on a year earlier. Safinamide has several advantages over the leading products currently on sale, which make it interesting also as a treatment for restless legs syndrome (RLS). RLS is a disorder with a prevalence of between 7 % and 12 % in the general population, with peaks of more than 20 % in people aged 60 and over, and whose diagnosis and treatment to date are not yet fully satisfactory. Promising effects have also been observed in cognitive function improvement in patients suffering from Parkinson's disease. These observations suggest a possible use of safinamide for this therapeutic indication as well as in other CNS disorders causing cognitive deterioration, such as Alzheimer's disease (AD).

The licensing agreement entered into with Serono International S.A. in September 2006 grants our partner exclusive, international rights to development and commercialisation of safinamide in all possible areas of development. Thanks to the scientific competence and economic and marketing capabilities of the licensee, now further strengthened by the merger with Merck that has led to the creation of the Merck Serono group, the agreement will make it possible for our product to proceed speedily through the next trial phases necessary to obtain a global marketing licence for safinamide.

Also the therapeutic field of pain treatments, in particular for neuropathic pain for which we identified the compound ralfinamide, is an area of strong growth and with huge market potential. Also in this case, the company expects to launch ralfinamide on the market through collaboration and licensing agreements.
As to designing and identifying new molecules with

pharmacological activity in CNS disorders, the company has research programmes under way that are focused on selecting compounds with action on ion channels. Within these programmes we have selected powerful and selective sodium channel blockers that have proved active in numerous models of CNS disorders, including pain, with an excellent safety profile. One of those molecules could go into pre-clinical development in the course of 2007.

Moreover, Newron intends to obtain new molecules to feed its product pipeline through alliances and research contracts with other pharmaceutical and biotechnology companies.

In this field Newron expects to be able to put to use the specific expertise acquired by its managers and researchers in characterising molecules active on the central nervous system, expanding research to license compounds also in the pre-clinical stage, which require further characterisation before entering pre-clinical development.

The Safety Planning Document is available on our premises.

Significant events occurring after the balance sheet date

On January 9, 2006, the USPTO declared an interference between the US use patent application of ralfinamide owned by Newron, and a second patent application owned by the Purdue Neuroscience Company (Purdue). The interference was declared to determine which of the two parties was first to invent certain commonly claimed subject matter, and should thus, under U.S. patent laws, be permitted to retain patent claims to methods of treating pain, including neuropathic pain, using a class of alpha-aminoacetamide compounds. On January 12, 2007, the USPTO decided that Purdue's application lacks an enabling disclosure of a method of treating or ameliorating pain. The USPTO held that Purdue is therefore unable to contest priority of invention, and ordered that final judgement on priority of invention be awarded against Purdue. On the same basis, the USPTO further ordered that Purdue is not entitled to any of the claims in its reissue application. Purdue may seek judicial review within two months. In the meanwhile, Newron and Purdue have started business negotiations to achieve a commercial settlement of this situation including territories outside the US.

On February 7, 2007 the company's Board of directors met and resolved to increase share capital for a maximum of 14,660 shares, corresponding to Euro 2,932, to be awarded to the owners of stock options that were not bound by lock-up at the time of the IPO.

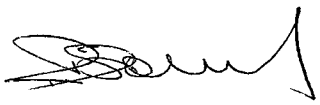
In drafting this report we have taken into account all events that have occurred and become known to date.

Proposed resolutions

Dear shareholders,

In light of the considerations set out above and of the matters illustrated in the notes to the financial statements, the board of directors proposes to carry forward the loss for the period of Euro 23,433,145 and to cancel it by using a corresponding amount from the share premium reserve.

Signed on behalf of the board of directors



The chairman
Rolf Stahel

Financial Statements

Balance sheet

(In Euro)		December 31, 2006		December 31, 2005
Assets		**Subtotal**	**Total**	
B	**Fixed assets**			
B.I	Intangible Assets			
B.I.1	Start-up and expansion costs		1,669	3,338
B.I.4	Concessions, licences, trademarks and similar rights		46,366	84,665
B.I.7	Other intangible assets		173,124	262,184
Total	Intangible assets		221,159	350,187
B.II	Tangible assets			
B.II.3	Industrial and commercial equipment		22,336	66,200
B.II.4	Other tangible assets		95,432	113,012
Total	Tangible assets		117,768	179,212
B.III	Financial assets			
B.III.1	Equity interests		1	1
B.III.1.d	- in other companies	1		*1*
B.III.2	Receivables		145,449	150,720
B.III.2.d	- from others	145,449		*150,720*
Total	Financial assets		145,450	150,721
Total fixed assets			**484,377**	**680,120**

(In Euro)		December 31, 2006		December 31, 2005
Assets		**Subtotal**	**Total**	
C	Current Assets			
C.I	Inventories			
C.I.1	Raw materials and consumables		1,344,635	739,143
Total	Inventories		1,344,635	739,143
C.II	Receivables recorded as current assets			
C.II.1	Trade debtors		3,489,728	
	falling due within 1 year	3,489,728		
C.II.4-bis	Tax payables		2,510,016	2,110,991
	falling due within 1 year	2,510,016		*516,000*
	falling due after 1 year	-		*1,594,991*
C.II.5	Other debtors		4,972,648	2,913,090
	falling due within 1 year	4,972,648		*2,913,090*
Total	Receivables recorded as current assets		10,972,392	5,024,081
C.IV	Cash and bank			
C.IV.1	Bank and postal deposits		72,254,878	17,437,163
C.IV.3	Cash on hand		10,937	8,453
Total	Cash and bank		72,265,815	17,445,616
Total current assets			**84,582,842**	**23,208,840**
D	Accrued income and prepayments			
D.II	Other accrued income and prepayments		1,259,111	114,130
Total	Accrued income and prepayments		1,259,111	114,130
Total assets			**86,326,330**	**24,003,090**

(In Euro)		December 31, 2006		December 31, 2005
Liabilities		**Subtotal**	**Total**	
A	Shareholders' equity			
A.I	Share capital		1,164,021	734,500
A.II	Share premium reserve		90,071,186	30,865,014
A.IV	Legal reserve		-	-
A.IX	Profit/(Loss) for the period		(23,433,145)	(14,619,874)
Total	Shareholders' equity		67,802,062	16,979,640
C	Staff leaving indemnity (TFR)		406,285	365,689
D	Payables			
D.5	Other financing creditors		1,270,812	1,540,254
	falling due within 1 year	272,169		*1,270,812*
	falling due after 1 year	998,643		*269,442*
D.7	Trade creditors		6,495,759	3,638,645
	falling due within 1 year	6,495,759		*3,638,645*
D.12	Tax payables		112,955	105,011
	falling due within 1 year	112,955		*105,011*
D.13	Social security payables		337,950	246,425
	falling due within 1 year	337,950		*246,425*
D.14	Other creditors		1,267,652	1,126,189
	falling due within 1 year	1,267,652		*1,126,189*
Total	Payables		9,485,128	6,656,524
E	Accrued expenses and deferred income			
E.II	Other		8,632,855	1,237
Total	Accrued expenses and deferred income		8,632,855	1,237
Total liabilities			**86,326,330**	**24,003,090**

Memorandum accounts

(In Euro)		December 31	
Memorandum accounts		**2006**	**2005**
K.1.1.d	Guarantees given to other companies	1,578,809	1,578,809
K.3	Other memorandum accounts	-	-
K.4.2	Other commitments	12,879,347	8,182,774
K.6.2	Company assets held by third parties	1,333,319	727,833
Total memorandum accounts		**15,791,475**	**10,489,416**

Income statement

(In Euro)		FY 2006		FY 2005
		Subtotal	Total	
A	Value of production			
A.1	Revenue from sales and services		4,680,691	-
A.5	Other income		221,813	160,003
A.5.a	Grants	219,049		*153,977*
A.5.b	Sundry other income	2,764		*6,026*
Total	Value of production		4,902,504	160,003
B	Cost of production			
B.6	Cost of raw materials, consumables and goods		1,021,554	833,412
B.7	Cost of services		24,049,690	9,937,504
B.8	Cost of utilisation of third parties' assets		617,614	583,589
B.9	Personnel costs		3,341,085	3,552,760
B.9.a	Wages and salaries	2,409,537		*2,629,088*
B.9.b	Social charges	768,989		*754,567*
B.9.c	Staff leaving indemnity (TFR)	156,012		*161,721*
B.9.e	Other personnel costs	6,547		*7,384*
B.10	Amortisation, depreciation and write-downs		248,146	325,101
B.10.a	Amortisation of intangible assets	139,447		*151,423*
B.10.b	Depreciation of tangible assets	108,699		*173,678*
B.11	Change in stocks of raw materials, consumables and goods		(605,492)	(359,413)
B.14	Other operating charges		31,063	74,269
Total	Cost of production		28,703,660	14,947,222
Difference between Value and Cost of production			(23,801,156)	(14,787,219)

(In Euro)		FY 2006		FY 2005
Income statement		**Subtotal**	**Total**	
C	Financial income and charges			
C.15	Income from equity interests		-	-
C.16	Other financial income		318,412	202,835
C.16.c	- from securities recorded as current assets	176,857		*198,803*
C.16.d	- other	141,555		*4,032*
C.16.d.4	- from other companies	141,555		*4,032*
C.17	Interest and other financial charges		(11,984)	(10,622)
C.17.d	- from others	(11,984)		*(10,622)*
C.17-bis	Exchange gains and losses		61,582	(16,308)
Total	**Financial income and charges**		**368,010**	**175,905**
E	Extraordinary income and expenses			
E.20	Extraordinary income		-	-
E.21	Extraordinary expenses		1	(8,560)
E.21.c	Other extraordinary charges	1		*(8,560)*
Total	**Extraordinary items**		**1**	**(8,560)**
Loss before tax			(23,433,145)	(14,619,874)
22	Income tax for the period, deferred tax assets, deferred tax liabilities		-	-
23	**Loss for the period**		**(23,433,145)**	**(14,619,874)**

Notes to the Financial Statements

Presentation and content of the financial statements

Newron Pharmaceuticals S.p.A. ("the company" or "Newron") is a pharmaceutical company whose business purpose is applied research in the field of neurosciences. Its mission is to develop, at the pre-clinical and clinical stage, original and innovative drugs for the treatment of central nervous system (CNS) disorders. Following the spin-off from Pharmacia & Upjohn in the course of 1999, Newron acquired industrial property rights to safinamide – today Newron's lead compound, – and a series of other molecules (among which the company identified and developed ralfinamide) with preliminary and interesting activities in animal models for neurological disorders.

On September 22, 2006, the company entered into an agreement with Serono International S.A. (currently Merck Serono International S.A.), granting it exclusive, worldwide rights to develop, manufacture and sell pharmaceuticals based on the compound safinamide. Merck Serono International SA (Merck Serono), which will bear all future development, manufacturing and selling expenses – including those incurred by Newron since the date of the agreement and which the company will incur in future by mutual consent and on behalf of the counterparty – made an up-front payment to the company (on October 6, 2006) of non-refundable USD 12.5 million and will make subsequent payments to Newron, on the achievement of pre-defined development and selling milestones, up to a possible maximum amount of USD 200.5 million (including the up-front payment). Moreover, Newron will be entitled to royalties on the revenues made by Merck Serono in all markets. The agreement also gives Newron the option, under certain conditions, to decide whether to co-promote the product in two important European markets: in that case the revenues relating to those markets will be split 50%–50% between the parties. The development costs incurred by the company will be recharged on a quarterly basis.

On December 12, 2006, Newron Pharmaceuticals S.p.A. was floated on the SWX Swiss Exchange. The flotation process was managed by a syndicate involving other consultants allowing the company to collect about Euro 74.3 million, before paying commissions to the placement syndicate and fees to the other consultancies involved.

Please see the section of the Management report as far as the analytical description of the activity type and important events occurred prior and after the closing are concerned.

Content and structure of the financial statements

The annual financial statements as of December 31, 2006 have been prepared in compliance with, and following the layout prescribed by, the Italian Civil Code (presentation and content of the balance sheet and income statement).

Moreover, these financial statements reflect the amendments and supplements to the accounting principles issued by the *Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri* (the representative bodies of the Italian accounting profession) made necessary by the reform of company law enacted by legislators with Legislative Decree No. 6/2003 and the ensuing Legislative Decree No. 310/2004.

The notes to the financial statements provide an illustration, analysis and, in certain instances, supplements to financial statements amounts and contain the information required by article 2427 of the Civil Code, other provisions of Legislative Decree No. 127/1991 and other laws or subsequent supplements thereto.

All transactions reported in these financial statements are derived from the accounting records for the period January 1 to December 31, 2006, supplemented, if necessary, by all the additional information that was

considered necessary to give a true and fair view of the company's financial and economic position.

The financial statements are presented in units of Euro, without decimals, whereas the notes to the financial statements are presented in thousands of Euro, except as expressly specified.

Accounting principles and policies

The annual financial statements have been drawn up in accordance with the legislation in force, the consent of the board of statutory auditors being obtained in the cases provided for by the law; the accounting policies and principles and the principles for the preparation of the financial statements are the same as those applied in the previous year.
The applicable accounting policies are those established by the *Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri*, and supplemented by the OIC documents issued by the Italian Accounting Demartement.

Financial statements items have been valued in accordance with the general principles of prudence and the accrual basis of accounting, the company being considered as a going concern.

Profits are included only if realised by the closing date, whereas risks and losses are considered also when expected, as are those relating to facts that become known after the closing date.

The accounting principles and policies adopted in the preparation of the financial statements make possible a clear, true and fair presentation of the company's financial position and result of operations. The most significant accounting principles and policies applied in the preparation of the financial statements as of December 31, 2006 are detailed below.

Intangible assets

Intangible assets comprise amounts that by nature provide benefits over several years; they are stated at cost, including directly attributable accessory charges and, if any, manufacturing costs, less grants received from public-sector entities towards the purchase of assets used in the research programme funded by Law No. 451/1994.

Intangible assets have never been revalued.

The carrying values of intangible assets are adjusted directly for amortisation, which is computed on a straight-line basis at rates that reflects the technical-economic and remaining useful lives of the various asset categories.

In detail, the amortisation rates applied are consistent with those of the prior year, and are detailed as follows:

Asset category	Amortisation rate
Start-up and expansion costs	20 %
Concessions and licences	20 %
Trademarks	33 %
Leasehold improvements	based on the lease term

Research and development expenses are entirely expensed in the period.

Tangible assets

Tangible assets are stated at cost, including directly attributable accessory charges, less grants received from public-sector entities towards the purchase of assets used in the research programme funded by Law No. 451/1994.

Tangible assets have never been revalued.

The costs of tangible assets are depreciated on a straight-line basis at technical-economic rates which are determined in relation to the utilisation, wear and tear and remaining useful lives of the assets, and are detailed as follows:

Asset category	Depreciation rate
Furniture and fixtures	12 %
Electronic office machines	20 %
Laboratory equipment	40 %

Ordinary maintenance and repair expenses are entirely expensed as incurred. Capital items of cost are attributed to the asset to which they relate and depreciated based on the asset's remaining useful life.

Financial assets

This category comprises only assets destined to be held by the company. They are valued at cost, including accessory and directly attributable charges, and written down for impairment losses; the original value is reinstated when the conditions causing the write-down cease to exist.

Receivables recorded as financial assets are stated at estimated realisable value.

Inventories

Stocks of products are valued at the lower of specific purchase or manufacturing cost, including directly attributable accessory charges, and market. Consumables which are continuously replaced are not subject to significant variation over the years and are of low value when compared to total assets, are valued under the so-called "constant value" method.

Receivables recorded as current assets

Receivables are stated at estimated realisable value.

The item "Other securities" also includes repurchase agreements (REPOs). REPOs are financial transactions combining two linked purchase and sale agreements in which the same securities are traded. Receivables from banks originating from such transactions made to invest temporary excess cash are reported within "Other debtors". Revenues and costs related to these activities are booked on an accruals basis.

Short-term investments

Short-term investments are valued at the lower of cost and market.

Cash and bank

Cash and bank items are stated at nominal value and adjusted for credit and debit items at the closing date.

Staff leaving indemnity (TFR)

This reflects the actual liability to all employees at the balance sheet date, less amounts paid into industry-wide supplementary pension funds, and is determined in compliance with article 2120 of the Civil Code, applicable laws and labour contracts.

Payables

Payables are stated at nominal value.

Payables and receivables denominated in foreign currency

Receivables and payables originally denominated in foreign currency, translated into Euros at the exchange rates of the date when the trade is recorded, are adjusted to the exchange rates of the closing date. Exchange differences realised on receipt of receivables and payment of payables in foreign currency, as well as adjustments, if any, to the year-end exchange rates, are charged to the income statement as financial income or charges.

Prepayments, accruals and deferrals

Prepayments, accruals and deferrals represent time-based apportionments of income and expenditure items that relate to more than one accounting period.

Income tax

No income tax is payable in respect of the financial year under consideration. Prudently, deferred tax assets have not been recorded as the requirements supporting their reasonable recoverability in the coming financial years are not met.

Memorandum accounts

Memorandum accounts are stated at nominal value, considering commitments and risks existing at the closing date.

Revenues / Costs

Grants received pursuant to specific laws in connection with agreements concerning research projects are recognised in proportion to the state of completion of the related projects. Grants received towards business operating assets are deducted from the cost of the relevant assets.

The amount corresponding to non-refundable up-front payments received upon the licensing agreement with Merck Serono has been initially booked as "deferred revenue". It will be accepted as such for the entire duration of the collaboration in between the date of the agreement signature and the expected date of the acceptance of the next development milestone. This takes into account that the company, within this time frame, will have to implement on behalf and in agreement with the counterpart, discovery and development activities the costs of which will be entirely reimbursed. Costs related to licensing agreements are considered as deferred in time and expensed during the same lapse of time, during which the up-front payment is credited. Financial income is recognised on an accrual basis. Costs are charged on an accrual basis, including risks

and losses accruing during the period even if they become known after the closing date.

Comments to balance sheet items

The financial statements have been prepared in units of Euro, while the accounting records are expressed in Euros with two decimals, which resulted in a rounding difference. Failing specific law provisions we decided, as an interpretation and in application of the accounting principles governing the treatment of translation differences, to state the balances of both positive and negative differences on line E.21.c "Other extraordinary charges" of the income statement.

Assets

B) Fixed assets

I. Intangible assets

Movements in the period January 1 to December 31, 2006 are detailed as follows:

(Thousands of Euro)	Cost	Accumulated depreciation	Net book value
Balance as of December 31, 2005	833	(483)	350
Additions during the period January 1 to December 31, 2006	10	(139)	(129)
Total intangible assets	843	(622)	221

The items making up the balance of intangible assets are start-up and expansion costs, patent rights, licences (software and sundry user rights), and leasehold improvements to property in the municipality of Bresso.

The costs incurred during IPO process, amounting to approx. Euro 7.6 million, have been prudentially charged to the economic accounting item number 24.

The gross book values, accumulated amortisation, increases and decreases are detailed as follows:

(Thousands of Euro)	Start-up and expansion costs	Licences (1)	Other intangible assets	Total
Net book value as of December 31, 2005	3	85	262	350
Purchase cost	84	251	498	833
Increases of the period	0	10	0	10
Historical cost	84	261	498	843
Accumulated amortisation at beginning of period	(81)	(166)	(236)	(483)
Amortisation charge	(1)	(49)	(89)	(139)
Accumulated amortisation	(82)	(215)	(325)	(622)
Net book value as of December 31, 2006	2	46	173	221

(1) Concessions, licences, trademarks and similar rights

Patents

While the company owns patents, part of which were acquired following the spin-off from Pharmacia & Upjohn, these have been entirely amortised in the course of time. The company, as explained in the section on the accounting policies applied for the preparation of these financial statements, does not capitalise research and development expenses, therefore the balances are not increased.

Licences

This item, for a net book value equal to Euro 46 thousand, includes three different categories of assets: software user licences (net book value equal to Euro 37 thousand); other user licences (net book value equal to Euro 6 thousand) and trademarks. The item "Other user licences" relates to the cost of rights to use scientific material, while the item "Trademarks" relates to the costs incurred for protecting the corporate trademark and logo in the countries of greater commercial interest.

Other intangible assets

This item comprises the cost of improvements to and renovation work on the leasehold properties (offices and laboratories) in Bresso: the net book value as of December 31, 2006 was equal to Euro 173 thousand. The balance includes: Euro 114 thousand relating to leasehold improvements to the laboratories in Bresso carried out in the course of 2003 and Euro 59 thousand relating to leasehold improvements to the offices carried out in the course of 2002.

II. Tangible assets

As of December 31, 2006 tangible assets amounted to Euro 886 thousand, net of grants received (equal to Euro 472 thousand) and gross of the accumulated depreciation of Euro 768 thousand.

Tangible assets are detailed as follows:

(Thousands of Euro)	Industrial equipment (1)	Other tangible assets	Total
Net book value as of December 31, 2005	66	113	179
Purchase cost	871	445	1,316
Additions of the period	19	28	47
Decreases of the period	0	(5)	(5)
Grants (Law No. 451/1994)	(430)	(42)	(472)
Historical cost	460	426	886
Accumulated depreciation at beginning of period	(375)	(290)	(665)
Decreases	0	5	5
Depreciation charge	(63)	(45)	(108)
Accumulated depreciation at end of period	(438)	(330)	(768)
Net book value as of December 31, 2006	22	96	118

(1) Industrial and commercial equipment

The historical cost as of December 31, 2006 is shown net of grants received from the Ministry of Education, University and Research (MIUR) for a total of Euro 472 thousand recorded up to June 19, 2004, the closing date of the project funded by the MIUR.

Tangible assets increased in the course of 2006 following additions for an amount of Euro 47 thousand and decreased as a result of the sale of obsolete PCs (historical cost equal to Euro 5 thousand) and depreciation (Euro 108 thousand).

The item "Industrial and commercial equipment" includes only the category "Laboratory equipment": the increase in 2006 (Euro 19 thousand) relates to the replacement of certain laboratory machines.

The item "Other tangible assets" includes, among others, the categories: "Electric and electronic office machines" and "Furniture and fixtures". The most significant additions (Euro 25 thousand) relate to the replacement of two servers that was necessary to enhance available filing capacity: the company is migrating all science archives from paper to electronic files.

III. Financial assets

All receivables included in financial assets originated in Italy.

1) Equity interests

(Thousands of Euro)	December 31		Change
	2006	2005	
Equity interests in associated companies	0.001	0.001	-
Total Equity interests in associated companies	0.001	0.001	-

This item relates to the company's stake in Consorzio Italbiotec, with registered office in Lodi, Via Albert Einstein, which is a 20 % interest in the "Consortium Fund".

The equity interest is carried at the symbolic realisation value of Euro 1 (one) because both article 2614 of the Civil Code and the consortium's articles of association do not allow the consortium fund to be divided until Consorzio Italbiotec ceases operations.

As of December 31, 2006, Consorzio Italbiotec had a consortium fund of Euro 103 thousand, higher than in 2005 due to the entry of a new member that contributed Euro 25 thousand. In the course of the year Consorzio Italbiotec recorded a profit of Euro 15 thousand. Therefore, as of December 31, 2006 its net equity was equal to Euro 130 thousand.

2) Other debtors

(Thousands of Euro)	December 31		Change
	2006	2005	
Guarantee deposits on leases	126	126	-
Sundry guarantee deposits	20	25	(5)
Total Other debtors	146	151	(5)

These items relate to contracts for external services (rental of company cars) and leases for the premises (offices and laboratories) in which we operate. Guarantee deposits on leases bear interest. The balance of "Sundry guarantee deposits" decreased following the termination of a rental contract. The new rental contracts do not require a deposit, therefore the balance is bound to reduce to nil over time.

C) Current assets

I. Inventories

Inventories are made up of the following:

(Thousands of Euro)	December 31		Change
	2006	2005	
Raw materials and consumables	1,345	739	606
Total Inventories	1,345	739	606

The item "Raw materials and consumables" relates mainly to stocks of compounds and substances in the form of powders, capsules or tablets used during the pre-clinical and clinical trials necessary to develop new drugs. The increase is attributable to an increase in production that started in the course of 2005 and continued in 2006 both to comply with the requirements of regulatory authorities (validation of the production process) and to meet additional consumption for ongoing trials and those being prepared. Stocks on hand as of December 31, 2006 will be used in the course of 2007. The value of consumables is Euro 5 thousand and is included in the balance.

As of December 31, 2006 assets deposited with the manufacturers or with packagers amounted to Euro 1,333 thousand.

The values included in the financial statements as of December 31, 2006 do not differ materially from current costs at the same date.

II. Receivables recorded as current assets

"Receivables recorded as current assets" are analysed as follows:

(Thousands of Euro)	December 31		Change
	2006	2005	
Invoices to be issued	3,490	-	3,490
Advances to suppliers	786	678	108
Sundry receivables falling due within 1 year	33	2	31
Other receivables – Advances on expenses	27	27	-
Receivables from the MIUR	745	975	(230)
Receivable from the MAP under Law No. 46 PD	201	711	(510)
Receivables from Consortium members relating to grants from the EU	644	483	161
Receivables from bank (REPOs)	2,499	-	2,499
Receivables from others	37	37	-
Tax credits	2,510	2,111	399
- falling due within 1 year	*2,510*	*516*	*1,994*
- falling due after 1 year		*1,595*	*(1,595)*
Total Receivables recorded as current assets	10,972	5,024	5,948

Unless specified otherwise, all receivables fall due within one year.

All receivables originated in Italy, except as detailed below:

(Thousands of Euro)	Italy	Other EU countries	Rest of Europe	Other non-EU countries	Total
Invoices to be issued	0	0	0	3,490	3,490
Advances to suppliers	76	430	205	75	786
Receivables from Consortium members	381	263	0	0	644
Total	457	693	205	3,565	4,920

"Invoices to be issued" relates to the cooperation agreement made with Serono International SA, currently Merck Serono International SA, and constitute the reimbursement of the costs incurred by the Company between closing and December 31 for activities implemented on behalf and in agreement with the counterpart. For additional information reference is made to the item "Revenue from sales and services".

The item "Receivables from the MIUR", equal to Euro 745 thousand, relates to the portion of grants earned on costs incurred and billed to the competent authority. The research project funded by the Ministry was completed in June 2004. The decrease on the balance as of December 31, 2004 was due to the receipt of Euro 230 thousand in June 2006. During December 2005 the bank acting as an intermediary between the company and the Ministry inspected the supporting evidence, directly on the company's premises. While no significant exceptions were raised, the Ministry has not yet paid the outstanding balance.

The amount receivable from the MAP, equal to Euro 201 thousand, relates to the portion of forgivable and facilitated loan granted by the Ministry of Production Activities in relation to the programme of pre-competitive development of a new treatment for Parkinson's disease. The receivable originated in the course of 2003. In 2006 the company collected Euro 510 thousand, whereof Euro 337 thousand as part of the loan receivable and the remainder as a forgivable loan. The balance reported as of December 31, 2006 will be entirety received only after the so-called "final test" by the Ministry.

The item "Receivables from Consortium members relating to grants from the EU" relates to an advance payment received by the company from the European Union as a result of the approval of financing, which the company transferred in part (75 %) to the other companies or entities involved in the project in proportion to their respective stakes. The increase in 2006 was due to the transfer of the balance (the remaining 25 % of the advance received from the European Union) attributable to the other consortium member companies or entities. For additional information reference is made to the item "Other creditors".

The company invested excess of cash in short-term repurchase agreements (REPOs). The balance shown refers to government securities. The duration of the investment is 90 days and as of December 31, 2006 the transaction generated interest income of about Euro 17 thousand (see the item "Accrued income").

The item "Tax credits" includes value-added tax for an amount of Euro 2,454 thousand, tax withheld at source on interest receivable and excess tax advances paid. The company stimates to use the present VAT credit within next year either through a compensation process, up to 516 million Euro, of social contribution and through the VAT debt that will be charged on invoices which will be re-debited to Merck Serono for the discovery and development activities implemented on their behalf.

The company reported significant losses in prior years and has temporary differences which could generate deferred tax assets, however, these are not recognised in the financial statements because the company's operations and business do not guarantee that sufficient taxable income will be generated in the short term against which the deferred tax assets may be utilised. At a rate of 33 %, the loss for the period and those of prior years generate deferred tax assets equal to some Euro 22.6 million, whereof some Euro 2 million relates to tax losses reported in the first three years of operation which have an indefinite carryforward period.

Total deferred tax assets are analysed as follows:

(Thousands of Euro)	Tax base	Tax rate	Tax
Tax loss of the period	8,530	33.00%	2,815
Tax losses of prior years	45,039	33.00%	14,863
Total deductible temporary differences	14,903	33.00%	4,918
Total deductible temporary difference	68,472		22,596

The temporary deductible differences originated from the floating costs and from the deferred income related to the agreement with Merck Serono.

IV. Cash and bank

The balance is analysed as follows:

(Thousands of Euro)	December 31		
	2006	2005	Change
Bank and postal deposits	72,255	17,437	54,818
Cash on hand	11	9	2
Total Cash and bank	72,266	17,446	54,820

The balance relates to temporary credit balances on bank current accounts and cash holdings (in Euro and foreign currencies) normally necessary to meet current financial requirements. The significant increase on December 31, 2005 is attributable to the flotation of Newron's shares on the SWX Swiss Exchange by which the company raised about Euro 74.3 million before paying commissions to the placement syndicate and fees to the other consultancies involved in the process. For details we refer to the section on shareholders' equity.

D) Accrued income and prepayments

The balance is detailed as follows:

(Thousands of Euro)	December 31		Change
	2005	2004	
Accrued income	17	-	17
Insurance prepayments	100	43	57
Sundry prepayments	1,142	71	1,071
Total Accrued income and prepayments	1,259	114	1,145

"Insurance prepayments", relating to the insurance cover necessary to conduct clinical trials, increased in relation to the start in the second half of 2006 of a new clinical trial involving about 600 patients.

The balance of "Sundry prepayments" comprises basically the costs, equal to Euro 1,082 thousand, incurred in the course of 2006 and directly attributable to the drafting and execution of the agreement with Merck Serono, which are expensed over the same period as the relevant revenues. Part of the balance, Euro 543 thousand, falls due after one year.

Liabilities

A) Shareholders' equity

Movements in the items making up shareholders' equity are detailed as follows:

(Thousands of Euro)	Share capital	Share premium reserve	Legal reserve	Profit/ (Loss) for the period	Total
Balance as of January 1, 2005	435	12,814	0	(11,649)	1,600
Appropriation of loss for the year ended Dec. 31, 2004	0	(11,649)	0	11,649	0
Capital increase	300	29,700	0	0	30,000
Profit/(Loss) for the year ended Dec. 31, 2005	0	0	0	(14,620)	(14,620)
Balance as of December 31, 2005	735	30,865	0	(14,620)	16,980
Appropriation of loss for the year ended Dec. 31, 2005	0	(14,620)	0	14,620	0
Capital increase	429	73,826	0		74,255
Profit/(Loss) for the year ended Dec. 31, 2006	0	0	0	(23,433)	(23,433)
Balance as of December 31, 2006	1,164	90,071	0	(23,433)	67,802

In the course of the year shareholders' equity increased by Euro 50,822 thousand from Euro 16,980 thousand to Euro 67,802 thousand as a result of a share capital increase through the issue of shares at a premium, which was entirely subscribed and paid in as of December 12, 2006.

The uses for which reserves are available are detailed as follows:

(Thousands of Euro)	Amount	Possible utilisation	Analysis	Summary of utilisations in the preceding three years	
				Loss coverage	Other uses
Share capital	1,164				
Reserves					
Share premium reserve	90,071			(33,148)	0
- available portion		*A, B, C*	*90,069*		
- unavailable portion			*2*		

Legend:
A: capital increase;
B: loss coverage;
C: distribution to shareholders

The unavailable portion relates to "Start-up and expansion costs".
The available share premium reserve, however, cannot be distributed for an amount equal to 20 % of share capital (Euro 233 thousand): this amount must be utilised to set up the legal reserve.

I. Share capital

The company, following the resolutions passed at the extraordinary general meeting of November 7, 2006 (i) as requested by the shareholders, converted class A and B preferred shares into ordinary shares; (ii) re-determined the nominal value of the shares grouping 2 shares of nominal Euro 0.10 each into 1 share of nominal Euro 0.20 each, and (iii) resolved a capital increase through the issue of shares at a premium for a maximum amount of nominal Euro 500,000, by issuing a maximum of 2,500,000 new ordinary shares to be placed in the framework of the Global Offering finalised to the company flotation.

On December 12, 2006, the company stated by means of a "Declaration replacing a notary deed" that the capital increase resolved on November 7, 2006 has been subscribed and paid in for a total of 2,147,606 shares in the framework of the flotation of the company's shares on the SWX Swiss Exchange. As a result, Newron's issued capital is now equal to Euro 1,234,500, subscribed and paid in to date for a total of Euro 1,164,021.20, and is made up each of 5,820,106 ordinary shares of nominal Euro 0.20 each.

II. Share premium reserve

As of December 31, 2006 the share premium reserve amounted to Euro 90,071 thousand.

Movements in the share premium reserve during the last few years are detailed as follows:

(Thousands of Euro)	Share premium reserve		
	Share premium paid in	Utilisation to cover prior year's losses	Balance at year end
Balance as of December 31, 2003	12,085	(6,136)	19,693
Balance as of December 31, 2004	0	(6,879)	12,814
Balance as of December 31, 2005	29,700	(11,649)	30,865
Balance as of December 31, 2006	73,826	(14,620)	90,071

III. Stock options

To incentivise the efforts of employees, directors and certain consultants directed at the growth of the company in the medium term, the shareholders resolved to empower the board of directors to execute one or more capital increases for a maximum amount of Euro 54,774 to service one or more stock option plans through the issue of a maximum of 273,870 ordinary shares of nominal Euro 0.20 each at a subscription price to be determined by the board. The options may be awarded free of charge. As of December 31, 2006, 234,665 options had been awarded free of charge, for an average strike price of Euro 19.90 each.

C) Staff leaving indemnity (TFR)

Movements during the period are detailed as follows:

(Thousands of Euro)	2006	2005
Balance as of January 1, 2006	366	342
Utilisation for leaving employees	(32)	(51)
Advances paid	(6)	(10)
Other utilisations	(78)	(76)
Accruals for the period	156	161
Balance as of December 31, 2006	406	366

The balance covers the amount payable to personnel as of December 31, 2006 determined in compliance with article 2120 of the Civil Code, and has been revalued in accordance with the law.

Utilisations during the period relate to the decision by some employees to sign up to FONCHIM (the supplementary pension fund for the chemical industry) and PREVINDAI (the welfare fund for industrial executives): the company accordingly now pays part of the accrual for the staff leaving indemnity (TFR) into the aforementioned funds.

D) Payables

Payables are analysed as follows:

(Thousands of Euro)	December 31		Change
	2006	2005	
Other financing creditors	1,271	1,540	(269)
- falling due within 1 year	*272*	*269*	*3*
- falling due after 1 year	*999*	*1,271*	*(272)*
Trade creditors	6,496	3,639	2,857
Tax payables	113	105	8
Social security payables	338	246	92
Other creditors	1,267	1,126	141
Total Payables	9,485	6,656	2,829

5) Other financing creditors

This item relates to the loan at a facilitated interest rate obtained from the Ministry of Production Activities pursuant to Law No. 46 of 1982. The decree issued by the MAP awarding the loan provides for the funds to be repaid in 5 equal instalments: the first instalment (equal to Euro 269 thousand) was repaid on November 18, 2006.

7) Trade creditors

Trade creditors are detailed as follows:

(Thousands of Euro)	December 31		Change
	2006	2005	
Invoices to be received	2,540	1,293	1,247
Due to suppliers	3,965	2,346	1,619
Adjustment to December 31 exchange rates	(9)	-	(9)
Total Trade creditors	6,496	3,639	2,857

Trade creditors reflect existing obligations in relation to purchases made. The increase is explained by the growing volume of research and development work. "Invoices to be received' corresponds to the state of completion of the contracts to which they relate and reflects the delay between services rendered and amounts billed.

The balance increased by Euro 2,857 thousand mainly as a result of costs incurred for phase III trials of safinamide during the flotation process.

A breakdown of trade creditors by geographical area, before the adjustment to December 31 exchange rates, is as follows:

(Thousands of Euro)	Italy	Other EU countries	Non-EU countries	Total
Invoices to be received	1,349	1,029	162	2,540
Due to suppliers	1,088	1,185	1,683	3,956
Total	2,437	2,214	1,845	6,496

12) Tax payables

Tax payables are detailed as follows:

(Thousands of Euro)	December 31		Change
	2006	2006	
Tax withheld from the income of employees	111	100	11
Tax withheld from the income of self-employed workers	2	5	(3)
Total Tax payables	113	105	8

This item represents amounts due to the Treasury in relation to the activity performed by the company acting as withholding agent in respect of employees as well as self-employed workers whose income is liable to withholding tax. The change reflects the increase in headcount.

13) Social security payables

An analysis is as follows:

(Thousands of Euro)	December 31		Change
	2006	2006	
Social security institutes	104	101	3
Amounts owed to sundry social security institutes	202	120	82
Supplementary pension funds	32	25	7
Total Social security payables	338	246	92

"Social security institutes" relates to the mandatory contributions accruing but not yet paid to the public social security and welfare institutes, in particular on the remuneration of the month of December (December salaries, 13th month, etc.). The balance is in line with December 31, 2005.

"Amounts owed to sundry social security institutes" relates to contributions owed on remuneration earned in the course of the period but not yet paid (holiday pay, 14th month, etc.). While headcount was more or less unchanged compared with December 31, 2005, this balance increased mostly as a result of an increase in the variable portion of employees' pay.

14) Other creditors

(Thousands of Euro)	December 31		Change
	2006	2005	
Due to employees and freelancers	753	442	311
Due to EU for advance payment	515	684	(169)
Total Other creditors	1,268	1,126	284

The item "Due to employees and freelancers" relates to amounts earned in the course of the period but not yet paid (holiday pay, 14th month, etc.). The increase on December 31, 2005 originated mainly from the accrual for the variable portion of employees' pay, which was significantly higher than as of December 31, 2005.

The amount due to the EU relates to an advance payment received following approval of a research project, called "Ion Craft Project", which is partly funded by the EU: the amount was transferred to the other companies/entities participating in the project (see "Receivables recorded as current assets"). The balance decreased following the recording of receipts after submission to the EU of the second and last statements of expenses in respect of 2006.

E) Accrued expenses and deferred income

The balance as of December 31, 2006, equal to Euro 8,633 thousand, shows a significant increase compared with that as of December 31, 2005 (equal to Euro 1 thousand). The increase, equal to Euro 8,632 thousand, is entirely attributable to the deferral of the up-front fee originating from the licensing of rights to safinamide to Merck Serono. The amount received at the time the agreement was executed will be recognised in revenues proportionally over a period of 27 months (within which Newron expects to receive the first milestone payment from Merck Serono). Of the deferred income, Euro 5,412 thousand falls due after one year.

Memorandum accounts

Memorandum accounts are analysed as follows:

(Thousands of Euro)	December 31		Change
	2006	2005	
Sureties given to other companies	1,579	1,579	-
Our assets held by third parties	1,333	727	606
Other commitments	12,879	8,183	4,696
Total Memorandum accounts	15,791	10,489	5,302

A) Sureties given to other companies

This item includes sureties given by Credito Valtellinese to Sanpaolo-IMI in connection with the obligations relating to the project funded by the MIUR, for an amount of Euro 1,579 thousand.

B) Our assets held by third parties

As of December 31, 2006 assets held by third parties amounted to Euro 1,333 thousand, comprising: (i) some Euro 1 thousand (intrinsic value) held by Pharmacia & Upjohn, represented by "series of slides, tissues, etc." and (ii) Euro 1,332 thousand in material to be used in pre-clinical and clinical trials that is deposited with the manufacturers or with packagers.

C) Other commitments

This item relates to contractual commitments to suppliers relating to the provision of services and goods necessary for the company's operations. The balance increased on December 31, 2005 and reflects the company's commitment mainly in relation to the new clinical trial of safinamide, which involves expenditure of about

Euro 9.3 million in the next few years. No significant penalties are provided should the company decide to terminate those contracts.

Comments to income statement items

A) Value of production

1) Revenue from sales and services

The company's revenues are analysed as follows:

(Thousands of Euro)	FY 2006	FY 2005	Change
	2006	2005	
Services rendered	3,490	-	3,490
Licensing rights	1,191	-	1,191
Total Revenue from sales and services	4,681	-	4,681

"Services rendered" includes the revenues originating from recharging to Merck Serono the research and development expenses incurred by the company on the safinamide project starting from September 22, 2006, on behalf of and by mutual agreement with Merck Serono.

"Licensing rights" includes the up-front payment's accrual for the ending year.

All revenues are generated with Merck Serono group and, except for Euro 50 thousand that were realised in Italy, the remaining Euro 4,631 thousand were realised in non-EU countries.

5) Other income

Other income is analysed as follows:

(Thousands of Euro)	FY 2006	FY 2005	Change
	2006	2005	
Grants	219	154	65
Sundry other income	3	6	(3)
Total Other income	222	160	62

The item "Sundry other income' comprises:

- Grants earned in relation to costs incurred on the "Ion Channels" research project funded by the EU, for an amount of Euro 169 thousand, and a forgivable loan of Euro 50 thousand receivable in relation to a new research project funded by the FIRB, as better illustrated in the Directors' report on operations, to which reference is made;
- Income from the company canteen and non-recurring income.

B) Cost of production

6) Cost of raw materials, consumables and goods

(Thousands of Euro)	FY 2006	FY 2005	Change
	2006	2005	
Purchases of goods	1,022	833	189
Total Cost of raw materials, consumables and goods	1,022	833	189

7) Cost of services

Cost of services is analysed as follows:

(Thousands of Euro)	FY 2006	FY 2005	Change
Utilities	73	48	25
Maintenance expenses	16	21	(5)
Emoluments of company boards	141	116	25
Services and consulting	22,824	8,660	14,164
Conferences, travel and advertising expenses	442	411	31
Car fleet	18	22	(4)
Administrative expenses	216	270	(54)
Other costs	303	370	(67)
Bank commissions	17	19	(2)
Total	24,050	9,937	14,113

"Services and consulting" (Euro 22,824 thousand) is equally divided between research and development (which rose from Euro 7,045 to 11,802 thousand) and administrative expenses, which increased from Euro 1,615 to 11,022 thousand. Research and development expenses, including mainly third party consulting fees and the operating costs of ongoing trials, increased in relation to the growing volume of activity. The significant increase (Euro 9,406 thousand) in administrative expenses is almost entirely attributable to two factors: the costs incurred by the company for the flotation process, equal to about Euro 7.6 million – 10.2 % of funds raised – and a large increase in legal expenses in relation to the interference dispute with Purdue that has already been illustrated in detail in the Directors' report on operations.

8) Cost of utilisation of third parties' assets

In detail:

(Thousands of Euro)	FY 2006	FY 2005	Change
Leases	530	521	9
Rentals	87	63	24
Total Cost of utilisation of third parties' assets	617	584	33

The item "Leases" relates to the rent for the offices in which we operate: the increase was due to the effect of inflation on the annual rent. The item "Rentals" relates to cars (Euro 81 thousand) which by company policy are used only by executives.

9) Personnel costs

Personnel costs are analysed as follows:

(Thousands of Euro)	FY 2006	FY 2005	Change
Wages and salaries	2,410	2,629	(219)
Social charges	769	755	14
Staff leaving indemnity (TFR)	156	162	(6)
Other costs	6	7	(1)
Total Personnel costs	3,341	3,553	(212)

In spite of headcount having remained in line with 2005, as shown below, the cost of "Wages and salaries" was lower than last year. The year 2005 was special for two reasons: the company paid a TFR supplement (not subject to social charges) to a leaving executive and a few employees (5 middle managers and clerks) left the company, mostly in the last quarter of the year. For this reason, while headcount at the year end was the same, the cost of 2006 was slightly lower than in 2005.

Changes in headcount are detailed as follows:

	FY 2006	FY 2005	Change	FY 2006	FY 2005	Change
Category	**Average headcount**			**Headcount at year end**		
Executives	6.5	5.5	1	8	5	3
Middle managers	15.0	17.0	(2)	15	15	-
whereof part- timers	*1*	*1*	-	*1*	*1*	-
Clerks	11.5	15.5	(4)	10	13	(3)
whereof part-timers	*1*	*1*	-	*1*	*1*	-
Total	33	38	(5)	33	33	-

The average cost per person was equal to Euro 101 thousand, a significant increase on 2005 (Euro 84.3 thousand). In anticipation of the flotation, the company started creating an organisation structure suitable for possible future growth, especially trying to fill with employees significant functions that were previously not filled or managed by consultants.

10) Amortisation, depreciation and write-downs

In detail:

(Thousands of Euro)	FY 2006	FY 2005	Change
Amortisation of intangible assets	139	151	(12)
Depreciation of tangible assets	109	174	(65)
Total Amortisation, depreciation and write-downs	248	325	(77)

The amortisation and depreciation amounts reflect movements in intangible and tangible assets during the period.

14) Other operating charges

Other operating charges went from Euro 74 to 31 thousand, a decrease of Euro 43 thousand.

C) Financial income and charges

16) Other financial income

Other financial income is analysed as follows:

(Thousands of Euro)	FY 2006	FY 2005	Change
Financial income from securities recorded as current assets	177	199	(22)
Other financial income from other companies	141	4	137
Total Other financial income	318	203	115

The item "Financial income from securities recorded as current assets" of Euro 177 thousand relates to interest accruing on repurchase agreements.

The item "Other financial income from other companies" of Euro 141 thousand relates to interest receivable on current accounts with banks and interest-bearing deposits: the significant increase is related to interest accruing on receipts banked in the course of the flotation process.

17) Interest and other financial charges from others

"Interest and other financial charges from others" relates to interest charges paid by the company in the course of 2006. The amount of Euro 12 thousand (slightly higher than in 2005) relates to interest paid to the Ministry of Production Activities in relation to the facilitated loan (Law No. 46) received in connection with one of our research projects. Interest accrues only on the portion actually disbursed: the increase on FY 2005 was due to the fact that in June 2006 the company received the second tranche of the loan, equal to Euro 337 thousand (the balance is still outstanding), therefore the notional amount on which interest is computed rose to Euro 1,375 thousand. The facilitated interest rate is 1.012 % per annum.

All interest and other financial charges were entirely expensed in the period.

17 bis) Exchange gains and losses

Exchange gains and losses are detailed as follows:

(Thousands of Euro)	FY 2006	FY 2005	Change
Exchange gains	70	5	65
Exchange losses	(8)	(21)	13
Total	62	(16)	78

As of December 31, consideration of the large loss reported for the period, no provision for unrealised exchange gains (equal to Euro 9 thousand) has been recognised.

E) Extraordinary income and expenses

21) Extraordinary expenses

Extraordinary expenses went from Euro 9 to 1 thousand. The amount relates to non-recurring losses.

Additional disclosures

Directors' and statutory auditors' emoluments

With reference to the requirements of article 2427 of the Civil Code, we state that the compensation payable to the directors and statutory auditors and included in the FY 2006 operating charges of Newron Pharmaceuticals S.p.A. totals Euro 973 thousand and is detailed as follows:

Family name and first name	Office	Term	Emoluments	Non-cash benefits	Other benefits	Note
Parenti Francesco	Director		16			
Stahel Rolf	Chairman of the board of directors		50		189	1
Musu Carlo	Director	a	14			
Guérin Hervè	Director	b				
Benatti Luca	Director			8	396	2
Fariello Ruggero	Director		16			
Besse Joel	Director	a				
Lucander Renée	Director	b				
Laurent Ganem	Director					
Axel Bolte	Director					
Alexandra Goll	Director					
Conti Massimo	Permanent auditor		14			
Ortolani Antonio	Chairman of the board of statutory auditors		16			
Murphy Richard	Permanent auditor		13			
Total			139	8	585	

Notes:
1: Consulting contract
2: Employee remuneration
a: In office until November 7, 2006
b: In office since November 7, 2006

Unless indicated otherwise, the members of the board of directors were appointed on February 15, 2005 and their term in office will expire at the annual general meeting to be held to approve the financial statements as of December 31, 2007. The appointments of the members of the board of statutory auditors expire at the annual general meeting held to approve the financial statements as of December 31, 2006.

Late payment interest as per Legislative Decree No. 231 of October 9, 2002

For the purposes of Legislative Decree No. 231/2002 we point out that the company does not apply interest on late payments.

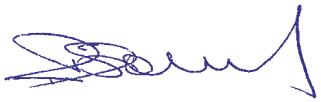
Payables and receivables falling due after 5 years

All receivables and payables fall due within 5 years.

Result for the period

The financial year closed with a net loss of Euro 23,433 thousand.

Signed on behalf of the board of directors



The chairman
Rolf Stahel

Auditors' Report

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SpA

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 2409-TER OF THE CIVIL CODE

To the Shareholders of
NEWRON PHARMACEUTICALS SPA

1 We have audited the financial statements of Newron Pharmaceuticals SpA as of 31 December 2006. These financial statements are the responsibility of Newron Pharmaceuticals SpA's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with Italian standards on auditing. Those standards require that we plan and perform the audit to obtain the necessary assurance about whether the financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the financial statements of the prior period, which are presented for comparative purposes as required by law, reference is made to our report dated 2 October 2006.

3 In our opinion, the financial statements of Newron Pharmaceuticals SpA as of 31 December 2006 comply with the laws governing the criteria for their preparation; accordingly, they give a true and fair view of the financial position and of the results of operations of the Company.

Milan, 21 March 2007

PricewaterhouseCoopers SpA

Andrea Crespi
(Special authorised signatory)

This report has been translated into the English language solely for the convenience of international readers.

Information for Investors

Major shareholders *

	As at December 31, 2006
3i Group plc	16.1 %
NPI Services S.a.r.l.	12.5 %
HBM Bio Ventures (Cayman) Ltd.	7.3 %
NWB Investissements S.p.r.l.	7.1 %

* with holdings of more than 5 %

Share price data

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

	FY 2006
Number of shares	5,820,106
Year high (in CHF)	53.6
Year low (in CHF)	49.5
Year end (in CHF)	53.3
Loss per share (in €)	4.32
Cash and cash equivalents as at December 31 (in €)	74,765,166
Market capitalization as at December 31 (in CHF)	310,211,650 (based on 5,820,106 outstanding shares and a share price of CHF 53.30)

Financial Calendar

March 27, 2007	Year-end results 2006
April 23, 2007	Annual General Meeting
September 14, 2007	Half-year results 2007

Contact

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Glossary

Activities of Daily Living (ADLs)
Routine activities of every day 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 healthcare or long-term care insurance).

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

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

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

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

Alzheimer's disease
A progressive degenerative disease of the brain of unknown etiology, characterised by diffuse atrophy throughout the brain with characteristic pathological changes suggestive of degeneration, and/or necrosis. The disease is characterised 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 pre-treatment status.

Daily motor fluctuations (the "on/off" effect)

An unpredictable succession of "off" periods when patients experience full disability and "on" periods when the drug being administered is successfully alleviating the patient's symptoms.

Dopamine

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

Dopamine re-uptake

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-blinded study

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

Dyskinesias

Abnormal, involuntary body movements that can appear as jerking, fidgeting, twisting, and turning movements.

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

Endogenous

Produced or synthesized within the organism.

Epilepsy

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

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-solve in the natural environment and assessing how flexible a person is when faced with a changing routine.

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

GABA

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

Gastrointestinal

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

Glutamate

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

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

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

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

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

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

IRLS
International Restless Leg Scale: is an easily and quickly administered instrument which can be applied to all patients with restless legs syndrome (RLS) to measure disease severity for clinical assessment, research, or therapeutic trials.

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.

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

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

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

Mixed peripheral neuropathic pain
Peripheral neuropathic pain of different aetiologies.

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

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

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

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

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

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

NSAIDs
Non-steroidal anti-inflammatory drugs.

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

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

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

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

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

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

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

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

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

Randomised/Randomisation
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 characterised by selective binding of a specific substance and a specific physiologic effect that accompanies the binding.

Restless Legs Syndrome (RLS)
Restless legs syndrome (RLS) is a Sleep disorder/movement disorder that causes tingling, pulling, creeping or painful sensations in the legs at night. This sensation is brought on by lying down in bed or sitting for prolonged periods, such as while driving or at a theatre. RLS typically occurs in the evening, making it difficult to fall asleep. Often, people with RLS want to walk around and shake their legs to help relieve the uncomfortable sensation.

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

Substance P

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

Substantia nigra

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

Titration-up

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

Tricyclic

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

Tetrodotoxin

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

Tetrodotoxin-resistant

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

Tetrodotoxin-sensitive

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

Tyramine

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

UPDRS

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

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