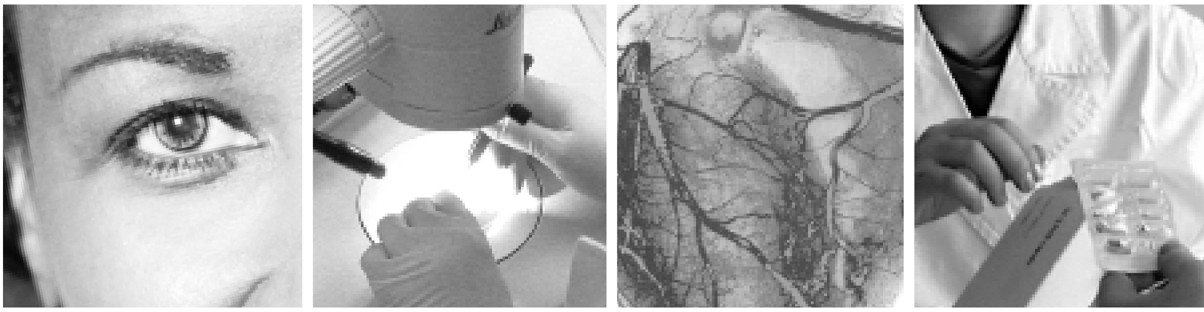
Financial Report



2003

NicOx

Safer, more effective therapies

Management's discussion and analysis of financial condition 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 to the board. At present, the Board of Directors consists of eight executive directors, of whom five are regarded as independent. The board met five times during fiscal year 2003. The board of directors prepares and presents the year-end accounts to the shareholders and convenes shareholders' meetings. In addition, the board of directors reviews and monitors the economic, financial and technical strategies of the Company. The executive directors, together with other senior managers, form the executive management group of the Company. They are fully involved with the management of the Company. As appropriate, the board has setting off board committees, which operate within specific terms of reference.

Rules and regulations of the Board of Directors

The Board of Directors of the Company, in the course of its meeting of December 12, 2003, 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 and to control its independence;
- methods of information of members of the Board of Directors;
- list of decisions for which the Chief Executive Officer has to obtain preliminary approval of the Board of Directors;
- methods of functioning and attributions of the audit committee, which include the review of accounting documents, the relationship with statutory auditors and the follow up of internal control procedures;
- methods of functioning and attributions of the compensation committee, which include the annual examination of the compensation and in-kind benefits paid to Board members and employees having the title of Director;
- methods of functioning and attributions of the corporate governance committee, which notably include the follow-up of corporate governance procedures, and the follow-up of the appointments of Board members and employees having the title of Director;
- reminder of confidentiality obligations;
- procedure for the declaration of transactions made by Board members and their families on the Company's 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 Company's independent accountants, 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, Jorgen Buus Lassen and Vaughn Kailian. The audit committee is chaired by Vaughn Kailian.

Compensation Committee

The compensation committee is responsible for making recommendations on remuneration of the Company's executive officers. The compensation committee comprises Frank Baldino, Jean-Luc Bélingard and Björn Odlander. 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, controlling that corporate governance rules and recommendations are properly implemented, examining candidacies of Board members and employees with Director titles. The corporate governance committee comprises Jean-Luc Bélingard, Frank Baldino and Vaughn Kailian. The compensation committee is chaired by Jean-Luc Bélingard.

Relations with shareholders

NicOx attaches high priority to communications with shareholders. The Company maintains good 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 new "French Financial Security Law", NicOx sets up the tools required to the implementation of internal control procedures applicable for all group entities in order to ensure a rigorous financial and risk management with the objective of elaborating financial information and consolidated reports. NicOx has decided to put in place ambitious procedures which not only explain the different process of the company management but also target to improve and develop transparency and optimum control.

The Audit Committee and the Board of Directors are informed of the work and the conclusions performed by internal control. Thus, control and management bodies can continually monitor and assess significant business, operational, financial, compliance and other risks. The executive directors provide the board with regular and detailed documentation relating to research and development programs, clinical development, 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 Company reflect principally 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. These proceeds brought significant resources for accelerating product development and allowed the Company to consolidate its infrastructure. With €40.1 million of cash and cash equivalents as of December 31, 2003, NicOx will pursue its growth with the goal of becoming a fully integrated pharmaceutical company. The Company expects its expenses to continue to increase with its strategy of taking compounds further into development, including Phase II clinical trials, before seeking partnerships, and to a lesser extent, as it expands its research capacity with its research center in Milan.

The Company 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 Company's expenses are a function of its research and development activities and because the rate and yearly amount of revenues generated over the next few years under its collaboration agreement 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

for Years Ended December 31, 2003 and 2002

NicOx reported total revenues of €1.4 million in 2003 compared to €5.5 million in 2002. The 2003 revenues include €0.6 million from the recognition of the licence and option fee of $2 million received from Axcan, as revenues from 2003 through the period during which the Company will have continuing involvement in development programs under its agreement with Axcan. These revenues were initially entirely recorded as deferred revenues. NicOx also recognized revenues of €0.8 million representing the reimbursement of certain research and development expenses under its collaboration agreement with Axcan.

Research and development expenses totalled €16.6 million in 2003, compared to €19.7 million in 2002. This decrease was directly related to the Company's decision to reorganize its activities to focus on its most advanced drug candidates following AstraZeneca's decision to discontinue the CINOD partnership. As a result, certain non strategic research, preclinical and clinical programs were put on hold in the course of the year 2003. On December 31, 2003, the Company employed 20 people in research and 24 in development compared to 22 in research and 20 in development on December 31, 2002.

Selling, general and administrative expenses totalled €4.4 million in 2003, compared to €4.5 million in 2002. The selling, general and administrative expenses mainly relate to structural costs such as building and laboratory expenses and also costs related to administrative, business and corporate development activities.

The Company's operational expenses decreased by €3.2 million to €21 million in 2003, compared to €24.2 million in 2002. This decrease resulted principally from the decrease in research and development expenses.

The Company had net financial income of €0.3 million in 2003, compared to €2.5 million in 2002. This significant decrease is explained by several elements: the impact on a full year basis of the drop of interest rate that occurred at the end of 2002, the decrease of the cash available for investments in marketable securities, and the increase in unrealized capital gains on marketable securities amounting to €0.7 million, as opposed to €0.1 million at the end of 2002, and not booked at the end of 2003.

The Company recorded a corporate tax of €0.2 million in 2003, compared to a tax credit of €0.5 million in 2002. This situation resulted from the absence of French research tax credit (as opposed to €0.8 million in 2002 and to €1.9 million in 2001), and from the increase of the corporate tax due by the Company's subsidiaries and notably its Italian subsidiary. As of December 31, 2003, the Company had accounts receivable regarding French research tax credit of €3.8 million. This amount can be offset against taxes due or reimbursed to the Company if not used within up to four years of incurrence.

The Company's net loss was €19.5 million in 2003, compared to €15.7 million in 2002. This increase, notwithstanding the decrease of operational expenses, is explained by the decrease of revenues and financial income recorded by the Company in 2003.

for Years Ended December 31, 2002 and 2001

NicOx reported total revenues of €5.5 million for 2002 compared to 2001 when no revenues were recorded. The 2002 revenues primarily resulted from the €5 million milestone payment generated by the signature in September 2002 of an amendment to the license and development agreement with AstraZeneca for the rights to develop and commercialize AZD3582 and certain other CINODs in Japan. In 2002, NicOx also recognized revenues of €0.5 million representing the reimbursement of certain research and development expenses under its collaboration agreement with Axcan. The Company invoiced in December 2002, USD 1 million to Axcan following the filing of an IND for its lead compound, NCX 1000, in co-development with this partner. This license and option fee was not recorded in revenues in 2002, but will be spread as from 2003 over the period during which the Company will have continuing involvement in development programs under its agreement with Axcan.

Research and development expenses increased by €7.4 million to €19.7 million in 2002, compared to €12.3 million in 2001.This increase was primarily due to the expansion of the company's research and development activities, most notably in relation to the advancement of several drug candidates into Phase II human clinical development. These expanded research and development efforts required the recruitment of additional scientific staff to manage these programs. On December 31, 2002, the Company employed 22 people in research and 20 in development compared to 17 in research and 13 in development on December 31, 2001.

Selling, general and administrative expenses totalled to €4.5 million in 2002, compared to €3.4 million in 2001. The increase was primarily attributed to the company's increased expenses related to business development and corporate communication activities, including increased staffing necessary to manage the expansion of NicOx operations.

The Company's operational expenses increased by €8.5 million to €24.2 million in 2002, compared to €15.7 million in 2001. This increase resulted principally from the increase in research and development expenses.

The Company had net financial income of €2.5 million in 2002, compared to €2.4 million in 2001. This increase of €0.1 million, notwithstanding the significant increase in research and development expenses, and the drop of interest rate in 2002, resulted from the investment of the net proceeds of the May 2001 public offering, throughout 2002 as opposed to only six months in 2001, and of €5.2 million received due to the exercise of warrants in 2002.

The Company recorded a tax credit of €0.6 million in 2002, compared to €1.8 million in 2001. This decrease resulted primarily from the decrease in the French research tax credits (€0.8 million in 2002, compared to €1.9 million in 2001). The reduced French research tax credit reflected the increase in research and development activities and their related expenses outside the French territory since most international expenses are not eligible for such tax credit. As of December 31, 2002, the Company had accounts receivable regarding French research tax credit of €4.3 million. This credit can be offset against tax pertaining to three years following the year during which it has been recorded or reimbursed in case of non use.

The Company's net loss was €15.7 million in 2002, compared to €11.5 million in 2001. This increase, notwithstanding the significant revenues recorded by the Company, resulted from the increase in the Company's operational expenses reflecting the progression of research and development activities.

Liquidity and Capital Resource

The Company's financial requirements have been met to date through the private placements of equity securities, the payments received under agreements with AstraZeneca (the agreement with AstraZeneca was terminated effective November 21, 2003), Axcan and Bayer (the agreement with Bayer was terminated effective September 20, 1999), and the public offering of shares through its initial public offering in November 1999 and through a follow-on public offering in May 2001. Since its founding 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 in gross proceeds from its follow-on offering completed in May 2001.

The Company also received a total of €15 million in payments under the collaboration agreements. Under its agreement with Axcan, the Company will not receive another milestone payment before the completion of Phase IIa of compound NCX 1000.

The Company has incurred net losses in each year since its founding and had an accumulated deficit at December 31, 2003, of €56.1 million. 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 Company expects to continue to incur net losses through at least 2008 and may incur net losses in subsequent periods.

All debts the Company has incurred are short-term operating debts repayable within one year. At December 31, 2003, its current liabilities amounted to €5.6 million, including €3.4 million in accounts payable to suppliers and external collaborators, €1.2 million in accrued compensation for employees, and €1 million in taxes payable. The Company has no loans outstanding and long-term financial leasing commitments amounted to €0.04 million as of December 31, 2003.

As of December 31, 2003, the Company's cash and cash equivalents amounted to €40.1 million in cash and marketable securities. The marketable securities are principally low risk monetary and bond mutual funds. The Company uses its liquid assets principally to cover research and development expenses and corporate expenses related to general and administrative and promotional activities. Because the Company has adopted the strategy of bringing its compounds further into clinical development before seeking partners, it expects its expenses to increase.

The Company's net burn rate, defined with reference to its cash flow statement, represents the net cash the Company spent in conducting its activities, excluding net proceeds resulting from the issuance of shares. The Company's net burn rate for 2003 amounted to €17.6 million, compared to €17.1 million in 2002 and €12.5 million in 2001. The increase was due mainly to the acceleration of the Company's Research and Development programs.

The Company expects its burn rate to continue to increase significantly in accordance with its strategy of bringing more compounds further into clinical development.

The Company expects its principal source of revenues over the next several years to be milestone payments under its agreements with Axcan. In keeping with its overall strategy, the Company is seeking to enter into collaboration agreements with other partners, which may provide additional sources of revenues. However, the Company cannot be sure that it will enter into such agreements. In addition, the timing of the milestone payments cannot be predicted with certainty, and NicOx may not receive payments if product development targets are not achieved. Unless the Company enters into new partnerships, it does not expect any more milestone payments until the completion of Phase IIa studies for its compound NCX 1000 or until a licence agreement is signed on NCX 1510, a coumpound currently in development with Biolipox. In addition, it is unlikely that milestone payments, even if received when expected, would fully cover the total research and development expenses for all of the Company's projects. Royalties, if any, on commercial sales of the products under development with Axcan will not be received until such time as such products receive the required regulatory approvals and are launched on the market. The Company does not expect any of these products to receive regulatory approval until 2008, and cannot be sure of the timing of this approval.

The Company's future capital requirements, the timing and the amount of expenditures, and the adequacy of available capital will depend upon a series of factors. These factors include the scope and progress of the Company'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 our development programs and collaborations, technological developments, its preparation and filing of patent applications, its securing and maintaining of patents and other intellectual property rights and its dealings with the regulatory process.

The Company expects its research and development expenses to increase significantly and continuously until at least 2008, the year contemplated under its current development plan for launch of its first product on the market. This contemplated increase in expenditure is due to the continuation of projects on compounds whose development is currently ongoing, and the costs related to Phase II clinical trials. Another factor is the Company's strategy of maximizing the return on its current drug candidate portfolio by concluding new agreements with pharmaceutical partners on a selection of drug candidates aimed at large markets and by pursuing on its own and as far as possible the progress of its development programs for the other existing drug candidates, in certain cases until the completion of Phase II clinical trials. However, what the Company actually spends could be significantly different depending on numerous factors including the results and progress of preclinical and clinical testing of its drug candidates, its financial condition 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 II studies. Phase III studies and regulatory filings shall be ensured by Axcan in the licensed territories. In the event NicOx should conclude new partnerships on certain of its products, it is considered that the selected partners would bear part if not all future development expenses on these compounds. Until such time as the Company partners out further compounds, the Company will bear all costs related to their development.

Market risks

Euro is the currency used by NicOx for its financial reporting. The majority of the Company's expenses are denominated in euros. The revenues under the agreements with Axcan are denominated in U.S. dollars. Consequently, the fluctuations between the euro and the U.S. dollar can have more or less significant impact on the Company's operating results in the case where the Company receives milestone payments from Axcan. NicOx also holds a U.S. dollar bank account, which has been converted into euros in consolidated accounts at the year-end exchange rate. Although this account is only used to make payments in U.S. dollar, the fluctuations between the euro and the U.S. dollar can have more or less significant impact on the valuation of this asset at year end.

The Company has no loans outstanding. Thus, the Company is not exposed to liquidity risks resulting from early repayment clauses. The only risk currently associated with interest rate fluctuations is that interest income received by the Company could decrease as a result of a decrease in interest rates.

The Company did not put in place any hedging instrument.

The Company does not hold marketable securities other than that of its two wholly owned subsidiaries, NicOx Srl and NicOx Inc.

CONSOLIDATED BALANCE SHEETS

as of December 31: *(in thousands of €, except share data)*	*Notes*	2001	2002	2003
ASSETS				
Current assets:				
Cash and cash equivalents	7	69,230	57,311	40,093
Accounts receivable		-	812	1,163
Research and development tax credit receivable	10	3,599	4,309	3,801
Inventory	5	1,125	1,136	992
Other current assets	6	1,912	2,751	2,113
Prepaid expenses		437	839	623
Total current assets		76,303	67,158	48,785
Long term assets:	4			
Fixed assets, net		1,523	1,748	1,464
Intangible assets, net		25	356	278
Other long term assets		169	160	154
Total Long term assets		1,717	2,264	1,896
Total Assets		**78,020**	**69,422**	**50,681**
LIABILITIES AND SHAREHOLDER'S EQUITY				
Current liabilities:				
Current portion of capitalized lease obligation	15.2	97	68	35
Account payables		3,730	4,201	3,391
Taxes payable and accrued compensation		838	1,426	2,161
Related parties		-	-	-
Other liabilities		18	18	-
Total current liabilities		4,683	5,713	5,587
Deferred revenue	13	-	999	1,405
Long term liabilities:				
Deferred tax	10	27	17	10
Capitalized lease obligation less current portion	15.2	85	36	9
Total long term liabilities		112	53	19
Commitments and contingencies	9	112	46	161
Shareholder's equity:	8			
Common stock		2,769	4,520	4,540
Additional paid-in capital		88,654	92,020	92,389
Restricted reserves		-	75	68
Accumulated deficit		(18,312)	(34,004)	(53,483)
Cumulative translation adjustment		2	-	(5)
Total shareholder's equity		73,113	62,611	43,509
Total liabilities and shareholders' equity		**78,020**	**69,422**	**50,681**

CONSOLIDATED STATEMENT OF OPERATIONS

as of December 31: *(in thousands of €, except share data)*	*Notes*	2001	2002	2003
Research and development revenues	2.11 & 3	-	5,468	1,404
Total revenues		**-**	**5,468**	**1,404**
Research and development expenses	2.5	(12,267)	(19,688)	(16,625)
Selling, general and administrative expenses		(3,406)	(4,535)	(4,368)
Total operating expenses		**(15,673)**	**(24,223)**	**(20,993)**
Loss from operations		**(15,673)**	**(18,755)**	**(19,589)**
Net financial income	14	2,381	2,467	337
Loss before income tax benefit		**(13,292)**	**(16,288)**	**(19,252)**
Corporate tax	10	1,767	596	(227)
Net Loss		**(11,525)**	**(15,692)**	**(19,479)**
Number of shares outstanding *		20,765,325	22,597,500	22,701,900
Earning (Loss) per share (basic and diluted)		(0.56)	(0.69)	(0.86)

** Adjusted to reflect the 3 for 1 stock split decided by the shareholders on June 5, 2002 (note 8.1)*

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(in thousands of €, except share data)

	Ordinary shares Number*	Ordinary shares Amount	Additional paid-in capital	Accumulated deficit	Other reserves	Translation adjustment	Shareholders' equity (deficit)
At January 1, 2001	**18,155,325**	**2,421**	**33,696**	**(6,787)**	**-**	**5**	**29,335**
Issuance of new shares	2,610,000	348	54,958-	-	-	-	55,306
Cumulative translation	-	-	-	-	-	(3)	(3)
Net loss	-	-	-	(11,525)	-	-	(11,525)
At December 31, 2001	**20,765,325**	**2,769**	**88,654**	**(18,312)**	-	**2**	**73,113**
Increase of the par-value by transfer from additional paid-in capital	-	1,384	(1,384)	-	-	-	-
Cumulative translation adjustments	-	-	-	-	-	(2)	(2)
Creation of other reserves by transfer from additional paid-in capital	-	-	(197)	-	197	-	-
Exercise of warrants	1,832,175	367	4,947	-	(122)	-	5,192
Net loss	-	-	-	(15,692)	-	-	(15,692)
At December 31, 2002	**22,597,500**	**4,520**	**92,020**	**(34,004)**	**75**	**-**	**62,611**
Cumulative translation adjustment						(5)	(5)
Exercise of warrants	104,400	20	369		(7)		382
Net loss				(19,479)			(19,479)
At December 31, 2003	**22,701,900**	**4,540**	**92,389**	**(53,483)**	**68**	**(5)**	**43,509**

** Adjusted to reflect the 3 for 1 stock split decided by the shareholders on June 5, 2002 (note 8.1)*

CONSOLIDATED STATEMENT OF CASH FLOWS

as of December 31: *(in thousands of €, except share data)*	**2001**	**2002**	**2003**
Cash flows from operating activities:			
Net loss	(11,525)	(15,692)	(19,479)
Adjustment to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization of intangible assets	9	74	100
Depreciation and amortization of fixed assets	125	341	448
Deferred tax	27	(10)	(7)
Commitments and contingencies	-	(66)	115
Increase (decrease) in cash from:			
Accounts receivable	3,187	(812)	(351)
Research and development tax credit receivable	(1,854)	(710)	508
Inventory	(1,125)	(11)	143
Other current assets	(1,219)	(839)	638
Prepaid expenses	(32)	(402)	216
Other long term assets	(58)	9	7
Cumulative translation adjustment	(3)	(2)	(5)
Accounts payable	1,076	471	(810)
Taxes payable and accrued compensation .	156	588	734
Related parties	(11)	-	-
Other liabilities	(1)	-	(17)
Deferred revenue	-	999	406
Net cash used in operating activities	**(11,248)**	**(16,062)**	**(17,354)**
Cash flows from investing activities:			
Purchases of intangible assets	(20)	(405)	(21)
Purchases of fixed assets	(1,161)	(540)	(182)
Net cash used in investing activities	**(1,181)**	**(945)**	**(203)**
Cash flows from financing activities:			
Cash proceeds from issuance of shares	55,306	5,192	383
Capital lease obligations	(114)	(104)	(44)
Net cash provided by financing activities	**55,192**	**5,088**	**339**
Net increase (decrease) in cash and equivalents	**42,763**	**(11,919)**	**(17,218)**
Cash and equivalents, beginning of period	26,467	69,230	57,311
Cash and equivalents, end of period	69,230	57,311	40,093

Notes to consolidated financial statements

1. NATURE OF BUSINESS

NicOx SA, a limited liability corporation (*société anonyme*) incorporated under the French law in February 1996 and listed on the *Nouveau Marché* of Euronext Paris (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 therapeutic areas. NicOx seeks to commercialize its products through partnerships and co-development agreements where it maintains future marketing rights for specialist products.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of NicOx S.A. and its subsidiaries (together "the Company" or "NicOx") were prepared in accordance with the accounting principles generally accepted in France for consolidated financial statements, as required under Rule 99-02 of the Comité de la Réglementation Comptable dated 29 April 1999.

As of 1 January 2002, the Company adopted Rule CRC n° 2000.06 on liabilities, and this did not impact the Company's consolidated financial statements.

2.1. Consolidation methods

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All inter-company accounts and transactions have been eliminated. The accounts of all subsidiaries are closed on 31 December.

Following the transfer of all the patents held by Metgrove Ltd to NicOx S.A., Metgrove Ltd has been put into liquidation and dissolved with effective date on August 15, 2003. All Metgrove Ltd transactions between January 1st, 2003, and this date have been fully integrated in NicOx S.A. books. The impact of the dissolution on the group consolidated accounts is limited (€22,000).

Subsidiaries:

Subsidiaries consolidated	*Date of entry in the consolidation scope*	*Headquarters*	*Interests*	*Consolidation method*
NicOx S.r.l.	1999	Via Ariosto 21 Bresso MI 20091, Italy	100 %	Consolidation
NicOx Inc.	2000	502 Carnegie Center, suite 104 Princeton New Jersey, USA	100 %	Consolidation
Metgrove Ltd.	2000	4th Floor Dollard House Wellington Quay, Dublin 2, Ireland	100 %	Consolidation

2.2. Conversion of foreign subsidiary accounts

The result of each foreign subsidiary is calculated in the currency most representative of its economic environment, the functional currency. The Company's reporting currency is the euro. Consequently, the financial statements of foreign subsidiaries are converted into euros as follows: all assets and liabilities are translated at the year-end exchange rate, except the shareholders' equity elements which are translated at the historical exchange rate. Revenues and expenses are translated using weighted average exchange rates for the year. Gains or losses resulting from this translation process are recorded in a specific component in shareholders' equity.

2.3. Intangible assets

An intangible asset is recognized when probable future economic benefits are expected to arise from contractual or other legal rights, such as those for patents, which have a substantially long-lasting nature. Intangible assets are composed of a patent and of software.

In March 2002, the Company bought, for €350,000, exclusivity rights on the patent relating to the compound NCX 4016. This agreement is following the purchase of the co-inventors' rights, for a 5% royalty on the total revenues paid by licensees of the NCX 4016 compound, including revenues resulting from royalties, fees and milestone payments. The €350,000 amount has been recognized as intangible assets, due to the perspectives of future profitability of the underlying technology. It is amortized over a 5 year period.

Software is amortized according to a straight-line depreciation method on their economic duration estimated to be 3 years.

2.4. Property and equipment

Property and equipment is stated at cost. Depreciation and amortization are calculated according to a straight-line depreciation method applied to their expected economic duration as follows:

	Period
Laboratory equipment	5 years
Computer equipment	5 years
Vehicles	5 years
Office equipment	10 years
Office furniture	10 years

Leased assets are recorded as purchased assets when the terms of the contract correspond to those of a purchase financed by a debt.

2.5. Research and development expenses

Research and development expenses relate to projects contracted with a number of universities or other clinical research organizations. Contracts are for one or more years and cover several projects, or a single specific project.

Research and development is expensed as incurred. Service performance is monitored based on information provided by the university or other research organization.

2.6. Inventories

Inventories, composed of purchased products and raw materials, are recorded at their historical cost. The purchased products are nitrate derivative compounds destined for use in the Company's preclinical and clinical trials.

A provision is recorded for slow-moving inventories, or when they can no longer be used for lack of conformity or obsolescence.

2.7. Accounts receivable

All accounts receivable are recorded at their historical value. They are depreciated when recoverability is not assured.

2.8. Research and development tax credit receivable

Research and development expenses form the basis of a tax credit in France, under certain conditions. It is calculated on the increase in the annual research expenditure compared with the average expenditure during the previous two years.

The tax credit can be offset against the corporate tax owed by the company in the period in which the qualifying expenses are incurred. The tax credit is recoverable in cash, if not used to offset taxes payable, in the fourth year following its generation.

2.9. Cash equivalents

The marketable securities are recorded at their historical cost. At year-end, marketable securities are valued using the average security price of the last month of the fiscal year, for listed securities and the realizable value for non-listed securities. The marketable securities are considered to be a cash reserve for the Company. In accordance with COB recommendations, as from financial year 2002, the Company no longer sets off unrealized losses against unrealized gains of these marketable securities.

Treasury shares are included under cash equivalent when held in connection with the share price regulation. These transactions are entered in connection with the market-making agreement signed with Société Générale and pursuant to the shareholders' agreements received on June 5, 2002 and on June 5, 2003. In the meeting that took place on July 23, 2003, the Board of Directors decided to exercise the authority granted by the General meeting of June 5, 2003, to adopt adjustment measures concerning the share price on the Nouveau Marché, by a systematic intervention against the market trend and exclusively under the market-making agreement signed with Société Generale. A provision is recorded when the year-end share price is lower than the historical cost.

2.10. Foreign currency translation

All amounts receivable or payable in foreign currencies are converted in euro using the year-end exchange rate. The unrealized resulting gains and losses are recorded in the statement of operations. However, foreign exchange gains and losses arising from the translation of capitalizable advances made to subsidiaries are reflected directly in the "Cumulative translation adjustment" line in the shareholders' equity.

The Company has not undertaken hedging transactions to cover its currency exposure.

2.11. Revenue recognition

The Company's revenue results from payments generated by development and license agreements entered into with pharmaceutical companies (note 3). These contracts generally provide for components such as upfront payments, milestone payments upon reaching certain predetermined development objectives, reimbursement of certain research and development expenses, as well as payment of royalties on future sales of products.

Amounts invoicable upon execution of the contract, and potentially non-refundable, are immediately recognized as revenue whenever resulting from a firm commitment of the other contracting party solely in the case where the Company will not have continuing involvement in future developments. In the reverse case, these amounts are deferred over the estimated time period of involvement of the Company in future developments, to be revised periodically in accordance with the progression and results of the development program. Milestones payments are recognized in revenue after final acceptance of the completion of the relevant development objectives by the other contracting party. The refunding of research and development expenses is recognized as turnover upon payment of costs, whenever said costs are not submitted to prior validation.

Amounts received before meeting accounting criteria are recognized as deferred revenue. The Company records a provision for depreciation in the case where the recoverability of the invoiced amounts appears uncertain.

2.12. Contingencies

As part of its ordinary activity, the Company may be involved in legal proceedings and claims. Provisions are made for identified risks and contingencies when they become probable following certain events.

2.13. Income taxes

The liability method is used in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. A valuation allowance is recorded if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

2.14. Net result per share

Basic earnings per share are calculated using the weighted average number of common shares outstanding during the year. In the event of a stock split or bonus issue of shares, earnings per share are adjusted accordingly. Diluted earnings per share are calculated assuming the exercise of all outstanding options and warrants. As net losses have been reported in all periods presented, the dilutive effects of options and warrants were excluded from the calculation of net loss per share. The calculation is in accordance with the methodology recommended by the association of chartered accountants.

3. DEVELOPMENT AND LICENSING AGREEMENTS

3.1. AstraZeneca

In October 1998, the Company and AstraZeneca Plc signed a Development and License Agreement under which, as a consequence of the purchase in September 2002 of exclusive rights for Japan, AstraZeneca had been granted an exclusive worldwide license to develop, manufacture and sell products containing certain COX-Inhibiting Nitric Oxide Donators (CINODs) designed for the treatment of pain and inflammation. Under this agreement, AstraZeneca had undertaken to select at least two of the compounds for development through at least the end of Phase II clinical trials. As consideration for the right granted by the Company under the agreement, AstraZeneca paid the Company an initial non-refundable milestone payment of USD 2 million upon signing of the agreement in October 1998, and had undertaken to make additional milestone payments upon the achievement of certain predetermined developmental milestones leading up to and including regulatory approval.

During the first quarter of 2000, AstraZeneca had selected the compound AZD3582 for the start of Phase I clinical trials. AstraZeneca had begun Phase I clinical trials of this compound during the second trimester 2000. Under the agreement, AstraZeneca paid the Company a milestone payment of USD 2 million in June 2000. In December 2000, the Company also invoiced AstraZeneca USD 3 million upon the decision to start Phase II clinical trials on this compound following the good results obtained on healthy volunteers during the Phase I studies, paid in January 2001.

In September 2002, AstraZeneca and the Company had entered into an amendment to the Development and License Agreement enabling AstraZeneca to develop and market the compound AZD3582 and certain other CINOD on the Japanese territory. The initial contract granted AstraZeneca a worldwide excusive license, except for Japan where the license was semi-exclusive. In consideration for the rights granted by the Company, AstraZeneca paid the Company in October 2002, a non-refundable amount of €5,000,000.

In November 2002, AstraZeneca had selected, within the new class of anti-inflammatory and analgesic compounds "CINOD", the compound AZD4717 to be the second drug-candidate for treating pain and inflammation.

On 18 February 2003, the Company and AstraZeneca announced that compound AZD3582 in development for the treatment of acute and chronic nociceptive pain did not reach, in one of the ongoing Phase II studies, its primary end point with respect to gastro-intestinal ulcers, but had nevertheless reached a majority of secondary objectives and showed it is efficacious in treating pain and overall is well tolerated. Following this announcement, the quotation of NicOx stock was suspended between 18 and 20 February 2003. Upon restart of trading of the quotation, the price of NicOx stock had dropped by 83.67%. Indeed, the last quotation price before suspension was €9.80 and the quotation price upon restart of trading was €1.60. As of June 30, 2003, the closing price of NicOx stock was €5.15. In March 2003, NicOx communicated the conclusions of a panel of international experts that had been convened to examine the clinical protocol for the trial, available data and AstraZeneca's analyses and conclusions on the Phase II study on compound AZD3582. The panel, composed of experts from the fields of gastroenterology, biostatics and clinical methodology, concluded that the deficiencies, and the fact that all relevant secondary end points were statistically significant in favor of AZD3582, did not allow a conclusion of negative trial outcome. The Phase II studies on this compound were completed in September 2003.

AstraZeneca, using its contractual right to terminate the agreement at any time at its sole discretion, informed the Company in September 2003, of its decision to end this collaboration. According to the terms of the agreement, the entirety of the data and information developed during the collaboration, will be transferred free of charge to NicOx. In addition, NicOx will receive an irrevocable worldwide, free of charge, non-exclusive license, with the possibility of sublicensing, on these data and on the patents developed by AstraZeneca during the collaboration. At the end of the year 2003, the transfer of these rights and data was in process.

Since the signature of the agreement with AstraZeneca in October 1998, the Company has received milestone payments amounting to €12,263,000. These payments are not refundable for any reason.

3.2. Axcan Pharma

In May 2002 the Company signed with Axcan Pharma "Axcan", a Canadian company listed on the Nasdaq, a co-development and license agreement for the compound NCX 1000, a nitric oxide-donating ursodiol (ursodeoxycholic acid) derivative, for the treatment of chronic liver diseases including portal hypertension and Hepatitis C. Under the terms of this agreement the Company granted Axcan an exclusive license to commercialise 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 IIa clinical development. Axcan has also been granted co-exclusivity rights for France, shared with the Company. In compensation for the rights granted, Axcan paid the Company

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 Company may receive pursuant to this agreement varies depending on whether the US option is or not exercised, with a minimum of €2,375,000 and a maximum of €13,460,000 (calculated at the exchange rate as of December 31, 2003, regarding amounts that are expressed in USD). In addition, the Company 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 Company 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 IIa studies, the initial USD 2 million is to be transferred on a new development project to be defined in the 2 years following the failure.

The contract provides that the Company ensures development for pre-clinical and Phase I studies, and that Axcan ensures development for the subsequent phases. Axcan and the Company will share certain costs of the future development of NCX 1000 jointly through the completion of Phase II clinical studies. Axcan will thereafter conduct the required Phase III clinical studies and be responsible for regulatory filings in the licensed territories. The Company shall provide the active ingredient during the development program.

In December 2002, the Company filed an IND for NCX 1000 and obtained the regulatory approval in January 2003 and Phase I clinical trials were ongoing at year end. Pursuant to the contract, and as mentioned above, Axcan paid the Company an amount of USD 2 million. This amount is deferred based on the estimated duration of the Company's involvement in future development. In this regard, the Company recorded, during the course of 2003, research and development revenues in an amount of €576,000. In other respects, the invoices pertaining to certain research and development expenses generated during the course of 2003 have been recognized as revenue for an amount of €828,000, as they did not exceed the budget defined by the development committee and did not require preliminary authorization. In accordance with the agreement, these amounts shall be paid at the end of Phase II, and offset, as the case may be, against amounts due by NicOx in relation with development expenses incurred by Axcan.

4. INTANGIBLE AND FIXED ASSETS

Intangible assets

As of December 31:	2001	2002	2003
Software	41,398	96,113	117,067
Patents		350,000	350,000
Total	**41,398**	**446,113**	**467,067**

Depreciation and amortization of intangible assets

As of December 31:	2001	2002	2003
Software	15,621	37,101	66,721
Patents	-	52,500	122,500
Total	**15,621**	**89,601**	**189,221**

Property and Equipment

As of December 31:	2001	2002	2003
Laboratory equipment	741,263	1,122,294	1,251,083
Vehicles	226,400	218,239	194,696
Leasehold improvements and fixtures	302,279	351,924	365,456
Furniture and other equipment	428,561	571,958	617,502
Total	**1,698,503**	**2,264,415**	**2,428,738**

Depreciation and amortization

As of December 31:	2001	2002	2003
Laboratory equipment	37,437	225,655	469,535
Vehicles	60,119	100,973	126,494
Leasehold improvements and fixtures	17,953	50,438	128,958
Furniture and other equipment	60,501	139,789	239,662
Total	**176,010**	**516,855**	**964,649**

Information on capitalized leases is included under note 13.2.
Fixed assets acquisitions were mostly related to the opening of the research center in Italy in September 2001.
Depreciation charges of intangible and fixed assets were €148,000, €421,000 and €581,000 respectively for the years ended 31 December 2001, 2002 and 2003.
Other long-term assets concern security deposits paid under operating leases, respectively amounting to €169,000, €160,000 and €154,000 as of 31 December 2001, 2002 and 2003.

5. INVENTORIES

On 31 December 2003, inventories were composed of raw materials for €24,000 (€11,000 on 31 December 2002) and purchased products totaling €1,837,000 (€1,125,000 on 31 December 2002).

As of December 31, 2003, a provision of €869,000 has been recorded, as the Company has undertaken, in the context of review and valuation of its internal control procedures, the assessment of the adequacy between the minimum quantity of supplies imposed by its raw materials and products suppliers and its research and development process. In addition, further to the decision of AstraZeneca to terminate the license and development agreement with NicOx, the Company is now focusing its activities on the most advanced drugs of its portfolio. Thus, a certain number of programs are currently on hold. No provision was recorded as of 31 December 2003.

6. OTHER CURRENT ASSETS

Other current assets correspond to VAT credits and advances paid to suppliers. Detail of other current assets:

in thousands of € *As of 31 December:*	2001	2002	2003
VAT	1,580	2,661	1,835
Advances paid to suppliers	332	90	278
Total	**1,912**	**2,751**	**2,113**

7. MARKETABLE SECURITIES

Marketable securities totaled €69,037,000, €56,378,000 and €39,351,000 at 31 December 2001, 2002 and 2003 respectively.
The revenues of cash investments constitute the main source of net financial result over the 3 presented financial years.

As of 31 December 2001, 2002 and 2003, the net unrealized gain on marketable securities (except treasury shares) were respectively of €316,000, €141,000 and €724,000. As of 31 December 2003, no unrealized losses were recorded.

As of 31 December 2003, the Company held 27,016 treasury shares valued at a unitary historical price of €4.39, for a total of €118,000. During the period from 1 January 2003 to 31 December 2003, the Company purchased 115,138 of its own shares for €720,000 and sold 100,734 of its own shares for €593,000. The average share price in the last month of the financial year used to determine the fair value at closing date is €3.60, which represents an accrued unrealized gain of €21,000.

As of 31 December 2002, the Company held 11,809 treasury shares valued at a unitary historical price of €14.53, for a total of €172,000. During the period from 1 January 2002 to 31 December 2002, the Company purchased 63,200 of its own shares for €1,482,000 and sold 55,687 of its own shares for €1,522,000.

8. SHAREHOLDERS' EQUITY

The numbers of shares and the amounts per share have been adjusted to reflect the 3 for 1 stock split decided by the shareholders on June 5, 2002 (note 8.1).

8.1. General

On 31 December 2003, the issued and outstanding share capital of the Company consisted of 22,701,900 ordinary shares with a nominal value of €0.2 per share.

During 2003, certain shareholders, employees, board members and members of the scientific advisory board have exercised warrants. 1,392 warrants were thus exercised, resulting in the issuance of 104,400 ordinary shares. As a result, share capital increased by €20,888 in aggregate.

On 5 June 2002, the shareholders' meeting authorized the Company to proceed with the restructuring of its share capital.
This restructuring was under the form of an increase of par-value from €0.4 to €0.6 by the transfer of €1,384,355 additional paid-in capital into common stock, followed by a reduction of the par-value of the shares from €0.6 to €0.2. All data relating to shares have been retroactively adjusted to take into account the reduction of the par-value by multiplying by 3 the number of shares and the average number of shares outstanding prior to this operation. In the context of this operation, an amount of €196,865 additional paid-in capital had been transferred to other reserves. This amount is due to be incorporated into share capital upon exercise of stock options and warrants existing prior to the restructuring of the share capital, in order to reflect the increase in par-value. Warrants that have not been exercised as of 31 December 2003, have become null and void. Thus, the portion of restricted reserves relating to these annulled warrants shall be reallocated, subject to the decision of the next shareholders' meeting.

8.2. Warrants

During 1998, 2001 and 2003, the Company authorized the issuance of warrants. The rights on the warrants issued in 1998 and not exercised as of 31 December 2003, have become null and void.

The extraordinary shareholders' meeting of 5 June 2003, has authorized the Board of Directors to issue, within on year, 85,000 warrants for certain directors, giving right to subscribe a maximum of 85,000 new shares with a par-value of €0.2 each. On 23 July 2003, the Board of Directors has issued and granted, free of charge, all these warrants to certain directors. These warrants vest immediately and expire on 22 July 2008. Each warrant gives the right to subscribe one ordinary share at an exercise price of €5.20. On 31 December 2003, none of these warrants were exercised.

As of 31 December 2003, 153,000 warrants are outstanding, which could give rise, if exercised, to the issuance of 289,000 ordinary shares.

A summary of the related subscription is presented below:

Authorization	June 2001	June 2003
Holder	Certain Directors and professors involved in the Company's R&D programs	Certain Directors
Subscription date	July 2001	July 2003
Number of warrants subscribed	68,000	85,000
Subscription price per warrant	Free	Free
Start of exercise date	(1)	July 2003
Expiry date	19 July 2006	22 July 2008
Number of shares per warrant	3*	1
Exercise price per share	€22.06*	€5.20

As of 31 December 2003:

Warrants exercised	-	
Warrants outstanding	**68,000**	**85,000**
Shares reserved for issuance	**204,000**	**85,000**

** Adjusted to reflect the 3 for 1 stock split decided by the shareholders on June 5, 2002 (note 8.1)*

(1) These warrants are exercisable, for professors, by annual portions of one fifth every year, and for board members, by 5,000 warrants the first year, followed by four equal portions for each of the following years.

8.3 Stock option plan

In May 1999, the shareholders approved a stock option plan, and authorized the Board of Directors, until 28 May 2004, to grant stock options to certain employees of the Company to purchase ordinary shares of the Company within a limit of 3 % of the share capital. These stock options expire 6 years after grant date.

The shareholders' meeting of 5 June 2002 has authorized the Board of Directors, until 5 August 2005, to grant to employees and directors, options giving right to the subscription of up to 600,000 shares of the Company. These stock options expire 6 years after grant date.

During the year, the Board of Directors granted a total of 302,200 stock options to various employees of the Company.

As of 31 December 2002, outstanding stock options granted by the Board of Directors to various employees of the Company amount to 640,000 stock options giving right to subscribe an aggregate number of 762,800 new shares.

A summary of the stock options grants is presented below:

Board meeting date	*Stock options granted*	*Number of shares per stock option*	*Total number of shares*	*Start date of the stock options*	*Expiry date*	*Exercise price per stock option (in €)*	*Number of stock options cancelled*	*Outstanding stock options as of 31 Dec. 2003*
Plan authorized by the shareholders' meeting of May 28, 1999								
12-jul-00	75,900	3	227,700	12-jul-03	11-jul-06	58.97	61,150	14,750
14-sept-00	5,000	3	15,000	N/A	13-sept-06	62.08	5,000	0
02-nov-00	49,000	3	147,000	N/A	01-nov-06	73.63	49,000	0
01-febr-01	8,000	3	24,000	01-febr-04	31-jan-07	79.8	3,000	5,000
19-jul-01	26,000	3	78,000	19-jul-04	18-jul-07	62.08	20,500	5,500
14-dec-01	27,450	3	82,350	14-dec-04	13-dec-07	48.42	21,850	5,600
17-apr-02	72,750	3	218,250	17-apr-05	16-apr-08	49.72	42,200	30,550
24-jul-02	14,000	1	14,000	24-jul-05	23-jul-08	16.57	11,000	3,000
03-oct-02	5,200	1	5,200	03-oct-05	02-oct-08	14.1	0	5,200
13-nov-02	171,300	1	171,300	(1)	11-nov-08	15.67	2,100	169,200
12-dec-02	181,200	1	181,200	(1)	11-dec-08	16.1	77,200	104,000
15-apr-03	83,000	1	83,000	15-apr-06 (2)	14-apr-09	2.02	0	83,000
23-jul-03	19,200	1	19,200	23-jul-06	22-jul-09	5.12	0	19,200
Plan authorized by the shareholders' meeting of June 5, 2002								
24-jul-02	30,000	1	30,000	24-jul-05	23-jul-08	16.57	0	30,000
15-apr-03	200,000	1	200,000	15-apr-06 (3)	14-apr-09	2.02	35,000	165,000
							Total	**640,000**

* Adjusted to reflect the 3 for 1 stock split decided by the shareholders on June 5, 2002 (note 8.1)

(1) These stock options are exercisable at various dates between 1 August 2003 and 12 December 2005.

(2) it being specified that, for 1,500 stock options granted to NicOx Srl employees, the shares subscribed pursuant to these rights may be sold 3 years as from the grant date, which is 15 April 2006, and not after a 4 years period as provided for by article III.9 of the stock option plan of the Company.

(3) it being specified that, for 113,500 stock options granted to NicOx Srl employees, the shares subscribed pursuant to these rights may be sold 3 years as from the grant date, which is 15 April 2006, and not after a 4 years period as provided for by article III.9 of the stock option plan of the Company.

As of December 31, 2003, no stock options were exercised.

9. CONTINGENCIES

In May 2002, the Company was condemned to pay to one of its former employee, an indemnity of €67,000 based on a non-competition clause. As the employee appealed this decision, a provision of €46,000 has been maintained as of 31 December 2002, for the outstanding amount claimed by the employee. The Court of Appeal rendered its decision on 13 October 2003, making rights for all the claims of the employee. Therefore, this provision has been fully utilized in 2003.

In order to reduce operational expenses, the Company has decided to coordinate its products and business development and communication activities in the US from its entities in Europe, and therefore has closed its US offices during the first semester 2003. In this regard, the Company has recorded, as of December 31, 2003, a provision of €160,000, corresponding to the minimal rental expenses provided for under the contracts of lease of the premises and of certain equipments. The Company has also recorded, as of December 31, 2003, exceptional depreciation charges in an amount of €54,000 in order to fully depreciate the US offices' fixed assets. It being specified that the legal entity NicOx Inc. has not been liquidated and thus remains in the consolidation scope.

10. INCOME TAXES

In 2003, the subsidiaries, NicOx Srl and NicOx Inc. recorded together a corporate tax amounting to €300,000. In addition, the subsidiary NicOx Srl obtained two tax credit of €65,000 and €56,000 respectively: one from the Lombard region for its research activity, the second one from the fiscal authority based on recruitments made before 2002. These credits will be used to offset any Italian taxes payable in 2004.

In 2003, NicOx S.A. also recognized a reduction of its deferred tax liability of €7,000.

A reconciliation of income taxes computed at the French statutory to the income tax benefit is as follows:

As of December 31: *In thousands of €*	2001	2002	2003
Theoretical income tax rate	35.42%	35.42%	35.42%
Theoretical income tax (or tax credit) on the consolidated result	(4,696)	(5,769)	(6,819)
Tax credit	(1,871)	(755)	(67)
Capital increase costs deductible	(1,423)	-	-
Operating losses not utilized	6,307	5,930	6,634
Others	(84)	(2)	478
Total income tax	**(1,767)**	**(596)**	**226**

Significant components of the Company's deferred tax assets and liabilities consist of the following:

As of December 31: *In thousands of €*	2001	2002	2003
Deferred tax assets:			
Net operating loss carry forwards	11,065	17,003	23,428
Others	111	153	286
Total deferred tax assets	11,176	17,156	23,714
Valuation allowance	(11,176)	(17,156)	(23,714)
Net deferred taxes assets	-	-	-
Deferred tax liabilities (from subsidiaries):	**27**	**17**	**10**

The deferred tax asset essentially results from net operating loss carry-forward on NicOx S.A. Due to its history of losses, the Company does not believe that sufficient objective, positive evidence exists to conclude that recoverability of its net deferred tax assets on the parent company is more likely than not. Consequently, the Company has provided valuation allowances covering 100 % of its net deferred tax assets.

As of 31 December 2003, the Company has French net operating loss carry-forward of €66,654,000.

On 31 December 2003, the Company's research tax credit receivable from the French administration amounted to €3,801,000, refundable as follows: €1,244,000 in 2004, €1,849,000 in 2005 and €708,000 in 2006.

During 2001, NicOx S.A. was subject to a tax audit covering the period from 1 January 1998 to 31 December 2000. The tax assessment was received in December 2001, for €929,000. The Company rejected the tax assessment on the basis that it was without substance. Consequently, no provision was recorded as of 31 December 2001. During 2002, the tax authorities and the Company agreed on the payment of €84,000 including penalties, to settle the assessment which was paid in January 2003. In 2002, the corresponding expense had been recorded in the profit and loss account as selling, general and administrative expenses. In 2003, the tax authorities consequently released VAT refunds that were retained since the 4th quarter of 2000, and which amounted to €1,278,000.

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

As of 31 December 2001, 2002 and 2003, the carrying values of financial instruments such as cash and cash equivalents, trade receivables and payables, other receivables and accrued liabilities approximated their market values, based on the short-term maturities of these instruments.

12. INFORMATION ON PERSONNEL

The Company's employees split as follows as of December 31:

As of December:	2001	2002	2003
Research and development	30	42	44
Others	15	20	16
Total full time equivalent	**45**	**62**	**60**

Personnel expenses in the years 2001, 2002 and 2003 were €3,279,000, €4,652,000 and €5,250,000 respectively.

The aggregate amounts of compensation paid by the Company to its executive officers and managers (two directors) for their services in 2001, 2002 and 2003 were €414,000, €409,000 and €472,000 respectively. In addition, on 15 April 2003, the Board of Directors has granted 50,000 stock options to two managing directors of the Company. These stock options are exercisable as from 16 April 2006. The Board of Directors had previously granted, to these two managing directors, a total of 48,000 stock options exercisable as from 14 November 2005.

In accordance with the laws in the different countries in which the Company operates, the Company pays contributions based on salaries to the relevant state-sponsored pension organization. The Company has no further liability in connection with these plans.

French law also requires payment of a lump sum retirement indemnity to employees based upon years of service and compensation at retirement. Benefits do not vest prior to retirement. The Company's obligation as of 31 December 2001, 2002 and 2003 was immaterial.

In conformity with the social security law in Italy, the Company accrues for additional deferred compensation under the TFR (Trattamento Fine di Rapporto) for its employees working in the representative office of Milano. This accrual is reevaluated each year according to the law and to the employees contracts. These wages are to be paid to the employees when they leave the Company, whatever the reason. On 31 December 2003, deferred compensation costs accrued under the TFR amounted to €272,000.

13. DEFERRED REVENUE

Deferred revenue respectively amounted to €999,000 and €1,405,000 as of 31 December 2002, and 31 December 2003. Said deferred revenue correspond to the payment of USD 2 millions received from Axcan in remuneration of the rights granted under the co-development and license agreement signed in 2002. This amount, partly invoiced in December 2002 and, for the remaining balance in January 2003 (see note 3.2), has been recorded entirely in deferred revenue, and, as from February 2003, is deferred over the estimated duration of the Company's implication in development programs pursuant to the agreement signed with Axcan, it being specified that the duration of the Company's implication varies depending on the progression and results obtained as indicated in note 2.11. In this regard, an amount of €576,000 has been recorded as research and development revenue during 2003.

14. NET FINANCIAL INCOME

The Company's net financial income is as follows:

As of 31 December: *(in thousands of €)*	2001	2002	2003
Foreign exchange			
Net realized gain/loss on bank deposits	101	(10)	(152)
Net realized gain/loss on receivables and payables	(11)	(24)	(39)
Sub-total foreign exchange	**90**	**(34)**	**(191)**
Net gain or loss on marketable securities	2,309	2,482	736
Interest revenue on deposits	-	17	3
Net realized gain/loss on treasury shares	(28)	2	(211)
Other financial income	10	-	-
Net financial income	**2,381**	**2,467**	**337**

15. COMMITMENTS

The contractual obligations of the Company are as follows:

Contractual Obligations	*Notes*	*Total*	*Payment owed per period:*		
(in thousands of €)			*within 1 year*	*from 1 to 5 years*	*over 5 years*
Operating leases	15.1	1,766	526	1,240	-
Capital leases	15.2	47	37	10	-
Subcontracting and maintenance agreements	15.3	134	96	38	-
Research and Development contracts	15.4	3,383	3,014	369	-
Total		**5,330**	**3,673**	**1,657**	**-**

Other commercial commitments

(in thousands of €)	*Notes*	*Total*
Commissions on R&D contracts	15.4	9,804
Other R&D commitments	15.4	511
Contracts relating to the research of partnerships	15.5	6,300
Total		**16,615**

Due to uncertainty concerning development, it is unlikely that the Company will pay the entirety of its commitments under R&D contracts. For the same reasons, maturity dates for the payments cannot be reasonably estimated.

Security

(in thousands of €)	*Notes*	*Total*
Bank guarantees	13.6	340
Total		**340**

Management believes that the commitments presented in the tables above and described in the following paragraphs, represent the entirety of the significant unrecorded obligations, or those to become so in the future.

15.1 Operating leases

The Company leases certain of its equipments, its offices and its research center through various lease agreements. The lease of the offices of the parent company, NicOx S.A., with effect as of 1 May 2001, is a three years lease renewable twice, which is until 2009. The lease agreement for NicOx S.r.l. research center and offices in Italy is effective from 1 June 2001 and runs for a period of six years. The lease agreement for the NicOx Inc offices is effective from 15 February 2001 and runs for a period of five years.

The future annual minimal lease payments under these operating leases amounts to €526,000 as of 31 December 2004, €521,000 as of 31 December 2005, €441,000 as of 31 December 2006 and €198,000 as of 31 December 2007, €80,000 as of 31 December 2008, and subsequently, which comes to a total amount of €1,766,000.

Rental expense for the years ended 31 December 2001, 2002 and 2003 was approximately €291,000, €443,000 and €690,000 respectively, including a provision of €167,000 corresponding to the future lease payments of the offices of the US subsidiary closed in the first semester 2003.

15.2 Capital leases

The Company leases certain equipments through capital leases. Capitalized leases are included in fixed assets for €322,000 and €306,000 as of 31 December 2002 and 2003. As of 31 December 2003, accumulated depreciation amounted to €178,000,and depreciation charges were €65,000.

The future annual minimal lease payments under these capital leases amount to €37,000 as of 31 December 2004, €7,000 as of 31 December 2005, and €3,000 as of 31 December 2006, which comes to a total amount of €47,000.

15.3 Subcontracting and maintenance agreements

The Company outsources the maintenance of its industrial equipments and of the animal house of the Milan Research Centre. Maintenance of computers and equipment, insurance policies and service agreements entered into for 1 year, ending on 31 December 2003, are not recorded as obligations.

The future annual minimal payments with regard to these obligations amount to €96,000 as of 31 December 2004, €33,000 as of 31 December 2005, €3,000 as of 31 December 2006 and €2,000 as of 31 December 2007, which comes to a total amount of €134,000.

15.4 R&D contracts

The Company conducts the major part of its research and development activity through contracts with universities and clinical research organizations worldwide. Some of the contracts extend over more than one year, and require as a condition that the universities and clinical research organizations issue reports. The future annual minimal payments in this regard amount to €3,014,000 as of 31 December 2004, €326,000 as of 31 December 2005, €42,000 as of 31 December 2006 and €1,000 as of 31 December 2007, which comes to a total amount of €3,383,000.

Certain agreements provide that in the case patents are obtained using the R&D works, the Company could receive the ownership of this intellectual property through compensation to be paid to the universities and clinical research organizations involved, to be negotiated subsequently between the parties.

Certain collaboration agreements entered into with professors and clinical research organizations provide that in case of success, the Company could pay commissions for a maximum aggregate amount of €9,804,000 (calculated, concerning amounts in USD, at the exchange rate of 31 December 2003).

As the consequence of the licensing of NCX 1000 to Axcan (note 3.2), the Company has paid to a professor an amount of €46,000 corresponding to a commission on said compound covered by this collaboration agreement.

Under an exclusive Research Agreement concluded with Bayer in February 1998, which terminated in September 1999, if the Company concludes a license agreement with any other third party with respect to nitric oxide-releasing derivatives of acetylsalicylic acid, the Company is committed to refund to Bayer the €511,000 used to fund the agreed-upon package of studies under the agreement.

15.5 Contracts relating to the research of partnerships

The Company has entered into contracts with certain consulting companies for an assistance in the reach for partners and the negotiation of license agreements on certain pharmaceutical products. In compensation for these services, the Company committed to pay a certain percentage of the revenues generated by the contracts obtained, within the limit of a certain maximum amounts. The maximum aggregate amount of the commissions due under these contracts is €6,300,000 (at the exchange rate of 31 December 2003 for the amounts in USD).

15.6 Securities

In April 2000, a bank guarantee, on behalf of the Company, in an amount of €67,000 was implemented in favour of the tax collection office of Valbonne, to enable the reimbursement of the VAT of the third quarter of 1999. As a warranty, the Company has granted a pledge to Credit Lyonnais, in an amount of €100,000 for a 2 year period, on a deposit account in which marketable securities are registered. This pledge was not released as of 31 December 2003, due to the lack of formal authorization from the French Tax Authority.

In March 2003, a pledge in an amount of €263,000 was implemented further to the request of the Italian tax administration to guarantee the payment of the VAT accounts receivable that the Company was owed as of 31 December 2002 by the Italian authority, through its tax representative in Italy. This bank guarantee has been implemented for a 5 year period.

15.7 Other contracts with undetermined financial impact

The Company also signed a certain number of contracts with service providers, notably for the development of synthesis methods of NicOx compounds. These agreements provide for an obligation for NicOx to utilize these companies for the supply of compounds, or, as an alternative, to make compensation payments. As of 31 December 2003, the financial impact of these commitments for NicOx is not determined.

16. RELATED PARTIES DISCLOSURES

As of 31 December 2003, the Company accrued an amount of €175,000 for directors' presence fees to be paid to certain Board members.

The Company granted warrants to certain Directors and Scientific Advisory Board members. These warrants are further described under note 7.2 and note 11.

The Board authorized in December 2002 the signature of a collaboration agreement with Biolipox, a Swedish research company with which the Company has two board members in common. This agreement, that was executed in January 2003, supersedes and replaces the preceding agreement entered into in June 2001, and aims to develop new pharmaceutical products with NO-donors to treat respiratory diseases and other indications. This agreement generated no revenue during 2002 and 2003.

In October 1999, the Company entered into an agreement with the University of Calgary for sponsoring a research Chair in the name of a shareholder of the Company over a period of five years. The parties have decided jointly to terminate this agreement during 2003. In 2003, the expense relating to this agreement amounted to €13,000.

Since 1998, the Company has entered into research and development agreements for the completion of certain pre-clinical studies with Altapharm, a Canadian company having a shareholder in common with NicOx S.A., said shareholder being in other respect member of the Company Scientific Advisory Board. The expense relating to these agreements amounted respectively to €68,390, €106,000 and €52,000 in 2001, 2002 and 2003. As of 31 December 2003, the minimum amount remaining to be paid pursuant to these agreements is €41,000.

17. SEGMENT INFORMATION

The Company operates in one segment, the research on pharmaceutical products with a view to future commercial developments. The major part of its assets, depreciation and operating loss is located in France, except for property and equipment, in particular laboratory equipment, which are located mainly in Italy.

In 2003, 100 % of the Company's revenues were generated with Axcan, a Canadian partner. This client represent 100 % of accounts receivable as of 31 December 2003.

In 2002, 81.5 % of the Company's revenues were generated with AstraZeneca Plc, an English partner, and 18.5 % with Axcan, a Canadian partner. These two clients represent respectively 0 % and 100 % of accounts receivable as of 31 December 2002. The Company did not recognize revenues in 2001.

Statutory auditors' report on the consolidated financial statements

For the year ended 31 December 2003

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. The statutory auditors' 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 consolidated financial statements. This information includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated 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.
This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

In compliance with the assignment entrusted to us by your shareholders' meeting, we have audited the accompanying consolidated financial statements of NicOx SA for the year ended 31 December 2003.

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

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

In our opinion, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and results of the consolidated group of companies in accordance with the accounting rules and principles applicable in France.

II - Justification of our assessments
In accordance with the requirements of article L. 225-235 of the French Company Law (Code de Commerce) relating to the justification of our assessments, introduced by the Financial Security Act of 1st August 2003 and which came into effect for the first time this year, we bring to your attention the following matters:

Accounting policies and methods:
Note 2.3 to the financial statements sets out the accounting treatment adopted and applied in regards to the patent relating to the NCX 4016 component that was acquired by the company.

Note 2.11 to the financial statements sets out the accounting policies and methods applied in relation to operating income, and in particular as regards royalties received for patent licenses.

Within the scope of our assessment of the accounting principles and policies applied by your company, we verified the appropriateness of the accounting policies described above and the information provided in the notes to the financial statements, and ensured that such policies were applied correctly.

Accounting estimates:
Your company recognises provisions to cover the risk of the non-utilisation of component inventories, as discussed in note 2.6 and note 5 to the financial statements.

Within the scope of our assessment of the significant estimates made by management, we held discussions with the company's operational managers and, in regards to non-compliant, nitrate by-products past their use-by date, carried out tests on those items written down in order to ensure that the assumptions used by the company as of year-end were appropriate. We ensured that these assumptions and the resulting estimates were reasonable.

The assessments were made in the context of our audit of the consolidated financial statements, taken as a whole, and therefore contributed to the formation of the unqualified 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, on April 16th, 2004

The Statutory Auditors

PricewaterhouseCoopers Audit

Philippe Willemin
Partner

Ernst & Young Audit

Anis Nassif
Partner

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