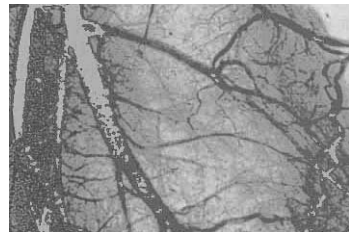


Financial Report



2005



Creating value
thanks to 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 2005. 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 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;
- 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;
- 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 Groups'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 evaluating and following corporate governance

procedures, ensuring that corporate governance rules and recommendations are properly implemented, examining candidatures 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. The historical financial results of the Group principally reflect research and development expenses and limited revenues under its partnerships with pharmaceutical companies.

In November 1999, the Company successfully completed its initial public offering, raising € 33.2 million. In May 2001, NicOx received a total of € 59.33 million in gross proceeds from a follow-on public offering. In September 2004, the Company raised funds through a private placement, of which gross proceeds amounted to € 26 million.

These proceeds brought significant resources for accelerating product development and allowed the Group to consolidate its infrastructure. With € 42.6 million in cash and cash equivalents, as of December 31, 2005, NicOx will pursue its growth with the goal of becoming a fully integrated pharmaceutical company; leader in the research, development and marketing of nitric oxide-donating compounds. The Group expects its expenses 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 following the entry of its compound naproxcinod (previously referred to as HCT 3012) into phase 3 clinical trials during the last quarter of 2005.

The Group employs a business model that relies significantly on outsourcing of its research and development studies through external collaborations. 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.

Because the Group's expenses are a function of its research and development activities and because the revenues generated over the next few years, under its collaboration agreements, may fluctuate, financial results 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 2004 versus 2003 are reported in the 2004 "document de référence" pages 66 and 67.

For the years ending December 31, 2005 and 2004

REVENUES

Revenues reached € 6.5 million in 2005, compared to € 1.2 million in 2004. This significant increase in revenues for 2005 comes from the following payments that were entirely recognized as revenues during the year:

- € 2 million corresponding to the payment received from Pfizer in November 2005 following the exercise of the exclusive worldwide license provided for under the agreement signed in August 2004.
- € 2 million corresponding to the initial payment received from Topigen in November 2005 following the signature of the license and development agreement.
- € 0.9 million corresponding to the payment received from Merck following the extension, in November 2005, of the collaboration agreement signed in August 2003.

These amounts received by the Group result from a firm commitment by the other contracting party. They have been immediately recognized in revenues because the Group will not have continuing involvement in the future development of the compounds which are the subject of the collaboration agreements mentioned above.

NicOx has also recognized the following sums in revenues:

- € 0.3 million corresponding to the allocation over 2005 of a portion of the USD 2 million license and option payments received from Axcan partially in December 2002 and the balance in January 2003.
- € 1.3 million from the initial payments amounting to € 2 million that relate to the research and development agreement signed with Pfizer in August 2004, of which € 1 million was paid upon the signature of the agreement and € 1 million in March 2005.

These sums, initially recorded as deferred revenues, have been deferred from February 2003 for Axcan and September 2004 for Pfizer, over the estimated duration of the Group's involvement in the development programs provided for under the corresponding agreement, the duration of which are revised periodically.

OPERATIONAL EXPENSES

Consolidated operational expenses increased by € 7 million during the year to reach € 22.8 million for 2005, compared to € 15.8 million in 2004. This increase results primarily from higher research and development expenses.

Research and development expenses amounted to € 17.9 million in 2005, compared to € 11.5 million in 2004 (including € 1.8 million allocated to the cost of sales in 2005 and € 2.2 million in 2004). This 57 % increase is due exclusively to development expenses and is primarily explained by the entry of naproxinod into phase 3 during 2005 and the completion of a large phase 2 study for NCX 4016 during the last quarter of the year. This progression in development expenses comes mainly from the increased expenses relating to external collaborations with clinical research organizations involved in the clinical development work on the two compounds in NicOx' product portfolio mentioned above, including the expenses related to the manufacturing of these compounds, and from the strengthening of the internal teams managing the advancement of these activities. On December 31, 2005, the Group employed 19 people in research and 32 in development, compared to 17 people in research and 23 in development on December 31, 2004.

In 2005, NicOx invoiced its partners Axcan and Topigen, for certain research and development expenses at cost, amounting to € 0.5 million, as provided for under the collaboration agreements. In the consolidated IFRS accounts these proceeds (recognized as revenues in the French statutory accounts) are not included in the scope of IAS 18 and have been directly deducted from research and development expenses.

Finally, government grants, including research tax credits of € 0.2 million and € 0.1 million received in 2005 and 2004 respectively, were deducted from research and development expenses. On December 31, 2005, the Group had a research tax credit receivable of € 1 million.

General and administrative expenses amounted to € 3.5 million in 2005 compared to € 2.9 million in 2004. General and administrative expenses mainly relate 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 totalled € 1.4 million in both 2005 and 2004. These expenses correspond to business development and communication activities.

OPERATIONAL LOSS

The operational loss amounted to € 16.3 million in 2005 compared to € 14.6 million in 2004. This limited increase, despite the strong progression in operational expenses, is explained by the significant increase in the revenues recorded in 2005.

OTHER RESULTS

Net financial income amounted to € 1.1 million in 2005, compared to € 1.0 million in 2004 and represents mainly returns on the financial investments of the Group's cash, cash equivalents and current financial instruments.

The income tax expense incurred by the Group in 2005 relates principally to its Italian subsidiary and amounted to € 0.2 million in 2005, almost identical to the income tax expense recorded in 2004.

Net loss

Net loss increased € 1.7 million in 2005 to € 15.5 million, compared to € 13.8 million in 2004. This moderate increase in consolidated net loss, notwithstanding the considerable increase in operational expenses, is due to the large increase in revenues recognized over the period.

Liquidity and Capital Resources

The Group's financial requirements have been met to date through private placements of equity securities, payments received under research, license and development 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 and a private placement in September 2004. Since its foundation in February 1996, the Company received a total of € 8.3 million in gross proceeds from the private placements of equity securities, a total of € 33.2 million in gross proceeds from its initial public offering in November 1999 and a total of € 59.33 million and € 26 million in gross proceeds from its follow-on offering and the private placement completed in May 2001 and September 2004, respectively.

The Group also received a global amount of € 20.9 million in payments under license and development agreements.

The Group has incurred net losses since its foundation and had an accumulated deficit, of € 86.3 million, as of December 31, 2005. 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 28 May 1999. The Group expects to continue to incur net losses until at least 2009 and may incur net losses in subsequent periods.

Debts the Group has incurred are mainly short-term operating debts. As of December 31, 2005, its current liabilities amounted to € 11.6 million, including € 7.9 million in accounts payable to suppliers and external collaborators, € 1.6 million in accrued compensation for employees, € 1.1 million in taxes payable, € 0.6 million of deferred revenues through payment received under license and development agreements, and € 0.4 million provisions for contingent liabilities. The Group has no loans outstanding and long-term financial leasing commitments amounted to € 0.04 million as of December 31, 2005.

As of December 31, 2005, the Group's cash and cash equivalents amounted to € 42.6 million compared to € 51.7 million as of December 31, 2004. The Group 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.

The Group's net burn rate, defined with reference to its cash flow statement, represents the net cash the Group spent in conducting its activities, excluding net proceeds resulting from its investment and financing activities. The Group's net burn rate for 2005 amounted to € 8 million, compared to € 13.4 million in 2004. This decrease results mainly from significant increase in payments relating to license and development agreements received by the Group for a global amount of € 5.9 million in 2005 compared to only

€ 1 million in 2004, and further from refunding received from the French State of part of the research tax credit for an amount of € 1.8 million in 2005 compared to € 1.2 million in 2004. The Group expects its burn rate to continue to increase significantly in accordance with its strategy of pursuing, where possible, the in-house clinical development of its compounds, and notably due to the entry into phase 3 of its drug candidate naproxcinod during the last quarter of 2005.

The Group expects its principal source of revenues over the next several years to be milestone payments under its license and development agreements with pharmaceutical partners. Collaboration agreements signed with Biolipox and Ferrer have not generated any revenues since their signature. Under the terms of the agreement signed with Axcan,

the total amount of future milestone payments that the Group could receive varies depending on whether the US option is exercised, or not, with a minimum of € 2.5 million and a maximum of € 14.4 million (calculated at the exchange rate as of December 31, 2005, regarding future amounts that are expressed in USD). In addition, in the event that a product from the agreement is commercialized, the Group will receive royalties of 12 % on Axcan's 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. The agreement signed with Biolipox provides for the joint development of the selected lead compounds and that the revenues accrued from future commercial partnerships shall be shared between the parties. Following Merck's exercises of its option to enter into an exclusive license in 2005, and in case of an execution of such license, development and commercialization agreement, Merck has confirmed its agreement to pay NicOx an initial milestone payment, intermediary milestones based on the success of pre-established development achievements, as well as royalties on the sales of any future marketed drugs resulting from the 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 that NicOx may receive total potential milestones in excess of € 300 million in the ophthalmology field, if collaboration results in successful commercial development of products, and € 194.3 million if a potential indication outside of ophthalmology is developed, besides royalties on each resulting marketed product. Finally, under the contract terms with Topigen, the Group 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 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.

The Group does not expect any of these products to be marketed until 2009, and cannot guarantee the certainty or timing of regulatory approvals.

The Group'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 the Group's 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.

The Group expects the possibility for its research and development expenses to increase significantly and continuously until 2009, at the earliest, which is the year when the launch of its first product on the market is contemplated. This projected increase in expenditure is due to the Group's strategy of maximizing the potential return on its current drug candidate portfolio through the in-house development of the most advanced drug candidates in its portfolio, where possible, and notably due to the entry into phase 3 during the last quarter of 2005 of his drug candidate naproxinod. The level of the Group'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 shall be fully supported by Biolipox. With regard to the agreement with Merck, following the exercise of an exclusive option for a license in 2005, and subject to the execution of a license, development and commercialization agreement, Merck would be responsible for funding the future development and commercialization of the selected drug compounds on a worldwide basis. 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, following the exercise of an option for a license in 2005 and to the selection of a development lead compound for development, Pfizer would be 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 in 2005 with Topigen, 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 Group will bear all costs related to their development.

Statutory Auditors' Report on the consolidated financial statements, year ended December 31, 2005

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
B.P. 271 - Les Templiers
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, 2005.

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. These financial statements have been prepared for the first time in accordance with IFRS, as adopted by the EU. They include comparative information restated in accordance with the same standards in respect of the financial year 2004.

I. OPINION ON THE 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, 2005 and of the results of its operations for the year then ended in accordance with IFRS, as adopted by the EU.

Without qualifying our opinion, we draw attention to the matter discussed in Note 17 to the financial statements relating to uncertainties regarding the dispute between your company and its Italian subsidiary and a former employee of the latter.

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

Note 2.19 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, 2006

The Statutory Auditors

PricewaterhouseCoopers Audit
Philippe Willemin

ERNST & YOUNG Audit
Anis Nassif

CONSOLIDATED INCOME STATEMENT

Fiscal year ended December 31:		2005	2004
<i>(€ thousands except for per share data)</i>			
	<i>note</i>		
Revenues	5.1	6,528	1,182
Cost of goods sold		(1,775)	(2,234)
Research and development costs	5.2	(16,201)	(9,245)
Administrative and selling expenses		(4,888)	(4,290)
Operating loss		(16,336)	(14,587)
Net financial income	5.3	1,056	1,011
Pre-tax loss		(15,280)	(13,576)
Income tax	6	(228)	(207)
Net loss		(15,508)	(13,783)
Attributable:			
To parent company shareholders		(15,508)	(13,783)
To the minority shareholders		-	-
Earnings per share	7	(0.48)	(0.43)
Diluted earnings per share	7	(0.48)	(0.43)

CONSOLIDATED BALANCE SHEET

Fiscal year ended December 31:		2005	2004
<i>(in thousands of €)</i>			
	<i>notes</i>		
ASSETS			
Non current assets			
Property, plant & equipment	8	1,444	1,539
Intangible assets	9	190	235
Government subsidies receivable	10	266	781
Other financial assets		148	136
Deferred taxes	6	13	47
Total non current assets		2,061	2,738
Current assets			
Trade receivables	11	2,172	2,668
Government subsidies owed	10	708	1,848
Other current assets	12	1,724	1,245
Prepaid expenses		1,535	1,090
Current financial instruments	13	7,109	28,389
Cash and cash equivalents	14	35,476	23,335
Total current assets		48,724	58,575
TOTAL ASSETS		50,785	61,313
LIABILITIES & SHAREHOLDERS' EQUITY			
Shareholders' equity attributable to parent company shareholders			
Contributed capital	15	6,429	6,429
Other reserves	15, 16.1, 16.2	32,606	47,609
Minority interests		-	-
Total shareholders' equity		39,035	54,038
Non-current debt			
Provisions for contingent liabilities	17	61	53
Deferred taxes	6	83	69
Finance lease	19.2	20	3
Total non-current debt		164	125
Current debt			
Provisions for contingent liabilities	17	354	388
Finance lease	19.2	20	6
Trade payables		7,931	2,929
Prepaid income	18	558	2,231
Income and payroll taxes owed		2,709	1,589
Other liabilities		14	7
Total current liabilities		11,586	7,150
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		50,785	61,313

CONSOLIDATED STATEMENT OF CASH FLOWS

Fiscal year ended December 31:		2005	2004
<i>(in thousands of €)</i>			
	<i>notes</i>		
Net loss*		(15,508)	(13,783)
Elimination of non-cash adjustments:			
Amortization expense	5.2	107	99
Depreciation expense	5.2	392	315
Change in provisions for contingent liabilities		(25)	250
Effect from discounting receivables and debts		(14)	59
Calculated income and expenses relating to stock options and related instruments		545	569
Unrealized gains and losses relating to changes in the fair market value of current financial instruments and cash equivalents	5.3	790	(424)
Deferred taxes	6	48	(20)
Change in working capital requirements:			
Trade receivables	11	517	(1,719)
Government subsidies	10	1,647	991
Prepaid expenses		(445)	(467)
Trade payables		5,002	(463)
Change in taxes and benefits owed		639	300
Prepaid income		(1,673)	826
Others		(4)	12
Net cash flow from operations		(7 982)	(13 455)
Cash flow used by investing activities:			
Acquisition of current financial instruments		-	(7,051)
Sale of current financial instruments	13	20,490	-
Acquisition of intangible assets	9	(63)	(47)
Acquisition of property, plant, & equipment	8	(281)	(304)
Other long-term assets		(7)	(1)
Net cash flow from financing activities		20,139	(7,403)
Net increase (decrease) in cash and cash equivalents			
Proceeds from share issues		-	24,276
Purchase and resale of treasury stock		(32)	76
Increase (decrease) in borrowings under finance leases		16	35
Net cash flow from financing activities		(16)	24,387
Net increase (decrease) in cash and cash equivalents	14	12,141	3,529
Cash and cash equivalents at the beginning of the year		23,335	19,806
Cash and cash equivalents at the end of the year		35,476	23,335
<i>*of which tax paid / received</i>		<i>(180)</i>	<i>(227)</i>
<i>*of which proceeds from the sale of current financial instruments and cash equivalents</i>		<i>1,734</i>	<i>428</i>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(€ thousands except for numbers of shares)

	Contributed capital		Other reserves					Minority interests	Total shareholders' equity
	Common stock Number	Amount	Additional paid-in capital	Treasury stock	Payments in stock	Reserves and consolidated profit/loss	Current translation differences		
As of January 1, 2004	22,701,900	4,540	92,389	(119)	522	(54,431)	(5)	-	42,896
Issuance of common stock	9,443,998	1,889	22,388	-	-	-	-	-	24,277
Payments in stock	-	-	-	-	569	-	-	-	569
Treasury stock	-	-	-	76	-	-	-	-	76
Net income (loss) for the year	-	-	-	-	-	(13,783)	-	-	(13,783)
Currency translation differences	-	-	-	-	-	-	(3)	-	(3)
As of December 31, 2004	32,145,898	6,429	114,777	(43)	1,091	(68,214)	(2)	-	54,038
Payments in stock	-	-	-	-	544	-	-	-	544
Treasury stock	-	-	-	(38)	-	5	-	-	(33)
Net 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

Notes to consolidated financial statements

1. Description of the business

NicOx S.A., a limited liability corporation (société anonyme) incorporated under the French law in February 1996 and listed on the *Eurolist* of Euronext (Next Economy Segment) since 3 November 1999, is an emerging pharmaceutical company involved in the research and development of nitric oxide donating drugs with superior efficacy and safety profiles in the inflammation, pain and cardiovascular therapeutics areas. 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 2455, route des Dolines 06906, Sophia Antipolis, France.

2. Accounting principles

2.1. PRINCIPLES USED IN THE PREPARATION OF FINANCIAL STATEMENTS

The consolidated financial statements of NicOx S.A. and all of its subsidiaries, ("the Group") were prepared in accordance with the 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.

Interpretations and amendments to published accounting standards effective in 2005

The following amendments and interpretations are mandatory for the 2005 fiscal year:

- IFRIC 1, Changes in existing decommissioning, restoration and similar liabilities (effective as of September 1, 2004)
- IFRIC 2, Members' shares in co-operative entities and similar entities (effective as of January 1, 2005)
- SIC 12 (Amendment), Consolidation – Special purpose entities (effective as of January 1, 2005)
- IAS 39 (Amendment), Transition and initial recognition of financial assets and financial liabilities (effective as of January 1, 2005).

Management assessed the relevance of these amendments and interpretations with respect to the Group's operations and concluded that they are not relevant to the Group.

Standards, interpretations and amendments to published standards that are not yet effective

The new standards, amendments and interpretations to existing standards that now apply for the Group's accounting periods beginning on or after January 1, 2006 or later periods, but which the Group has not adopted early, are as follows:

- IAS 19 (Amendment), Employee benefits (effective as of January 1, 2006)

This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not recognize actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment will only impact the format and extent of disclosures presented in the notes to the financial statements. The Group will apply this amendment for the fiscal years beginning on January 1, 2006.

- IAS 39 (Amendment), Cash flow hedge accounting of forecast intra-company transactions (effective from January 1, 2006)

This amendment allows the foreign currency risk of a highly probable forecast intra-company transaction to qualify as a hedged item in the consolidated financial statements, provided that a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and b) the foreign currency risk will affect the consolidated profit or loss. The Group does not have any intra-company transactions with countries outside of the euro zone.

- IAS 39 (Amendment), Fair value option (effective from January 1, 2006)

This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial liabilities as part of this category. The group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through the income statement. It will apply this amendment beginning with the fiscal year starting on January 1, 2006.

- IAS 39 and IFRS 4 (Amendment), Financial guarantee contracts (effective from January 1, 2006)

This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognized at their fair value and subsequently measured at the higher of: 1) the unamortized balance of the related fees received and deferred, and 2) the expenditure required to settle the commitment at the balance sheet date. Management considered this amendment to IAS 39 and concluded that it is not relevant to the Group.

- IFRS 1 (Amendment), First-time adoption of IFRS and IFRS 6 (Amendment), Exploration for and evaluation of mineral resources (effective from January 1, 2006).

Given its businesses, the Group is not covered by these amendments.

- IFRS 6, Exploration for and evaluation of mineral resources (effective from January 1, 2006).

Given its businesses, the Group is not covered by this standard.

- IFRS 7, Financial instruments: disclosures and a complementary amendment to IAS 1, Presentation of financial statements -- Capital disclosures (effective from January 1, 2007)

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis of market risk. IFRS 7, which is applicable to all entities that report under IFRS, replaces IAS 30, Disclosures in the financial statements of banks and similar financial institutions, and disclosure requirements in IAS 32, Financial instruments: disclosure and presentation. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the notes to the financial statements would not be substantially modified. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning January 1, 2007.

- IFRIC 4, Determining whether an arrangement contains a lease (effective from January 1, 2006)

IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of IFRIC 4 on the Group's operations.

- IFRIC 5, Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds (effective from January 1, 2006)

Given its businesses, the Group is not covered by this interpretation.

- IFRIC 6, Liabilities arising from participating in a specific market -- waste electrical and electronic equipment (effective from December 1, 2005)

Given its businesses, the Group is not covered by this interpretation.

2.2. COMPLIANCE WITH ACCOUNTING STANDARDS

The consolidated financial statements of NicOx S.A. and of all of its subsidiaries (the Group) were drawn up in compliance with IFRS as adopted in the European Union.

2.3. 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	502 Carnegie Center, suite 104, Princeton, New Jersey, USA (Delaware)	100 %	Full consolidation

2.4. FIRST-TIME APPLICATION OF IFRS

NicOx's annual financial statements for the year ended December 31, 2005 are the first to be presented according to IFRS as adopted in the European Union effective from December 31, 2005.

Retroactive application of IFRS standards

Pursuant to the provisions of IFRS 1, NicOx retroactively applied the accounting methods in effect on December 31, 2005 back to January 1, 2004. The main options chosen for the retroactive restatement of assets and liabilities under IFRS were as follows:

– Share based payments:

For the plans settled in shares, NicOx chose to apply the temporary provisions of IFRS 2, which limit its application to plans granted after November 7, 2002 which were not yet vested as of January 1, 2005. The quantified impact of the first-time application of IFRS 2 is described in Notes 13 and 14.1.

- Financial instruments :

NicOx applied the IFRS 1 exemption, which allows disclosing a financial instrument as a financial asset at its fair value at the transition date through the income statement. NicOx opted to apply IAS 32 and 39 in advance on a retroactive basis. NicOx did not use the exemption to restate comparative information under IAS 39.

NicOx did not use the other optional exemptions from IFRS 1 that are listed below :

- Business combinations
- Fair value or revaluation as a presumed cost
- Employee benefits
- Cumulative amount of FX conversion differences
- Compound financial instruments
- Assets and liabilities of subsidiaries, affiliates and co-companies
- Designation of previously disclosed financial instruments
- Insurance contracts
- Change in liabilities relating to the decommissioning, restoration and similar liabilities included in the cost of a tangible asset
- Lease contracts

Reconciliation of the previous French accounting standards referential with IFRS

The issue of classifying mutual funds as cash equivalents has been widely debated for several months. Recently, the AMF took a position on the matter, after which some mutual funds were reclassified from cash equivalents to current financial instruments. This reclassification resulted in a € 20,914,000 reduction in cash as of January 1, 2004 and € 28,389,000 as of December 31, 2004 as compared with the Group's previous financial reporting on the transition.

For comparative purposes, below is a presentation of the impact on the Group's financial condition, financial performance, and cash flows due to the transition from French Accounting Standards to IFRS as of January 1 and December 31, 2004.

TABLE SHOWING THE CONVERSION TO IFRS – JANUARY 1, 2004

<i>(€ thousands)</i>	<i>notes</i>	French accounting standards January 1 2004	Transition effects	IFRS January 1, 2004
ASSETS				
Non current assets				
Property, plant, & equipment	<i>(c)</i>	1,464	156	1,620
Intangible assets	<i>(c)</i>	278	9	287
Government subsidies receivable	<i>(d) & (f)</i>	-	2,376	2,376
Other financial assets	<i>(d)</i>	154	(21)	133
Deferred taxes		-	-	-
Total non-current assets		1,896	2,520	4,416
Current assets				
Inventories	<i>(e)</i>	992	(992)	-
Trade receivables	<i>(d)</i>	1,163	(150)	1,013
Government subsidies receivable	<i>(d) & (f)</i>	-	1,244	1,244
Other current assets		2,113	-	2,113
Prepaid expenses		623	-	623
Government subsidies	<i>(f)</i>	3,801	(3,801)	-
Current financial instruments	<i>(a)</i>	-	20,914	20,914
Cash and cash equivalents	<i>(a) & (b)</i>	40,093	(20,287)	19,806
Total current assets		48,785	(3,072)	45,713
TOTAL ASSETS		50,681	(552)	50,129
LIABILITIES & SHAREHOLDERS' EQUITY				
Shareholders' equity attributable to the parent company				
Capital brought forward		4,540	-	4,540
Other reserves	<i>(a), (b), (c), (d), (g), (e), (h), (i)</i>	38,969	(613)	38,356
Minority interests		-	-	-
Total shareholders' equity		43,509	(613)	42,896
Non-current debt				
Provisions for contingent liabilities	<i>(h)</i>	-	121	121
Deferred taxes	<i>(i)</i>	10	31	41
Finance lease		35	-	35
Total non-current debt		45	152	197
Current debt				
Provisions for contingent liabilities	<i>(h)</i>	161	(91)	70
Finance lease		9	-	9
Trade payables		3,391	-	3,391
Prepaid income		1,405	-	1,405
Taxes and benefits owed		2,161	-	2,161
Total non-current debt		7,127	(91)	7,036
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		50,681	(552)	50,129

TABLE SHOWING THE CONVERSION TO IFRS – JANUARY 1, 2004 (CONTINUED)

Marketable securities	<i>Note (a)</i>	724
Treasury stock	<i>Note (b)</i>	(97)
Property, plant and equipment	<i>Note (c)</i>	165
Present value of long-term debt and receivables	<i>Note (d)</i>	(352)
Inventories	<i>Note (e)</i>	(992)
Provision for retirement benefit commitments	<i>Note (h)</i>	(30)
Deferred tax liability	<i>Note (i)</i>	(31)
Total adjustments to shareholders' equity		(613)

IFRS 2004 CONSOLIDATED BALANCE SHEETS

	<i>Notes</i>	French accounting standards, December 31, 2004	Transition effects	IFRS December 31 2004
ASSETS				
Non current assets				
Property, plant, & equipment	<i>(c)</i>	1,301	238	1,539
Intangible assets	<i>(c)</i>	218	17	235
Government subsidies receivable	<i>(d) & (f)</i>	-	781	781
Other financial assets	<i>(d)</i>	152	(16)	136
Deferred taxes		47	-	47
Total non-current assets		1,718	1,020	2,738
Current assets				
Inventories	<i>(e)</i>	523	(523)	-
Trade receivables	<i>(d)</i>	2,899	(231)	2,668
Government subsidies receivable	<i>(d) & (f)</i>	-	1,848	1,848
Other current assets		1,245	-	1,245
Prepaid expenses		1,090	-	1,090
Government subsidies	<i>(f)</i>	2,690	(2,690)	-
Current financial instruments	<i>(a)</i>	-	28,389	28,389
Cash and cash equivalents	<i>(a) & (b)</i>	50,619	(27,284)	23,335
Total current assets		59,066	(491)	58,575
TOTAL ASSETS		60,784	529	61,313
LIABILITIES & SHAREHOLDERS' EQUITY				
Shareholders' equity attributable to the parent company				
Capital brought forward		6,429	-	6,429
Other reserves	<i>(a), (b), (c), (d), (g), (h), (e) & (i)</i>	47,148	461	47,609
Minority interests		-	-	-
Total shareholders' equity		53,577	461	54,038
Non-current debt				
Provisions for contingent liabilities		-	53	53
Deferred taxes	<i>(i)</i>	-	69	69
Finance lease		3	-	3
Total non-current debt		3	122	125
Current debt				
Provisions for contingent liabilities		441	(53)	388
Finance lease		6	-	6
Other debts		7	-	7
Trade payables		2,929	-	2,929
Prepaid income		2,231	-	2,231
Taxes and benefits owed		1,590	(1)	1,589
Total non-current debt		7,204	(54)	7,150
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY		60,784	529	61,313

IFRS 2004 CONSOLIDATED BALANCE SHEETS (CONTINUED)

Marketable securities	<i>Note (a)</i>	1,148
Treasury stock	<i>Note (b)</i>	(43)
Property, plant and equipment	<i>Note (c)</i>	255
Present value of long-term debt and receivables	<i>Note (d)</i>	(307)
Inventories	<i>Note (e)</i>	(524)
Provision for retirement benefit commitments	<i>Note (h)</i>	-
Deferred tax liability	<i>Note (i)</i>	(69)
Total adjustments to shareholders' equity		461

(a) The marketable securities held by the Group as of January 1, 2004 were classified as financial assets at fair value through profit or loss under IAS 39. The changes in fair value of marketable securities are booked as profit or loss until they are sold. Under French accounting standards, the marketable securities held by the Group are booked at their historical cost value and a provision is set aside should their market value fall below the purchase price. Under IFRS, shareholders' equity rose by € 724,000, or equivalent to the unrealized gains as of January 1, 2004, and by € 1,148,000 as of December 31, 2004. The marketable securities whose recommended maturity exceeds three months, and which are subject to a risk of change in value, are not deemed to be cash equivalents under IAS 7. Hence, they are reclassified as current financial instruments. This adjustment reduced cash by € 20,914,000 as of January 1, 2004 and by € 28,389,000 as of December 31, 2004.

(b) Under IAS 32, the Group's treasury stock as of January 1, 2004 was recognized as shareholders' equity at its historical purchase price. The gains or losses resulting from the purchase and sale of these shares are also charged to shareholders' equity. Under French accounting standards, treasury stock is accounted for as "Cash and marketable securities" insofar as it is held to smooth out fluctuations in the stock price. Under IFRS, shareholders' equity was reduced by € 97,000 as of January 1, 2004 and by € 43,000 as of December 31, 2004.

(c) The Group's depreciation of its property, plant and equipment was arrived at based on the expected useful life of each of the fixed assets. Under French accounting rules, the depreciation terms are arrived at based on the probable useful life of each asset category. This discrepancy had the effect of increasing shareholders' equity by € 165,000 as of January 1, 2004 and € 255,000 as of December 31, 2004.

(d) The Group's long-term debts and receivables were recognized at their fair value under IFRS. They were discounted using the average effective rate applied by lending institutions at the date the debts and receivables in question were booked. Under French accounting standards, long-term debt and receivables are valued at their historical cost. Under IFRS as of January 1, 2004, shareholders' equity was reduced by € 150,000 for trade receivables, € 181,000 for other financial assets, and by € 21,000 for deposits and guarantees. As of December 31, 2004, the impact on shareholders' equity was € 231,000 for trade receivables, € 60,000 for other financial assets and € 16,000 for deposits and guarantees.

(e) The Group's inventories do not meet the definition criteria for inventories under IAS 2 since they are not held to be sold in the normal course of doing business, nor are they produced for the purpose of sale. They are also not intended to be consumed in a production process or used to render a service. Under French accounting rules, the nitro compounds purchased by the Group are deemed to be consumable materials that are used to develop drug candidates, and in this regard they are recorded as an asset under inventory. They are valued at the purchase price and written down should the outlook for their being used be uncertain, or in the event the compounds become obsolescent. Under IFRS, shareholders' equity was reduced by € 992,000 as of January 1, 2004 and by € 523,000 as of December 31, 2004.

(f) The French government owed the Group € 3,801,000 in the form of a research tax credit as of January 1, 2004 and € 2,690,000 as of December 31, 2004 before discounting (see d.). € 2,557,000 of this receivable was reclassified as "Non-current financial assets" as of January 1, 2004 and € 841,000 as of December 31, 2004. Another € 1,244,000 was reclassified as "Current financial assets" as of January 1, 2004 and € 1,849,000 as of December 31, 2004. This receivable is booked as "Tax credits" under French accounting rules. This reclassification has no impact on shareholders' equity.

(g) Under IFRS 2, the Group assigned a value to transactions with employees or third parties which are settled by granting stock options. This valuation, which only pertains to stock options granted before November 7, 2002 and which cannot be exercised before January 1, 2005, was made using the Black-Scholes model. It came to € 522,000 as of January 1, 2004 and € 1,091,000 as of December 31, 2004. This valuation has no impact on shareholders' equity.

(h) Under IAS 19, a provision must be set aside to cover all retirement commitments and related benefits for personnel under IFRS. Under French accounting rules, setting aside this provision is optional. The Group recorded these commitments on the balance sheet in the non-consolidated financial statements starting on January 1, 2004 in order to conform to the international standards. To date, this commitment amounts to € 30,000.

(i) The impact from restating NicOx S.A.'s deferred taxes totalled € 224,000 on the asset side as of January 1, 2004 and € 86,000 on the liabilities side as of December 31, 2004. This impact was not disclosed owing to the uncertain prospects for recovering the net tax credit relating to the Group's loss-making situation. The impact from restating the Italian subsidiary's deferred taxes came to € 31,000 (a liability) as of January 1, 2004 and € 69,000 (a liability) as of December 31, 2004.

RECONCILIATION OF THE 2004 CONSOLIDATED INCOME STATEMENT

	Notes	French accounting standards	Transition effects	IFRS
Revenues	(a)	1,918	(736)	1,182
Cost of goods sold	(k)	-	(2,234)	(2,234)
Research and development costs	(a), (b), (c), (d), (j) & (e)	(12,361)	3,116	(9,245)
Administrative and selling expenses	(d) & (j)	(4,172)	(118)	(4,290)
Operating loss		(14,615)	28	(14,587)
Net financial income	(f), (g) & (h)	470	541	1,011
Pre-tax loss		(14,145)	569	(13,576)
Income tax	(c) & (i)	(37)	(170)	(207)
Net loss		(14 182)	399	(13 783)

(a) The euro for euro rebilling of certain research and development costs does not fall within the scope of IAS 18. Under IFRS, these proceeds, which are recognized as revenues under the French accounting rules, were therefore deducted directly from the research and development expenses. The reclassification of € 736,000 had no impact on the income statement.

(b) Under IFRS, it is mandatory to record the fair value of the consideration received or to be received as income. In the case of a significant deferral of payment, this entails booking less income than would be arrived at under French accounting principles, with the difference between the face value of the income and its discounted value being booked as financial income over the period that payment was deferred. The impact of this restatement on research and development costs in 2004 is to reduce income by € 95,000.

(c) Under IFRS, research tax credits are recognized as operating subsidies and thus deducted directly from research and development expenses. Under French accounting standards, this income is deducted from the corporate income tax. The reclassification of € 132,000 had no impact on the 2004 income statement.

(d) The figure used for depreciation of the Group's property, plant and equipment was based on the expected useful life of each of the fixed assets. Under French accounting rules, the depreciation terms are based on the probable useful life of each asset category. The impact resulting from this discrepancy was to raise 2004 income by € 90,000.

(e) The Group's inventories do not meet the criteria for inventories under IAS 2. They are restated as expenses in the IFRS financial statements. The impact of this restatement was a € 469,000 increase to 2004 income, thus canceling the change in inventories for the year net of allocations and reversals of provisions for obsolescence.

(f) The Group's treasury stock is deducted from shareholders' equity at its historical cost along with the gains and losses resulting from the purchase and sale of these shares under IAS 32. The relative impact of this restatement was to reduce income by € 21,000 in 2004.

(g) The Group's marketable securities are classified as financial assets at fair value through profit or loss under IAS 39. The impact of changes in fair value increased 2004 income by € 424,000.

(h) All of the Group's debts and receivables were discounted to their fair value as of December 31, 2004. The financial income equivalent to the fraction of the difference between the face value and the discounted value related to 2004 increased income by € 139,000 in fiscal year 2004.

(i) The impact from increasing deferred tax liabilities as a result of IFRS restatements dealing with the Italian subsidiary reduced 2004 income by € 38,000.

(j) Under IFRS 2, the Group assigned a value to transactions with employees or third parties which are settled by granting stock options. The impact of this valuation reduced 2004 income by € 569,000, of which € 119,000 pertained to administrative and selling expenses and € 450,000 pertained to research and development costs.

(k) The cost of sales pertains to the costs incurred by the Group in granting licenses to protect and maintain the rights granted, performing research and development work concerning these concession agreements, and to sales or royalties on drug sales. This notion does not exist under French accounting standards. As of December 31, 2004, this reclassification from research and development costs came to € 2,234,000.

NOTES TO THE 2004 CASH FLOW STATEMENT - FRENCH ACCOUNTING STANDARDS VERSUS IFRS

There is no significant difference between the cash flow statement presented under IFRS and the cash flow statement presented under the previous accounting standards, except for the reclassification of current financial instruments.

2.5. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the financial statements of NicOx S.A. and of its subsidiaries (the Group) drawn up at each period end. The subsidiaries' financial statements are drawn up 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.

2.6. TRANSLATION OF FOREIGN CURRENCIES

The euro (€) is the functional and reporting currency of NicOx S.A. and of its Italian subsidiary, NicOx S.r.l. Foreign currency transactions are initially recorded in the functional currency at the exchange rate on the transaction date. 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 heading, "Translation differences".

When the Group closes a business abroad, the cumulative amount of deferred translation differences in the distinct shareholders' equity heading pertaining to this business must be run through the income statement.

2.7. PROPERTY, PLANT & EQUIPMENT

Property, plant, and equipment are reported on the balance sheet at their historical cost minus 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 imputed to the respective operating expense headings 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 2.10).

A fixed asset is taken off the books 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 the asset was taken off the books.

2.8. INTANGIBLE ASSETS

Intangible assets acquired separately

This heading comprises intangible assets acquired separately whose life span is fixed. 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 an asset 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, which in 2004 and 2005 were 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

Research and development costs are all expensed in the year they are incurred. The development costs incurred on the various candidate drugs in the Group's product portfolio are expensed until they are approved to be put on the market.

Development costs are booked as intangible assets when marketing authorization has been obtained to put them on the market and the various drugs will produce probable economic benefits that exceed the costs incurred.

2.9. OTHER FINANCIAL ASSETS

The Other financial assets item includes various deposits and guarantees paid to execute lease contracts.

Other financial assets with an expiration over one year out are discounted using the average effective rate applied by lending institutions at the date they are booked.

2.10. 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.

2.11. GOVERNMENT SUBSIDIES RECEIVABLE

This heading reflects 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 5% of the research costs incurred during the year and 45% 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 taxes constitutes a receivable from the government that may be used to pay the tax owed during the three years following that in which it was recognized. The unused portion at the end of this period is redeemed. The long-term portion of this receivable is booked under "Other non-current financial assets" and the short-term portion that may be redeemed in less than one year is recorded under "Other current financial assets".

The long-term portion of the receivable was assigned a fair value. It was discounted using the average effective rate applied by lending institutions at the date the receivable was booked.

2.12. 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.

2.13. 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 run directly through the income statement.

2.14. CASH AND CASH EQUIVALENTS

Cash equivalents are short-term, very liquid investments that can easily be converted into a known amount of cash.

They are subject to a negligible risk of change in value. Thus, cash and cash equivalents comprise cash in bank accounts and on hand plus cash investments in marketable securities whose recommended expiration is less than three months and which have a low sensitivity to interest rate risk. These marketable securities are treated as financial assets at fair value through profit or loss.

2.15. PAYMENTS IN STOCK

The Group compensates its employees, including the executives, in the form of transactions whose payment is indexed to equity shares (stock subscription 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 booked as an expense and is 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 a remuneration in stock 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 cancelled one 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.

2.16. 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.

2.17. 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 experience 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.

2.18. EVENTS SUBSEQUENT TO THE CLOSING DATE

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

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.

2.19. 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 prepaid income 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 the research and development costs.

2.20. COST OF GOODS SOLD

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.

2.21. 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.

2.22. 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.

2.23. TAXES

The Group uses the liability method to account for its deferred taxes. This method dictates that deferred taxes 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 tax credits where it is probable that future taxable profits will be available to allow for using the benefit of all or part of this deferred tax credit. The book value of the deferred tax credits is then reviewed at each closing date. The taxes relating to items recognized in shareholders' equity are 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.

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 the 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 entered into a research and co-development agreement with the Swedish research-based company Biolipox AB ("Biolipox") on a novel class of nitric oxide-donating therapeutics in the respiratory field. The collaboration combines NicOx' intellectual property and know-how in the nitric oxide field with Biolipox' expertise in the characterization of mechanisms and screening of compounds for the treatment of airway diseases. During financial years ending December 31, 2004, 2005, this agreement did not generate any revenues. Biolipox supports the clinical development costs. 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. Following the preliminary positive results of the first research tests, the agreement was expanded to new lead compounds in the same field in January 2003. In 2004, the agreement was further amended to notably modify the percentage of royalties that Biolipox could pay to NicOx.

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, compound NCX 1510 successfully achieved its primary evaluation endpoint within the scope of a pilot phase 2 study which results showed: on one hand, statically significant reduction in symptoms of allergic rhinitis compared to placebo treatment, and on the other hand, equivalent efficacy to the standard systemic treatment. Biolipox announced the results of the second clinical study of the NCX 1510 compound in February 2005 demonstrating an onset of action of only 5 to 10 minutes in an approved allergic rhinitis model. As of December 31, 2005, Biolipox was weighing possible partnerships to market and develop the NCX 1510 compound.

4.2. AXCAN PHARMA INC.

In May 2002, the Group signed with Axcan Pharma Inc. ("Axcan"), a Canadian company listed on the NASDAQ, a co-development and license 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 commercialize the compound NCX 1000 in Canada and Poland as well as an option to the same exclusive rights for the United States market exercisable within 120 days following completion of proof of concept in phase 2a clinical development. Axcan has also been granted co-exclusivity rights for France, shared with the Group. In compensation for the rights granted, Axcan paid the Group USD 2 million for the license following the IND clearance ("Investigational New Drug") for NCX 1000. Axcan has also undertaken to pay additional amounts to be invoiced upon reaching certain pre-determined development objectives, up to the obtention of regulatory authorization. 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 € 2,543,000 and a maximum of € 14,410,000 (calculated at the exchange rate as of December 31, 2005, 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.

In December 2002, the Group filed an IND for NCX 1000 and obtained the regulatory approval in January 2003. Pursuant to the contract, and as mentioned above, Axcan has paid the Group an amount of USD 2 million. This amount is spread out over the Group's estimated involvement with the future development work given the information available at period end. In 2005, NicOx booked € 340,000 in research and development income. At December 31, 2005, Axcan was preparing a phase 2a "proof-of-concept" clinical trial.

4.3. MERCK & CO., INC.

In August 2003, the Group entered into a research evaluation agreement with Merck & Co, Inc. ("Merck") to evaluate selected compounds under NicOx' intellectual property rights. Under the terms of the agreement, NicOx provided Merck with patented nitric oxide donating compounds. Merck is responsible for the pharmacological evaluation of these compounds in an undisclosed therapeutic area. This agreement did not generate any revenues for the fiscal year ended December 31, 2004.

Under the terms of the contract, NicOx granted Merck an exclusive license option for a defined period covering all of the principal compounds identified under the research program. In the event that Merck should exercise the option for such a license, and should a new agreement be signed, Merck is committed to pay the Group a down payment plus intermediate payments conditional on the success of previously identified development phases plus royalties based on the future revenues of any drugs that would be brought to market. Merck would fund the future development and marketing costs of the selected compounds worldwide. Merck exercised its exclusive option to negotiate a licensing, development and commercialization 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 USD 1 million to NicOx (€ 855,000) for selection work already performed by the Group. This payment was fully recognized as research and development revenue in 2005. As of December 31, 2005, additional pre-clinical studies were underway to identify new potential candidate drugs for development. The conclusion of any licensing agreements once Merck has exercised its option is predicated on obtaining positive results under the new research program and on agreement over the new contract terms. This process is expected to be completed sometime in 2006.

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 did not generate any revenues during financial year 2004 and 2005. Under the terms of the agreement, NicOx will receive development milestones and commercial success fees plus royalties on any sales of products resulting from 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 modified agreement, Ferrer holds the commercial rights for the European Union (including EFTA), Latin America, French-speaking Africa (including Morocco and Algeria) plus Egypt as well as the option to license rights for the United States. The Group retains all of the rights for Asia, along with the right to co-commercialize 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 pertaining to the 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.

Once the various compounds covered by the licensing and co-development agreement were analyzed, the NCX 1022 compound initially evaluated under this agreement ended up not being selected as the lead steroidal compound. As of December 31, 2005, the work was still underway to select the lead steroidal compound slated for clinical development.

4.5. PFIZER, INC.

In August 2004, NicOx signed with Pfizer, Inc. ("Pfizer") a research, option, development and licensing agreement related to selected NicOx nitric oxide-donating compounds covered by NicOx patents.

Under the terms of the agreement, NicOx granted an exclusive worldwide licensing option to Pfizer in the ophthalmology domain. 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. Both payments were booked over the period covering the Group's involvement in the initial research work that was done between 2004 and 2005. The Group booked € 667,000 in revenues for fiscal year 2004 and € 1,333,000 for 2005. The research phase, during which various nitric oxide-donating compounds were synthesized and subjected to a broad series of pre-clinical tests, was completed over the final quarter of 2005. Several compounds successfully met a certain number of essential criteria and demonstrated a superior efficacy compared with 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.

4.6. TOPIGEN PHARMACEUTICALS, INC.

In October 2005, the Group signed a licensing and development agreement with Topigen Pharmaceuticals, Inc. ("Topigen") relating to NicOx' NCX 1020 compound, which is in the phase 2a of development for the treatment of chronic obstructive pulmonary disease and other respiratory diseases.

Under the contract terms, Topigen acquired development and commercial rights on NCX 1020 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. Lastly, in the event Topigen should reach an agreement with a third party to develop and market the NCX 1020 compound, 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.

5. INCOME AND EXPENSES

5.1 REVENUES

Year ended December 31	2005	2004
<i>(in thousands of €)</i>		
Generated under agreements with the companies:		
Ferrer	-	4
Axcan	340	511
Merck	855	-
Pfizer	3,333	667
Topigen	2,000	-
Total revenues	6,528	1,182

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.

Year ended December 31:	2005	2004
<i>(in thousands of €)</i>		
Expenses incurred	(18,637)	(12,326)
Contributions from partners	480	736
Research tax credit and subsidies (1)	181	111
Total Research and Development expenses	(17,976)	(11,479)
- Portion allocated to cost of goods sold	(1,775)	(2,234)
- Portion allocated to research and development expenses	(16,201)	(9,245)

(1) These subsidies consist of a Research tax credit and a grant made by the European Community (EICOSANOX). They are presented in Notes 2.11 and 19.7 respectively.

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

Personnel costs

Year ended December 31:	2005	2004
<i>(in thousands of €)</i>		
Salaries	(4,405)	(3,620)
Payroll taxes	(1,656)	(1,306)
Pensions (1)	(8)	(23)
Other post-employment benefits (TFR) (1)	(36)	(76)
Share-based compensation	(545)	(569)
Other personnel costs	(30)	(3)
Total	(6,680)	(5,597)

(1) See note 16.3.

Amortization and depreciation

Year ended December 31:	2005	2004
<i>(in thousands of €)</i>		
Amortization of intangible assets	(107)	(117)
Depreciation of property, plant and equipment	(392)	(325)
Impairment of assets	-	-
Total	(499)	(442)

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, 2005 and 2004.

Year ended December 31:	2005	2004
<i>(in thousands of €)</i>		
Unrealized gains and losses related to changes in the fair value of financial instruments and cash equivalents	(790)	424
Income from sales of financial instruments and cash equivalents revalued at fair value as income	1,734	428
Impact of discounting receivables and liabilities	109	139
Financial interest paid on finance leases	(2)	(2)
Other financial income	5	22
Total net financial income	1,056	1,011

6. INCOME TAXES

The tax liability as of December 31, 2005 and 2004 consisted primarily of:

Consolidated income statement

Year ended December 31:	2005	2004
<i>(in thousands of €)</i>		
Tax liability payable	(180)	(227)
Deferred tax income (charge)	(48)	20
Total consolidated tax liability	(228)	(207)

On February 4, 2005, NicOx S.A. received a notice of an accounting audit from the tax authorities for the period from January 1, 2002 through December 31, 2004. The tax audit, which began on March 3, 2005, was completed on July 21, 2005, with a notice of no correction.

Deferred taxes

The sources of deferred taxes as of December 31, 2005 and December 31, 2004 were as follows:

<i>(in thousands of €)</i>	Consolidated Balance Sheet as of December 31,		Income statement as of December 31,	
Year ended December 31:	2005	2004	2005	2004
Deferred tax assets				
Re-evaluation of amortization periods on tangible and intangible assets	-	31	(31)	(17)
Actuarial adjustments	86	102	(16)	(38)
Other	-	159	(159)	(154)
Book tax differences	160	168	(8)	90
Tax losses	33,389	28,080	5,309	5,163
Deferred tax assets not recognized	(33,622)	(28,493)	(5,129)	(5,059)
Total deferred tax assets	13	47		

Deferred tax liabilities				
Re-evaluation of amortization periods on tangible and intangible assets	(68)	(96)	28	34
Finance lease	(10)	(16)	6	(4)
Deferred subsidies	(6)	-	(6)	-
Actuarial adjustments	(4)	4	(8)	1
Other	(1)	23	(24)	6
Total deferred tax liabilities	(89)	(85)	(4)	37
Deferred tax liabilities not recognized	6	16	(10)	(3)
Total deferred tax liabilities	(83)	(69)		
Net deferred tax liability			(48)	19

Because of the French company's history of losses, management believes the recovery of deferred tax assets is uncertain. As a result, the Group did not book deferred tax assets for the French company in the amount of € 33,616,000 in 2005 and € 28,479,000 in 2004.

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, 2005 and December 31, 2004:

As of December 31:	2005	2004
<i>(in thousands of €)</i>		
Consolidated income (loss) before taxes	(15,280)	(13,576)
Legal rate of the parent company applicable to the Group (1)	33.83%	34.33%
Tax liability at the rate applicable in France.	5,169	4,659
Changes in deferred taxes for deficits that can be carried forward and not recognized for the year	(5,309)	(5,163)
Changes in deferred taxes for temporary differences on assets not recognized over the year	171	101
Effect of permanent differences	(229)	295
Annual flat-rate tax and IRAP (2)	(104)	(119)
Effect of different tax rate in the subsidiaries	(1)	2
Other	75	18
Tax liability for the year	(228)	(207)

(1) The change in tax rate between financial years 2005 and 2004 is due to the progressive disappearance of the surtax on corporate income tax, which was 3% in 2004 and 1.5% in 2005. (2) The IRAP is an Italian tax based on the operating income/loss plus payroll costs.

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 parent entity by the weighted average number of common shares outstanding during the year.

Year ended December 31:	2005	2004
<i>(in thousands of € with the exception of per share data)</i>		
Net income (loss)	(15,508)	(13,783)
Weighted average number of shares outstanding	32,145,898	32,145,898
Base result per share (in €)	(0.48)	(0.43)

Diluted earnings per share are calculated by dividing the net income (loss) for the year attributable to common stock shareholders of the parent entity 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, 2005 and 2004, the stock options and subscription warrants have no dilutive effect.

Year ended December 31:	2005	2004
<i>(in thousands of € with the exception of the per share data)</i>		
Net income (loss)	(15,508)	(13,783)
Weighted average number of shares outstanding	32,145,898	32,145,898
Adjustment for diluting effect of stock options	-	-
Diluted earnings per share (in €)	(0.48)	(0.43)

The impact of the effects of stock options and warrants was not taken into account in calculating the diluted earnings per share due to its anti-dilutive 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	Furnishings	Vehicles	Total 2005
<i>(in thousands of €)</i>						
Gross book value:						
As of January 1	1,430	381	390	268	195	2,664
Acquisitions	182	102	32	10	-	326
Transfers or scrap	(66)	(86)	-	-	(151)	(303)
Valuation adj. on the balance sheet of subsidiaries expressed in currencies	-	1	9	1	-	11
As of December 31	1,546	398	431	279	44	2,698
Accumulated amort. & depreciation						
As of January 1	(454)	(201)	(194)	(110)	(166)	(1,125)
Increase in depreciation	(226)	(72)	(46)	(30)	(18)	(392)
Reversals of depreciation on transfers or scrap	66	62	-	-	146	274
Val. adj. on balance sheet of subsidiaries expressed in currencies	-	(1)	(9)	(1)	-	(11)
As of December 31	(614)	(212)	(249)	(141)	(38)	(1,254)
Net book value as of December 31	932	186	182	138	5	1,444

The gross value of property, plant and equipment held under finance lease agreements and rental agreements with purchase option was € 159,000 and € 316,000 as of December 31, 2005 and December 31, 2004 respectively.

In financial year 2005, there was no acquisition of significant tangible assets in the Group. The depreciation of property, plant and equipment can be analyzed as follows:

As of December 31	2005	2004
<i>(in thousands of €)</i>		
Research and development costs	(292)	(220)
Selling, general and administrative costs	(100)	(105)
Total increase in depreciation of property, plant and equipment	(392)	(325)

9. INTANGIBLE ASSETS

In March 2002, the Group purchased exclusive rights to the patent for the compound NCX 4016 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 NCX 4016, 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 a period of 5 years which corresponds to the projected period to develop this compound.

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

	Patents ⁽¹⁾	Software ⁽¹⁾	Total 2005
<i>(in thousands of €)</i>			
Gross book value			
As of January 1	350	164	514
Acquisition	-	63	63
Sales and scrap	-	(16)	(16)
As of December 31	350	211	561
Total amortization			
As of January 1	(193)	(87)	(280)
Amortization	(70)	(37)	(107)
Reversal of amortization on sales	-	16	16
As of December 31	(263)	(108)	(371)
Net book value as of December 31	87	103	190

(1) Acquired separately

Amortization on intangible assets can be analyzed as follows:

As of December 31:	2005	2004
<i>(in thousands of €)</i>		
Research and development costs	(84)	(91)
Selling, general and administrative costs	(23)	(26)
Total of amortization of intangible assets	(107)	(117)

10. GOVERNMENT SUBSIDIES RECEIVABLE (RESEARCH TAX CREDIT)

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

	Payment dates for the receivable					Total
	2005	2006	2007	2008	2009	
<i>(in thousands of €)</i>						
Government subsidies receivable						
As of January 1, 2005	1,849	670	-	111	-	2,630
Discounting of receivable	-	38	-	7	-	45
Receivable recognized during the year	-	-	-	-	148	148
Receivable repaid during the year	(1,849)	-	-	-	-	(1,849)
As of December 31, 2005	-	708	-	118	148	974

11. TRADE RECEIVABLES

As of December 31, 2005, trade receivables primarily represented (95%) the present value of the re-invoicing of certain research and development costs to the Axcan company. 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, if necessary 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, 2004, trade receivables included an invoice of € 1,000,000 corresponding to the second non-reimbursable payment under the research, options, development and licensing agreement signed with Pfizer, Inc.; this invoice was paid in 2005.

As of December 31:	2005	2004
<i>(in thousands of €)</i>		
Trade receivables	2,172	2,668

No provision for depreciation of trade receivables was booked as of December 31, 2005.

Collection schedule	< 1 year	> 1 year
<i>(in thousands of €)</i>		
Trade receivables	109	2,063

12. OTHER CURRENT ASSETS

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

As of December 31:	2005	2004
<i>(in thousands of €)</i>		
Tax credits	1,646	1,183
Other current assets	78	62
Total	1,724	1,245

13. CURRENT FINANCIAL INSTRUMENTS

The Group's financial instruments consist of UCITS 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:	2005	2004
<i>(in thousands of €)</i>		
Current financial instruments (1)	7,109	28,389

(1) In 2005, an investment fund held in 2004 reached maturity and was reinvested in cash equivalents.

14. CASH AND CASH EQUIVALENTS

The Group's cash and cash equivalents consist of securities, cash and cash equivalents 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:	2005	2004
<i>(in thousands of €)</i>		
Cash and cash equivalents	1,228	241
Marketable securities	34,248	23,094
Total cash and cash equivalents	35,476	23,335

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, 2005, the capital was composed of 32,145,898 shares of common stock with a par value of €0.2, and fully paid up.

Authorized

As of December 31:	2005	2004
Common shares of €0.2 each	32,145,898	32,145,898

In September 2004, the Company raised funds through a private placement using the authority granted by the Combined Ordinary and Extraordinary Shareholders' Meeting of June 3, 2004. The gross proceeds from the issue totalled € 25,971,000, the costs of the transaction charged to shareholders' equity were € 1,695,000, and the net proceeds amounted to € 24,276,000. The capital increase via the issue of 9,443,998 new shares listed for trading on the same line as the existing shares was reserved for 15 international investors (companies or mutual fund managers) that invest in the pharmaceutical and/or biotech sector. American and European investors participated in the transaction. The subscription price for the new shares, which was set on September 29, 2004 under the terms and conditions defined by the Combined Shareholders' Meeting of June 3, 2004, was € 2.75 per share, including share 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 € 1,889,000. The 9,443,998 new shares represented 41.6 % of the capital before the capital increase and 29.4% after the increase.

Common shares issued and fully paid up

	Number of shares	In thousands of €
As of January 1, 2004	22,701,900	4,540
Shares issued in September 2004 through private placement	9,443,998	1,889
As of January 1, 2005	32,145,898	6,429
As of December 31, 2005	32,145,898	6,429

Treasury stock

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, 2005, 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, 2004	27,016	118
As of January 1, 2005	11,235	43
As of December 31, 2005	22,158	81

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 15.1).

As of December 31, 2005, the total number of stock options outstanding granted by the Group to various employees and officers of the Group was 1,296,800 options giving the right to subscribe to a total of 1,417,200 shares.

- Stock subscription warrants

On several occasions, the Board of Directors issued stock subscription warrants authorized by the Shareholders' Meeting (see Note 15.2) to certain directors and professors involved in the research and development programs.

As of December 31, 2005, no subscription warrant had been exercised and there were 323,000 warrants outstanding for which 459,000 new shares of common stock could be issued.

Reserves and consolidated results

This item includes the consolidated results composed of 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:	2005	2004
Prior losses	(68,282)	(54,499)
Income (loss) for the year	(15,508)	(13,783)
Unavailable reserves	68	68
Other reserves	5	-
Total reserves and consolidated result	(83,717)	(68,214)

Translation differentials

The "translation differentials" account 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 totalled €(8,000) and €(2,000) as of December 31, 2005 and December 31, 2004 respectively.

Share-based compensation

This account records the compensation paid 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 15.1 and 15.2. Share-based payments amounted to € 1,635,000 and € 1,091,000 as of December 31, 2005 and December 31, 2004 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.

As of December 31, 2005, the outstanding options issued under these plans were as follows:

Date of the Board meeting	Options guaranteed	Number of shares per option	Total number of shares	Total number of shares	Expiration date	Subscription price per option in €	Number of options cancelled	Options outstanding as of December 31, 2005	Number of shares outstanding to be issued via exercise of options as of December 31, 2005
Plan authorized by the Shareholders' Meeting of May 28, 1999:									
12-July-00	75,900	3	227,700	12-July-03	11-July-06	58.97	62,150	13,750	41,250
14-Sept-00	5,000	3	15,000	N/A	13-Sept-06	62.08	5,000	0	0
02-Nov-00	49,000	3	147,000	N/A	01-Nov-06	73.63	49,000	0	0
01-Feb-01	8,000	3	24,000	01-Feb-04	31-Jan-07	79.80	3,000	5,000	15,000
19-July-01	26,000	3	78,000	19-July-04	18-July-07	62.08	20,500	5,500	16,500
14-Dec-01	27,450	3	82,350	14-Dec-04	13-Dec-07	48.42	21,850	5,600	16,800
17-Apr-02	72,750	3	218,250	17-Apr-05	16-Apr-08	49.72	42,400	30,350	91,050
24-July-02	14,000	1	14,000	24-July-05	23-July-08	16.57	11,000	3,000	3,000
03-Oct-02	5,200	1	5,200	03-Oct-05	02-Oct-08	14.10	700	4,500	4,500
13-Nov-02	171,300	1	171,300	(1)	12-Nov-08	15.67	52,800	118,500	118,500
12-Dec-02	181,200	1	181,200	(1)	11-Dec-08	16.10	152,200	29,000	29,000
15-Apr-03	83,000	1	83,000	15-Apr-06	14-Apr-09	2.02	0	83,000	83,000
23-July-03	19,200	1	19,200	23-July-06	22-July-09	5.12	1,900	17,300	17,300
Subtotal	738,000		1,266,200				422,500	315,500	435,900
Plan authorized by the Shareholders' Meeting of June 5, 2002:									
24-July-02	30,000	1	30,000	N/A	23-July-08	16.57	30,000	0	0
15-Apr-03	200,000	1	200,000	(2)	14-Apr-09	2.02	135,000	65,000	65,000
19-Oct-04	84,700	1	84,700	19-Oct-07	18-Oct-10	3.60	0	84,700	84,700
20-Dec-04	16,900	1	16,900	20-Dec-07	19-Dec-10	3.63	0	16,900	16,900
6-Apr-05	207,000	1	207,000	6-Apr-08	5-Apr-11	4.08	1,500	205,500	205,500
2-Jun-05	227,500	1	227,500	2-Jun-08	1-Jun-11	4.10	0	227,500	227,500
Sub total	766,100		766,100				166,500	599,600	599,600
Plan authorized by the Shareholders' Meeting of June 1, 2005:									
2-Jun-05	186,500	1	186,500	2-Jun-08	1-Jun-11	4.10	0	186,500	186,500
5-July-05	156,000	1	156,000	5-July-08	4-July-11	3.93	0	156,000	156,000
13-Oct-05	24,200	1	24,200	13-Oct-08	12-Oct-11	4.07	0	24,200	24,200
15-Dec-05	15,000	1	15,000	15-dec-08	14-Dec-11	3.53	0	15,000	15,000
Subtotal	381,700		381,700				0	381,700	381,700
TOTAL	1,885,800		2,414,000				589,000	1,296,800	1,417,200

(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 sr, 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 Group stock option plan.

No option had been exercised as of December 31, 2005. 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 1,571,000 options out of the 1,885,000 options granted, and 1,175,100 options out of the 1,296,800 options outstanding as of December 31, 2005.

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

As of December 31, 2005	Number of options	Weighted average exercise price in €
Options outstanding at beginning of period	657,500	12.58
Granted during the period	816,200	4.05
Cancelled during the period	176,900	9.92
Exercised during the period	-	-
Expired during the period	-	-
Outstanding at the end of the period ^{(1) (2)}	1,296,800	7.57
May be exercised at the end of the period	215,200	26.80

(1) The balance includes 67,700 options giving rights to 188,100 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 as of December 31, 2005 is between 4 and 5 years and was between 3 and 4 years as of December 31, 2004.

The exercise prices for the options outstanding as of December 31, 2005 are as follows:

Expiration date	Exercise price in €	As of December 31,	
		2005	2004
		Number of options	Number of options
11-July-06	58.97	13,750	13,150
31-Jan-07	79.80	5,000	5,000
18-July-07	62.08	5,500	5,500
13-Dec-07	48.42	5,600	5,600
16-Apr-08	49.72	30,350	30,350
23-July-08	16.57	3,000	3,000
02-Oct-08	14.10	4,500	5,200
12-Nov-08	15.67	118,500	142,500
11-Dec-08	16.10	29,000	104,000
14-Apr-09	2.02	148,000	223,000
22-July-09	5.12	17,300	18,000
18-Oct-10	3.60	84,700	84,700
19-Dec-10	3.63	16,900	16,900
05-Apr-11	4.08	205,500	-
01-June-11	4.10	414,000	-
04-July-11	3.93	156,000	-
12-July-11	4.07	24,200	-
14-Dec-11	3.53	15,000	-
Total		1,296,800	657,500

Pursuant to IFRS2, the stock options and warrants have been valued at the fair value of the services received on the award date. The assumptions used for this valuation are as follows:

Valuation model used: Black & Sholes

Assumption for volatility of NicOx share:

- For options granted before 01/07/2005: 50%

- For options granted after 01/07/2005: 46%

Assumption of rate without risk at average maturity for the exercise of options (6 years):

Date granted	Rate as %
13/11/2002	4.00
12/12/2002	4.05
15/04/2003	3.70
23/07/2003	3.45
19/10/2004	3.30
20/12/2004	3.20
06/04/2005	3.15
02/06/2005	2.75
05/07/2005	2.70
13/10/2005	2.90
15/12/2005 (1)	3.00 / 3.10

Assumption of average dividend rate for the NicOx share 0%

Assumption of turnover rate for management high

Assumption of turnover rate for employees low

(1) 3% for the subscription warrants and 3.10% for the stock options.

The expected long-term volatility was determined on the basis of the average volatility history of NicOx and of a sampling of comparable companies, and restated for volatility peaks related to special circumstances in the life of the stock.

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, 2005	Expected number of exercisable options	Expected total cost of the plan in €	prior to 2004
13/11/2002	01/01/2005	171,300	15.67	12,150	12,150	110,322	58,414
13/11/2002	01/05/2005			26,850	26,850	243,798	111,877
13/11/2002	01/08/2005			1,500	1,500	13,620	5,670
13/11/2002	14/11/2005			24,000	24,000	217,920	82,043
12/12/2002	01/08/2005	181,200	16.10	9,000	9,000	70,740	28,208
12/12/2002	12/12/2005			20,000	20,000	157,200	55,027
15/04/2003	15/04/2006	283,000	2.02	148,000	145,631	160,194	38,002
23/07/2003	23/07/2006	19,200	5.12	17,300	16,782	44,408	6,582
19/10/2004	19/10/2007	84,700	3.60	84,700	76,470	165,175	-
20/12/2004	20/12/2007	16,900	3.63	16,900	15,298	30,137	-
06/04/2005	07/04/2008	205,500	4.08	205,500	180,518	381,664	-
02/06/2005	03/06/2008	414,000	4.10	414,000	362,697	707,892	-
05/07/2005	06/07/2008	156,000	3.93	156,000	136,850	237,000	-
13/10/2005	14/10/2008	24,200	4.07	24,200	19,244	35,586	-
15/12/2005	16/12/2008	15,000	3.53	15,000	12,681	19,951	-
		1,571,000		1,175,100	1,059,671	2,595,607	385,823

Breakdown of the expenses by year in €

	2004	2005	2006	2007	2008
	51,766	141	-	-	-
	99,145	32,777	-	-	-
	5,025	2,924	-	-	-
	72,706	63,171	-	-	-
	26,886	15,647	-	-	-
	52,448	49,725	-	-	-
	53,495	53,349	15,347	-	-
	14,963	14,922	8,340	-	-
	11,012	55,058	55,058	44,047	-
	303	10,046	10,046	9,743	-
	-	93,589	126,989	126,989	34,096
	-	136,803	235,534	235,534	100,021
	-	38,672	78,856	78,856	40,616
	-	2,563	11,840	11,840	9,342
	-	291	6,638	6,638	6,383
	387,749	569,678	548,648	513,647	190,458

The impact of the valuation of the stock options on equity and on the Group's income (loss) amounted to € 1,343,000 and € (302,000) as of December 31, 2005. The difference between the estimated expenses for the year of € (570,000) and the expense booked € (302,000) is the result of a correction over the year in the expenses previously recognized because of changes in assumptions and options cancelled during the year.

16.2. STOCK SUBSCRIPTION WARRANTS

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

Date of authorization:	June 2001	June 2003	June 2004 (4)	June 2005 (4)	June 2005 (4)
Beneficiaries:	Certain directors and experts involved in the R&D programs	Certain directors	Certain directors and experts involved in the R&Ds programs	Certain directors, experts and consultants	Financial communication consultant
Subscription date	July 2001	July 2003	October 2004	June 2005	December 2005
Number of warrants subscribed	68,000	85,000	35,000	130,000	5,000
Subscription price per warrant	Bonus	Bonus	Bonus	Bonus	Bonus
Start date for exercise	(1)	July 2003	(2)	(3)	31 May 2006
Expiration date	19 July 2006	22 July 2008	18 October 2009	1 June 2010	14 December 2010
Number of shares per warrant	3	1	1	1	1
Exercise price per share	€ 22.06	€ 5.20	€ 3.94	€ 4.08	€ 3.53
As of December 31, 2005:					
Warrants exercised	-	-	-	-	-
Warrants outstanding	68,000	85,000	35,000	130,000	5,000
Shares to be issued	204,000	85,000	35,000	130,000	5,000

(1) These warrants may be exercised in annual blocks of one-fifth for the experts, and in a first block of 5,000 warrants followed by four annual equal blocks for the directors.

(2) For certain beneficiaries, the warrants may be exercised immediately, whereas for others, the warrants may be exercised in three blocks of 5,000: as of January 1, 2005 for 5,000 warrants; as of January 1, 2006 for a second block of 5,000 warrants; and as of January 1, 2007 for the final block of 5,000 warrants.

(3) 125,000 warrants may be exercised immediately, and 5,000 warrants may be exercised as of May 31, 2006.

(4) These plans have been valued under the exemption granted by IFRS 1 for the application of IFRS 2.

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, 2005	Number of options	Weighted average exercise price in €
Options outstanding at beginning of period	188,000	27.02
Granted during the period	135,000	4.06
Cancelled during the period	-	-
Exercised during the period	-	-
Expired during the period	-	-
Outstanding at the end of the period	323,000	17.42
Exercisable at end of period	303,000	8.42

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, 2005	Expected number of options exercisable	Expected total cost of the plan	Breakdown of expenses by year, in €				
							2004	2005	2006	2007	2008
19/10/2004	19/10/2004	20,000	3.94	-	20,000	37,800	37,800	-	-	-	-
19/10/2004	01/01/2005	5,000	3.94	-	5,000	9,450	9,450	-	-	-	-
19/10/2004	01/01/2006	5,000	3.94	-	5,000	9,450	1,571	7,857	22	-	-
19/10/2004	01/01/2007	5,000	3.94	5,000	5,000	9,450	858	4,290	4,302	-	-
02/06/2005	02/06/2005	125,000	4.08	-	125,000	224,184	-	224,184	-	-	-
02/06/2005	31/05/2006	5,000	4.08	5,000	5,000	8,967	-	5,237	3,730	-	-
15/12/2005	31/05/2006	5,000	3.53	5,000	5,000	7,153	-	685	6,468	-	-
		170,000		15,000	170,000	306,454	49,679	242,253	14,522	-	-

The impact of the valuation of the warrants on equity and on the Group's result amounted 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 received at retirement an indemnity equal to three-tenths of a month per year as of the entry date in the company up to a maximum of nine months of salary. The net expenses booked for the pension plan was € 8,000 as of December 31, 2005 and € 23,000 as of December 30, 2004. The discounted valued of the obligation as of December 31, 2005 was € 61,000 and € 53,000 as of December 31, 2004.

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

As of December 31:	2005	2004
Discount rate	4.39%	2.46%
Future salary increases	1.50%	1.50%
Inflation	INSEE 2004	INSEE 2004

The expenses for defined contribution plans was € 631,000 as of December 31, 2005 and € 643,000 as of December 31, 2004.

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 was € 199,000 as of December 31, 2005 (€ 249,000 as of December 31, 2004).

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

As of December 31, 2005	
Discount rate	4.10%
Future salary increases	4.50%
Inflation	2.10%

17. PROVISIONS FOR CONTINGENT LIABILITIES

	Employee legal disputes	Post-employment benefits ⁽¹⁾	Rent	Total
As of January 1, 2005	350	53	38	441
Increase for the year	-	14	-	14
Utilizations	-	-	(34)	(34)
Reversals of provisions no longer needed	-	(6)	-	(6)
As of December 31, 2005	350	61	4	415
2005 current	350	-	4	354
2005 non-current	-	61	-	61
Total	350	61	4	415
2004 current	350	-	38	388
2004 non-current	-	53	-	53
Total	350	53	38	441

(1) see note 16.3.

As of December 31, 2004, 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 innovation activity, but no figures were provided for this claim. To date, the calendar for this action has not been set, with the exception of a hearing to review documents which was called for March 28, 2006.

Following the 2004 sublease (and until the end of the lease) of the offices of its American subsidiary, which were closed in 2003, as of December 31, 2005, the Group reduced to € 4,000 the provisions for contingent liabilities representing the future minimum rent payments due under the office lease agreements of the American subsidiary and for certain equipment. It should be noted that the legal entity NicOx Inc. was not liquidated and remains included in the scope of consolidation.

As of January 1, 2004, the Group decided to recognize its commitments for retirement indemnities in order to comply with IAS19. The method of valuing the provision is the retrospective method of units of credit projected with end of career salaries. The provision calculated in this way represents the probable value of the vested rights, both definite and non-definite, valued by taking into account salary increases until retirement age, turnover rate probabilities, and survival. The actuarial assumptions used for the calculated are detailed in Note 16.3.

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 € 3,328,000 on the basis of the beneficiaries' salaries as of December 31, 2005. 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 € 2,643,000 on the basis of the beneficiaries' salaries as of December 31, 2005. 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, 2005.

18. PREPAID INCOME

Prepaid income amounted to € 558,000 and € 2,231,000 as of December 31, 2005 and December 31, 2004 respectively. It represents a payment of USD2 million received from Axcan in consideration for the rights granted under the co-development and licensing agreement signed in 2002, and the initial payments of € 2 million from the research, option, development and licensing agreement signed with Pfizer, € 1 million of which was paid at the signature of the contract in September 2004 and € 1 million was paid six months after the signature of the agreement.

These amounts were booked as prepaid income in 2002 for Axcan and in 2004 for Pfizer. They are carried forward from February 2003 for Axcan and from September 2004 for Pfizer over the period of the Group's active involvement in the research and development programs stipulated in the agreements; the Group's period of involvement varies based on the advances and results obtained as indicated in Note 3. In this respect, the amount of € 340,000 for the Axcan contract and € 1,333,000 for the Pfizer contract were recognized as research and development income during 2005.

As of December 31, 2005, prepaid income can be analyzed as follows:

Co-contracting party	Initial payment	Revenues recognized for the period as of	Prepaid income as of Dec. 31, 2005
<i>(in thousands of €)</i>			
Axcan	1,981	340	554
Pfizer	2,000	1,333	-
Other	-	-	4
Total	3,981	1,673	558

19. COMMITMENTS

Commitments received

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

Commitments given

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

<i>(in thousands of €)</i>	Notes	Total	Payment due by period		
			Less than one year	One to five years	More than five years
Contractual obligations					
Lease agreements	19.1	1,035	581	454	-
Finance lease agreements (1)	19.2	42	22	20	-
Subcontracting and maintenance agreements	19.3	248	229	19	-
R&D commitments	19.4	10,669	9,968	701	-
Total		11,994	10,800	1,194	

(1) The impact of discounting the finance lease commitments as of December 31, 2005 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	10,106
Other R&D commitments	19.4	511
Contracts for assistance in finding partners	19.5	4 391
Total		15,008

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.

Guarantees	Notes	Total
<i>(in thousands of €)</i>		
Bank guarantees	19.6	263
Total		263

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. The lease of the parent company NicOx S.A., effective as of May 1, 2001, is a three-year lease that can be renewed twice until 2009. The leases for the offices and the research center of the Italian subsidiary NicOx S.r.l., which took effect on June 1, 2001, have a six-year term. The lease for the offices of the American subsidiary NicOx Inc., effective as of February 15, 2001 has a five-year term. This lease was no longer an off-balance sheet commitment at year-end to the extent that this commitment is partially covered by a sub-lease signed in July 2004. The balance of the rent to be paid and not covered by the sublease is fully provisioned in the accounts as of December 31, 2005 (see Note 17).

The annual payments for the future rent and rental charges under these leases are € 581,000 as of December 31, 2006, € 315,000 as of December 31, 2007, and € 139,000 as of December 31, 2008 and beyond, which is a total of € 1,035,000. The total of the minimum payments to be received under the unbreakable sublease on the premises of the American subsidiary was € 8,000 as of December 31, 2005. This sublease expires on February 28, 2006.

The rent and rental charges amounted to € 442,000 and € 391,000 respectively as of December 31, 2005 and December 31, 2004.

19.2. FINANCE LEASES

The Group finances the acquisition of certain equipment through finance leases. This equipment is included in property, plant and equipment for the amount of € 159,000 as of December 31, 2005 and € 306,000 as of December 31, 2004. As of December 31, 2005, the accumulated corresponding depreciation was € 101,000 and the depreciation allocation was € 37,000.

The future minimum annual fees for these finance leases are € 22,000 as of December 31, 2006, € 17,000 as of December 31, 2007, and € 3,000 as of December 31, 2008, representing a total of € 42,000.

19.3. SUBCONTRACTING AND MAINTENANCE CONTRACTS

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 are signed for one year and expiring before December 31, 2006, are not considered commitments.

The future minimum annual payments are € 229,000 as of December 31, 2006, € 12,000 as of December 31, 2007 and € 7,000 as of December 31, 2008 and beyond, representing a total of € 248,000.

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. The future minimum payments for these commitments are € 9,968,000 as of December 31, 2006, € 506,000 as of December 31, 2007, € 195,000 as of December 31, 2008, representing a total of € 10,669,000.

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 € 10,106,000 (at the exchange rate on December 31, 2005 for the amounts in US dollars).

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 € 4,391,000 (at the exchange rate on December 31, 2005 for the amounts in US dollars).

19.6. CAUTIONS

In April 2000, a bank guarantee in the amount of € 67,000 was granted on behalf of NicOx S.A. to the tax office of Valbonne to allow the repayment of the VAT for the third quarter of 1999. As a guarantee, the Group gave Crédit Lyonnais a pledge of a financial instruments account which holds the shares of a mutual fund valued at € 118,000 for a period of 2 years. In the second half of 2005, NicOx S.A. obtained the discharge of this guarantee from the tax authorities.

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, 2005.

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 is estimated that over the next five years this project will 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. In 2005, the expenses incurred by NicOx for this project totalled € 90,000 and a first advance of € 96,000 was received by NicOx.

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. FINANCIAL RISK OBJECTIVES AND MANAGEMENT POLICIES

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 debt, 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 32% of the operating expenses and 13% of the Group's research and development income is in US dollars, and 50% et 87% 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	1,097,194	68,437	1,165,631
Liabilities	(3,227,683)	(1,185,151)	(4,412,834)
Off-balance sheet positions	(7,070,188)	(1,759,589)	(8,829,777)
Total net position	(9,200,677)	(2,876,303)	(12,076,980)
Net position in case of an unfavorable change	(9,259,322)	(2,903,101)	(12,162,423)

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

(in thousands of €)

	from 3 to 6 months	Total
Current financial instruments	7,109	7,109

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 are 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. Theoretically, there is a risk of non-recovery of this claim, which constitutes the total amount of the Group's trade receivables. 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. The offset agreement does not for the moment reduce the credit risk insofar as no liability has yet been generated by the collaboration with Axcan.

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. RELATIONS WITH RELATED PARTIES

Following the strengthening of the management team in 2005, particularly the recruitment of the Head of R&D who leads all the departments in the Company, a Vice President Drug Development, and a Vice President Clinical Development, an Executive Committee of 7 persons was created: the Chairman and Chief Executive Officer, the Chief Financial Officer, the VP Business Development (promoted to Vice President Corporate Development effective January 1, 2006), the VP for Research and the other three aforementioned persons.

The total amount of the compensation and all types of benefits paid by the Group in 2005 to the directors for 2005 and to the Executive Committee was € 1,739,000. As of December 31, 2004, the total compensation and all types of benefits paid to corporate officers was € 492,000 for seven people. These amounts do not include payroll taxes and severance payments.

The total amount of compensation paid for the years 2005 and 2004 breaks down as follows:

	2005	2004
<i>(in thousands of €)</i>		
Director's fees	310	165
Fixed compensation ⁽¹⁾	1,071	264
Variable compensation	340	63
In-kind benefits	18	-
Total	1,739	492

(1) for 2005, € 60,000 paid to one of the directors of NicOx S.A. under a consulting contract (described in the regulated agreements) to provide strategic advice on questions concerning the Group, including attendance at monthly meetings of the Executive Committee, research and development, licensing agreements and finance.

The amount paid by the Group under defined contribution plans for members of the Executive Committee totalled € 160,000 for 2005.

As of December 31, 2005, the outstanding stock options and subscription warrants granted to corporate officers and members of the Executive Committee were as follows:

Type of equity instrument	Price in €	Number	Number of shares per option	Expiration date
Subscription warrants	22.06	34,000	3	19-July-06
Subscription warrants	5.20	85,000	1	22-July-08
Subscription warrants	3.94	2,000	1	18-Oct-09
Subscription warrants	4.08	120,000	1	01-June-10
Stock options	2.02	100,000	1	13-Apr-09
Stock options	3.60	45,000	1	18-Oct-10
Stock options	3.93	156,000	1	04-July-11
Stock options	4.08	83,000	1	05-Apr-11
Stock options	4.10	218,000	1	01-June-11
Stock options	15.67	67,500	1	12-Nov-08
Stock options	49.72	20,000	3	16-Apr-08
Stock options	58.97	8,700	3	11-July-06
Stock options	62.08	5 000	3	18-July-07

A current arms-length agreement signed governed the provisions of Article L.225-39 of the Commercial Code was signed in 2005:

- 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 sr 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.

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, 2005, the execution of which continued during the year were as follows:

- 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 S.A. on the basis of the cost of the service plus 5%. For financial year 2005, the expenses booked by NicOx Research

Institute Srl and re-invoiced to NicOx S.A. amounted to € 4,674,433.

- 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 S.A., 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 S.A. and NicOx Research Institute Srl. This agreement provides for remuneration of the funds lent by NicOx S.A. to its subsidiary on the basis of an effective rate of 4%. In financial year 2005, no interest was billed under this agreement.
- Offset agreement entered into on January 2, 2002 by NicOx S.A. and NicOx Research Institute Srl. This agreement provides for the offsetting of the amounts owed by NicOx S.A. 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 S.A. 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 S.A.. For financial year 2005, NicOx S.A. invoiced NicOx Research Institute Srl for € 59,374 under this agreement.
- Amendment No. 1 to the offset agreement of January 2, 2002 by NicOx S.A. 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 S.A. 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.

In 2004, the Board of Directors authorized the signature of a consulting contract between NicOx S.A. and one of its directors. This one-year renewable contract will expire on December 31, 2006, and primarily covers the provision of strategic advice on questions concerning the Group, including attendance at monthly meetings of the Executive Committee, research and development, licensing agreements and finance. This agreement, which was entered into on January 7, 2005 was approved by the Ordinary Shareholders' Meeting on June 1, 2005.

In May 2004, the Board of Directors authorized the signature of an amendment to the collaboration agreement signed in June 2001 with Biolipox, a Swedish research company, with which the Group share two directors on that date. This collaboration agreement is intended to develop new NO donor pharmaceutical products for the treatment of respiratory diseases and other disorders. The amendment, effective August 1, 2004, modified the allocation of licensing revenues between the parties. This agreement, described in Note 3.1, has generated no revenues since it was signed in 2001.

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 16 above, apply to the Executive Committee (7 persons as of December 31, 2005). The amounts which the Group would pay to these persons in the two cases above are € 3,032,000 and € 2,446,000 respectively on the basis of the salaries of the beneficiaries as of December 31, 2005.

22. Events after the balance sheet date

None

HEADQUARTERS:

NicOx S.A.
Gaïa II, 2455 route des Dolines,
B.P. 313
06906 Sophia Antipolis, France
Tel. +33 (0)4 92 38 70 20
Fax +33 (0)4 92 38 70 30
e-mail: nicox@nicox.com

ITALIAN SUBSIDIARY:

NicOx Research Institute S.r.l.
Via Ariosto 21
Bresso, MI 20091, Italy
Tel. +39 02 61 03 61
Fax +39 02 61 03 64 30

www.nicox.com

