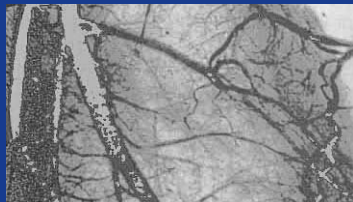


Financial Report



2006



Creating value
through therapeutic innovation

Management's discussion and analysis of financial conditions and results of operations

CORPORATE GOVERNANCE

NicOx seeks to follow market best practice in corporate governance.

THE BOARD AND COMMITTEES

BOARD OF DIRECTORS

The directors bring a range of relevant expertise and experience from the pharmaceutical field to NicOx' Board of Directors. At present, the Board of Directors consists of seven executive directors, of whom four are regarded as independent. The Board met eight times during fiscal year 2006. The Board of Directors prepares and presents the year-end accounts to the shareholders and convenes shareholder meetings. In addition, the Board of Directors reviews and monitors the economic, financial and technical strategies of the Group.

The Board of Directors comprises three working committees: the Audit Committee, the Compensation Committee and the Corporate Governance Committee, the functioning of which is governed by the rules and regulations of the Board of Directors.

Moreover, an Executive Committee of seven top managers is in charge of the follow up and coordination of NicOx' operational activities.

RULES AND REGULATIONS OF THE BOARD OF DIRECTORS

The Board of Directors of NicOx has adopted rules and regulations in order to govern its functioning and that of its committees.

The rules and regulations of the Board of Directors notably include the following points:

- composition of the Board of Directors in order to ensure its independence;
- the conditions of holding of Board meetings;
- the mode in which the members of the Board of Directors should be informed of the Group business;
- a list of decisions for which the Chief Executive Officer has to obtain preliminary approval of the Board of Directors;
- the nature and function of the audit committee, including how accounting documents should be reviewed, the relationship with statutory auditors and the review of internal control procedures;
- the nature and function of the compensation committee, including an annual examination of the compensation and in-kind benefits paid to Board members and employees with the title of Director; VP, and Head of R&D;
- the nature and function of the corporate governance committee, which notably include the review of corporate governance procedures and the appointment of Board members and employees with the title of Senior Director, Vice President, Financial Director and Head of R&D;
- principles of allocation of director fees;
- a reminder of confidentiality obligations;
- a procedure for the declaration of transactions made by Board members and their families in NicOx' shares;
- recommendations to prevent insider trading.

AUDIT COMMITTEE

The Audit committee's functions include reviewing and evaluating the results and scope of the audit and other services provided by the Group's statutory auditors, reviewing the accounting principles and system of internal controls and approving actions or transactions requiring Audit committee approval. The Audit committee comprises Jean-Luc Bélingard, Jörgen Buus Lassen and Vaughn Kailian. The Audit committee is chaired by Jean-Luc Bélingard.

COMPENSATION COMMITTEE

The Compensation committee is responsible for making recommendations on remuneration of the Group's executive officers. The Compensation committee comprises Göran Ando, Frank Baldino, and Bengt Samuelsson. The Compensation committee is chaired by Frank Baldino.

CORPORATE GOVERNANCE COMMITTEE

The Corporate governance committee is notably in charge of fixing the criteria to evaluate the independency of the Board members and of evaluating and following corporate governance procedures, ensuring that corporate governance rules and recommendations are properly implemented, examining candidacies of Board members and employees with the title of Director. The Corporate governance committee comprises Frank Baldino, Jean-Luc Bélingard and Vaughn Kailian. The Corporate governance committee is chaired by Vaughn Kailian.

RELATIONS WITH SHAREHOLDERS

NicOx attaches a high priority to its communications with shareholders. The Group maintains regular relations with its shareholders through the provision of interim and annual reports, press releases, presentations at conferences, through its website www.nicox.com and through regular one-to-one meetings with institutional shareholders.

INTERNAL CONTROL

In accordance with the « French Financial Security Law », NicOx has implemented internal control procedures applicable to all group entities to ensure rigorous financial and risk management, with the objective of providing financial information and consolidated reports. For this purpose, the Group has adopted the following processes:

- control that operational activities and staff behavior comply with regulations the Group's business orientation, as set forth by corporate bodies, applicable laws and rules, principles, standards and the Group's in-house rules;
- the identification and evaluation of internal and external risks to which the Group may be exposed, including the proposal of solutions to prevent and manage these risks;
- the implementation of the technical means needed to control activities;
- the organization and control of the flow of information within the Group and to external partners, to ensure the coordination of activities and facilitate the decision making process;
- control of the various activities of the Group, in order to continuously evaluate their performance and determine whether the procedures are respected.

NicOx has decided to put in place procedures, which not only explain the different processes of the Group's management but also aim to improve and develop transparency and optimum control.

The Audit committee and the Board of Directors are informed of the functioning of this internal control and its conclusions. Thus, the control and management bodies can monitor and assess any significant business, operational, financial, compliance and other risks. The executive directors provide the Board of Directors with regular and detailed documentation relating to research and development programs, clinical development programs, business development activities, financial performance, and intellectual property management.

OVERVIEW

Established in February 1996, NicOx is a research and development-based pharmaceutical company. Its historical financial results principally reflect research and development expenses and limited revenues under its collaboration agreements with pharmaceutical companies.

In November 1999, NicOx successfully completed its initial public offering on the Nouveau Marché of Euronext Paris, raising €33.2 million. In May 2001, it received a total of €59.33 million in gross proceeds from a follow-on public offering. In September 2004 and May 2006, the Company raised €26 million and €45.5 million, respectively, in gross proceeds from two offerings. In June 2006, the Company received €15 million from the increase of capital reserved to its partner Pfizer. These proceeds brought significant resources for accelerating product development and allowed NicOx to consolidate its research and development infrastructure. With €60.3 million in cash and cash equivalents, as of December 31, 2006, the Company will pursue its growth with the goal of becoming a fully integrated biopharmaceutical company and a leader in the research, development and marketing of nitric oxide-donating compounds. In addition, in February 2007, the Company raised a total of €129.7 million in gross proceeds from a rights issue. NicOx expects its expenses and net losses to continue to increase, in line with its strategy of conducting the clinical development of its most advanced drug candidates in-house where possible, and notably of its compound naproxinod currently in phase 3 clinical trials.

NicOx employs a business model that relies significantly on outsourcing of its research and development studies through contract research providers. The Company also relies on third-party manufacturers for the production of compounds. Management believes that this business model allows an efficient and flexible control of spending that is closely linked to the progress of its development projects.

To date, NicOx's revenues have been earned through collaboration agreements and research and development services performed for pharmaceutical companies. License concessions are immediately booked as revenues when the agreement is signed provided the amount cannot be refunded and the Company has no future development commitments. The revenues from collaboration agreements are initially booked as prepaid income and are spread over the estimated time of the Company's involvement in future development, which is periodically reviewed to factor in the progress of development and the services that are yet to be provided. To date, NicOx has not had to make any material adjustments to these amounts.

Because the Company's expenses are principally a function of its research and development activities and because the revenues generated over the next few years under its collaboration agreements may fluctuate significantly, results of operations for a given period may not be comparable to those for any other period. In addition, past results cannot be considered as an indication of future results.

RESULTS OF OPERATIONS

Comments on results of Operations for 2005 versus 2004 are reported in the 2005 "document de référence" pages 68, 69 and 70.

For the years ending December 31, 2006 and 2005

REVENUES

The Company's revenues reached €9.6 million in 2006, compared to €6.5 million in 2005. This significant increase in revenues came from the following amounts that were recognized as revenues on December 31, 2006:

- €4.6 million corresponding to the initial payment of €8 million from Pfizer (€5 million as a technology exclusivity fee and €3 million in research funding) following the signature in March 2006 of an agreement that granted Pfizer rights to an exclusive worldwide license to develop and commercialize new drug candidates using NicOx' proprietary technology in the field of ophthalmology.
- €4.7 million corresponding to the initial payment of €9.2 million received from Merck & Co., Inc. following the signature of a collaboration agreement for new antihypertensive drug candidates in March 2006.
- €0.3 million corresponding to the allocation during 2006 of the US\$ 2 million license and option payments received from Axcan partially in December 2002 and the balance in January 2003.

These sums, initially recorded as prepaid income, have been deferred from February 2003 for Axcan and March 2006 for Pfizer and Merck & Co. Inc., over the estimated duration of the Company's involvement in the development and research programs provided for under the corresponding agreement, the duration of which are revised periodically, if necessary.

OPERATING EXPENSES

Consolidated operating expenses reached €36.3 million in 2006, compared to €22.9 million in 2005. This increase of €13.4 million results primarily from higher research and development expenses.

Research and development expenses amounted to €28.6 million in 2006, compared to €18.0 million in 2005 (including €1.6 million allocated to the cost of sales in 2006 and €1.8 million in 2005). This significant increase is due essentially to development expenses and is primarily explained by the costs of the phase 3 development of naproxinod, such as expenses relating to external collaborations with clinical research organizations and suppliers involved in the clinical development and the manufacturing activities regarding this compound. On December 31, 2006, the Company employed 64 people in research and development, compared to 52 people on December 31, 2005.

Administrative and selling expenses amounted to €7.7 million in 2006, compared to €4.9 million in 2005. General and administrative expenses mainly related to personnel expenses in administrative and financial functions and to the remuneration of corporate officers. These expenses also include structural costs (leases, property service charges and maintenance costs), excluding structural costs related to research and development activities, legal and accounting fees, and other external administrative costs. Selling expenses correspond to business development and communication activities.

OPERATING LOSS

The operating loss amounted to €26.7 million on December 31, 2006 compared to €16.3 million on December 31, 2005. This significant increase is explained by the strong progression in operating expenses as indicated above.

OTHER RESULTS

Net financial income amounted to €2.2 million as of December 31, 2006, compared to €1.1 million as of December 31, 2005 and represents mainly returns on the financial investments of the Company's cash, cash equivalents and current financial instruments.

The income tax expense incurred by NicOx in 2006 relates principally to its Italian subsidiary and amounted to €0.3 million, compared to €0.2 million in 2005.

NET LOSS

Net loss increased by €9.2 million in 2006 to €24.7 million, compared to €15.5 million in 2005. This important increase in consolidated net loss, notwithstanding the increase in revenues recognized over the period, is due to the significant increase in operating expenses during 2006.

LIQUIDITY AND CAPITAL RESOURCES

NicOx' financial requirements have been met as of December 31, 2006, through private placements of equity securities, payments received under collaboration agreements signed with pharmaceutical partners, and the public offering of shares through its initial public offering in November 1999, through a follow-on public offering in May 2001, two private placements in September 2004 and May 2006 and an increase of capital reserved to a company of the Pfizer group in June 2006.

Since its incorporation in February 1996, NicOx has received, as of December 31, 2006, a total of €187.3 million in gross proceeds from capital increases as follows: €8.3 million from the private placements of equity securities prior to its initial public offering; €33.2 million in gross proceeds from its initial public offering in November 1999; €59.33 million from its follow-on offering in May 2001; €26 million and €45.5 million from the private placements completed in September 2004 and May 2006, respectively and €15 million in June 2006 following the increase of capital reserved to its partner Pfizer.

NicOx has also received a total amount of €38.1 million in payments under collaboration agreements.

The Company has incurred net losses since its foundation and had an accumulated deficit of €110.9 million as of December 31, 2006. This net loss was reduced upon reduction by €2.6 million of its share capital by offsetting of its losses registered in the "carry-forward" account decided by the Shareholders' meeting of May 28, 1999.

The indebtedness incurred by NicOx is mainly short-term operating debt. As of December 31, 2006, its current liabilities amounted to €17.2 million, including €8.1 million of deferred revenues through payment received under collaboration agreements, €6.2 million in accounts payable to suppliers and external collaborators, €0.7 million in accrued compensation for employees, and €0.2 million in taxes payable.

NicOx had no loans outstanding and long-term financial leasing commitments amounted to €0.05 million as of December 31, 2006.

As of December 31, 2006, the Company's financial instruments, cash and cash equivalents amounted to €81.7 million compared to €42.6 million as of December 31, 2005. The Company uses its liquid assets principally to cover research and development expenses, expenses relating to the development of relationships with pharmaceutical companies with a view to encouraging new partnerships, and corporate expenses related to general and administrative and promotional activities.

NicOx' net burn rate, defined with reference to its cash flow statement, represents the net cash the Company spent in conducting its operational activities, excluding net proceeds resulting from its investment and financing activities. The Company's net burn rate in 2006 amounted to €17.8 million, compared to €9.4 million in 2005. This significant increase in the Company's burn rate, notwithstanding the increase in payments relating to collaboration and development agreements received by the Company, for an aggregate amount of €17.2 million in 2006, is explained by the significant increase in the operational expenses incurred by the Company during this period. NicOx expects its burn rate to further continue to increase steadily as a result of in-house clinical development of its compounds, and notably of its drug candidate naproxinod currently in phase 3 clinical development.

NicOx expects its principal source of revenues over the next several years to be milestone payments under its collaboration agreements with pharmaceutical partners.

Under the terms of the agreement signed with Axcan, the total amount of future milestone payments that the Company could receive varies depending on whether the U.S. option is exercised, with a minimum of €2.3 million and a maximum of €12.9 million (calculated at the exchange rate as of December 31, 2006, regarding future amounts that are expressed in U.S. dollars). In addition, in the event that a product from the agreement is

commercialized, the Company will receive royalties of 12 % on Axcan's net sales of the product in Canada, Poland and the United States if the relevant option is exercised for the duration of patent protection. Upon commercialization, NicOx shall also be entitled to produce and provide the active ingredient to Axcan.

The agreement signed with Biolipox in June 2001 provides for the joint development of the selected lead compounds and further that the revenues accrued from future commercial partnerships shall be shared between the parties being specified that especially for No-Cetirizine, it was agreed in May 2006, that Biolipox could continue the development of this compound through a license agreement.

According to the terms of the agreement signed with Merck & Co. in March 2006, NicOx may receive additional potential milestone payments of €279 million (in addition to the €5 millions received in January 2007). In the United States and in certain European countries, the Company has the option to co-promote to specialist physicians such as cardiologists, on a fee for detail basis, any products that result from research programs carried out under the agreement. In addition, Merck & Co. will pay to NicOx industry standard royalties on the sales of all products resulting from this collaboration.

Under the terms of the agreement with Ferrer, NicOx may receive development milestones and, in the event of commercialization of a drug in the licensed territories, commercial success fees plus royalties on any sales of products resulting from the agreement.

The agreement with Pfizer signed in August 2004, provides that NicOx would receive a total of €33 million in milestone payments, plus royalties on any future sales, in the event that the collaboration results in the successful development of a marketed product or products. The agreement signed in March 2006 with Pfizer provides for total potential milestone payments in excess of €300 million in the ophthalmology field, of which €102 million would arise from the successful full development and launch of the first program compound. In the case that NicOx and Pfizer identify a potential indication outside of ophthalmology for a compound developed within their joint research program, Pfizer shall have first option on its development and commercialization. NicOx would then be eligible to receive additional potential milestone payments of up to €194.3 million if this option were exercised. Pfizer will make royalty payments in-line with industry standards on all marketed products that result from the collaboration.

Finally, under the contract terms with Topigen, the Company may receive additional payments if development and commercial objectives are met. The total amount of milestone payments and commercial success fees that NicOx could receive under the agreement vary depending on whether or not the option for obtaining rights for the rest of the world is exercised, with a minimum of €26 million and a maximum of €52.9 million. In addition, should the compound be brought to market, NicOx will receive royalties on Topigen's sales in the licensed territories. Finally, in the event Topigen reaches an agreement with a third party to develop and market the TPI 1020 (NCX 1020) compound, NicOx would also receive a share of any revenue that Topigen would collect under such an agreement, including licensing revenues, milestone payments and potential royalties.

NicOx does not expect any of these products to be marketed until 2010 at the earliest, and cannot guarantee the certainty or timing of regulatory and other approvals required for marketing.

The Company's future capital requirements, the timing and the amount of expenditures, and the adequacy of available capital will depend upon a series of factors, notably: its available cash and cash equivalents; its capacity to raise funds; the scope and progress of its research and development programs; its ability to sign new strategic partnerships and maintain its current agreements; its progress in developing and commercializing new compounds resulting from its development programs and collaborations; technological developments; its preparation and filing of patent applications; the securing and maintaining of its patents and other intellectual property rights and its dealings with the regulatory process.

NicOx expects the possibility for its research and development expenses to increase significantly and continuously until 2010, at the earliest, which is the year when the launch of its first product on the market is contemplated. The level of the Company's expenditure could be significantly different from its projections, depending on the progress of clinical trials for its drug candidates, its financial situation and market conditions. Under the contract with Axcan, certain research and development expenses relating to compound NCX 1000 shall be shared between the two parties until the end of phase 2 studies. Phase 3 trials and regulatory filings shall be carried-out by Axcan in the licensed territories. The agreement signed with Biolipox provides that clinical development costs of selected compounds shall be fully supported by Biolipox. Under the agreement with Merck & Co. signed in March 2006, NicOx is involved in a research program focused on identifying lead candidates for development, while Merck & Co. will fund and manage all further pre-clinical and clinical development activities following selection of lead compounds. The agreement with Ferrer provides that Ferrer will be responsible for funding development activities through to registration for the selected compounds. Under the agreement signed with Pfizer in August 2004, Pfizer is responsible for funding and developing the selected lead compound. The agreement signed with Pfizer in March 2006 provides that NicOx will receive €3 million in research funding on each anniversary of the agreement for the duration of the research program. In case Pfizer exercises the option to obtain an exclusive worldwide license, Pfizer

will fund the subsequent development of selected compounds. Finally, regarding the agreement signed with Topigen in 2005, Topigen will fund all of the development activities of the selected compound until the drug is registered. In the event that NicOx should conclude new partnerships on certain products, it is expected that the selected partners would bear part, if not all of the future development expenses on these compounds. Until such time as further compounds are partnered by NicOx, the Company will bear all costs related to their development.

Statutory Auditors' Report on the consolidated financial statements year ended December 31, 2006

PricewaterhouseCoopers Audit
55, allée Pierre Ziller
Route des Dolines,
B.P.165
06903 Sophia-Antipolis Cedex
S.A. au capital de 2.510.460

Commissaire aux comptes
Membre de la Compagnie régionale de Paris

ERNST & YOUNG Audit
Village d'entreprise Green Side
400, avenue de Roumanille
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06905 Sophia Antipolis Cedex
S.A.S. à capital variable

Commissaire aux comptes
Membre de la Compagnie régionale de Versailles

This is a free translation into English of the statutory auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. This report includes information specifically required by French law in all audit reports, whether qualified or not, and this is presented below the opinion on the financial statements. This information includes (an) explanatory paragraph(s) discussing the auditors' assessment(s) (1) of certain significant accounting matters. These assessments were made for the purpose of issuing an opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the consolidated financial statements. The report also includes information relating to the specific verification (2) of information in the group management report.

This report[, together with the statutory auditors' report addressing financial and accounting information in the Chairman's report on internal control], should be read in conjunction with, and is construed in accordance with French law and professional auditing standards applicable in France.

To the shareholders

Following our appointment as statutory auditors by your Annual General Meeting, we have audited the accompanying consolidated financial statements of NicOx, S.A. for the year ended December 31, 2006.

The consolidated financial statements have been approved by the board. Our role is to express an opinion on these financial statements based on our audit.

I. - OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group at December 31, 2006 and of the results of its operations for the year then ended in accordance with IFRS, as adopted by the EU.

II. - JUSTIFICATION OF ASSESSMENTS

In accordance with the requirements of article L. 823-9 of French Company Law (Code de commerce) relating to the justification of our assessments, we bring to your attention the following matters:

ACCOUNTING PRINCIPLES

Note 2.6 to the consolidated financial statements exposes the accounting treatment adopted and applied to research and development costs incurred by the company.

Note 2.16 sets out the accounting rules and methods relating to turnover, and in particular, income generated by license agreements, and to R&D services.

In the scope of our assessment of the accounting rules and principles adopted by your company, we have verified the appropriateness of the aforesaid accounting methods and the information provided in the notes to the financial statements and ensured their proper application.

ACCOUNTING ESTIMATES

Note 3 to the consolidated financial statements describes the significant accounting estimates and judgments made by the management. Our work consisted in assessing the data and assumptions used as a basis for these judgments and estimates, reviewing, on a test basis, the calculations made by the company, examining the approval

procedures regarding these estimates by the management and verifying that the notes to the financial statements provide appropriate information on the assumptions made by the company.

We have assessed the reasonableness of these estimates.

The assessments were thus made in the context of the performance of our audit of the consolidated financial statements taken as a whole and therefore contributed to the formation of our audit opinion expressed in the first part of this report.

III. - SPECIFIC VERIFICATION

In accordance with professional standards applicable in France, we have also verified the information given in the group management report. We have no matters to report regarding its fair presentation and conformity with the consolidated financial statements.

Sophia-Antipolis, March 9, 2007

THE STATUTORY AUDITORS

PricewaterhouseCoopers Audit
Philippe Willemin

ERNST & YOUNG Audit
Anis Nassif

CONSOLIDATED INCOME STATEMENT

	Note	For the year ended December 31	
		2006	2005
		<i>(in thousands of € except for per share data)</i>	
Revenues	5.1	9,630	6,528
Cost of sales	5.2	(1,605)	(1,775)
Research and development expenses	5.2	(26,966)	(16,201)
Administrative and selling expenses		(7,717)	(4,888)
Operating loss		(26,658)	(16,336)
Net financial income	5.3	2,223	1,056
Loss before income tax		(24,435)	(15,280)
Income tax expense	6	(261)	(228)
Loss for the fiscal year		(24,696)	(15,508)
Attributable to:			
- Equity holders of the Company		(24,696)	(15,508)
- Minority interests		-	-
Earnings per share attributable to equity holders of the Company:			
Basic	7	(0.69)	(0.48)
Diluted	7	(0.69)	(0.48)

CONSOLIDATED BALANCE SHEET

	Notes	For the year ended December 31:	
		2006	2005
		<i>(in thousands of €)</i>	
ASSETS			
Non current assets			
Property, plant, & equipment	8	1,900	1,444
Intangible assets	9	214	190
Government subsidies receivable	10	1,521	266
Other financial assets		141	148
Deferred income tax assets	6	11	13
Total non-current assets		3,787	2,061
Current assets			
Trade receivables	11	2,142	2,172
Government subsidies receivable	10	708	708
Other current assets	12	1,670	1,724
Prepaid expenses		1,362	1,535
Current financial instruments	13	27,602	7,109
Cash and cash equivalents	14	54,138	35,476
Total current assets		87,622	48,724
TOTAL ASSETS		91,409	50,785
LIABILITIES			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	15	7,610	6,429
Other reserves	15, 16.1, 16.2	66,302	32,606
Minority interests in equity		-	-
Total equity		73,912	39,035
Non-current liabilities			
Provisions for other liabilities and charges	17	118	61
Deferred income tax liabilities	6	110	83
Finance lease	19.2	34	20
Total non-current liabilities		262	164
Current liabilities			
Provisions for other liabilities and charges	17	17	354
Finance lease	19.2	17	20
Trade payables		6,188	7,931
Deferred revenue	18	8,102	558
Current income tax payable	6	209	176
Social security and other taxes		2,702	2,533
Other liabilities		-	14
Total current liabilities		17,235	11,586
TOTAL LIABILITIES and Shareholders' Equity		91,409	50,785

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31:

	notes	2006	2005
		(in thousands of €)	
Net loss*		(24,696)	(15,508)
Elimination of non-monetary items:			
Amortization of intangible assets	5.2	109	107
Depreciation of property, plant and equipment	5.2	484	392
Change in provisions for contingent liabilities		(281)	(25)
Effect from discounting receivables and debts		(88)	(14)
Calculated income and expenses relating to share-based payments ...		1,997	545
Unrealized gains and losses related to changes in the fair value of current financial instruments	5.3	(347)	804
Gains realized on current financial instruments	5.3	(160)	(1,382)
Deferred income tax	6	29	48
Other		5	-
Change in working capital requirements:			
Trade receivables	11	82	517
Government subsidies	10	(1,247)	1,647
Prepaid expenses		173	(445)
Trade payables		(1,691)	5,002
Income tax payable, social security and other taxes		266	639
Deferred revenue		7,544	(1,673)
Other		(22)	(4)
Net cash flow from operations		(17,843)	(9,350)
Cash flow from investing activities:			
Acquisition of current financial instruments		(31,145)	(4,999)
Proceeds from current financial instruments	13	11,159	15,491
Purchase of intangible assets	9	(133)	(63)
Purchase of property, plant, & equipment	8	(907)	(281)
Other long-term assets		(18)	(7)
Net cash flow from investing activities		(21,044)	21,507
Net cash flow from financing activities			
Proceeds from issues of shares		57,412	-
Purchase and resale of treasury stock		158	(32)
Increase (decrease) in borrowings under finance leases		(21)	16
Net cash flow from financing activities		57,549	(16)
Net increase (decrease) in cash and cash equivalents	14	18,662	12,141
Cash and cash equivalents at the beginning of the year		35,476	23,335
Cash and cash equivalents at the end of the year		54,138	35,476
(*) of which tax paid / received		(261)	(180)
(*) of which proceeds from sale of financial instruments		160	1,382
(*) of which proceeds from sale of cash equivalents		992	352

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital		Other reserves						Total share-holders equity
	Common stock Number	Amount	Additional paid-in capital	Treasury shares	Share-based payment transactions	Reserves and consolidated earnings	Currency translation differences	Minority interests	
<i>(€ thousands except for numbers of shares)</i>									
As of January 1, 2005	32,145,898	6,429	114,777	(43)	1,091	(68,214)	(2)	-	54,038
Issuance of common stock	-	-	-	-	-	-	-	-	-
Share-based payment transactions	-	-	-	-	544	-	-	-	544
Treasury shares	-	-	-	(38)	-	5	-	-	(33)
Income (loss) for the year	-	-	-	-	-	(15,508)	-	-	(15,508)
Currency translation differences	-	-	-	-	-	-	(6)	-	(6)
As of December 31, 2005	32,145,898	6,429	114,777	(81)	1,635	(83,717)	(8)	-	39,035
Issuance of common stock	4,552,000	971	59,339						60,310
Transaction costs on issuance of common stock	1,350,135	210	(2,617)						(2,407)
Transaction costs on capital increase in progress at year-end			(490)						(490)
Share-based payment transactions	-	-	-	-	1,997	-	-	-	1,997
Treasury shares	-	-	-	38	-	120	-	-	158
Income (loss) for the year	-	-	-	-	-	(24,696)	-	-	(24,696)
Currency translation differences	-	-	-	-	-	-	5	-	5
As of December 31, 2006	38,048,033	7,610	171,009	(43)	3,632	(108,293)	(3)	-	73,912

Notes to consolidated financial statements

1. DESCRIPTION OF THE BUSINESS

NicOx SA, a French limited liability corporation (société anonyme) formed in February 1996 and listed for trading on the Eurolist by Euronext (Next Economy Segment) since November 3, 1999, is an emerging pharmaceutical company specializing in the research and development of nitric oxide donating drugs which are more effective and tolerable than existing compounds in the therapeutic areas of inflammation and cardiometabolic diseases. NicOx seeks to commercialize its products through partnerships and co-development agreements where it maintains future marketing rights for specialist products. The Group's registered office is located at 1681, route des Dolines 06906, Sophia Antipolis, France. The financial statements published were approved by the Board of Directors on February 28, 2007.

2. ACCOUNTING PRINCIPLES

2.1. PRINCIPLES USED IN THE PREPARATION OF FINANCIAL STATEMENTS

The consolidated financial statements of NicOx S.A. and of all of its subsidiaries ("the Group") have been prepared in accordance with IFRS as adopted in the European Union.

The consolidated financial statements of NicOx S.A. and all of its subsidiaries ("the Group") have been prepared on a historical cost principle except for the following assets and liabilities, which are presented at their fair value: other financial assets with a useful life of over one year, current financial instruments, cash and cash equivalents, and long-term debt and receivables. The consolidated financial statements are presented in euros with their value being rounded to the nearest thousand euros (€000) unless otherwise indicated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

The following new standards, amendments to existing standards, and interpretations are mandatory for the fiscal year beginning January 1, 2006, but have no impact on the financial statements of the Group:

- Amendment to IAS 19, Actuarial gains and losses, group plans, and disclosures (applicable to fiscal years beginning on or after January 1, 2006). The Group has decided to maintain the accounting method applied until now to account for actuarial differences;
- Amendment to IAS 39, "Fair value option" amendment (applicable to fiscal years beginning on or after January 1, 2006). This amendment has no impact on the classification and valuation of the financial instruments classified at fair value through the income statement before January 1, 2006; the Group is able to meet the modified conditions for designating a financial instrument at fair value through profit and loss;
- Amendment to IAS 21, Net investments in foreign operations (applicable to fiscal years beginning on or after January 1, 2006). The Group is not affected by this standard;
- Amendment to IAS 39, Cash flow hedge accounting of forecast intragroup transactions (applicable to fiscal years beginning on or after January 1, 2006). The Group is not impacted by this amendment;
- Amendment to IAS 39 and IFRS 4, Financial guarantees (applicable to fiscal years beginning on or after January 1, 2006). The Group is not affected by this amendment;
- IFRS 6, Exploration and evaluation of mineral resources (applicable to fiscal years beginning on or after January 1, 2006). The Group is not affected by this standard;
- IFRIC 4, Determining whether an arrangement contains a lease (applicable to fiscal years beginning on or after January 1, 2006). After a review of different contracts, the Group concluded that some of them must be recognized as lease agreements pursuant to IAS 17. However, these contracts are simple leases, the reclassification of which had no impact on the related accounting charge;
- IFRIC 5, Rights to interests arising from decommissioning, restoration and environmental funds (applicable to fiscal years beginning on or after January 1, 2006). The Group is not affected by this interpretation; and
- IFRIC 6, Liabilities arising from participating in a specific market – waste electrical and electronic equipment (applicable to fiscal years beginning on or after December 1, 2005). This interpretation does not apply to the Group's operations.

The following new standards, amendments to existing standards and interpretations have been published, but are not required to be applied in 2006 and have not been adopted early:

- IFRIC 7, Applying the restatement approach to financial statements under IAS 29, Financial reporting in hyperinflationary economies (applicable to fiscal years beginning on or after March 1, 2006). Management believes that this interpretation should not apply to the Group's operations;
- IFRIC 8, Scope of IFRS 2 (applicable to fiscal years opened on or after January 1, 2009). Management is currently assessing the impact of IFRIC 8 on the Group's operations;
- IFRIC 9, Reassessment of embedded derivatives (applicable to fiscal years beginning on or after June 1, 2006). Management believes that this interpretation should not have a material impact on the reassessment of embedded derivatives as this is performed by the Group in accordance with the principles set forth in IFRIC 9;
- IFRIC 10, Interim financial reporting and impairment (applicable to fiscal years beginning on or after November 1, 2006). Management is currently analyzing this interpretation;
- IFRIC 11, Group and Treasury Share Transactions (applicable for fiscal years beginning on or after March 1, 2007). Management is currently analyzing this interpretation;
- IFRIC 12, Service concession arrangements (applicable to fiscal years beginning on or after January 1, 2008). Management believes that this interpretation should not apply to the Group's operations;
- IFRS 7, Financial instruments: Disclosures (applicable to fiscal years beginning on or after January 1, 2007). Amendment to IAS 1, Presentation of financial statements: Capital Disclosures (effective as of January 1, 2007). After an assessment of the impact of IFRS 7 and the amendment to IAS 1, the Group has concluded that the principal additional disclosures to be provided will involve sensitivity to market risk and the capital disclosures required by the amendment to IAS 1;
The Group will apply IFRS 7 and the amendment to IAS 1 to the fiscal years beginning on or after January 1, 2007;
- IFRS 8, Segment reporting: The Group will apply IFRS 8 as of January 1, 2009.

2.2. BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of NicOx S.A. and the subsidiaries listed in the following table:

Consolidated subsidiary	Date consolidated	Headquarters	Equity interest	Consolidation method
NicOx S.r.l.	1999	Via Ariosto 21, Bresso, MI 20091, Italy	100 %	Full consolidation
NicOx Inc.	2000	1209 Orange Street, Wilmington 19801 New Castel - USA	100 %	Full consolidation

2.3. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the financial statements of NicOx S.A. and of its subsidiaries ("the Group") as of December 31 each year. The subsidiaries' financial statements are prepared for the same period as those of the parent company and use the same accounting methods. Adjustments are made to harmonize any differences in accounting methods. All intra-company transactions and balances are eliminated. The subsidiaries are consolidated from the time the Group takes control up to the date when this control is transferred to outside the Group. When there is a loss of control of a subsidiary, the consolidated financial statements include the profit or losses for the period during which NicOx had control.

2.4. TRANSLATION OF FOREIGN CURRENCIES

The euro (€) is the functional and presentation currency of NicOx S.A. and of its Italian subsidiary NicOx S.r.l.. Transactions in foreign currencies are initially recorded in the functional currency at the exchange rate in effect on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate on the closing date. The exchange rate differences resulting from the aforesaid operations are recorded in the income statement.

The US dollar is the functional currency of the US subsidiary, NicOx Inc. On the closing date, this subsidiary's assets and liabilities are translated into the Group's reporting currency, the euro, at the exchange rate for that date and the income statement is translated at the average exchange rate over the period. The gains or losses resulting from this translation are allocated directly to a separate shareholders' equity line item, "Currency translation differences".

When the Group closes a business abroad, the cumulative amount of deferred translation differences in the separate shareholders' equity line item pertaining to this business must be recognized through the income statement.

2.5. PROPERTY, PLANT & EQUIPMENT

Property, plant, and equipment are reported on the balance sheet at their historical cost less accumulated depreciation. The historical costs include all of the costs directly attributable to acquisition of the assets in question. Any subsequent costs are included in the asset's book value or, if applicable, booked as a separate asset if it is probable that the future economic benefits associated with the asset will go to the Group and that the asset's future cost can be measured reliably. All repair and maintenance costs are expensed through the income statement for the period during which they were incurred.

Depreciation is computed using the straight line method over the asset's estimated useful life, namely:

Laboratory equipment	8 years
Computer equipment	5 to 6 years
Office equipment and fixtures	5 to 10 years
Furniture	9 to 10 years
Vehicles	5 years

Fixed-asset depreciation is charged to the corresponding operating expense line items in the income statement.

The book value of the property, plant and equipment is reviewed for possible write-downs when events or changes in circumstances indicate that their book value might not be recoverable. If there is any indication of this nature and if the book values exceed the estimated recoverable value, the assets are written down to their recoverable amount (Note 2.8).

A fixed asset is derecognized when it is disposed of or when there is no longer any future economic benefit expected from its use or its disposal. Any gain or loss resulting from the derecognition of an asset (computed on the difference between the net proceeds from disposal and the book value of this asset) is included in the operating profit or loss for the year in which the asset was derecognized.

2.6. INTANGIBLE ASSETS

Intangible assets acquired separately

This line item comprises separately acquired intangible assets with a fixed life span. These intangible assets appear on the balance sheet at their historical cost. They include computer software and exclusivity rights on a patent covering a compound currently being developed. The amounts paid to acquire such intangible rights as patents are booked as assets when these rights constitute a probable source of future profits, and when they have a sufficient life span.

They are amortized using the straight line method over their useful lives (in 2006 and 2005, 3 years for software and 5 years for patents). The latter is reviewed each year and any adjustments to be made are booked on a forward-looking basis.

Intangible assets with a fixed life span are those whose useful life can be forecast. If there is any indication at all that an intangible asset has suffered a loss in value, an impairment test is performed based on its estimated recoverable value. Any resulting adjustments are booked on a forward-looking basis.

Research and development costs

Under IAS38, internal development expenses are booked as intangible assets only if all the following criteria are met: (a) technical feasibility necessary to complete the development project; (b) the group's intention to complete the project; (c) the group's ability to use this intangible asset; (d) a demonstration of the probability of future economic benefits attached to the assets; (e) the availability of the technical, financial and other resources to complete the project; and (f) reliable valuation of the development expenses.

Because of the risks and uncertainties related to regulatory authorizations and the research and development process, the criteria for capitalization are not considered to have been met before the authorization to market the drugs is obtained.

Development expenses are booked as intangible assets when regulatory authorizations have been obtained and the various drugs will produce probable economic benefits that exceed the costs incurred.

2.7. OTHER FINANCIAL ASSETS

The Other financial assets item includes various deposits and guarantees paid to execute lease contracts. Other financial assets maturing in more than one year are discounted using the average effective rate applied by lending institutions on the date they are booked.

2.8. RECOVERABLE VALUE OF NON-CURRENT ASSETS

The value of non-current assets is reviewed on each closing date to determine whether there are indications pointing to a loss in their value. If there is an indication that a non-current asset has lost value, the Group estimates the asset's recoverable value. If the non-current asset's book value exceeds its recoverable value, the asset is deemed to have lost value and its book value is lowered to its recoverable value.

2.9. GOVERNMENT SUBSIDIES RECEIVABLE

This line item includes the amount of research tax credits the French government owes to the Group. The research and development costs incurred by the Group's parent company, NicOx S.A., entitle it under certain conditions, to a research tax credit of 10% of the research costs incurred during the year and 40% of the increased spending for the year as compared with the average spending over the two previous years.

The tax credit is deducted from the corporate income tax owed by the Group for the year in which it accrued its research costs. Excess credit not deducted from income tax constitutes a receivable from the government that may be used to pay the income tax owed during the three years following that in which it was recognized. The unused portion at the end of this period is redeemed. This claim is recognized in the item "Government subsidies receivable", and the short and long-term portions are classified respectively as "Current Assets" and "Non-current assets".

As required by IAS20, the claim for the research tax credit is no longer discounted since January 1, 2006.

2.10. TRADE RECEIVABLES

Trade receivables are initially recognized and booked at their fair value, which for long-term receivables corresponds to their discounted value based on the average effective interest rate applied by lending institutions. If applicable, trade receivables are written down to reflect recovery risks. Trade receivables are classified as current assets in as much as they are part of the Group's normal operating cycle.

2.11. CURRENT FINANCIAL INSTRUMENTS

Financial instruments consist of "dynamic" mutual funds subject to a risk of change in value whose recommended investment horizon generally exceeds three months. The performance objective for these short-term investments is to outperform the EONIA. They may be redeemed at any time and some of them offer a capital guarantee upon expiration. These mutual funds are treated as financial assets at fair value through profit or loss. The fair value is determined based on market prices and all of the realized or unrealized profits or losses are booked directly in the income statement.

2.12. CASH AND CASH EQUIVALENTS

The item Cash and cash equivalents includes liquid assets, demand bank deposits, other very liquid short-term investments with maturities less than or equal to three months.

2.13. SHARE-BASED PAYMENTS

The Group grants to its employees (including officers) compensation that is settled in equity instruments (stock options). Some non-employees, like consultants and members of the Board of Directors, who are defined under IFRS 2 as employees or related category of personnel, also receive a compensation paid for with equity instruments (stock warrants) in exchange for the services that they render to the Group.

The cost of these transactions paid in equity instruments is carried at the fair value of the instruments granted at the date they were granted. An outside expert determines the fair value based on the Black & Scholes formula. This valuation method was used in the absence of factors that enable treating the option holders as having particular exercise behaviors on that date. This approach will be adjusted in the future based on behavior statistics.

The cost of transactions settled in equity instruments is expensed and offset by an increase in shareholders' equity over the period during which the rights to profit from equity instruments were acquired. This period ends on the date when the rights to compensation are fully vested. The cumulative charge booked for these transactions at each period-end up to the date the rights are vested reflects this acquisition period and the number of shares that will

finally be acquired. The estimate of the charge also assumes the failure to acquire rights based on the Group's personnel turnover. It is revised where necessary if subsequent information indicates that the number of shares expected to be acquired differs from the previous estimate.

If the beneficiary of compensation paid in equity instruments ceases to work for the Group before the period for acquiring rights is ended, he is not entitled to dispose of the equity instruments granted to him, and consequently no charge is recognized. On the other hand, if the beneficiary quits the Group after he becomes vested, or if he continues to work for the Group without ever exercising his rights, the charge booked previously will not be reversed afterwards.

If the terms of the share-based compensation are modified, a charge is booked for at least the amount that would have been expensed if no change had occurred. In addition, a charge is booked for any increase in the transaction's value resulting from a modification. It is valued at the modification date.

If a stock-based compensation is cancelled, it is treated as if it had been vested on the cancellation date. Any charge concerning this compensation that had not been recognized until then is recorded immediately. However, if a new compensation replaces the compensation cancelled and it is designated as such on the date it is granted, both are treated as if the first had been modified, as described in the previous paragraph.

2.14. PROVISIONS FOR CONTINGENT LIABILITIES

These provisions back commitments resulting from litigation and various risks whose term or amount are uncertain and which the Group could encounter in the course of doing business. A provision is booked when the Group has a legal or implicit obligation to a third party resulting from a past event which will probably or certainly cause a transfer of resources to this third party without at least the equivalent being expected from this third party in exchange, and where these future cash payments may be reliably estimated.

2.15. RETIREMENT LIABILITIES

The Group's commitments resulting from defined benefit retirement plan are determined using the projected unit credit method. These plans are not funded. A value is assigned to these commitments at each closing date. The actuarial methods are provided by outside consultants. The actuarial assumptions used to determine the commitments factor in the economic conditions prevailing in the country. The Group's commitments appear as debt on the balance sheet. Any actuarial difference is expensed during the year it arises.

Some benefits are also provided by defined contribution plans whose contributions are recorded as an expense when they are paid in.

These adjustments are made up to the date the Board of Directors approves the financial statements.

Other events subsequent to the closing date that do not result in adjustments are disclosed in the notes.

2.16. REVENUES

The Group can earn revenues from (i) license concessions for candidate drugs under development which have not yet been approved for the market, (ii) research and development services related to the concession agreements, and (iii) sales or royalties on the sale of drugs.

To date, the Group's revenues only reflect revenue earned through license agreements and research and development services performed for pharmaceutical companies (see Note 4). The research and development contracts generally stipulate various elements with some amounts billable on signing and others billable when certain predefined objectives have been met. These contracts generally have a clause that can award royalties on future product sales.

The license concessions are immediately booked as revenues when the agreement is signed provided the amount cannot be refunded and the Group has no future development commitments. The revenue from research and development contracts is initially booked as deferred revenue and is spread over the estimated time of the Group's involvement in future developments, which is periodically reviewed.

The Group's partners may make certain financial contributions to its research and development efforts. These contributions are deducted from research and development costs.

2.17. COST OF SALES

The cost of sales relates to the costs incurred by the Group in granting its licenses, to protect and maintain the rights granted, performing research and development work concerning these concession agreements, and on the sales or royalties derived from drug sales.

2.18. GOVERNMENT SUBSIDIES

Government subsidies are recognized at their fair value when there is reasonable assurance that they will be received and that all of the attached conditions are met. When applicable, the subsidies received are deferred to be booked as income for the period when they will offset the costs for which they were granted. Following this principle, the subsidies expected in the form of a tax credit for research are recorded as income for the period in which the eligible costs are incurred.

2.19. LEASING CONTRACTS

Leasing contracts that transfer nearly all of the risks and benefits inherent with ownership of the leased asset to the Group are classified as finance leases and booked as an asset on the balance sheet as soon as the contract enters into force. The asset is booked at its fair value or, if it is lower, at the discounted value of the minimum payments the Group makes under the lease. Rent payments are allocated on the liabilities side of the balance sheet between financing expense and loan amortization so as to obtain a constant periodic interest rate on the remaining balance owed. The interest expense incurred under the loan is booked directly against income.

The leasing contracts that leave nearly all of the risks and benefits inherent to owning the asset with the lessor are classified as operating leases. Rent payments are expensed on a linear basis until the lease contract expires.

2.20. INCOME TAX

The Group uses the liability method to account for its deferred income tax. This method dictates that deferred income tax be calculated on the temporary differences that occur between the balance sheet assets and liabilities for tax and reporting purposes. These differences are determined based on the tax code and the tax rates voted or nearly voted in at period end and that will be in force at the time these differences will reverse.

The Group recognizes deferred income tax assets where it is probable that future taxable profits will be available to allow for using the benefit of all or part of this deferred income tax asset. The book value of deferred income tax assets is then reviewed at each closing date. Deferred income tax on items recognized as shareholders' equity is booked as shareholders' equity and not in the income statement.

Deferred taxes are booked as temporary differences relating to equity interests in subsidiaries and affiliates unless the Group controls the schedule for reversing these temporary differences and it is probable that this reversal will not occur in the near future.

2.21. EVENTS AFTER THE BALANCE SHEET DATE

The Group's financial statements are adjusted to reflect subsequent events that change the amounts pertaining to situations that exist at the balance sheet date.

3. MATERIAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continuously updated and are based on historical information and other factors, in particular expectations of future events deemed to be reasonable in light of the circumstances.

ACCOUNTING FOR REVENUES

When the Group commits itself to future development, the revenues are deferred over the estimated time of the Group's involvement. Estimates must be made to determine this time frame. These are regularly updated to factor in the progress of development and the services that are yet to be rendered.

RESEARCH AND DEVELOPMENT COSTS TO BE BORNE

The Group sub-contracts a significant share of its research and development activities to outside partners. It records these expenses at the rate the work progresses. The percentage of completion is determined on the basis of information provided by the outside partners, corroborated by internal analyses. Estimates must be made to determine the percentage of completion.

ASSIGNING VALUES TO STOCK SUBSCRIPTION AND PURCHASE OPTIONS GRANTED TO PERSONNEL

The Group uses actuarial models to assign a fair value to the stock subscription and purchase options that it grants. These valuation models require the Group to make certain assumptions such as the stock's volatility, the employee turnover rate, and the average maturity date at which the options will be exercised.

PROVISION FOR CONTINGENCIES

In drawing up its financial statements, the Group must make estimates to determine how much to set aside for contingencies. These provisions are established based on the opinions received from legal counsel and are reviewed regularly by management.

4. INDUSTRY INFORMATION AND RESEARCH AND DEVELOPMENT AGREEMENTS

The Group's revenues consist exclusively of revenue earned from licensing and development agreements. The research and development work that the Group performs under these agreements or independently of them are at an early stage of advancement, and the Group does not plan to market its drug candidates before 2009. As a consequence, the Group operates in just one segment, which is to perform research and development on pharmaceutical products towards their future commercialization. The major portion of the assets and operating losses over the fiscal years reported is located in France except for property, plant and equipment, particularly laboratory equipment, which is mainly situated in Italy.

The main characteristics of the research and development agreements with the Group's pharmaceutical partners are described below.

4.1. BIOLIPOX AB

In June 2001, the Group signed a research and co-development agreement with Biolipox AB ("Biolipox"), a Swedish research company, covering a new class of nitro compounds used to treat respiratory diseases and based on NicOx' intellectual property and expertise in nitric oxide and on the Biolipox expertise in the characterization of molecule mechanisms and screening for the treatment of respiratory diseases. After obtaining positive results during the research phase, the collaboration was extended in January 2003, in the same therapeutic area, to new compounds. During the fiscal years ended December 31, 2005 and December 31, 2006, this agreement did not generate any revenues. The clinical development costs are paid by Biolipox. The agreement provides that the lead compounds selected shall be jointly developed and revenues accrued from future commercial partnerships shall be shared between the parties. In 2004, there was a change concerning the NO-Cetirizine for topical application, one of the compounds covered by the January 2003 agreements, particularly to change the percentage of licensing revenues which Biolipox may have to repay to the Group.

In May 2006, the agreements were amended in relation to NO-Cetirizine, both for oral and topical application, primarily to officially record that Biolipox intends to continue the development of NO-Cetirizine through a sub-licensing agreement and to set forth the principal conditions that must be included in any such sub-licensing agreement.

The compound NCX 1510 resulting from NicOx's research is the first compound to have been selected under this agreement to enter into clinical development in the respiratory field. Following the positive completion of the phase 1 program, Biolipox initiated on this compound, in January 2004, phase 2 clinical trials in the allergic rhinitis indication. In June 2004, the compound NCX 1510 met the primary evaluation criterion in a phase 2 pilot study, the results of which demonstrated, first, a statistically significant reduction in relation to placebo in the symptoms of allergic rhinitis and, second, an efficacy equivalent to that of the reference systemic treatment. The results of the second clinical trial of the NCX 1510 compound were announced by Biolipox in February 2005, showing the start of action in only 5-10 minutes in a validated model of allergic rhinitis.

As of December 31, 2006, Biolipox was weighing possible partnerships to market and develop the NCX 1510 compound.

4.2. AXCAN PHARMA INC.

In May 2002, NicOx and Axcan Pharma Inc. ("Axcan"), a Canadian company listed on the Nasdaq, signed a co-development and licensing agreement for the compound NCX 1000, a nitric oxide-donating ursodiol derivative, for the treatment of chronic liver diseases including portal hypertension and Hepatitis C. Under the terms of this agreement, the Group granted Axcan an exclusive license to market the compound NCX 1000 in Canada and Poland as well as an option to the same exclusive rights for the United States, which could be exercised within 120 days following completion of proof of concept in phase 2a clinical development, as well as co-exclusivity rights for France, shared with the Group. In consideration for the rights granted, Axcan paid NicOx USD 2 million for the license after obtaining an agreement from the authorities to register an IND ("Investigational New Drug") on the compound NCX 1000. This amount is deferred from an accounting standpoint over the estimated time of the Group's involvement in future developments based on the information known at year-end. As of December 31, 2006, NicOx booked €277,000 as revenues compared with €340,000 at December 31, 2005.

Axcan also agreed to pay amounts that will be billed when certain pre-defined development objectives are met,

until the regulatory authorizations are obtained. The total amount (excluding the first payment of USD 2 million mentioned above) that the Group may receive pursuant to this agreement varies depending on whether the US option is or not exercised, with a minimum of €2,278,000 and a maximum of €12,909,000 (calculated at the exchange rate as of December 31, 2006, regarding future amounts that are expressed in USD). In addition, the Group will also receive royalties of 12 % of net sales of the product in the licensed territories for the duration of patent protection. Upon commercialization, the Group shall also be entitled to produce and provide the active ingredient to Axcan. In the event where the compound NCX 1000 does not reach the first milestone of development, which is represented by successful phase 2a studies, the initial USD 2 million would be transferred on a new development project to be defined in the 2 years following the failure. The contract provides that NicOx will ensure development for pre-clinical and phase 1 studies, and that Axcan will ensure development for the subsequent phases. Axcan and the Group will share certain costs of the development of NCX 1000 jointly through the completion of phase 2 clinical studies. Axcan will conduct the required phase 3 clinical studies and be responsible for regulatory filings in the licensed territories. The Group shall provide the active ingredient during the development program.

As of December 31, 2006, the phase-2 clinical trial began in June 2006 to measure the efficacy of the NCX 1000 compound in portal hypertension continued.

4.3. MERCK & CO., INC.

In August 2003, the Group initiated a research collaboration with Merck & Co., Inc. ("Merck"), to evaluate a selection of molecules, the rights to which are held by NicOx. Under the terms of the contract, NicOx granted Merck an exclusive license option for a defined period covering all of the principal compounds identified in the research program. Merck exercised its exclusive option to negotiate a licensing, development and marketing agreement during the second quarter of 2005. Moreover, in November 2005, Merck and NicOx extended the collaboration agreement signed in August 2003 to expand the scope of investigation to a new research program. Merck paid US\$ 1 million to NicOx (€855,000) for selection work already performed by the Group. This payment was recognized in its entirety as revenues in 2005.

Following the successful completion of the research collaboration, NicOx and Merck in March 2003 signed a new major collaboration agreement for the development of new hypertensive drugs using the NicOx patented nitric acid release technology. At the signature of this agreement, NicOx received an initial payment of €9.2 million. This amount is deferred from an accounting standpoint out over the Group's estimated involvement with the future development work given the information available at the closing date. As of December 31, 2006, NicOx booked an amount of €4,770,000 in revenues for this agreement.

Under the terms of the agreement, NicOx may receive potential additional payments tied to completion of certain steps in the amount of €279 million. NicOx has the option to co-promote the products resulting from this agreement, in consideration for remuneration based on the number of visits made to specialist physicians, such as cardiologists, in the United States and in certain major European countries. Moreover, Merck will pay NicOx royalties in an amount in line with industry practices on the sales of all products resulting from this collaboration. The agreement covers the nitric oxide donor byproducts in several major categories of anti-hypertension agents for the treatment of high blood pressure, the complications of hypertension, and other cardiovascular and related pathologies. Merck has an exclusive right for development and marketing of the anti-hypertension drugs using the NicOx nitric oxide release technology in the treatment of systemic hypertension. NicOx continues to be involved in the new research program that will be focused on the identification of lead candidates for development, while Merck will finance and manage all additional clinical and pre-clinical development activities that follow the identification of lead compounds.

4.4. FERRER GRUPO

In April 2004, NicOx signed a licensing and co-development agreement with Ferrer Grupo ("Ferrer") for the research, development and marketing of certain new steroid derivatives for the treatment of dermatological diseases in selected markets. This agreement generated no revenue in the years ended December 31, 2005 and 2006. Under the terms of the agreement, NicOx will receive scheduled payments and a remuneration based on the achievement of commercial objectives. In addition, the Group will receive royalties on the sales recorded by the products covered under the agreement. Ferrer is responsible for and will fund all further development activities through to registration. In September 2005, NicOx and Ferrer signed an extension of their collaboration whereby NicOx granted Ferrer an option to license rights relating to the development and commercialization of any product resulting from the collaboration in the United States that Ferrer can exercise at the start of the phase 2 studies. In exchange, the Group may receive payments contingent on achieving development steps and commercial objectives, plus royalties in addition to the payments stipulated in the initial contract. Should Ferrer choose to sub-license the rights for the United States, NicOx would receive 50% of all the payments collected by Ferrer from the sub-licensee, particularly the milestone payments, payments contingent on meeting commercial objectives, and the royalties. Under the amended agreement, Ferrer holds, in addition to the licensing option on rights for the United States, marketing

rights for the European Union (including EFTA), Latin America, French-speaking Africa (including Morocco and Algeria) and Egypt. The Group retains all the rights for Asia and the right to co-market the products directly in the European Union and in EFTA.

The Group is responsible for synthesizing compounds, and NicOx and Ferrer jointly coordinate the pre-clinical evaluation studies underway on new candidates slated for development. Afterwards, Ferrer will conduct and fund all of the development up to registration. All of the research and development activities will be supervised by a joint development committee.

In May 2006, NicOx and Ferrer selected the compound NCX 1047 as a candidate for development in the context of their collaboration in dermatology.

As of December 31, 2006, the development of the compound NCX 1047 was actively continuing for, among other purposes, industrial synthesis and product formulation.

4.5. PFIZER INC

In August 2004, the Group signed with Pfizer Inc ("Pfizer") a research, option, development and licensing agreement on a selection of nitric oxide donor compounds patented by NicOx.

Under the terms of the agreement, NicOx granted an exclusive worldwide licensing option to Pfizer in the field of ophthalmology. The option covers nitric oxide-donating compounds in their preliminary development phase. The Group received a non-refundable €1 million payment upon signing and then another non-refundable €1 million in February 2005, six months following the signature of the agreement. These two payments were accounted for over the duration of the Group involvement in the initial research work conducted between 2004 and 2005.

€1,333,000 was recognized as revenue for fiscal 2005. The research phase during which various nitric oxide donor compounds were synthesized and submitted in a large series of pre-clinical trials end in the final quarter of 2005. Several compounds successfully met a number of essential criteria and demonstrated superior efficacy over the reference compounds.

In November 2005, Pfizer exercised the license option stipulated under the contract and selected a lead compound candidate for development. In exchange, the Group received a non-refundable payment of €2 million in December 2005. It was entirely booked as revenues for 2005. Pfizer will fund and assume the responsibility for developing the selected compound. NicOx may be able to collect €33 million in additional milestone payments if the collaboration leads to the development of a marketable product. The Group will also collect royalties on the sales from products resulting from the collaboration in accordance with pharmaceutical industry practices. NicOx on March 2, 2006 announced that it had obtained very promising pre-clinical results in its collaboration with Pfizer on the development of more effective treatments for glaucoma using the NicOx patented nitric oxide release technology.

In March 2006, NicOx and Pfizer signed a new major agreement giving Pfizer an exclusive right to use its nitric oxide release technology in a research program on new drugs in the entire ophthalmology area. In consideration, Pfizer made an initial payment in the first half of 2006 in the amount of €8 million (€5 million for a royalty for exclusive access to the technology and €3 million for research funding). These amounts are deferred from an accounting standpoint over the Group's estimated involvement with the future development work given the information available at the end of the period. As of December 31, 2006, NicOx booked in this respect the amount of €4,583,000 as revenues. In addition, NicOx will receive €3 million for research funding on each anniversary date of the agreement, for the duration of the research program. In June 2006, Pfizer also acquired an interest in the capital of NicOx for the amount of €15 million (see Note 15 – Capital issued and reserves).

Under the terms of this agreement, Pfizer has an option to obtain an exclusive world license to develop and market the compounds coming from the research program in ophthalmology. The agreement provides for potential payments of over €300 million tied to completion of stages in the field of ophthalmology, €102 million of which would result from the successful development and marketing of the first compound resulting from this program. In the event that the two companies identify a potential indication outside ophthalmology for a compound developed in the joint research program, Pfizer would have an option right for its development and marketing. In such case, NicOx would then receive additional payments tied to completion of steps that could reach €194.3 million if Pfizer exercised this option. Royalties in line with industry practices would be paid by Pfizer for all products resulting from this collaboration which would be marketed. The two companies will conduct the research program under the direction of a joint development committee and Pfizer will manage and finance the subsequent clinical development of the compounds selected.

4.6. TOPIGEN PHARMACEUTICALS INC.

In October 2005, the Group and Topigen Pharmaceuticals Inc. ("Topigen") signed a licensing and development agreement for the NicOx compound TPI-1020 (formerly NCX 1020), in phase 2a development for the treatment of

chronic obstructive bronchial-pneumopathies and other respiratory pathologies.

Under the contract terms, Topigen acquired development and commercial rights on the TPI-1020 compound for North America, with an option to obtain rights for the rest of the world at a later date. Topigen will manage and fund all of the development activities up until the drug is registered. Upon signing the agreement, NicOx received €2 million that was entirely recognized as revenues in 2005. NicOx may receive additional payments if development and commercial objectives are met. The total amount of milestone payments and payments for achieving commercial objectives (excluding the €2 million payment mentioned above) that NicOx could collect under the agreement varies depending on whether or not the option for obtaining rights for the rest of the world is exercised, with a minimum of €26 million and a maximum of €52.9 million. In addition, should the compound be brought to market, NicOx will collect royalties on the Topigen's revenues in the licensed territories. Finally, in the event Topigen should enter into a development and marketing agreement on the compound TPI-1020 with a third party, NicOx would also receive a share of any revenue that Topigen would collect under such an agreement, including potential licensing revenues, milestone payments and royalties.

As of December 31, 2006, the phase 2 development program on the compound TPI-1020 (formerly NCX 1020) in respiratory pathologies initiated in May 2006 by Topigen was continuing.

5. INCOME AND EXPENSES

5.1 REVENUES

For the year ended December 31	2006	2005
<i>(in thousands of €)</i>		
Generated under agreements with the companies:		
Axcan	277	340
Merck	4,770	855
Pfizer	4,583	3,333
Topigen	-	2,000
Total revenues	9,630	6,528

5.2 RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses primarily reflect activities subcontracted to universities or research and development centers. These activities continue over one or more years and cover one or more projects.

For the year ended December 31:	2006	2005
<i>(in thousands of €)</i>		
Expenses incurred	(29,990)	(18,637)
Contributions from partners	68	480
Research tax credit and subsidies (1)	1,351	181
Total Research and Development expenses	(28,571)	(17,976)
Portion allocated to cost of sales	(1,605)	(1,775)
Portion allocated to research and development expenses	(26,966)	(16,201)

(1) These subsidies consist of a Research tax credit and a grant made by the European Community (EICOSANOX). They are described respectively in Notes 2.9 and 10, and 19.7

The following expenses by nature are allocated to the corresponding items of the income statement by function:

Personnel costs

For the year ended December 31:	2006	2005
<i>(in thousands of €)</i>		
Salaries	(5,741)	(4,405)
Payroll taxes	(2,082)	(1,656)
Pensions (1)	(57)	(8)
Other post-employment benefits (TFR) (1)	(62)	(36)
Expenses of share-based payments	(726)	(545)
Other personnel costs	(32)	(30)
Total	(8,700)	(6,680)

It is specified that, under the Individual Training Right (D.I.F), the employees of NicOx SA acquired a total of 1,058 hours as of December 31, 2006. Given its immaterial nature, the salary expense for these hours has not been accrued.

(1) See Note 16.3.

Amortization and depreciation

For the year ended December 31	2006	2005
<i>(in thousands of €)</i>		
Amortization of intangible assets	(109)	(107)
Depreciation of property, plant and equipment	(484)	(392)
Impairment of assets	-	-
Total	(593)	(499)

5.3. NET FINANCIAL INCOME

The income from cash investments made by the Group represents most of the net financial income/loss for the years ended December 31, 2006 and 2005.

For the year ended December 31:	2006	2005
<i>(in thousands of €)</i>		
Unrealized gains and losses related to changes in the fair value of financial instruments and cash equivalents	978	(790)
Gains on sales of financial instruments and cash equivalents at fair value through profit and loss	1,152	1,734
Impact of discounting receivables and liabilities	88	109
Financial interest paid on finance leases	(2)	(2)
Other financial income	7	5
Total net financial income	2,223	1,056

6. INCOME TAX

Income tax expense as of December 31, 2006 and 2005 consisted primarily of:

Consolidated income statement

For the year ended December 31:	2006	2005
<i>(thousands of €)</i>		
Current income tax expense	(232)	(180)
Deferred income tax income (expense) benefit	(29)	(48)
Total consolidated income tax expense	(261)	(228)

Deferred income tax

Deferred income tax assets and liabilities are set off when there is a legally enforceable right to set off tax assets and liabilities payable and the deferred assets and liabilities concern income taxes levied by the same tax jurisdiction. The table below shows the amounts after set-off, if any:

<i>(in thousands of €)</i>	Consolidated Balance Sheet as of December 31,		Income statement as of December 31,	
	2006	2005	2006	2005
DEFERRED INCOME TAX ASSETS				
Other temporary differences	84	86	(2)	-206
Book tax differences	108	160	(52)	(8)
Tax losses	41,369	33,389	7,980	5,309
Deferred income tax assets not recognized	(41,550)	(33,622)	(7,928)	(5,129)
Total deferred income tax assets	11	13	-	
DEFERRED INCOME TAX LIABILITIES				
Other temporary differences	(141)	(89)	(52)	(4)
Total deferred income tax liabilities	(141)	(89)	(52)	(4)
Deferred tax liabilities not recognized	31	6	(25)	(10)
Total deferred income tax liabilities	(110)	(83)	-	
Net deferred income tax expense			(29)	(48)

Because of the French company's history of losses, management believes the recovery of deferred income tax assets is uncertain. As a result, the Group did not book deferred income tax assets for the French company in the amount of €41,519,000 in 2006 and €33,616,000 in 2005.

Deferred income tax assets are booked for tax losses that can be carried forward to the extent that it is probable that future taxable profits will be available. The Group did not book deferred income tax assets for the amount of €333,000 in 2006, compared with €1,588,000 in 2005 for losses amounting to €1,000,000 in 2006, compared with €5,294,000 in 2005 that may be carried forward and charged against future taxable income.

The calculated reconciliation between the tax liability and the product of the accounting income (loss) multiplied by the rate applicable to the Group is as follows for the years ended December 31, 2006 and December 31, 2005:

<i>(in thousands of €)</i>	For the year ended December 31:	
	2006	2005
Accounting profit (loss) before taxes	(24,434)	(15,280)
Income tax rate of the parent company applicable to the Group (1)	33.33%	33.83%
Income tax profit at the rate applicable in France.	8,144	5,169
Deficit carryforwards not recognized over the year	(8,952)	(5,309)
Deferred income tax for temporary differences not recognized for the year	71	171
Effect of permanent differences	613	(229)
Annual flat-rate tax and IRAP (2)	(144)	(104)
Effect of different tax rate in the subsidiaries	-	(1)
Other	6	75
Income tax expense for the year	(261)	(228)

(1) The change in income tax rate between fiscal years 2006 and 2005 is due to the disappearance of the surtax on corporate income tax, which was 1.5% in 2005.

(2) The IRAP is an Italian tax based on the operating income (loss) plus payroll costs. The annual flat-rate tax (IFA) expense booked over the year corresponds to the IFA for the years prior to 2006.

7. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net income (loss) for the year attributable to common stock shareholders of the Company by the weighted average number of common shares outstanding during the year.

For the year ended December 31:	2006	2005
<i>(in thousands of € with the exception of per share data)</i>		
Net income attributable to shareholders of the Company	(24,696)	(15,508)
Weighted average number of shares outstanding	35,920,100	32,145,898
Basic earnings per share (in €)	(0.69)	(0.48)

Diluted earnings per share are calculated by dividing the net income (loss) for the year attributable to equity holders of the Company by the weighted average number of common shares outstanding during the year, adjusted for the effects of options that may have a potentially diluting effect. As of December 31, 2006 and 2005, the stock options and subscription warrants have no diluting effect.

For the year ended December 31:	2006	2005
<i>(in thousands of € with the exception of the per share data)</i>		
Net income (loss) attributable to equity holders of the Company	(24,696)	(15,508)
Weighted average number of shares outstanding	35,920,100	32,145,898
Adjustment for diluting effect of stock options or warrants	-	-
Diluted earnings per share (in €)	(0.69)	(0.48)

The impact of stock options and warrants was not taken into account in calculating the diluted earnings per share due to its anti-diluting nature.

8. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment essentially represent the investments made by the research center in Italy for laboratory equipment.

	Laboratory equipment	IT equipment	Office equipment and fixtures	Furniture	Vehicles	Total
<i>(in thousands of €)</i>						
GROSS BOOK VALUE:						
As of January 1, 2006	1,544	398	431	279	44	2,696
Additions	479	106	226	152	-	963
Disposals	(1)	(44)	(311)	(40)	(44)	(440)
Value adjusted on balance sheet of subsidiaries expressed in currencies	-	-	-	-	-	-
As of December 31, 2006	2,022	460	346	391	(6)	3,219
TOTAL AMORTIZATION:						
As of January 1, 2006	(614)	(220)	(249)	(134)	(38)	(1,255)
Depreciation charge for the year	(218)	(72)	(153)	(35)	(6)	(484)
Disposals	-	41	301	34	44	420
Value adjusted on balance sheet of subsidiaries expressed in currencies	-	-	-	-	-	-
As of December 31, 2006	(832)	(251)	(101)	(135)		(1,319)
Net book value as of December 31, 2006	1,190	209	245	256	-	1,900

The change in property, plant and equipment over the period is essentially due to the investments made in the research laboratory and to the investments and disposals following new leases signed in the first half of 2006 (see Note 19.1)

The gross value of property, plant and equipment held under finance lease agreements and rental agreements with purchase option was €148,000 and €159,000 as of December 31, 2006 and December 31, 2005 respectively.

The gross value of the fully amortized assets was immaterial at December 31, 2006.

The depreciation of property, plant and equipment can be analyzed as follows:

As of December 31	2006	2005
<i>(in thousands of €)</i>		
Research and development costs	(279)	(292)
Selling, general and administrative costs	(205)	(100)
Total depreciation of property, plant and equipment	(484)	(392)

9. INTANGIBLE ASSETS

In March 2002, the Group purchased exclusive rights to the patent for the compound NCX4016 for the amount of €350,000. This agreement followed the purchase of the rights of the co-inventor for a royalty equal to 5% of the total revenues earned for the license for NCX4016, including the revenues from royalties, fees and payments for reaching objectives paid to the licensees. The amount of €350,000 was recorded as an intangible asset based on the prospects for future profitability of the underlying technology. It is amortized over 5 years which corresponds to the projected period to develop this compound.

Software is amortized using the straight line method over its economic useful life, estimated at three years.

	Patents (1)	Software (1)	Total
<i>(in thousands of €)</i>			
GROSS BOOK VALUE			
As of January 1, 2006	350	211	561
Additions	-	133	133
Disposals	-	(4)	(4)
As of December 31, 2006	350	340	690
TOTAL AMORTIZATION			
As of January 1, 2006	(263)	(108)	(371)
Amortization	(70)	(39)	(109)
Disposals	-	4	4
As of December 31, 2006	(333)	(143)	(476)
Net book value at December 31, 2006	17	197	214

(1) Acquired separately

Amortization on intangible assets can be analyzed as follows:

As of December 31:	2006	2005
<i>(in thousands of €)</i>		
Research and development costs	(87)	(84)
Selling, general and administrative costs	(22)	(23)
Total of amortization of intangible assets	(109)	(107)

10. GOVERNMENT SUBSIDIES RECEIVABLE (RESEARCH TAX CREDIT)

The government subsidies received and receivable are broken down as follows:

	Payment dates for the receivable					Total
<i>(in thousands of €)</i>	2006	2007	2008	2009	2010	
Government subsidies receivable						
As of January 1, 2006	708	-	118	148	-	974
Discounting of receivable	-	-	6	2	-	8
Receivable recognized during the year	-	-	-	86	1,161	1,247
Receivable repaid during the year	-	-	-	-	-	-
As of December 31, 2006	708	-	124	236	1,161	2,229

On July 20, 2006, NicOx SA received from the Deputy Minister for Higher Education and Research a notice of an expert opinion on the declaration of a research tax credit filed for 2002. The audit was conducted in the third quarter of 2006 and ended with acceptance of the request for reimbursement, which will be repaid over fiscal 2007 in the amount of €708,000.

In fiscal year 2006, the company recorded an adjustment of €86,000 on the 2005 research tax credit, following an authorization granted to a supplier after the closing date for the fiscal year 2005.

11. TRADE RECEIVABLES

As of December 31, 2006, trade receivables exclusively represented the present value of the re invoicing of certain research and development cost to the Axcan company, less the sums re invoiced to NicOx by Axcan for the same costs. The amounts owed by Axcan for these costs will be paid at the time of the scheduled payments planned as of phase 2a of the development program for the compound NCX 1000, by offset with the sums owed by NicOx for the development costs incurred by Axcan. These receivables do not bear interest.

As of December 31: <i>(in thousands of €)</i>	2006	2005
Trade receivables	2,142	2,172

No provision for depreciation of trade receivables was booked as of December 31, 2006.

Collection schedule <i>(in thousands of €)</i>	< 1 year	> 1 year
Trade receivables	2,142	-

12. OTHER CURRENT ASSETS

Other current assets primarily represent VAT credits and advances paid to suppliers.

As of December 31: <i>(in thousands of €)</i>	2006	2005
VAT credits	1,583	1,646
Other current assets	87	78
Total	1,670	1,724

13. CURRENT FINANCIAL INSTRUMENTS

The Group's financial instruments consist of mutual funds valued at fair value, for which the recommended maturity is greater than three months, and which are subject to risks of a change in value with objectives for annualized performance greater than the money market represented by the EONIA index.

As of December 31: <i>(in thousands of €)</i>	2006	2005
Current financial instruments	27,602	7,109

14. CASH AND CASH EQUIVALENTS

The Group's cash and cash equivalents consist of securities, petty cash and marketable securities valued at fair value, which can be realized at any time and are not subject to significant risks of a change in value.

As of December 31: <i>(in thousands of €)</i>	2006	2005
Cash and petty cash	444	1,228
Marketable securities	53,694	34,248
Total cash and cash equivalents	54,138	35,476

There is no difference between the cash and cash equivalents item on the balance sheet and the items presented in the consolidated statement of cash flows.

The marketable securities held by the Group are remunerated at variable rates with annualized performance objectives equal to or greater than the money market performance represented by the EONIA index.

15. CAPITAL ISSUED AND RESERVES

As of December 31, 2006, the capital was composed of 38,048,033 shares of common stock with a par value of €0.2, and fully paid up.

Authorized

As of December 31:	2006	2005
Common shares of €0.2 each	38,048,033	32,145,898

In May 2006, the Company raised funds through a private placement reserved for 43 international investors (companies or collective savings fund managers) investing in the pharmaceutical and biotech sectors. The transaction was completed pursuant to the authority and terms and conditions set by the Extraordinary Shareholders' Meeting of June 1, 2005.

4,552,000 new shares with a par value of €0.2 were issued at a unit subscription price of €10 calculated on April 27, 2006 and were listed on the same trading line as the existing shares. The net proceeds from transaction was €42,941,000 corresponding to the gross amount of the issuance for €45,520,000 less the transaction costs of €2,579,000.

The 4,552,000 new shares represented an increase in the common stock of €910,400, or 14.16% of the capital before the increase and 12.40% after the increase.

In June 2006, the Company reserved a capital increase for a company of the Pfizer group. This acquisition occurred pursuant to the agreement between Pfizer Inc and NicOx announced on March 2, 2006, which granted Pfizer exclusive rights for the use of the NicOx patented nitric oxide release technology in the field of ophthalmology (see Note 4.5). The capital increase was approved by the Shareholders' Meeting of June 1, 2006. It resulted in the issue of 1,350,135 new shares. The net proceeds from the transaction amounted to €14,961,000 corresponding to the gross amount of the issuance of €15,000,000 less the transaction costs of €39,000.

The subscription price of the new shares was €11.11 including issuance premium, and was calculated by applying a premium of 4.9% to the average closing prices of the NicOx share on the Eurolist by Euronext market for the 20 trading sessions prior to the date of the shareholders' meeting, pursuant to the terms of the agreement between NicOx and Pfizer. The shares issued as a result of the capital increase, with a par value of €0.2 represented an increase in the nominal value of the company's capital of €270,027. The 1,350,135 new shares represented 3.68% of the capital before the capital increase and 3.55% after the increase.

As of December 31, 2006, the company deducted from the additional paid in capital item €490,000 in costs related to a capital increase in progress on the closing date.

Common shares issued and fully paid up

	Number of shares	In thousands of €
As of January 1, 2005	32,145,898	6,429
As of January 1, 2006	32,145,898	6,429
Shares issued in May 2006 through private placement	4,552,000	911
Shares issued in June 2006 through investment of Pfizer in the capital of NicOx	1,350,135	270
As of December 31, 2006	38,048,033	7,610

Treasury shares

Treasury shares are the shares of NicOx stock held by the Group within a stock buyback program authorized by the Ordinary Shareholders' Meeting of June 1, 2006, which allows the Board of Directors to purchase NicOx shares up to a limit of 5% of the capital stock and a maximum amount of €2 million. The principal objective of this stock buyback program is to stabilize the price of the NicOx shares through regular counter-trend trading.

Treasury shares held	Number of shares	In thousands of €
As of January 1, 2005	11,235	43
As of January 1, 2006	22,158	81
As of December 31, 2006	1,926	43

OPTIONS WITH A POTENTIALLY DILUTIVE EFFECT

- Stock options

The Group has a stock option plan for the employees and officers of the Group (see Note 16.1).

As of December 31, 2006, no stock option has been exercised and the total amount of the outstanding stock options granted by the Board of Directors to various employees and corporate officers of the Group was 1,530,950 options giving rights to subscribe to a total of 1,616,450 shares.

- Stock subscription warrants

On several occasions, the Board of Directors issued stock subscription warrants authorized by the Shareholders' Meeting (see Note 16.2) to certain directors and professors involved in the research and development programs.

As of December 31, 2006, no subscription warrant had been exercised and there were 405,000 warrants outstanding for which 405,000 new shares of common stock could be issued.

RESERVES AND CONSOLIDATED EARNINGS

This item includes retained earnings, the income (loss) for the year, unavailable reserves and other reserves. The item unavailable reserves was funded by withdrawal from the premiums related to the capital during a capital restructuring transaction by the Company in June 2002, which took the form of an increase and then a decrease in the par value of the shares by applying a multiplier coefficient of 3 to the number of shares outstanding prior to the operation. These reserves are intended to be capitalized when the warrants and stock options existing prior to the capital restructuring are exercised to reflect the increase in the par value. Other reserves represent the results from the sale of treasury shares held by the Group..

As of December 31:	2006	2005
Retained earnings	(83,785)	(68,282)
Income (loss) for the year	(24,696)	(15,508)
Unavailable reserves	68	68
Other reserves	120	5
Total reserves and consolidated earnings	(108,293)	(83,717)

Currency translation differences

The "currency translation differences" line item is used to record the currency translation differentials resulting from foreign exchange differences generated during the translation of the financial statements of the foreign subsidiaries to the functional currency of the Group. Currency translation differentials totaled €(3,000) and €(8,000) as of December 31, 2006 and December 31, 2005 respectively.

Share-based payments

This line item records the compensation granted to employees and certain non-employees (consultants and members of the Board of Directors) in the form of transactions, the payment of which is indexed to shares (stock options and subscription warrants). These items are described in Notes 16.1 and 16.2. Share-based payments amounted to €3,632,000 and €1,635,000 as of December 31, 2006 and December 31, 2005 respectively.

16. EMPLOYEE BENEFITS AND COMPENSATION

16.1. STOCK OPTIONS FOR NEW OR EXISTING SHARES

The Group has set up an incentive plan for employees and corporate officers providing for the award of non-transferable stock options. The stock options are granted to the beneficiaries on different dates by the Board of Directors on the authorization granted by the Extraordinary Shareholders' Meeting of the Group.

The subscription price for the stock options is determined on the date the options are granted by the Board of Directors. This price may not be less than (both for new shares and existing shares) the highest minimum price determined by the legal requirements in force in each country, in order to take into account any differences that may exist in the tax and social security regulations in the countries to which these beneficiaries may be attached.

The options granted may be exercised by the beneficiaries in whole or in part, without distinction among beneficiaries and in the absence of any special decision by the Board, after the expiration of a three-year period from the date they are granted if, on that date, the beneficiaries are still employees or officers of the Group. In any event, the options must be exercised by the beneficiaries within a maximum of 6 years from the date they are granted. The Board may reduce this period for beneficiaries residing in countries in which a shorter period is provided by law. The new or existing shares of the Group purchased by the beneficiaries may not be sold before the expiration of a period of four years from the date of award of the options.

Since the establishment of the plan, a number of options have been granted under the following conditions:

In May 1999, the Shareholders' Meeting approved a stock option plan for the employees and authorized the Board of Directors to grant options giving the right to subscribe to a maximum number of shares equal to 3% of the Group's capital stock. The options granted under this authorization must be exercised no later than 6 years after the date they are effectively awarded by the Board. This authority expired on May 28, 2004 so that the Board has been unable to grant options under this authority since that date.

The Extraordinary Shareholders' Meeting of June 5, 2002 authorized the Board of Directors, until August 5, 2002, to grant options to the employees and officers of the Group giving the right to subscribe to a maximum of 600,000 shares of the Group.

The Extraordinary Shareholders' Meeting of June 1, 2005 authorized the Board of Directors, until August 31, 2007, to grant options to the employees and officers of the Group giving the right to subscribe to a maximum of 1,500,000 shares of the Group.

The Extraordinary Shareholders' Meeting of June 1, 2006 authorized the Board of Directors, until August 31, 2008, to grant options to the employees and officers of the Group giving the right to subscribe to a maximum of 500,000 shares of the Group.

As of December 31, 2006, the outstanding options under these plans were as follows:

Date of the Board meeting	Options granted	Number of shares per option	Total number of shares	Start date to exercise the options	Expiration date	Subscription price per option in €	Number of options cancelled or expired	Options outstanding as of December 31, 2006	Number of shares outstanding to be issued via exercise of options as of December 31, 2006
Plan authorized by the Shareholders' Meeting of May 28, 1999:									
July-12-00	75,900	3	227,700	July-12-03	July-11-06	58.97	75 900	0	0
Sept-14-00	5,000	3	15,000	Sept-14-03	Sept-13-06	62.08	5,000	0	0
Nov-02-00	49,000	3	147,000	Nov-02-03	Nov-01-06	73.63	49,000	0	0
Feb-01-01	8,000	3	24,000	Feb-01-04	Jan-31-07	79.80	3,000	5,000	15,000
July-19-01	26,000	3	78,000	July-19-04	July-18-07	62.08	20,500	5,500	16,500
Dec 14-01	27,450	3	82,350	Dec 14-04	Dec-13-07	48.42	21,850	5,600	16,800
Apr 17-02	72,750	3	218,250	Apr 17-05	Apr-16-08	49.72	46,100	26,650	79,950
July-24-02	14,000	1	14,000	July-24-05	July-23-08	16.57	11,000	3,000	3,000
Oct-03-02	5,200	1	5,200	Oct-03-05	Oct-02-08	14.10	700	4,500	4,500
Nov-13-02	171,300	1	171,300	(1)	Nov-12-08	15.67	52,800	118,500	118,500
Dec-12-02	181,200	1	181,200	(1)	Dec-11-08	16.10	152,200	29,000	29,000
Apr-15-03	83,000	1	83,000	Apr-15-06	Apr-14-09	2.02	0	83,000	83,000
July-23-03	19,200	1	19,200	July-23-06	July-22-09	5.12	7,900	11,300	11,300
Subtotal	738,000		1,266,200				445,950	292,050	377,550
Plan authorized by the Shareholders' Meeting of June 5, 2002:									
July-24-02	30,000	1	30,000	N/A	July-23-08	16.57	30,000	0	0
Apr-15-03	200,000	1	200,000	(2)	Apr-14-09	2.02	135,000	65,000	65,000
Oct-19-04	84,700	1	84,700	Oct-19-07	Oct-18-10	3.60	6,000	78,700	78,700
Dec-20-04	16,900	1	16,900	Dec-20-07	Dec-19-10	3.63	0	16,900	16,900
Apr 17-05	207,000	1	207,000	Apr-16-08	Apr-05-11	4.08	9,000	198,000	198,000
June-2-05	227,500	1	227,500	June-2-08	June-01-11	4.10	10,500	217,000	217,000
Subtotal	766,100		766,100				190,500	575,600	575,600
Plan authorized by the Shareholders' Meeting of June 1, 2005:									
June-2-05	186,500	1	186,500	June-2-08	June-1-11	4.10	1,500	185,000	185,000
July-2-05	156,000	1	156,000	July-5-08	July-4-11	3.93	94,500	61,500	61,500
Oct-13-05	24,200	1	24,200	Oct-13-08	Oct-12-11	4.07	0	24,200	24,200
Dec-15-05	15,000	1	15,000	Dec-15-08	Dec 14-11	3.53	0	15,000	15,000
Jan-30-06	311,000	1	311,000	Jan-30-09	Jan-29-12	3.49	22,000	289,000	289,000
July-25-06	36,600	1	36,600	July-25-09	July-24-12	9.98	0	36,600	36,600
Oct-25-06	52,000	1	52,000	Oct-25-09	Oct-12-11	11.44	0	52,000	52,000
Subtotal	781,300		781,300				118,000	663,300	663,300
TOTAL	2,285,400		2,813,600				754,450	1,530,950	1,616,450

(1) These options may be exercised as of various dates between August 1, 2003 and December 12, 2005.

(2) Note that, for 30,000 stock options granted to employees of NicOx Research Institute Srl, the shares subscribed through the exercise of these rights may be sold at the end of a period of three years from the date the options are granted, i.e. April 15, 2006, and not at the expiration of a four-year period as stipulated in Article III.9 of the regulations of the company stock option plan.

No option had been exercised as of December 31, 2006. Note that, pursuant to the exemption provided for by IFRS 1 concerning the application of IFRS 2, only the stock option plans granted after November 7, 2002 for which the rights were not yet vested as of January 1, 2005 have been valued, which represents a total of 1,972,100 options out of the 2,285,400 options granted, and 1,480,700 options out of the 1,530,950 options outstanding as of December 31, 2006.

The following table shows the number and weighted average exercise prices for the options proposed by the plan.

As of December 31, 2006	Number of options	Weighted average exercise price in €
Options outstanding at beginning of period	1,296,800	7.57
Granted during the period	399,600	5.12
Cancelled during the period	153,200	5.57
Exercised during the period	-	-
Expired during the period	12,250	58.97
Outstanding at the end of the period (1) (2)	1,530,950	6.72
Exercisable at end of period	357,050	14.37

(1) The balance includes 50,250 options giving rights to 135,750 shares, which have not been recognized under IFRS 2 since they were granted before November 7, 2002. These options were not subsequently modified and, therefore, were not recognized in accordance with IFRS2.

(2) The weighted average life for the options outstanding at December 31, 2006 is 4 years and was between 4 and 5 years as of December 31, 2005.

The exercise prices for the options outstanding as of December 31, 2006 are as follows:

Expiration date	Exercise price in €	As of December 31,	
		2006 Number of options	2005 Number of options
July-11-06	58.97	-	13,750
Jan-31-07	79.80	5,000	5,000
July-18-07	62.08	5,500	5,500
Dec-13-07	48.42	5,600	5,600
Apr-16-08	49.72	26,650	30,350
July-23-08	16.57	3,000	3,000
Oct-02-08	14.10	4,500	4,500
Nov-12-08	15.67	118,500	118,500
Dec-11-08	16.10	29,000	29,000
Apr-14-09	2.02	148,000	148,000
July-22-09	5.12	11,300	17,300
Oct-18-10	3.60	78,700	84,700
Dec-19-10	3.63	16,900	16,900
Apr-05-11	4.08	198,000	205,500
June-01-11	4.10	402,000	414,000
July-04-11	3.93	61,500	156,000
July-12-11	4.07	24,200	24,200
Dec 14-11	3.53	15,000	15,000
Jan-30-12	3.49	289,000	
July 25-12	9.98	36,600	
Oct-25-12	11.44	52,000	
Total		1,530,950	1,296,800

Pursuant to IFRS2, the stock options and warrants have been valued at the fair value of the services received on the award date. The results of the valuations were calculated using the Black and Scholes formula. The Turnover tables used to value the stock options are discounted on the basis of the Company's history. Dividends are considered to be zero for the coming years because of the Company's expectations. Before 2006, the long-term volatility expected was determined on the basis of the average history of volatility of NicOx and a sample of comparable companies, restated for volatility peaks related to specific circumstances in the life of the stock. After 2006, the long-term volatility expected was determined on the basis of the average history of volatility of NicOx.

The assumptions used for this valuation are as follows:

STOCK OPTIONS

Grant date:	11/13/2002	12/12/2002	04/15/2003	07/23/2003	10/19/2004	12/20/2004	04/06/2005
Option exercise price	15.67	16.1	2.02	5.12	3.6	3.63	4.08
Fair value of the option	9.08	7.86	1.1	2.67	2.16	2.31	2.11
Number of options granted originally	115,800	106,200	283,000	19,200	84,700	16,900	207,000
Volatility	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%	50.00%
Risk-free interest rate	4.00%	4.05%	3.70%	3.45%	3.30%	3.20%	3.15%

Grant date:	06/02/2005	07/05/2005	10/13/2005	12/15/2005	01/30/2006	07/25/2006	10/25/2006
Option exercise price	4.1	3.93	4.07	3.53	3.49	9.98	11.44
Fair value of the option	1.95	1.73	1.85	1.57	2.67	7.61	10.06
Number of options originally granted	414,000	156,000	24,200	15,000	311,000	36,600	52,000
Volatility	50.00%	46.00%	46.00%	46.00%	95.56%	95.64%	94.40%
Risk-free interest rate	2.75%	2.70%	2.90%	3.10%	3.26%	3.74%	3.71%

STOCK SUBSCRIPTION WARRANTS

Grant date:	10/19/2004	06/02/2005	12/12/2005	06/01/2006
Exercise price of the option	3.94	4.08	3.53	11.75
Fair value of the option	1.89	1.79	1.43	8.63
Number of options originally granted	15,000	130,000	5,000	150,000
Volatility	50.00%	50.00%	46.60%	96.53%
Risk-free interest rate	3.30%	2.75%	3.00%	3.70%

The table below shows the results of the valuations performed and the estimated periodic book expenses.

Dates granted	Exercise date (earliest)	Initial number of options	Exercise price in €	Number of options valid as of December 31, 2006	Expected number of options exercisable	Expected total cost of the plan in €	total at December 31, 2006
11/13/2002	01/01/2005	13,650	15.67		12,150	110,322	110,322
11/13/2002	01/05/2005	28,650	15.67		26,850	243,798	243,798
11/13/2002	08/01/2005	1,500	15.67		1,500	13,620	13,620
11/13/2002	11/14/2005	72,000	15.67		24,000	217,920	217,920
12/12/2002	01/01/2005	51,000	16.10				
12/12/2002	05/01/2005	25,500	16.10				
12/12/2002	08/01/2005	9,000	16.10		9,000	70,740	70,740
12/12/2002	12/12/2005	20,700	16.10		20,000	157,200	157,200
04/15/2003	04/15/2006	283,000	2.02		148,000	162,800	162,800
07/23/2003	07/23/2006	19,200	5.12		11,300	30,171	30,171
10/19/2004	10/19/2007	84,700	3.60	78,700	75,554	163,196	119,488
12/20/2004	12/20/2007	16,900	3.63	16,900	15,445	35,678	24,101
04/06/2005	04/07/2005	207,000	4.08	198,000	178,446	376,521	217,660
06/02/2005	06/03/2008	414,000	4.10	402,000	363,852	709,512	373,223
07/05/2005	07/06/2008	156,000	3.93	61,500	51,203	88,582	43,927
10/13/2005	10/14/2008	24,200	4.07	24,200	22,206	41,081	16,620
12/15/2005	12/16/2008	15,000	3.53	15,000	12,517	19,652	6,820
01/30/2006	01/31/2009	311,000	3.49	289,000	245,010	654,176	200,136
07/25/2006	07/26/2009	36,600	9.98	36,600	29,921	227,699	33,063
10/25/2006	10/26/2009	52,000	11.44	52,000	45,190	454,611	27,816
Total		1,841,600		1,173,900	1,292,144	3,777,279	2,069,425

The impact of the valuation of the stock options on shareholders' equity and the income (loss) of the Group amounted respectively to €2,069,000 and €(726,000) as of December 31, 2006 compared with €1,343,000 and €(302,000) at December 31, 2005.

Breakdown of the expenses by year in €

Cost to be recognized in 2007	Cost to be recognized in 2008	Cost to be recognized in 2009	Cost to be recognized in 2010	total
				110,322
				243,798
				13,620
				217,920
				-
				-
				70,740
				157,200
				162,800
				30,171
43,708				163,196
11,577				35,678
125,163	33,698			376,521
235,856	100,433			709,512
29,446	15,209			88,582
13,656	10,805			41,081
6,533	6,299			19,652
217,461	218,059	18,520		654,176
75,692	75,900	43,044		227,699
151,122	151,537	124,136		454,611
910,214	611,940	185,700	-	3,777,279

16.2. STOCK SUBSCRIPTION WARRANTS

A summary of the warrants outstanding as of December 31, 2005 is presented below:

Date of authorization:	June 2003	June 2004	June 2005	June 2005	June 2006
Beneficiaries:	Certain directors	Certain directors and experts involved in the R&D program	Certain directors experts and consultants	Financial communication consultant	Certain Directors and members of the Scientific Board
Subscription date	July 2003	October 2004	June 2005	December 2005	June 2006
Number of warrants subscribed	85,000	35,000	130,000	5,000	150,000
Subscription price per warrant	Bonus	Bonus	Bonus	Bonus	Bonus
Start date for exercise	July 2003	(1)	(2)	May 31, 2006	June 1, 2006
Expiration date	July 22, 2008	October 18, 2009	June 1, 2010	December 14, 2010	May 31, 2011
Number of shares per warrant	1	1	1	1	1
Exercise price per share	€5.20	€3.94	€4.08	€3.53	€11.75

AS OF DECEMBER 31, 2006:

Warrants exercised	-	-	-	-	-
Warrants outstanding	85,000	35,000	130,000	5,000	150,000
Shares to be issued	85,000	35,000	130,000	5,000	150,000

(1) For certain beneficiaries, the warrants may be exercised immediately; for others, they can be exercised in three segments as follows: as of January 1, 2005 for 5,000 warrants; as of January 1, 2006 for 5,000 additional warrants; and as of January 1, 2007 for the final segment of 5,000 warrants.

(2) 125,000 warrants may be exercised immediately, and 5,000 warrants may be exercised as of May 31, 2006.

In accordance with IFRS2, the subscription warrants have been valued. The assumptions used for this valuation were identical to the assumptions used to value the stock options and are detailed in Note 16.1; the beneficiaries of these warrants belong to the category of "employees" defined by IFRS 2.

The following table shows the number and weighted average exercise prices proposed by the plan.

As of December 31, 2006:	Number of options	Weighted average exercise price of the options in €
Outstanding stock subscription warrants at beginning of period	323,000	17.42
Granted during the period	150,000	11.75
Cancelled during the period	-	-
Exercised during the period	-	-
Expired during the period	68,000	22.06
Outstanding at the end of the period	405,000	7.14
Exercisable at end of period	400,000	7.18

The following table shows the result of the valuations performed and the estimated periodic expenses booked:

Date granted	Exercise date (earliest)	Initial number of warrants	Exercise price in €	Number of valid options as of Dec. 31, 2006	Expected number of options exercisable	Expected total cost of the plan	Breakdown of expenses by year, in €					Total
							Total as of Dec. 31 2006	Cost to be recognized in:				
								2007	2008	2009	2010	
10/19/2004	01/01/2005	5,000	3.94	-	5,000	9,450	9,450	-	-	-	-	9,450
10/19/2004	01/01/2006	5,000	3.94	-	5,000	9,450	9,450	-	-	-	-	9,450
10/19/2004	01/01/2007	5,000	3.94	5,000	5,000	9,450	9,438	12	-	-	-	9,450
06/04/2005	06/04/2005	125,000	4.08	-	125,000	223,750	223,750	-	-	-	-	223,750
06/04/2005	05/31/2006	5,000	4.08	-	5,000	8,950	8,950	-	-	-	-	8,950
12/15/2005	05/31/2006	5,000	3.53	-	5,000	7,150	7,150	-	-	-	-	7,150
06/01/2006	06/01/2006	150,000	11.75	-	150,000	1,294,500	1,294,500	-	-	-	-	1,294,500
Total		300,000		5,000	300,000	1,562,700	1,562,688	12	-	-	-	1,562,700

The impact of the valuation of the warrants on equity and on the Group's result amounted to €1,562,688 and €(1,270,868) at December 31, 2006, compared to €292,000 and €(243,000) respectively as of December 31, 2005.

16.3. POST-EMPLOYMENT BENEFITS

PENSIONS

The Group has an unfinanced defined-benefit pension plan that covers all NicOx S.A. employees. This plan is governed by the provisions of the collective agreement in force in this company, and stipulates that any employee with at least five years of seniority will receive at retirement an indemnity equal to three-tenths of a month per year as of such employee's date of hire up to a maximum of nine months of salary. The net expenses booked for the pension plan was €57,000 as of December 31, 2006 and €8,000 as of December 31, 2005. The discounted value of the obligation as of December 31, 2006 was €118,000 and €61,000 as of December 31, 2005.

The main actuarial assumptions used for the valuation of the obligations for post-employment benefit plans are as follows:

As of December 31:	2006	2005
Discount rate	4.60%	2.39%
Future salary increases	5%	1.50%
Inflation	INSEE 2006	INSEE 2004

As of December 31:	2006	2005
Commitment at beginning of period	61	53
Cost of services rendered	23	22
Financial cost	3	2
Actuarial gains and losses	31	(16)
Commitment at end of period	118	61

The expenses for defined contribution plans totaled €892,000 at December 31, 2006 and €631,000 as of December 31, 2005.

TFR

As required by Italian social security law, the Group provisions the salaries deferred for the TFR (Trattamento Fine di Rapporto) owed to the employees of its Italian subsidiary. This provision is revalued every year as required by law and the employees' employment contracts. These deferred salaries will be paid to the employees when they leave the company for any reasons. The discounted value of the obligation at December 31, 2006 was €258,000 and €199,000 at December 31, 2005.

The main actuarial assumptions used to value the TFR obligations for post-employment benefit plans are as follows:

As of December 31:	2006	2005
Discount rate	4.10%	4.10%
Future salary increases	5%	4.50%
Inflation	2.10%	2.10%

17. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Employee legal disputes	Post-employment benefits (1)	Rent	Total
<i>(in thousands of €)</i>				
As of January 1, 2006	350	61	4	415
Arising during the year	200	57	17	274
Utilizations	(550)	-	(4)	(554)
Unused amounts reversed	-	-	-	-
As of December 31, 2006	-	118	17	135
2006 current	-	-	17	17
2006 non-current	-	118	-	118
Total	-	118	17	135
2005 current	350	-	4	354
2005 non-current	-	61	-	61
Total	350	61	4	415

(1) see note 16.3.

As of December 31, 2005, the Group recorded a provision for a risk of €350,000 related to a legal dispute with a former employee of the Italian subsidiary. This employee filed suit against NicOx S.A and its Italian subsidiary seeking a ruling ordering them jointly and severally to pay him an indemnification for his termination, which he claims was unjustified, asserting that he was deprived of the benefits of the procedure governing disciplinary terminations. In addition, this employee is seeking remuneration for an invention, but no figures have been provided for this claim. In order to resolve this dispute, the Board of Directors on April 13, 2006 approved the principle of a potential settlement of the dispute for the payment of €550,000. As a result, the Group booked an additional allocation of €200,000 in the first half of 2006, raising the total provision to €550,000. The proceeding initiated against NicOx S.A. and its Italian subsidiary by this employee was settled with a settlement agreement dated July 18, 2006. As part of this settlement, the Group paid €550,000 in consideration for the employee's waiver of any proceeding or action against the Group concerning the working relationships and the patents held by the Group in which he is named as inventor or co-inventor.

Since June 2005, the Group has established new measures which provided that, if all shares of NicOx S.A. are sold to a shareholder or there is a change in control of the Group that results in a shareholder holding over 50% of NicOx S.A. and resulting in the termination of the employment contracts of certain employees, those employees will benefit from a severance package in an amount equal to between eighteen and twenty-four months salary. This contractual indemnity is granted to each beneficiary for a period limited to two years from the date on which

the change in majority ownership or control of the Group occurs. In this case and in the event all current beneficiaries are affected by such a dismissal, the Group would have to pay indemnification totaling €3,075,081 on the basis of the beneficiaries' salaries as of December 31, 2006. Moreover, if the employee's employment contract is broken at the initiative of the Group, each beneficiary will receive a severance package equal to between twelve and twenty-four months salary. In this case and in the event that all current beneficiaries are affected by such termination, the Group would have to pay an indemnification totaling €2,485,969 on the basis of the beneficiaries' salaries as of December 31, 2006. The salary used to calculate the termination indemnities described above is one-twelfth of the gross compensation, including all bonuses, for the last twelve months prior to the termination. Dismissal for gross misconduct or negligence by the beneficiary does not give such beneficiary any rights to the provisions above. Because of the uncertainties related to the reality of paying these commitments, the Group recognized no provision for this obligation as of December 31, 2006.

In 2006, the Company booked a provision of €17,000 to cover the rent and expenses payable over 2007 for its former premises, the lease on which will expire on April 30, 2007 (see Note 19.1).

18. DEFERRED REVENUE

Deferred revenue amounted respectively to €8,102,000 at December 31, 2006 and €558,000 at December 31, 2005. They represent:

- the payment of USD 2 million received from Axcan in consideration for the rights granted under the co-development and licensing agreement signed in 2002;
- the payment of €8 million received from the Pfizer company (€5 million as royalty for exclusive access to the technology and €3 million for research funding in consideration for exclusive rights to use the nitric oxide release patented technology in ophthalmology licensed in March 2006);
- the initial payment of €9,178,000 received from Merck following the exclusive world agreement on antihypertensive compounds signed in March 2006.

These amounts were booked as deferred revenue in 2002 for Axcan and in 2006 for Pfizer. They are deferred, as of February 2003 for Axcan and from March 2006 for Pfizer and Merck, over the duration of the group's active involvement in the research and development programs stipulated in the contracts; it is stipulated that the duration of the group's involvement varies depending on the advances and results obtained as indicated in Note 3.

As of December 31, 2006, deferred revenue can be analyzed as follows:

Co-contracting party	Initial payment	Revenues recognized for the period as of	Deferred revenue as of Dec. 31, 2006
<i>(in thousands of €)</i>			
Axcan	1,981	277	277
Pfizer	8,000	4,583	3,417
Merck	9,178	4,770	4,408
Total	19,159	9,630	8,102

19. COMMITMENTS

Commitments received

The Group benefits from a number of commitments from its partners for the potential payment of royalties which depend on the achievement of future events as described in Note 4.

Security	Note	Total
Security	19.6	263
Total		263

Commitments given

The Group's off-balance sheet commitments are as follows:

<i>(in thousands of €)</i>	Notes	Payments due by period			
		Total	Less than one year	One to five years	More than five years
Contractual obligations					
Lease agreements	19.1	3,004	808	2,196	-
Finance lease agreements (1)	19.2	52	24	28	-
Subcontracting and maintenance agreements	19.3	922	833	89	-
R&D commitments	19.4	8,295	7,570	725	-
Total		12,273	9,235	3,038	

(1) The impact of discounting the finance lease commitments as of December 31, 2006 is not material and was not therefore calculated.

<i>(in thousands of €)</i>	notes	Total
Other commercial commitments		
Commissions on R&D contracts	19.4	9,965
Other R&D commitments	19.4	511
Contracts for assistance in finding partners	19.5	4,167
Total		14,643

Because of the uncertainties surrounding the research and development activities, it is unlikely that the Group will have to pay all the commitments under the research and development contracts. For the same reasons, the payment dates for these amounts cannot be reasonably estimated.

To the Group's knowledge, the commitments shown in the tables above and described in the following paragraphs represent all the Group's material off-balance sheet commitments or which could become commitments in the future.

19.1. LEASE AGREEMENTS

The Group leases some of its equipment, its offices and its research center under various lease agreements. In order to match its growth, NicOx signed two leases in the first half of 2006; NicOx S.A signed a three-year lease effective July 1, 2006 and renewable twice until 2015 for the amount of €702,000. The Italian subsidiary NicOx Srl signed a 6-year lease effective September 1, 2006 for the amount of €2,103,000.

The annual installments for the rent and future minimum rental fees under these leases are €808,000 at December 31, 2007 and €2,196,000 at December 31, 2012, a total of €3,004,000.

The rent and rental fees amounted to €636,000 at December 31, 2006 and €442,000 as of December 31, 2005.

19.2. FINANCE AGREEMENTS

The Group finances the acquisition of certain equipment through finance leases. This equipment is included in property, plant and equipment for the amount of €148,000 as of December 31, 2006 and €159,000 as of December 31, 2005. As of December 31, 2006, the accumulated corresponding depreciation was €83,000 and the depreciation allocation was €(23,000).

The future minimum annual payments on these finance leases are €24,000 less than one year, €28,000 between one and five years, representing a total of €52,000.

19.3. SUBCONTRACTING AND MAINTENANCE AGREEMENTS

The Group uses service providers to maintain its industrial equipment and to maintain and operate an animal facility in the Milan research center. The subcontracting and maintenance agreements in amounts of less than €1,500 and the insurance and documentary subscriptions signed for a period of one year are not included in

commitments.

The future minimum annual installments for these commitments are €833,000 in less than one year and €89,000 between one and five years, representing a total of €922,000.

19.4. RESEARCH AND DEVELOPMENT COMMITMENTS

The Group conducts most of its research and development activities through contracts with universities or research centers throughout the world. Some of these are multi-year contracts and contain conditions related to receiving reports from the universities or research centers.

In the context of its clinical studies on the naproxinod (HCT3012), NicOx in 2006 assigned three major studies to an American service provider, substantially increasing its Research and Development commitments.

The future annual payments for the Research and Development commitments are €7,570,000 at less than one year and €725,000 between one and five years, a total of €8,295,000.

Certain agreements stipulate that, if the results obtained can be patented, the Group could have this intellectual property for a remuneration paid to the universities and research centers involved in this work, the terms of which would be negotiated at a later date by the parties thereto.

Certain collaboration agreements with professors and research centers stipulate that, if the research is successful, the Group could pay commissions for a maximum total amount of €9,965,000 (at the exchange rate of December 31, 2006 for the amounts in US dollars and pounds sterling).

Under the exclusive research and development agreement signed with Bayer in February 1998, which ended in September 1999, if the Company signs a licensing agreement with a third party on the nitric oxide derivatives of acetylsalicylic acid, it would be required to repay the sum of €511,000 paid by Bayer to finance a specific set of preclinical studies.

19.5. CONTRACTS FOR ASSISTANCE IN FINDING PARTNERS

The Group has signed agreements for assistance in finding partners and negotiating licensing agreements for certain pharmaceutical products with several consulting firms. In consideration for these services, the Group has agreed to pay a certain percentage of the revenues generated by the contract obtained, up to a certain maximum amount. The aggregate maximum amount of the commissions under these contracts is €4,167,000 (at the exchange rate of December 31, 2006 for the amounts in US dollars).

19.6. GUARANTEES

In March 2003, a guarantee in the amount of €263,000 was established at the request of the Italian tax authorities. For this purpose, NicOx S.A. obtained insurance from the Italian company Toro Assicurazione to guarantee the payment of the VAT claim which the Group held as of December 31, 2002 against the Italian State through its tax representative in Italy. This guarantee was established for a term of five years.

19.7. OTHER CONTRACTS HAVING AN UNDETERMINED FINANCIAL IMPACT

The Group has signed a number of contracts with service providers, particularly for the development of methods to synthesize NicOx compounds; these agreements contain an obligation to obtain supplies from these service providers (or compensatory payments), the financial impact of which for NicOx could not be calculated as of December 31, 2006.

Under an agreement with the European Community effective December 29, 2004, the Group will participate for five years in a European research program on nitric oxide and inflammatory processes (EICOSANOX). It was originally estimated that this project would have a cost for NicOx of approximately €749,000. As part of this project, the European Commission will give NicOx a subsidy of €377,000. The subsidy received is deferred to be recognized in the income statement over the period in which it offsets the costs for which it was granted. The expenses incurred by NicOx for this project respectively totaled €104,000 in 2006 and €90,000 in 2005, a total of €194,000. NicOx has received an advance of €63,000 in 2006 and €96,000 in 2005, a total of €159,000.

Under this agreement, NicOx benefits from an exclusive worldwide license to any patent developed during the work on its compounds and will have to pay the inventor, if an option is exercised, a royalty of 0.5% on the sales of products covered by said patent up to a maximum amount of €250,000 per patent. As of this date, it is not possible to quantify more precisely the cost of this project for NicOx or to evaluate the amount of the patent royalties, if any.

20. OBJECTIVES AND POLICIES FOR FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments consist of financial assets, finance leases, cash and short-term deposits. The purpose of these instruments is to finance the Group's activities. The Group holds other financial instruments, such as commercial receivables and debts, which are generated by its activities.

The Group's policy is not to subscribe to financial instruments for speculative purposes.

The principal risks attached to these financial instruments are the currency risk, the interest rate risk, the liquidity risk and the credit risk.

Currency risk

The currency in which NicOx conducts its financial communications is the euro. Most of the Group's expenses are denominated in euros. Some expenses related to the research and development activities performed in the United States and some revenues under agreements with the Group's pharmaceutical partners are denominated in US dollars. Approximately 36% of the operating expenses and 3% of the Group's research and development income is in US dollars, and 58% et 97% respectively is in euros. The fluctuations in the euro/dollar parity may, therefore, have a significant impact on the Group's operating results. NicOx also holds a bank account denominated in dollars and translated to euros in the consolidated financial statements at the closing price. The assets in this account are not significant and, therefore, the fluctuations in the euro/dollar parity has a limited impact on the value of this asset at each closing date.

The Group does not use derivatives or specific internal procedures to limit its exposure to the exchange risk.

The Group does not make investments and does not use debt in a foreign currency.

The following table shows the calculation of the risk of loss on the global net position in currencies as the result of an unfavorable and uniform change of one cent in the currency in which the accounts are prepared compared with all currencies concerned.

	Equivalent value in € of the balance sheet items expressed in USD	Equivalent value in € of the balance sheet items in GBP	Total
Assets	585,963	-	585,963
Liabilities	(1,138,948)	(346,923)	(1,485,871)
Off-balance sheet positions	(3,705,456)	(2,057,707)	(5,763,163)
Total net position	(4,258,441)	(2,404,631)	(6,663,071)
Net position in case of an unfavorable change	(4,291,031)	(2,439,143)	(6,730,174)

Interest rate risk

In the context of its business, NicOx is exposed to changes in interest rates. The only risk associated with a change in interest rates is a possible decline in the financial income generated by revenues from current financial instruments collected by the Group if interest rates fall.

The Group has not used derivative products to limit its exposure to the interest rate risk.

The maturities recommended in order to maximize the performance of the financial instruments are detailed below; it is specified that the rates of return on these investments are variable, and that these financial instruments can be liquidated at any time; however, if they are liquidated early, the capital is not guaranteed:

	Recommended maturity of the investments in order to maximize the expected return on the product	
	from 3 to 6 months	Total
Current financial instruments in thousands of €	27,602	27,602

Liquidity risk

The Group has not contracted any loan from lending institutions. Therefore, the Group is not exposed to liquidity risks resulting from the execution of prepayment clauses.

Credit risk

Under the contract with the Canadian partner Axcan, certain research and development costs incurred by the Group are invoiced quarterly to Axcan, to the extent that they do not exceed the budget defined by the Development Committee and do not require prior authorization. Under the terms of the contract, these sums will be paid at the time of the scheduled payments due as of the end of phase 2a, if necessary by offset with the sums owed by NicOx for the research and development costs incurred by Axcan. There is theoretically a risk of non-collection of this claim, which forms the Group's entire trade receivables item, minus the costs incurred and invoiced by Axcan. In order to avoid any future dispute, the Group has set up a procedure for acceptance of this claim by Axcan, through the signature by the Axcan project manager of each quarterly invoice, and a quarterly summary of the amount of the receivable due. In addition, Axcan is a public company traded on the NASDAQ, the current financial condition of which poses a priori no problem.

There is a priori no risk on the recovery of the tax credit receivable since this is a claim against the French State.

Concerning the credit risk on the Group's other financial assets, i.e., cash and cash equivalents, the Group's exposure is related to possible default by the third parties in question.

The Group is not exposed to a significant concentration of the credit risk.

Fair value

All the Group's financial assets and liabilities are valued at present value.

21. RELATED-PARTY TRANSACTIONS

On March 1, 2006, a consulting agreement was signed for an annual amount of €30,000 with one of the Company's Directors, Bengt Samuelsson, to provide advice to the Chairman-Chief Executive Officer and the Executive Committee on the Group's research policy, particularly the identification of new research projects, the movement of research projects to development, the review of the results generated in the research activities, the promotion of contacts with major centers and experts and the preparation and chairing of two annual meetings of the Company's scientific Committee. This agreement, pursuant to the terms of Article L. 225-38 of the French Commercial Code, was submitted for the prior approval of the Board of Directors at its meeting of February 28, 2006 and notified to the Auditors by registered letter with return receipt on March 7, 2006. This contract will be submitted for the approval of the next Ordinary Shareholders' Meeting.

On May 18, 2006, a licensing agreement was signed with Biolipox, which replaced the existing agreements of January 15, 2003 as amended, effective August 1, 2004 on the NO-Cetirizine for oral and topical administration. The purpose of this new agreement was primarily to notify Biolipox of its intention to continue the development of the NO-Cetirizine through a sub-licensing agreement and to set forth the principal conditions of such a sub-licensing agreement. For the rest, the terms of the contract of January 15, 2003 as amended are repeated in more detail in this new agreement. This agreement is subject to the provisions of Article L. 225-38 of the French Commercial Code insofar as Biolipox shares one director with the Company - Bengt Samuelsson. It was submitted for the prior approval of the Board of Directors at its meeting of December 15, 2005 and notified to the Auditors by registered letter with return receipt on May 23, 2006. It will be submitted for the approval of the next Ordinary Shareholders' Meeting.

On December 26, 2006, a consulting agreement was entered into with Göran Ando, a director of the Company, to provide advice to the Chairman-Chief Executive Officer and to the Executive Committee concerning (i) potential merger/acquisition opportunities to ensure external growth and (ii) the phase 3 development program for naproxinod. This agreement replaces the contract of October 27, 2006, which expired on December 31, 2006. The agreement of December 26, 2006 provides for ten (10) days of work per year for an annual remuneration of €40,000 and it was notified to the Auditors of the Company by registered letter with return receipt dated January 16, 2007.

It should be noted that, pursuant to its deliberations of June 2, 2005, the Board of Directors of the company has decided that, if Michele Garufi is dismissed from his position as Chairman-Chief Executive Officer, except in the event of a dismissal for fault, he would be allotted an indemnity equal to two years compensation, which includes both the fixed compensation and the variable compensation calculated on the basis of the compensation received in the last twelve months prior to such a dismissal. This commitment, which was notified to the Auditors of the Company by registered letter of August 23, 2005 pursuant to the terms of Article L. 225-42-1 of the French Commercial Code, was approved by the Ordinary Shareholders' Meeting of June 1, 2006.

It is also specified that the framework agreement between NicOx and Biolipox and its amendments, the principal features of which are described in the report from the Auditors dated March 1, 2003, which was submitted to the Ordinary Shareholders' Meeting of June 5, 2003 continued in 2006, except for the NO-Cetirizine for which a new agreement was signed on May 23, 2006 as described above. It is noted that this framework agreement covers the research, development and marketing of the pharmaceutical compounds involving NO-donors, particularly in respiratory diseases. Its amendments are intended to specify the conditions for the application of the agreement to certain compounds.

The rider to the amendment to the aforementioned framework agreement of January 15, 2003 between NicOx and Biolipox, which specifically concerned NO-Cetirizine for topical application, effective as of August 1, 2004, continued until May 23, 2006, the date on which a new licensing agreement on NO-Cetirizine for oral and topical administration was signed, as described above; it is noted that this amendment in particular modified the percentage of licensing revenues which Biolipox may have to repay to NicOx. Said amendment, described in the special report from the Company's Auditors dated April 15, 2005, was approved by the Ordinary Shareholders' Meeting of June 1, 2005.

It is specified that the agreements entered into by NicOx SA and Biolipox in January 2003 were submitted for the procedure stipulated in Article L. 225-38 of the French Commercial Code insofar as NicOx and Biolipox had two shared directors at the time of signing, Björn Odlander and Bengt Samuelsson; it should be noted that Björn Odlander resigned as director on December 20, 2004.

The total amount of the compensation paid to the directors and members of the Executive Committee for 2006 and 2005, excluding benefits and severance, can be analyzed as follows:

	2006	2005
<i>(in thousands of €)</i>		
Short-term benefits	(2,094)	(1,739)
Post-employment benefits	(17)	(3)
Other long-term benefits	(211)	(160)
Severance package	(304)	-
Share-based payments	(1,377)	(570)
Total	(4,003)	(2,472)

(1) including for 2006, €75,000 paid to two directors of NicOx SA under consulting agreements (described in the related-party agreements).

The amount paid by the Group under defined contribution plans for members of the Executive Committee totaled €211,000 in 2006 and €160,000 in 2005.

Note that the provisions governing the termination of the employment contract of certain NicOx employees in the event of a change in control of the Group or the termination of the employment contract at the initiative of NicOx, which are described in section 17 above, apply to the Executive Committee (6 persons as of December 31, 2006). The amounts which the Group would pay to these persons in the two cases above are €3,075,000 and €2,486,000 respectively on the basis of the salaries of the beneficiaries as of December 31, 2006.

Type of equity instrument	Price in €	Number	Number of shares per option	Expiration date
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Subscription warrants	5.20	85,000	1	July-22-08
Subscription warrants	3.94	35,000	1	Oct-18-09
Subscription warrants	4.08	130,000	1	June-01-10
Subscription warrants	3.53	5,000	1	Dec-14-10
Subscription warrants	11.75	150,000	1	May-31-11
Stock options	2.02	100,000	1	Apr-13-09
Stock options	3.60	45,000	1	Oct-18-10
Stock options	3.93	61,500	1	July-04-11
Stock options	4.08	83,000	1	Apr-05-11
Stock options	4.10	218,000	1	June-01-11
Stock options	3.49	148,900	1	Jan-29-12
Stock options	15.67	67,500	1	Nov-12-08
Stock options	49.72	20,000	3	Apr-16-08
Stock options	62.08	5,000	3	July-18-07

The list and purpose of the current arms-length agreements as defined by Article L.225-39 of the Commercial Code signed prior to January 1, 2006, the execution of which continued during the year were as follows:

- Amendment to the service agreement with NicOx Research Institute Srl dated July 20, 2000 signed on November 14, 2005 and effective retroactively to January 1, 2005 and stipulating that the costs of the services rendered by NicOx Research Institute Srl will not be subject to the remuneration stipulated in Article 2 of the service agreement of July 20, 2000 when such costs are covered by subsidies of any kind received from a third party.
- A service agreement with the Italian subsidiary NicOx Research Institute Srl, signed on July 20, 2000. This agreement provides for remuneration for the various services provided by NicOx Research Institute Srl to NicOx SA on the basis of the cost of the service plus 5%. For financial year 2006, the expenses booked by NicOx Research Institute Srl and invoiced to NicOx SA amounted to €5,651,844.
- Transfer price contract with the American subsidiary NicOx Inc. signed on December 21, 2001. This contract provides for remuneration of the various services provided by NicOx Inc. to NicOx SA, on the basis of the cost of the service plus 5%. This contract remains legally valid despite the closing down of the activities of NicOx, Inc. on June 30, 2003, but has not been applicable since that date.
- Current account agreement signed on January 2, 2002 by NicOx SA and NicOx Research Institute Srl. This agreement provides for remuneration of the funds lent by NicOx SA to its subsidiary on the basis of an effective rate of 4%. In financial year 2006, no interest was billed under this agreement.
- Offset agreement entered into on January 2, 2002 by NicOx SA and NicOx Research Institute Srl. This agreement provides for the offsetting of the amounts owed by NicOx SA to its subsidiary under the transfer price agreement and the amounts owed by NicOx Research Institute Srl under the current account agreement. This agreement was amended on January 2, 2004 as indicated above.
- Technical and management services agreement entered into on January 2, 2004 for NicOx SA to provide to NicOx Research Institute Srl administrative, financial, IT, legal, accounting, human resources, management control and regulatory services based on the requests made by NicOx Research Institute Srl and the expertise held by NicOx SA. For financial year 2006, NicOx SA invoiced NicOx Research Institute Srl for €84,503 under this agreement.
- Amendment No. 1 to the offset agreement of January 2, 2002 between NicOx SA and NicOx Research Institute Srl dated January 2, 2004, the purpose of which is to include the amounts owed by NicOx Research Institute Srl to NicOx SA under the technical and management services agreement signed on January 2, 2004 in the amounts offset by application of the offsetting agreement of January 2, 2002.

22. EVENTS AFTER THE BALANCE SHEET DATE

On February 16, 2007, the Company completed a capital increase, maintaining shareholders' preemptive subscription rights. This capital increase was completed under the First Resolution approved by the Extraordinary Shareholders' Meeting of June 1, 2006.

The gross proceeds from the issue totaled €129,668,000, the amount of the costs of the transaction charged to equity was approximately €8,807,000 and the net proceeds approximately €120,861,000.

9,131,526 new shares were created. The subscription price for the new shares, decided on January 29, 2006 by the

Chairman-Chief Executive Officer, on the delegation from the Board of Directors of January 18, 2007, was set at €14.20 per share, including issue premium.

The shares issued as a result of the capital increase, with a par value of €0.2, represented an increase in the nominal value of the company's capital of €1,826,000. The 9,131,526 new shares represented 24% of the capital before the capital increase and 19.35% after the increase.

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