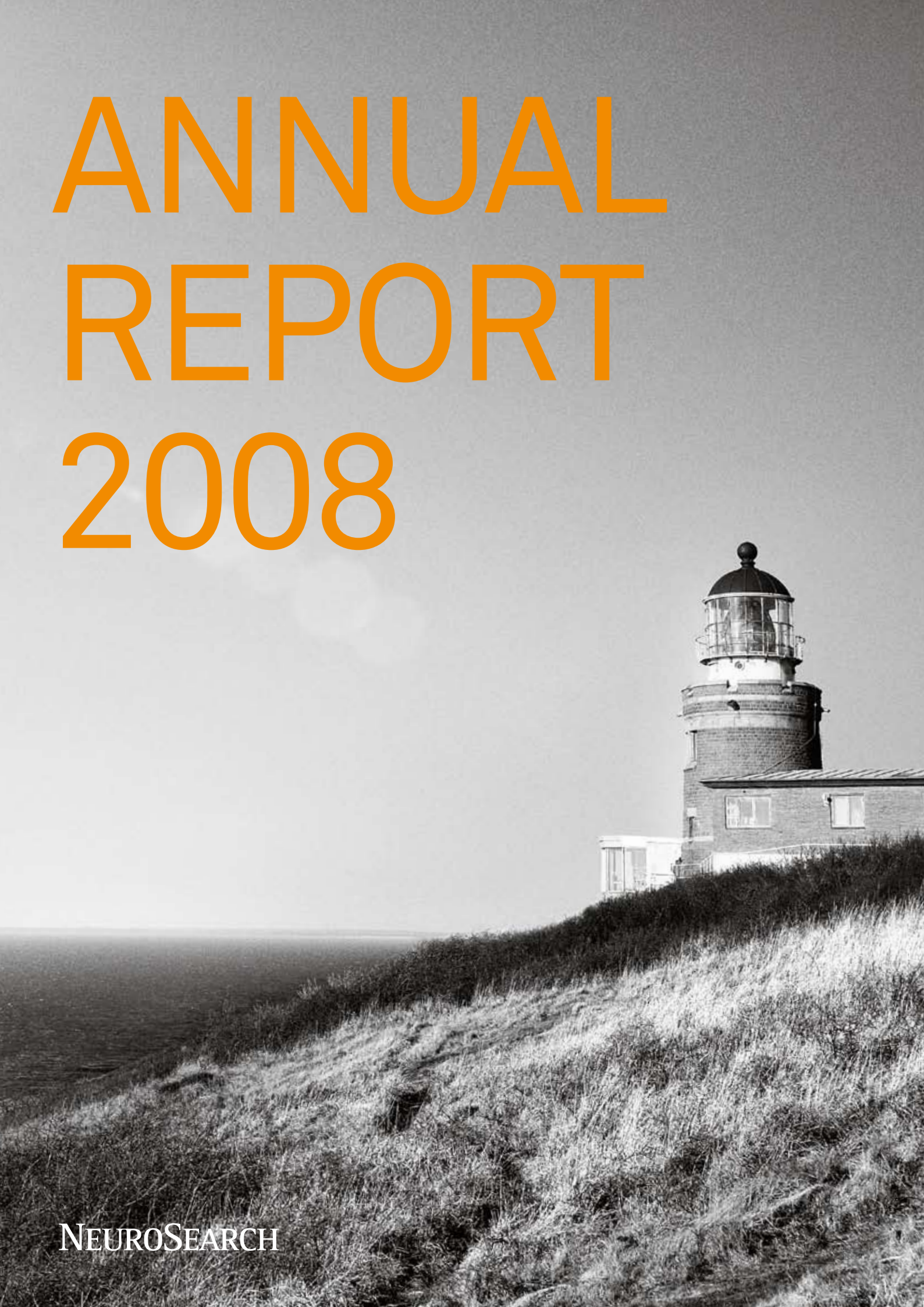
ANNUAL REPORT 2008



NEUROSEARCH

Frontpage: Lighthouse in Kullen placed between NeuroSearch's domicile in Ballerup and Gothenburg

Table of contents

TO OUR SHAREHOLDERS, EMPLOYEES AND OTHER STAKEHOLDERS

In the year 2008, NeuroSearch initiated its first pivotal Phase III development programme with ACR16 for the treatment of Huntington's disease, thus taking a very important step closer to the market launch of our first product. We consider the potential within Huntington's disease to be extremely attractive and expect that ACR16 will improve the quality of life of Huntington patients and their relatives. We also successfully moved other NeuroSearch products forward, not least tesofensine for the treatment of obesity, for which we continually through the year improved the foundation for initiating Phase III studies.

However, most people will probably remember 2008 as "the year of the financial crisis". A year in which the financial systems broke down, large banks disappeared and governments all over the world had to step in with significant financial rescue packages.

In the broad perspective, pharmaceutical companies are not particularly sensitive to cyclical fluctuations, and NeuroSearch's business and potential have not been directly affected by the financial crisis and its consequences, except for the effect on the equity markets.

At NeuroSearch, we mainly felt the effects of the crisis in a 58% drop in the price of our shares in 2008 in line with the generally sharp downturn seen in equity markets worldwide. The fall in share prices was partly a consequence of the fact that some shareholders have chosen or been forced to sell out of their equity holdings to obtain cash. However, we are pleased to see that our shareholder base of some 20,000 shareholders remains intact and that our biggest shareholders have decided to keep their NeuroSearch shares. Some investors have even found reasons to increase their holdings.

In light of the financial crisis, we are even more focused on keeping NeuroSearch in a strong financial position which can ensure full manoeuvrability. In late 2007, we successfully completed one of the largest equity offerings ever in the European biotech industry. The proceeds, about DKK 730 million, have since then given us sufficient capital to make the right investments in our product pipeline while also providing a financial buffer for our negotiations with potential partners. We have also chosen to continue to pursue a highly focused partnering strategy in a number our drug discovery and development programmes, a strategy that has already led to new partnerships and licence revenues at the beginning of 2009.

In early 2009, we had to realise that two of the products licenced to external partners, ABT-894 (Abbott) and NS2359 GlaxoSmithKline (GSK), did not meet expectations, and the development within the chosen indications were closed down. This underlines the importance of our strategy of developing a broad pipeline, of risk sharing and of having strong financial resources in order to be able to "afford" the unavoidable steps backwards inherent in drug development.

Our goal is to have our first drug on the market in 2011 and thereby lift NeuroSearch from its current status as a capital-consuming company and turn it into a company that generates sizeable earnings and a cash inflow. Given this aim, developments in our pipeline were satisfactory.

I would like to highlight the following:

- For the first time in the history of NeuroSearch, we initiated a Phase III clinical programme in April 2008 which will lead to our first application for product registration. This was done with the initiation of pivotal studies both in Europe and the United States of our specialist product, ACR16, for the treatment of Huntington's disease. We plan to enroll a total of 640 Huntington patients in the Phase III programme, which is one of the largest ever in this disease area. If the results are positive, we will begin global registration of ACR16 as one of the first drugs for the treatment of Huntington's disease.

  All of us who work at NeuroSearch hope that we can bring ACR16 to market as early as possible and thus help improve the quality of life of the people affected by this severe disease. Both NeuroSearch and external analysts believe that ACR16 has a very attractive commercial potential, so our preferred plan is to market the product ourselves and thus keep the full value within NeuroSearch.

- Obesity is a rapidly growing global health concern: a condition that leads to a number of serious diseases and deterioration in quality of life and thus puts a great deal of pressure on health systems worldwide. At NeuroSearch, we generated additional good results in 2008 with tesofensine for the treatment of obesity and readied the product for Phase III development. At the turn of the year, we began talks with the health authorities in the United States and Europe regarding further development of tesofensine, which we are confident

"I would like to thank our employees and shareholders for their solid commitment throughout 2008"

represents one of the world's best anti-obesity drugs in late-stage development. Because developing and marketing such a product is a large-scale project, our goal is to find a partner for the further development and marketing of the product.

It is necessary for us to base our plans on success, so we began setting up a marketing organisation during the year, preparing for the expected launch of ACR16. We have also strengthened our Board of Directors with competent new members who have a significant development and commercial experience from the international pharmaceutical industry.

Within the coming year, we will potentially have our first product in the registration phase and tesofensine in pivotal Phase III development, which is a unique achievement for a company of NeuroSearch's size. The new year has already brought many important events for us and our shareholders, and further in 2009 we expect to publish a number of very important releases in relation to our product pipeline and the formation of new partnerships.

Flemming Pedersen
CEO

NEUROSEARCH IN BRIEF

NeuroSearch's main goal is to build up a pharmaceutical company with sales of own products within selected disease areas

NeuroSearch is a listed biopharmaceutical company focusing on the discovery, development and commercialisation of new and better drugs targeting disease areas for which the existing treatment options are insufficient. NeuroSearch has a defined goal of developing drugs which can improve the quality of life of patients and their relatives and thereby develop a pharmaceutical company that is an attractive business.

The basis for our work to develop new drugs is extensive knowledge and expertise in modulating ion channels and monoamine systems in the brain.

NeuroSearch's work is primarily focused on disorders in the central nervous system (CNS), a field in which we have built significant competencies. CNS diseases involve the fields of psychiatry and neurology. Among other things, NeuroSearch is working to find new and better drugs for the treatment of depression, Huntington's disease, ADHD, anxiety, psychoses, Alzheimer's disease, pain, Parkinson's disease and epilepsy. However, NeuroSearch's work has also led to R&D projects related to other major disease areas such as obesity, immune diseases, urinary incontinence and lung and heart diseases.

NeuroSearch's main goal is to build up a profitable pharmaceutical company with sales of own products within selected disease areas. As part of this process, NeuroSearch plans to handle the development and marketing inhouse of ACR 16, which is in Phase III development for the treatment of the serious, hereditary disease, Huntington's disease.

As another important part of its business model, NeuroSearch enters into licence agreements with international pharmaceutical companies for the development and marketing of drugs that target major disease areas and thus require considerable development and commercial resources. Partnerships also provide funding and contribute to a more rapid value growth in the product pipeline, since they enable more development activities to be initiated and run at the same time.

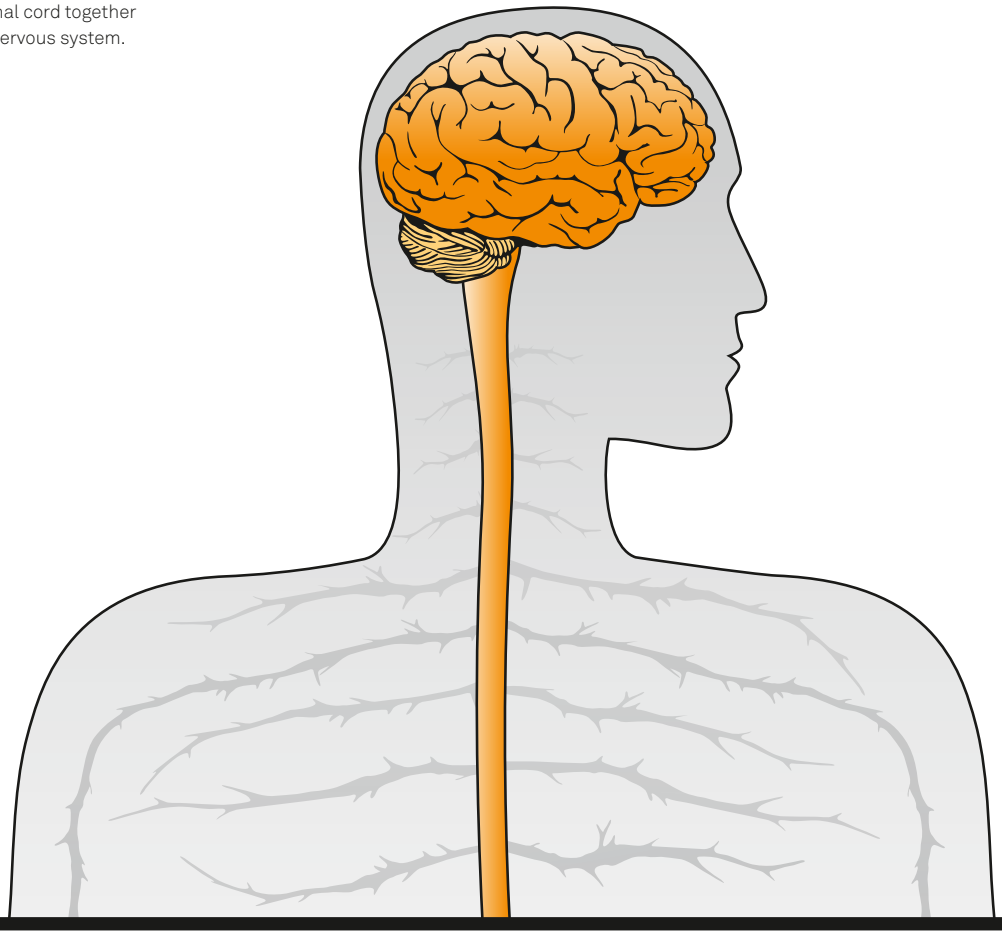
NeuroSearch's product pipeline comprises 13 development programmes with new drug candidates within both specialist indications and large disease areas.

The main part of the development programmes are covered by collaboration and licence agreements.

In addition to its main focus on drug development, NeuroSearch has since its inception contributed to the establishment of new biotech companies through the transfer of intellectual property rights to promising discoveries and activities outside NeuroSearch's core business area. In this manner, NeuroSearch has created value in the form of equity interests in these companies.

Central nervous system – CNS

The brain and the spinal cord together make up the central nervous system.



NEUROSEARCH HAS BUILT UP A SIGNIFICANT PIPELINE OF CURRENTLY 13 NEW DRUG PRODUCTS IN DEVELOPMENT MOST OF WHICH ARE FUNDED THROUGH PARTNERSHIPS

NeuroSearch facts

- Listed on the Nasdaq OMX Copenhagen (NEUR)
- Head office at Ballerup, Denmark and subsidiary in Gothenburg, Sweden – 237* employees
- Broad pipeline of new development programmes most of which are funded through partnerships
- One product is in pivotal Phase III development: ACR16 (Huntington's disease)
- One more product has been readied for Phase III development: Tesofensine (obesity)
- Wide and productive R&D platform within CNS, ion channels and monoamine systems
- Collaboration and licence agreements with GlaxoSmithKline, Eli Lilly and Abbott
- Over the past three years, nine new drug candidates have been generated from the drug discovery programmes and progressed into development
- Market capitalisation: DKK 2.1 billion*
- Capital resources: approximately DKK 482 million*
- Total funding since inception of approximately DKK 2 billion*
- Historical revenues from collaboration and licence agreements with pharmaceutical companies of more than DKK 1.3 billion*
- Co-ownership of six other biotech companies: NsGene A/S, Sophion Bioscience A/S, Atonomics A/S, Bavarian Nordic A/S, ZGene A/S and PainCeptor Pharma Corporation Inc.

* As of 31 December 2008

NeuroSearch Group structure

Parent company	100% owned subsidiaries	Ass. companies and other investments
NeuroSearch A/S	**NeuroSearch Sweden AB**	**Sophion Biosience A/S** (equity interest 30.1%)
	Poseidon Pharmaceuticals A/S	**NsGene A/S** (equity interest 25.9%)
	NsExplorer A/S	**ZGene A/S** (equity interest 20.9%)
	NeuroScreen ApS	**Atonomics A/S** (equity interest 18.8%)
		Painceptor Pharma Corporation Inc. (equity interest 2.3%)
		Bavarian Nordic A/S (equity interest 1.3%)

Significant pipeline news in 2008

February	Tesofensine – Obesity Positive results from TIPO-2, a clinical metabolic study in overweight subjects showing significant weight loss
March	Tesofensine – Obesity A complete analysis of data from TIPO-1 (a Phase II clinical Proof of Concept study) NSD-788 – Anxiety Initiation of Phase I clinical study
April	ACR16 – Huntington's disease Treatment of the first Huntington patients in MermaiHD, a European Phase III clinical study and, thus, start-up of a comprehensive pivotal Phase III programme for ACR16
June	ABT-894 – ADHD (being developed by Abbott under a licence agreement with NeuroSearch) Positive Proof of Concept results from a Phase II study of ABT-894 for the treatment of adults suffering from ADHD ACR325 – Parkinson's disease Decision to continue the clinical development of ACR325 in Parkinson's disease following successful Phase I evaluation
July	Tesofensine – Obesity Positive mid-term results from TIPO-4 (a 48-week Phase II extension study of TIPO-1) ACR16 – Huntington's disease FDA approval for start-up of HART, a US Phase IIb clinical study as part of the pivotal Phase III development programme NSD-847 – Psychoses NSD-847 is a new dopaminergic stabiliser selected as a new development candidate for the treatment of psychoses
August	Tesofensine – Obesity Positive results from an abuse liability study
October	Tesofensine – Obesity Publication of TIPO-1 results in peer reviewed scientific journal The Lancet ACR16 – Huntington's disease Start-up of the HART study with treatment of the first Huntington patients in the United States and Canada
November	Tesofensine – Obesity Positive results from a cardiovascular evaluation study supporting tesofensine's good safety profile

MISSION

AT NEUROSEARCH, WE WORK DEDICATEDLY TO ACHIEVE EXCELLENT RESULTS WITHIN INNOVATION AND THE COMMERCIALISATION OF UNIQUE AND LIFE-IMPROVING PHARMACEUTICALS. OUR CORE BUSINESS FOCUSES ON BETTER TREATMENTS FOR CENTRAL NERVOUS SYSTEM DISORDERS AND SELECTED SOMATIC DISEASES, PRIMARILY THROUGH THE MODULATION OF ION CHANNELS AND MONOAMINE TRANSPORTERS

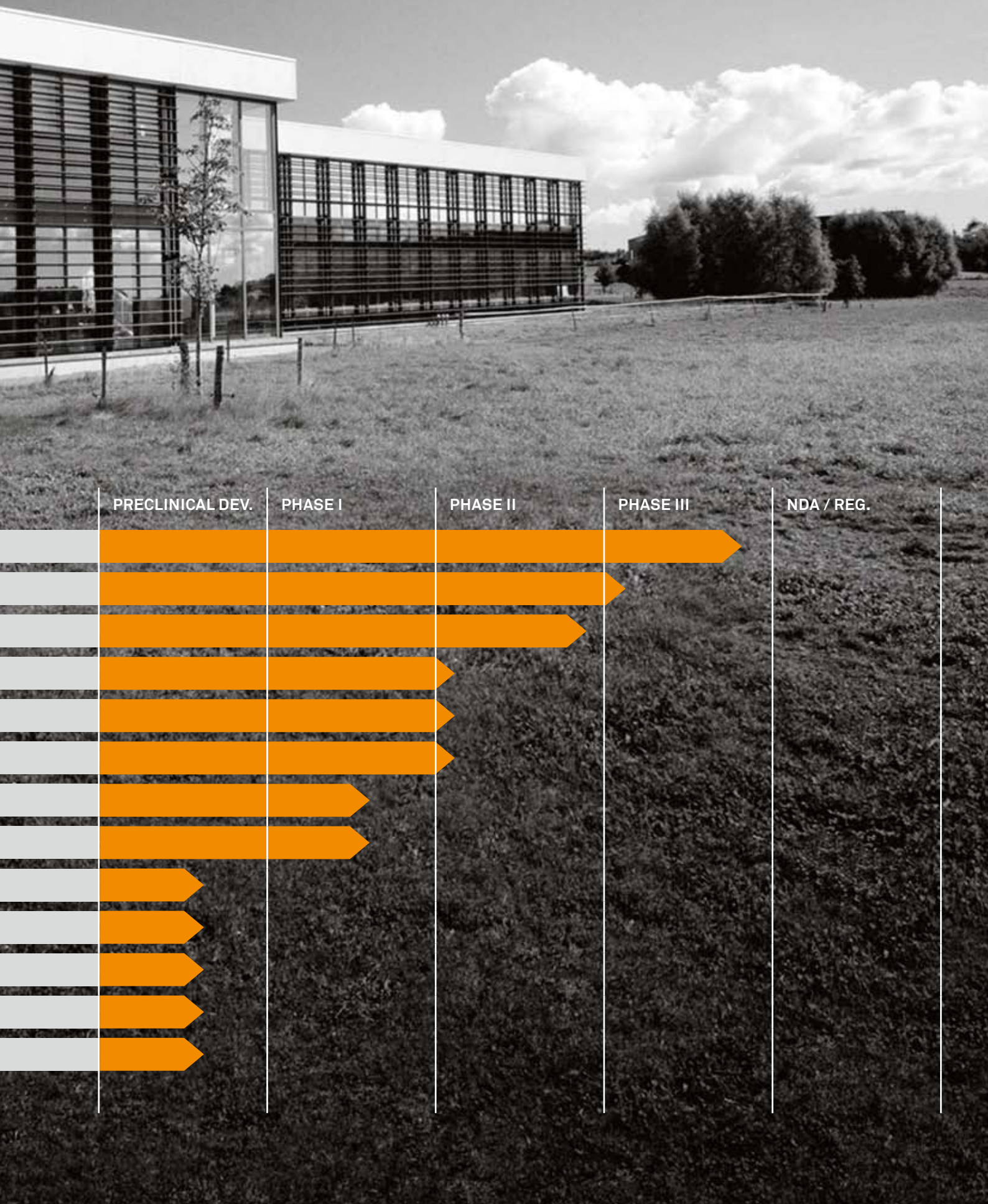
VISION

NEUROSEARCH AIMS TO BE A PROMINENT AND SUSTAINABLE BIOPHARMACEUTICAL COMPANY BASED ON THE DISCOVERY, DEVELOPMENT AND MARKETING OF NEW DRUGS INTENDED TO BE OF SIGNIFICANT BENEFIT TO PATIENTS. WE WISH TO FORM THE BASIS FOR EXCELLENT RESULTS AND CONSTANT PROGRESS IN ALL ASPECTS OF OUR BUSINESS THROUGH AN INSPIRING, DYNAMIC AND GIVING WORKING CLIMATE GRANTING A MAXIMUM DEGREE OF FLEXIBILITY AND RESPONSIBILITY TO EACH EMPLOYEE

PIPELINE

INDICATION	PROGRAMME	MECHANISM	PARTNER
HUNTINGTON'S DISEASE	ACR16	Dopaminergic stabil.	
OBESITY	Tesofensine	MRI	
ADHD	ABT-894	NNR modulator	Abbott
DYSKINESIAS IN PARKINSON'S	ACR325	Dopaminergic stabil.	
SCHIZOPHRENIA	ACR343	Dopaminergic stabil.	
COGNITIVE DYSFUNCTIONS	ABT-560	NNR modulator	Abbott
ALZHEIMER'S DISEASE/SCHIZOPHRENIA	ABT-107	NNR modulator	Abbott
ANXIETY	NSD-788	MRI	
PAIN	NSD-721	GABA modulator	GSK
AUTOIMMUNE DISEASES	NSD-726	Ion channel modulator	GSK
SCHIZOPHRENIA	NSD-761	Ion channel modulator	GSK
PSYCHOSIS	NSD-847	Dopaminergic stabil.	GSK
ADHD	NSD-867	Cortical enhancer	GSK

NeuroSearch's pipeline comprises 13 development programmes for new pharmaceutical products that have all been generated through the company's own research and development. Out of the 13 programmes, eight are in clinical development (Phases I-III) and five have been selected with a view to initiating clinical studies of these candidates sometime in 2009 and the first part of 2010.



Financial highlights for the Group (DKK million)

	2004	2005	2006	2007	2008
Income statement:					
Revenue	122.3	176.5	66.3	115.2	66.8
Research costs	140.7	159.6	172.3	200.4	216.8
Development costs	21.3	17.6	54.8	131.7	176.9
Operating profit/(loss)	(62.0)	(22.3)	(186.7)	(253.5)	(366.0)
Financials	58.6	22.9	(25.5)	(41.3)	(49.9)
Profit/(loss) before taxes	(3.3)	0.6	(212.2)	(294.7)	(415.9)
Net profit/(loss)	(3.3)	0.6	(212.2)	(268.4)	(382.0)
Balance sheet:					
Total assets	656.1	633.0	1,267.5	1,780.6	1,245.8
Cash and cash equivalents and equity interests	436.9	403.4	387.0	845.3	453.4*
Equity	416.5	408.0	657.7	1,121.4	844.1
Investments in property, plant and equipment	14.8	13.0	12.9	15.7	50.3
Per share ratios (DKK):					
Earnings per share	(0.43)	0.07	(24.17)	(21.17)	(24.47)
Diluted earnings per share	(0.43)	0.07	(24.17)	(21.17)	(24.47)
Net asset value	53.81	51.71	53.38	73.57	53.61
Market price at year-end	235.0	171.5	321.5	326.0	136.0
Market price/net asset value	4.37	3.32	6.02	4.43	2.54
Average number of employees	175	185	199	230	242

* Capital resources, including unused credits, total approximately DKK 481.5 million, of which listed shares account for approximately DKK 13.2 million.
The ratios are stated in accordance with "Recommendations and Financial Ratios" issued by the Danish Society of Financial Analysts.

IMPORTANT STEP ON THE ROAD TOWARDS PRODUCT LAUNCH – AND CONTINUED FOCUS ON PIPELINE GROWTH

In 2008, NeuroSearch took a very important step towards attaining its primary goal:

To develop and market new and better pharmaceuticals for the benefit of patients and their relatives and thereby develop a profitable and successful pharmaceutical company.

First product launch planned for 2011

This was primarily achieved with the initiation of the pivotal clinical Phase III for ACR16, which is being developed as a new drug for the treatment of Huntington's disease, a severe hereditary disease for which no effective treatment is currently available. NeuroSearch holds all commercial rights to ACR16, and as Huntington's disease is a specialist indication, NeuroSearch plans to bring the product to market itself through a limited sales force and thereby retain the full value to the company. As part of these plans, NeuroSearch began to build up a focused sales and marketing organisation in 2008. The current Phase III studies for ACR16 are expected to be completed by the end of 2009.

A comprehensive data package for tesofensine will lead to the start-up of Phase III studies in 2009

For tesofensine for the treatment of obesity, several clinical studies were completed with positive results, which contributed further to strengthening the extensive data package which is to lead to the start-up of the Phase III in 2009.

With NS2359, which is being developed under a licence agreement with GSK, we did not obtain the desired results within depression and further development for this indication has been stopped.

ABT-894, which is being developed under NeuroSearch's collaboration with Abbott, showed favourable results in a Phase II study in adults with ADHD. ABT-894 has also been evaluated in Phase II studies for the treatment of pain. The results here of were published in February 2009 and showed that ABT-894 did not demonstrate sufficient efficacy. Abbott has therefore decided to discontinue further development within this indication.

NeuroSearch initiated a number of new clinical studies in 2008 and further we selected two compounds for preclinical development: NSD-847 for the treatment of psychoses and NSD-867 for the treatment of ADHD. Both development candidates are part of the portfolio of programmes under the development and licence agreement with GSK. The maturing of the product pipeline continued, and the 13 development programmes represent a very valuable portfolio of drug candidates.

NEUROSEARCH'S BUSINESS MODEL AND STRATEGY – IMPORTANT INITIATIVES IN 2008

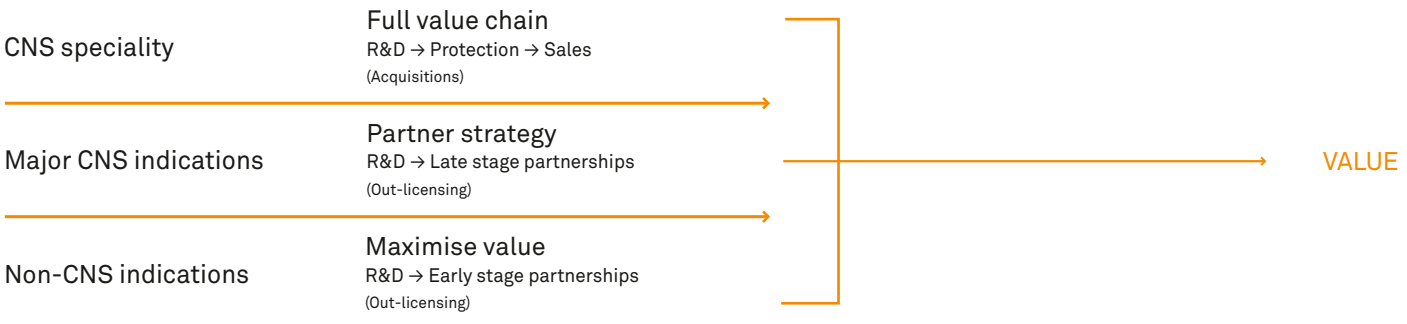
We have three business areas which, in combination, will ensure optimal value creation in NeuroSearch – now and in the future

NeuroSearch's goal is to create a strong and profitable business based on a unique drug discovery platform, especially within ion channels and signalling systems in the brain, combined with substantial knowledge to diseases in CNS. On this basis, we have defined three business areas which, in combination, shall ensure optimal value creation in NeuroSearch. The three business areas and their respective products and activities are shown in the figure below.

CNS speciality products (inhouse development and marketing)
It is NeuroSearch's goal to build a profitable business area based on the development and sale of new drugs targeting less widespread CNS diseases with better treatment options are greatly needed and there is thus an attractive commercial potential. Specialist drugs can typically be developed faster and at lower cost, and marketing can be handled by a relatively small sales force, as treatment primarily takes place at hospitals and specialist clinics. In this business area, NeuroSearch intends to handle either the full or the main part of the development and marketing of new products without a partner and thus keep the full value chain inhouse.

NeuroSearch's business model

CURRENT BUSINESS AREAS



ACR325 has been selected to become our next specialist product

In 2008, this business area achieved important progress with ACR16 as NeuroSearch's first specialist product with prospects of reaching the market in 2011. Also for ACR325, the next specialist product in the pipeline, we have defined a clear strategy with focus on dyskinesia related to Parkinson's disease. The first studies in Parkinson patients are expected to be initiated in the first half of 2009.

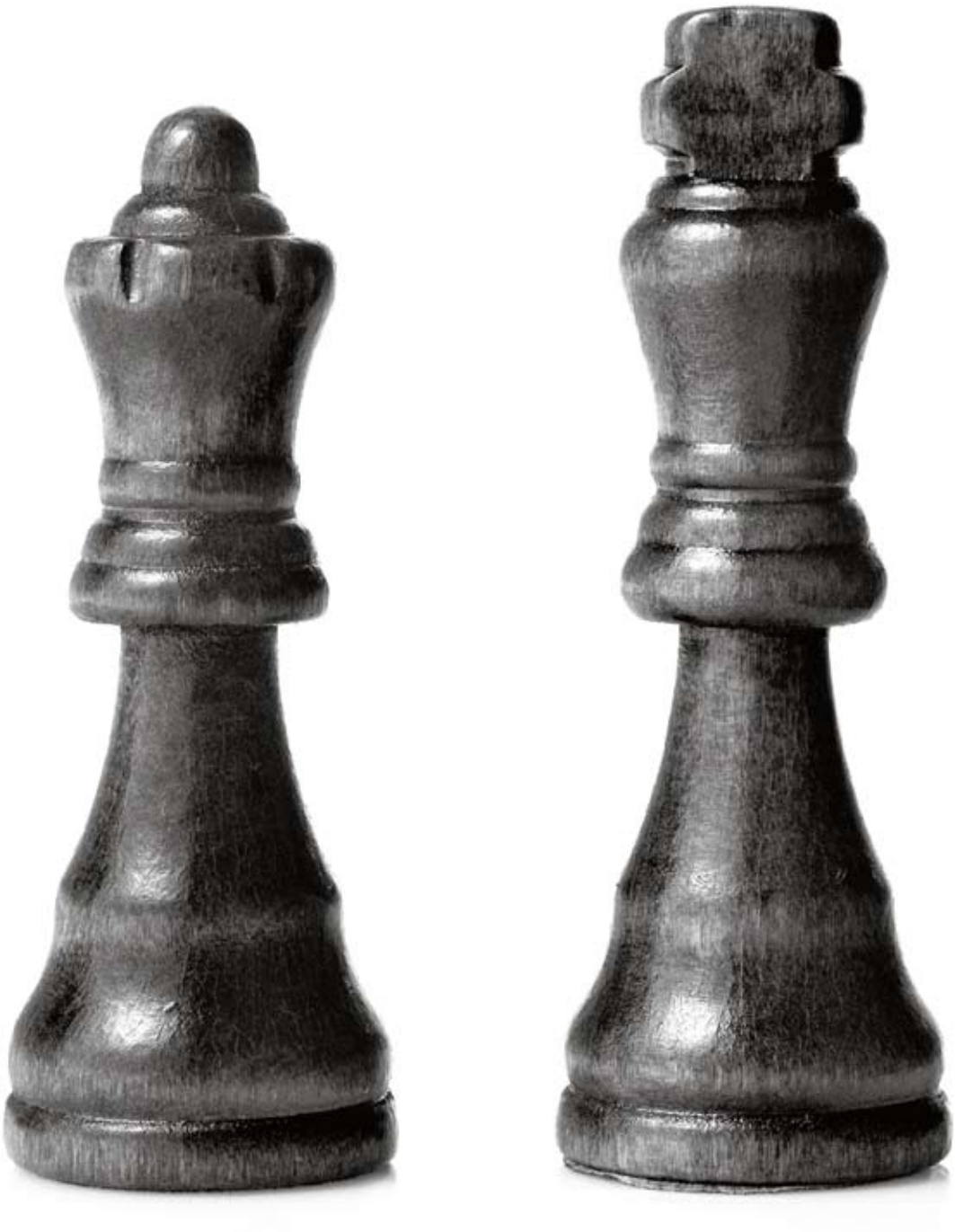
To prepare the launch in 2011 of ACR16, NeuroSearch appointed an executive in charge of sales and marketing and began building a minor marketing organisation in 2008.

Products targeting major CNS disorders (late-stage partnerships)
Product candidates aimed at the treatment of major CNS disorders such as anxiety, dementia and obesity require extensive clinical studies and substantial resources for product launch and sales. NeuroSearch will therefore continously seek to reduce the development risk in this area and to procure funding and earnings through licence agreements with major pharmaceutical companies in connection with pivotal studies and prior to marketing activities.

Products for the treatment of other diseases (early-stage partnerships)
Through the many years of work with ion channels, NeuroSearch has built up substantial competencies and knowledge that reach beyond the CNS field. We now have research programmes in areas such as inflammatory disease, urinary incontinence and cardiac arrhythmia, which all saw promising progress in 2008. In these non-CNS areas, NeuroSearch is seeking partnerships at earlier development stages to attain access to technology and competences.

Strategic and financial goals
NeuroSearch has intensified its focus on maintaining solid financial resources to ensure continued progress and value creation in its product pipeline without being forced to raise new capital in the equity market:

- NeuroSearch will develop and market its own specialist products with the prospect of the first sales revenues in 2011 and generation subsequent earnings
- NeuroSearch believes that ACR16 represents substantial value and therefore it remains unchanged to retain all rights for the indication of Huntington's disease and thus to maximise shareholder value in the long term. However management is convinced that the product could thus form the basis for an attractive licence agreement which could procure substantial funding for NeuroSearch at short term. Still management at all time evaluates this strategy regarding ACR16 and will in this concern act in the best interest of the company
- NeuroSearch seeks to licence tesofensine for the treatment of obesity to a pharmaceutical partner in connection with initiating Phase III programmes
- NeuroSearch continues to seek drug discovery and development alliances to secure funding and partnerships for a substantial share of the company's drug discovery and development. As an examples hereof agreements with GSK and Eli Lilly have been entered in the beginning of 2009.



COLLABORATION AND LICENCE AGREEMENTS

New CNS alliance with Eli Lilly

New expanded agreement with GlaxoSmithKline

NEW AGREEMENT HAS INCREASED THE NUMBER OF PRODUCTS IN DEVELOPMENT UNDER THE ALLIANCE WITH GLAXOSMITH-KLINE

The end of 2008 saw the expiry of the five-year drug discovery alliance (2003-2008) which NeuroSearch had with GSK within CNS disorders and ion channels, and which included a number of NeuroSearch's drug discovery programmes. The outcome of the drug discovery alliance has been very positive and a number of new drug candidates have been identified and selected for further development under the terms of the alliance.

Following the completion of the drug discovery phase of the alliance, GSK also continued the development of NS2359 in Phase IIb for the treatment of depression. In February 2009, NeuroSearch announced the results from the studies showing that treatment with NS2359 did not have a sufficiently favourable treatment effect and that further development within depression was stopped. GSK is now considering other potential development options NS2359.

In January 2009, NeuroSearch and GSK announced a new alliance which added additional compounds to the joint portfolio of drug candidates that will be continuing under the alliance. Following this expansion, the portfolio under the alliance now include NS2359, under consideration by GSK for new development options, preclinical drug candidates and a number of compounds which have been characterised as potential development candidates but which have not yet been moved to the development stage.

When the agreement was signed, NeuroSearch received an undisclosed initial payment, and the new agreement further includes a conditional share put option to NeuroSearch to sell new NeuroSearch shares to GSK at market price for a total of up to DKK 149 million (EUR 20 million) until the end of November 2010.

NeuroSearch may exercise the option in four equal tranches in connection with the start up of Phase I studies of drug candidates from the portfolio under the alliance.

Overall, NeuroSearch can potentially receive milestone payments from GSK totalling more than DKK 6 billion and double-digit royalties on GSK's global sales of each marketed product under the alliance.

In respect of the aggregate portfolio of drug candidates, NeuroSearch is responsible for preclinical development as well as early clinical development through Phase IIa Proof of Concept studies, whilst GSK is responsible for late-stage development as well as production and commercialisation. For each drug candidate selected for clinical development under the alliance, NeuroSearch will receive milestone payments throughout the development stage beginning upon initiation of Phase I clinical development and even earlier for the product candidates added to the partnership through the new agreement. For each product successfully developed, NeuroSearch will receive DKK 812 million in milestone payments until the product reaches the market and double-digit royalties on GSK's global sales.

LICENCE AGREEMENT WITH ABBOTT FOR THE DEVELOPMENT OF NEURONAL NICOTINIC RECEPTOR MODULATORS (NNR)

NeuroSearch collaborates with Abbott on the development of a number of drug candidates that can impact neuronal nicotinic receptors, making up a specific ion channel field. Abbott has three products in development under the agreement: ABT-894 in Phase II for the treatment of ADHD as well as ABT-107 and ABT-560, both of which are in Phase I development.

Under the agreement, Abbott is responsible for and funds the clinical development and commercialisation of the products under the agreement, and NeuroSearch is entitled to milestone payments and royalties on Abbott's global sales.

NEUROSEARCH IN NEW THREE-YEAR, CNS-FOCUSED RESEARCH AND DEVELOPMENT ALLIANCE WITH ELI LILLY

In February 2009, NeuroSearch signed an agreement with Eli Lilly to form a three-year drug alliance for the discovery and development of new drugs focusing on CNS disorders. The agreement is fully in line with our strategic objective of strengthening the inflow into the drug pipeline and ensures risk sharing as well as additional funding of the company's drug discovery and development activities. The alliance covers a defined number of undisclosed ion channel targets from NeuroSearch's drug discovery programmes and will comprise patent rights and know-how from both NeuroSearch and Eli Lilly.

The aim of the alliance is to discover and develop new and better pharmaceuticals based on new knowledge within specific ion channel modulation and primarily targeting the treatment of neurological and psychiatric disorders.

Under the terms of the agreement, NeuroSearch is eligible to receive upfront fees and research funding from Eli Lilly of up to DKK 175.1 million (USD 30 million) during the first three years of the alliance, and of which DKK 128.4 million (USD 22 million) was paid up front. Hereof, DKK 99.2 million (USD 17 million) is in the form of an equity investment by Eli Lilly comprising 530,745 new shares in NeuroSearch issued and subscribed at an agreed price of DKK 187 per share. The subscription price was agreed to be equivalent to the average closing price of NeuroSearch's shares for the 30 trading days prior to signing the agreement plus an agreed, undisclosed premium.

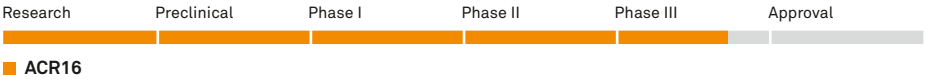
The agreement with Eli Lilly provides that NeuroSearch will be responsible for the drug discovery programmes under the alliance and potentially for early development of new drug candidates. Eli Lilly has various options to exercise licence rights to the individual compounds covered by the agreement as well as to related intellectual property. Upon exercise of licence rights, Lilly will be responsible for all subsequent development and commercialisation activities. For each product developed and marketed under the alliance, NeuroSearch will be entitled to milestone payments of up to DKK 1.87 billion (USD 320 million) and royalty payments on Eli Lilly's global sales.

When the alliance with Eli Lilly was announced, Flemming Pedersen, CEO of NeuroSearch commented:

"We are very proud to have agreed on this broad based collaboration with Lilly for the discovery and development of new and better medicines based on novel approaches to ion channel modulation – being one of NeuroSearch's core areas of expertise. Our collaboration is structured to secure both a balanced risk sharing and very attractive long term revenue, if our efforts are successful, as well as significant near term financing to NeuroSearch"

HUNTINGTON'S DISEASE

NEUROSEARCH DEVELOPS ACR16 AS A NOVEL AND SPECIFIC TREATMENT OF HUNTINGTON'S DISEASE



ACR16 has demonstrated highly promising effects on a number of severe symptoms related to Huntington's disease.

NeuroSearch holds all rights to ACR16, which has received "Orphan Drug" designation from the health authorities in both the United States and Europe.

Phase III programme: MermaiHD and HART
The current Phase III programme for ACR16 comprises two studies: MermaiHD in Europe and HART in the United States/ Canada.

MermaiHD was initiated in April 2008 and is a randomised, double-blinded, placebo-controlled Phase III study expected to enrol up to 420 patients with Huntington's disease. The study is being conducted at more than 25 centres in eight European countries. Patients in the study receive daily doses of either placebo or ACR16 (45 mg or 90 mg) over a period of six months.

HART is also a randomised, double-blinded and placebo-controlled study. The study is expected to enrol up to 220 patients who will be treated for three months with daily doses of either placebo or ACR16 (10 mg, 22.5 mg and 45 mg) – all twice a day. HART spans over about 25 centres in the United States and Canada.

Both MermaiHD and HART are progressing according to plan and are expected to be completed in 2009.

The primary endpoint for both studies is to improve the adverse motor symptoms (loss of motor skills) that Huntington patients experience such as Parkinsonism, gait stiffness and balance impairment. It has been demonstrated that these adverse motor symptoms are closely linked to the gradual functional decline in these patients, and the primary endpoint of the studies has been accepted to be of significant importance to the measurement of state of disease by both health authorities and clinical organisations. Secondary endpoints of the studies include an assessment of the general improvement in patients and the influence of the drug on behaviour, attention, depression symptoms and anxiety, in addition to an assessment of the safety and tolerability of ACR16.

HUNTINGTON'S DISEASE

Huntington's disease is a fatal hereditary disease caused by a faulty gene on chromosome 4. It is estimated that one out of 10,000 persons has Huntington's disease in Europe and North America, and worldwide the total number of Huntington patients is believed to total up to 100,000.

The disease is present from birth and causes a number of serious disorders in the central nervous system. The first symptoms usually appear at the age of 35-40, although onset is also seen as early as in five-year-old children, and the disease progresses after onset without remission and with an expected remaining patient lifespan of 10-15 years. The great majority of Huntington patients will need extensive round-the-clock care.

The symptoms of Huntington's disease can be grouped into three categories: motor (impairment of voluntary motor skills and uncontrolled movements), cognitive (attention deficits) and psychiatric impairment (anxiety, depression and personality changes).

There is currently no effective treatment of Huntington's disease, and very few new drugs are under development.

NEUROSEARCH'S GOAL IS TO COMPLETE THE DEVELOPMENT OF ACR16 AS QUICKLY AS POSSIBLE AND BRING THE PRODUCT TO PATIENTS

Previous results and mechanism of action
The results from a Phase II Proof of Concept study of ACR16 in Huntington's disease showed that patients achieved a statistically significant improvement of their motor function after only four weeks of treatment with ACR16. The improvement achieved is estimated to correspond to a reversal of about 12 months' deterioration of the adverse motor symptoms of Huntington patients. In addition to a significant improvement of gait and parkinsonism, patients treated with ACR16 also showed an improvement in attention and fewer psychiatric symptoms such as anxiety/depression.

ACR16 has previously been evaluated in clinical Phase Ib studies in Huntington's disease, Parkinson's disease and schizophrenia with favourable results. Moreover, ACR16 has shown to have a very satisfactory safety profile.

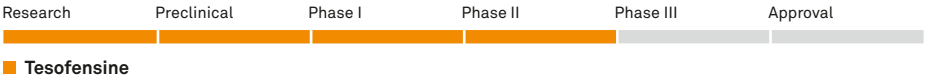
ACR16 is the most advanced drug candidate in NeuroSearch's portfolio of dopaminergic stabilisers, i.e. compounds capable of both strengthening and inhibiting dopamine-regulated functions in the brain, depending on the base level of the dopamine activity.

Licence agreement with Astellas
NeuroSearch acquired ACR16 in 2006 in connection with the acquisition of Carlsson Research AB (now NeuroSearch Sweden AB). Prior to the acquisition, a licence agreement had been entered into with Japanese-based Astellas for the development of ACR16 for the treatment of schizophrenia and other disorders. Based on a strategic and commercial assessment, Astellas decided end February 2009 to discontinue the development of ACR16 for the treatment of schizophrenia. This means that all commercial rights will be assigned to NeuroSearch, including the rights to market ACR16 for Huntington's disease outside Europe and the United States, which was part of the licence agreement with Astellas. Given that NeuroSearch has successfully reached Phase III development for Huntington's disease, it is considered highly valuable to NeuroSearch to hold all commercial rights to ACR16.

Commercial potential
NeuroSearch considers ACR16 to be a highly attractive product opportunity, based on an overall assessment of the commercial potential within Huntington's disease. The estimated total number of patients suffering from Huntington's disease worldwide is approximately 100,000, and no effective treatment for the disease is currently available. ACR16 is one of the only new drugs in late-stage development for Huntington's disease.

NeuroSearch's management find that ACR16 can achieve sizeable revenue and earnings.

With a view to launching and marketing the product inhouse after registration, which is expected in 2011, NeuroSearch began to build up an inhouse sales and marketing organisation in 2008.



OBESITY

Tesofensine is a new drug for the treatment of obesity which has demonstrated a unique effect in Phase II studies: Approximately 10% weight loss after six months of treatment (TIPO-1) and approximately 13% after 12 months of treatment (TIPO-4). NeuroSearch believes that these results make tesofensine one of the most effective anti-obesity products in late-stage development. In the course of 2008, NeuroSearch completed a number of supplementary studies which have contributed further to supporting the promising product profile of tesofensine and readied for pivotal Phase III development.

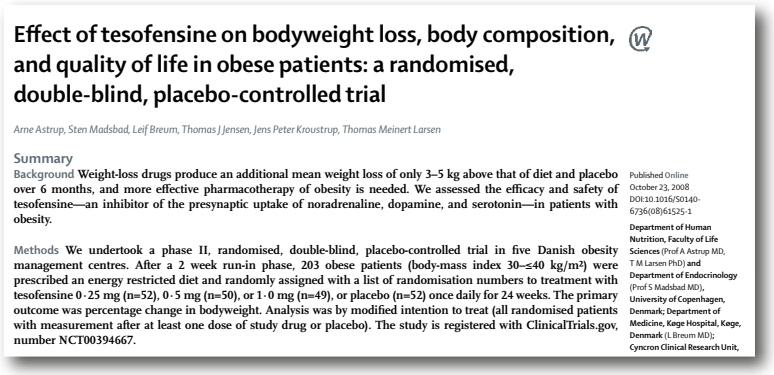
NeuroSearch plans an End of Phase II meeting with the FDA with a view to determining the final Phase III programme for tesofensine. At the same time, NeuroSearch is also in a dialogue with the European health authorities regarding the further development of tesofensine.

Medical treatment of obesity is predominantly handled through general practitioners, and the marketing of tesofensine would thus require a sizeable sales force. In accordance with its strategy within major disease areas, NeuroSearch intends to enter into a collaboration agreement with an international pharmaceutical company at a suitable point in time.

Previous clinical results

NeuroSearch has evaluated tesofensine in TIPO-1, a 24-week Phase IIb clinical Proof of Concept study in 203 overweight patients. In this study, the drug demonstrated an unusually strong weight loss effect which was subsequently confirmed by additional clinical results. Results from the TIPO-1 study showed a placebo-adjusted mean weight loss of 4.5%, 9.2% and 10.6% respectively in three dose groups (0.25 mg, 0.5 mg and 1.0 mg). In the study, tesofensine also proved to be well tolerated and to have a satisfactory safety profile.

The results from TIPO-1 were published in October 2008 in the highly international reputed scientific journal The Lancet with the conclusions that tesofensine can produce a weight loss at least twice that of currently approved anti-obesity drugs and that it should be further evaluated in pivotal Phase III studies.



Effect of tesofensine on bodyweight loss, body composition, and quality of life in obese patients: a randomised, double-blind, placebo-controlled trial

Arne Astrup, Sten Madsbad, Leif Breum, Thomas J Jensen, Jens Peter Kroustrup, Thomas Meinert Larsen

Summary

Background Weight-loss drugs produce an additional mean weight loss of only 3–5 kg above that of diet and placebo over 6 months, and more effective pharmacotherapy of obesity is needed. We assessed the efficacy and safety of tesofensine—an inhibitor of the presynaptic uptake of noradrenaline, dopamine, and serotonin—in patients with obesity.

Methods We undertook a phase II, randomised, double-blind, placebo-controlled trial in five Danish obesity management centres. After a 2 week run-in phase, 203 obese patients (body-mass index 30–≤40 kg/m²) were prescribed an energy restricted diet and randomly assigned with a list of randomisation numbers to treatment with tesofensine 0·25 mg (n=52), 0·5 mg (n=50), or 1·0 mg (n=49), or placebo (n=52) once daily for 24 weeks. The primary outcome was percentage change in bodyweight. Analysis was by modified intention to treat (all randomised patients with measurement after at least one dose of study drug or placebo). The study is registered with ClinicalTrials.gov, number NCT00394667.

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XXXL

6%

annual growth in the number of overweight persons worldwide up until 2015

Tesofensine is one of the most promising drugs in late-stage development aimed at the treatment of obesity

NeuroSearch has also completed a placebo-controlled clinical metabolic study, TIPO-2, with tesofensine. Results showed that tesofensine significantly increases feelings of satiety and decreases the desire to eat while also impacting favourably on energy expenditure and fat metabolism in overweight and obese study subjects. These synergistic effects are likely to help explain the outstanding efficacy of tesofensine in body weight management while also demonstrating direct clinically relevant benefits in addition to the weight loss through improved metabolic rates.

In July 2008, NeuroSearch published interim results from TIPO-4, an ongoing, 48-week Phase II clinical extension study in 140 patients that had completed TIPO-1. The interim results showed that patients previously treated with placebo in TIPO-1 achieved an average weight loss of approximately 9 kg (in addition to the 2 kg they lost in TIPO-1), thus confirming the weight loss effect of 0.5 mg tesofensine seen in TIPO-1 under similar treatment conditions and duration. Furthermore, the TIPO-4 results provided the first long-term efficacy data on tesofensine, showing that patients previously treated with 0.5 mg tesofensine in TIPO-1 lost an additional almost 4 kg after the subsequent 24 weeks' treatment with 0.5 mg tesofensine in TIPO-4, corresponding to an average weight loss of 13 to 14 kg over a combined 48-week treatment period.

NeuroSearch has finalised the TIPO-4 extension study and evaluated data from the entire 48-week treatment period. Safety results show that treatment with 0.5 mg tesofensine in up to 72 weeks is well-tolerated with only mild to moderate adverse events of similar nature as observed in TIPO-1. In terms of efficacy, the results indicate a levelling off of the weight loss effect after a total treatment period of 72 weeks (including the 24-weeks in TIPO-1) at a weight loss of 13-14 kg. The same pattern is seen with other weight reducing agents, only at much lower levels of weight loss.

The overall conclusion from both TIPO-1 and TIPO-4 is that tesofensine has a superior efficacy profile, having demonstrated the ability to induce an average weight loss, which is two to three fold higher than what is seen with existing anti-obesity medication.

Tesofensine has been studied in more than 1,400 persons of whom close to 1,200 were exposed to relevant therapeutic doses. Management believes the product to have a good and very well documented safety profile.

The full data package behind tesofensine will be discussed with health authorities during H1 2009 and on the basis of this the final Phase III strategy will be made.

Mechanism of action
Tesofensine is a monoamine re-uptake inhibitor which blocks the re-uptake of the neurotransmitters dopamine and noradrenaline and to a lesser extent serotonin; this increases the concentration of all three neurotransmitters in the brain. Dopamine, noradrenaline and serotonin are in different ways involved in the regulation of appetite and metabolism and thus in the body's own weight control.

Overweight/obesity

Overweight and obesity are defined as abnormal accumulation of fat to an extent that makes it a health hazard. A rough measure of the level of overweight and obesity in humans is BMI, which is defined as a person's weight in kilos divided by the square root of the height in metres.

Until now, overweight (BMI >25) and obesity (BMI >30) have been considered a problem limited to high-income countries. However, in recent years, a dramatic increase has been seen in the prevalence of obesity in low- and middle-income countries in South America, Africa and Asia. The prevalence of obesity, which is becoming more and more widespread thus shows no signs of stopping, and the WHO expects that numbers of overweight or clinically obese persons worldwide will have grown to 2.3 billion and 700 million respectively by 2015, equivalent to an annual growth of almost 6%.

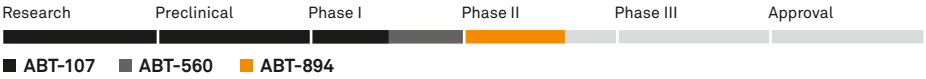
Patients with obesity are at risk of developing serious medical conditions which can cause poor health or premature death, including cardiovascular diseases, hypertension, Type 2 diabetes, biliary disorders, dyslipidemia (including arteriosclerosis), rheumatism and gastrointestinal cancer. In particular, obesity has been found to have a major influence on the prevalence of Type 2 diabetes and it also complicates the management of Type 2 diabetes by increasing insulin resistance and glucose intolerance, which makes drug treatment for Type 2 diabetes less effective.

Obesity is a major contributor to the social burden of chronic disease and disability and is thus a serious burden on both public and private healthcare budgets in much of the world. In recent years, more coordinated efforts to combat the obesity problem have been on the political agenda worldwide.

32%

of the population worldwide will according to WHO be overweight in 2015

At least 20 million children under the age of five were according to WHO overweight in 2005



LICENCE COLLABORATION WITH ABBOTT FOR NEURONAL NICOTINIC RECEPTOR MODULATORS (NNR):
ADHD – ABT-894
ALZHEIMER'S DISEASE AND SCHIZOPHRENIA – ABT-107
COGNITIVE DYSFUNCTIONS – ABT-560

Cognitive dysfunction
Cognitive dysfunction is defined as reduced function in areas such as learning, memory, structuring, overview, problem solving, language and thinking. Cognitive dysfunction is thus a broad label for disorders in normal brain processes that happen after a situation has arisen and before the reaction to it appears.

Cognitive dysfunction is not a diagnosis but rather a symptomatic consequence of a number of different CNS disorders such as Alzheimer's disease or other kinds of dementia, ADHD, schizophrenia or depression.

The drug candidates ABT-894, ABT-107 and ABT-560, which are in clinical development under the Abbott collaboration, were all identified and selected under an earlier research alliance (1999-2006) between NeuroSearch and Abbott in the field of neuronal nicotinic receptors.

Under the terms of the agreement, Abbott is responsible for and finances all clinical development, production and marketing of all products under the collaboration and NeuroSearch is eligible to receive milestone payments and royalties on Abbott's global sales.

ABT-894 – ADHD: In clinical Phase II
ABT-894 is an $\alpha 4\beta 2$ subtype-specific NNR modulator which Abbott has evaluated in Phase II clinical studies for the treatment of ADHD and diabetic neuropathic pain.

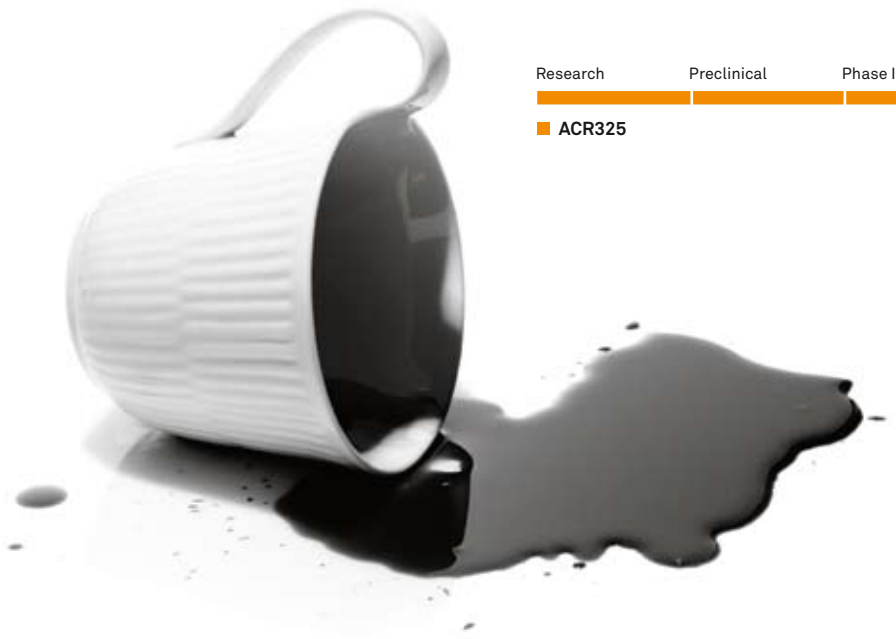
In June 2008, NeuroSearch reported the Phase II results for ABT-894 for the treatment of adults with ADHD. The results were positive and showed that treatment with ABT-894 led to a statistically significant improvement in the symptoms of the adult patients as measured by aggregate scores on Conners' Adult ADHD Rating Scales (CAARS). The marketed product Atomoxetine (Strattera®) was included as an active control in the study, and the two compounds appeared to be comparable across efficacy measures. ABT-894 also proved to be safe and generally well tolerated.

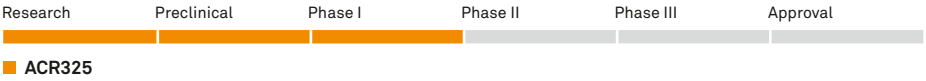
Abbott is planning further development of ABT-894 for ADHD, including a supplementary Phase II study to evaluate the effects of this drug candidate in children.

Towards the end of 2008, Abbott completed the Phase II studies of ABT-894 for the treatment of pain, and the results were reported in February 2009. The studies showed that ABT-894 was very well tolerated and had a good safety profile, but that the pain-reducing effect of the compound was not sufficient to support continued development within neuropathic pain. Abbott has thus decided not to move ABT-894 forward in the pain programme.

ABT-107 – Alzheimer's disease and schizophrenia: In clinical Phase I
ABT-107 is an $\alpha 7$ subtype specific NNR agonist which Abbott is evaluating in Phase I clinical studies with a view to developing the drug as a better treatment for a number of CNS disorders, including Alzheimer's disease and schizophrenia. The Phase I studies are scheduled for completion in the first half of 2009.

ABT-560 – Cognitive dysfunctions: In clinical Phase I
Abbott has also evaluated ABT-560, an $\alpha 4\beta 2$ agonist in Phase I studies, with a view to developing this drug candidate for the treatment of cognitive dysfunctions related to various CNS disorders, including ADHD and Alzheimer's disease.





DYSKINESIAS IN PARKINSON'S DISEASE – ACR325

Dyskinesias in Parkinson's disease
Parkinson's disease is characterised by muscle rigidity and tremor, and reduced or slow movement. At later stages of the disease, many patients will also suffer from learning and memory impairment. It is one of the most common neurological disorders, and it is estimated that approximately four million people worldwide suffer from the disease.

The onset of Parkinson's disease is usually at the age of 50-60, and prevalence increases with age. Thus, it is expected that the prevalence of the disease will quadruple towards 2040 due to the rising proportion of elderly people in society.

Parkinson's disease is caused by a loss of dopamine-producing nerve cells in the brain. The cause of the disease is believed to be a combination of genetic and external factors.

Parkinson's disease cannot be cured, but it can be treated. The most important medical treatment is L-Dopa, which is effective in treating the symptoms. However, treatment with L-Dopa leads to the development of dyskinesias (disabling involuntary movements) in up to 80% of patients. In addition to affecting patients' ability to perform everyday activities, the dyskinesias often makes it necessary to reduce the dose of L-Dopa a patient receives, which may lead to an insufficient effect on the Parkinson's symptoms.

No effective treatment of levedopa-induced dyskinesias is currently available.

In accordance with NeuroSearch's goal of building up a portfolio of specialist drugs, it has been decided to primarily develop ACR325 for the treatment of dyskinesias (involuntary movements) that arise following long-term treatment with L-dopa, which is the standard treatment for advanced-stage Parkinson's disease.

ACR325 has shown highly promising preclinical results and highly positive results from Phase I safety studies, and NeuroSearch has therefore drawn up a plan for the further development of the product for this specialist indication up to market registration. According to the plan, the first step will be a clinical study in Parkinson patients dosed with L-dopa until dyskinesias is observed. The primary endpoint of the study is to determine the tolerability and kinetics of ACR325 in Parkinson patients and the secondary endpoint is to measure the treatment effect on the dyskinesias. It is expected that this study will be initiated in the first half of 2009, and if satisfactory results are achieved, the plan is to initiate a Phase IIb study with a view to selecting optimal doses for Phase III.

Previous results
Phase I studies of the tolerability and kinetics of ACR325 were completed in 2008, with highly favourable results.

Data from the studies showed that ACR325 has a linear and predictable pharmacokinetic profile after oral administration. The compound has also proved to be well tolerated in doses far beyond the expected treatment-relevant levels.

Mechanism of action
ACR325 is a dopaminergic stabiliser which has demonstrated promising effects in clinical models for motor disorders and in models for psychosis. The compound increases the levels of dopamine and noradrenaline in the forebrain and concurrently inhibits the overactivity of dopamine in other regions of the brain without this causing undesired inhibiting of voluntary movement. Results from preclinical Parkinson studies have demonstrated that ACR325 can prevent the complicated impairment of the motor system that occurs in Parkinson patients after treatment for some time with L-dopa, whilst also retaining the compound's beneficial therapeutic effect.

ACR343

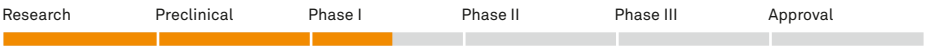
SCHIZOPHRENIA – ACR343

ACR343 has potential within a number of psychiatric and neuro-logical diseases. Clinical Phase I successfully completed

NeuroSearch completed Phase I studies of ACR343 in early 2009. The results were highly satisfactory, showing an excellent profile after oral administration and a highly satisfactory safety margin.

Phase II development is scheduled to start later in 2009.

Mechanism of action
ACR343 is a dopaminergic stabiliser and the third compound in NeuroSearch's pipeline for this class of compounds. The drug has demonstrated efficacy in preclinical models for a number of CNS disorders, whilst leaving the behaviour of normal animals unaffected. The lack of inhibitory effects on normal motor activity is an essential feature of ACR343, implying that impairment of normal functions depending on dopamine transmission such as motion, motivation and reward are not likely to occur with ACR343. This is considered to be a major advantage over current therapies for a number of diseases, among these schizophrenia.



NSD-788

ANXIETY – NSD-788

NeuroSearch initiated Phase I clinical studies of NSD-788 in 2008 with a view to evaluating the safety and tolerability of the compound. The Phase I studies are progressing according to plan and are scheduled for completion in the first half of 2009.

Based on studies in preclinical models, NeuroSearch believes that treatment with NSD-788 may potentially show significant advantages over existing drugs for the treatment of anxiety, but also of other CNS disorders including, in particular, various types of depression.

NSD-788 is a novel compound, having demonstrated a unique effect on the monoamine re-uptake systems in the brain with primary effect on serotonin and dopamine.

In 2009 NeuroSearch expects to finalise Phase I and complete clinical PET studies to evaluate efficacy in different brain areas.

PRECLINICAL DRUG CANDIDATES AND SELECTED RESEARCH PROGRAMMES

NeuroSearch's pipeline includes five preclinical development programmes which are all covered by our agreements with GSK

GABA MODULATORS

NSD-721 – Pain
NeuroSearch's research in GABA modulators has been focused on producing drug candidates which act as benzodiazepines on the GABA subtype receptors α2 and/or α3, but with no or only a slight effect on the α1 subtype. These compounds are assumed to have the same anxiety-reducing effects without the undesirable side effects of the benzodiazepines. NeuroSearch has succeeded in synthesising and characterising compounds with the desired profile, and the first two development candidates from the programme were selected by NeuroSearch in 2007. Unfortunately, development of NSD-708 had to be dropped due to various undesirable side effects, but NSD-721 still looks promising, and it is expected that the compound can be dosed for the first time in Phase I in 2009. NSD-721 has shown promising results in a number of models for anxiety, epilepsy and pain. GSK holds an option on NSD-721.

In parallel with this high-priority programme in α2/α3 selective GABA modulators, new drug discovery programmes have now been initiated focusing on other subtypes of GABA receptors. Drug candidates from this programme are expected to be targeting better treatment of epilepsy, pain and sleep disorders. Dopaminergic stabilisers and cortical enhancers.

DOPAMINERGIC STABILISERS AND CORTICAL ENHANCERS

NSD-847 – Psychosis
Dopaminergic stabilisers constitute a new class of CNS-active compounds able to both enhance and inhibit dopaminergic effects in the brain depending on the base level of dopamine activity. Dopamine is an important neurotransmitter in the brain, and the dopaminergic system plays a key role in the regulation of motor function and behaviour. Dopaminergic stabilisers are thus able to stabilise motor and behaviour disturbances caused by neurological and psychiatric disorders. These effects on diseases do not involve any adverse effect on the normal processes in the brain.

The drug discovery programme for dopaminergic stabilisers has already produced development candidates ACR16, ACR325 and ACR343.

NSD-847 is the latest deliverable and has compared to the other three compounds an adjusted pharmacological profile and certain other features have been further improved.

NSD-867 – ADHD
NSD-867 belongs to the group of cortical enhancers, i.e. drugs with a relatively stronger effect in the cerebral cortex than in the deeper brain structures compared with dopaminergic stabilisers. This profile shows indications of being ideal as a drug for the treatment of cognitive disorders such as ADHD. Compared with existing medications for the treatment of ADHD and other kinds of attention disorders, cortical enhancers are expected to have a much better safety profile, with a reduced risk of developing psychoses, sleep disorders and obesity. NSD-867 has been selected as the first development candidate from the programme, and GSK holds an option for both this candidate and NSD-847.

OTHER PRECLINICAL DEVELOPMENT PROGRAMMES

NSD-726 has been selected as the first preclinical development candidate from one of NeuroSearch's ion channel drug discovery programmes. The compound has demonstrated a promising effect in preclinical models of certain autoimmune diseases. NSD-726 is under preparation for clinical development with a view to developing the compound to treat a specific autoimmune disorder.

NSD-761 is a selective ion channel modulator. The compound has demonstrated promising efficacy in preclinical models of cognitive dysfunction associated with schizophrenia, dementia and depression.

GSK holds an option for both NSD-726 and NSD-761.

NEUROSEARCH'S PAIN RESEARCH

Several approaches to better treatment of neuropathic pain
Over the past six years, NeuroSearch has worked on developing expertise in research into neuropathic pain, a very widespread and insufficiently treated type of pain.

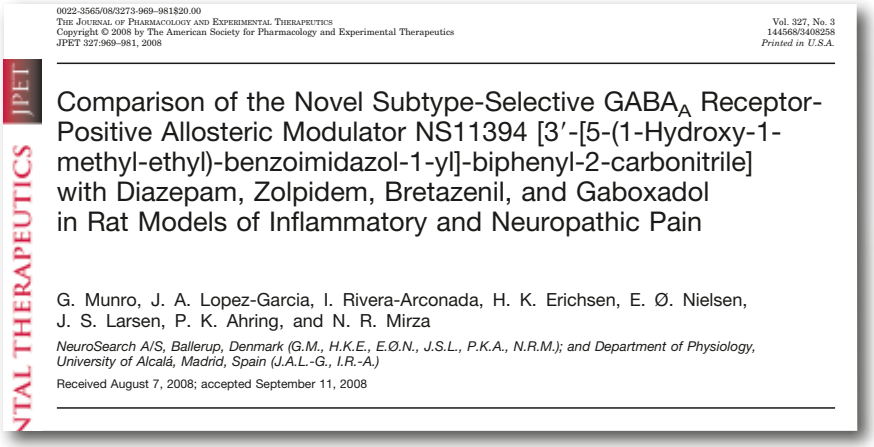
Several of our drug discovery programmes are pointed at neuropathic pain as a target for the drugs being developed. One example is the GABA project, which has NSD-721 in preclinical development. Another compound from the project, NS11394, has been used as a model compound in the drug discovery project, and our project group was able to publish breakthrough scientific data in 2008 in the peer-reviewed international Journal of Pharmacology and Experimental Therapeutics. The results showed, among other things, that by selectively affecting GABA receptors of the α2/α3 subtypes is it possible to obtain a relief of neuropathic pain without showing any significant adverse effects on the coordination of movements. This indicates that compounds with this profile – such as NSD-721 – will have a clearly improved efficacy/safety profile as compared with benzodiazepines such as Diazepam (Valium®). This is currently used only in minor respects to pain because of the significant side effects.

Also the Kv7 project focuses on new drugs for the treatment of neuropathic pain. Kv7 is a group of potassium channels, and this drug discovery project concentrates on developing positive modulators of the subtypes Kv7.2 and Kv7.3. In 2008, the project group successfully characterised highly potent and selective compounds which have demonstrated exceedingly promising effects in preclinical pain models. We expect to be able to select the first development candidate from the Kv7 programme in 2009.

Neuropathic pain
Neuropathic pain is a chronic type of pain arising from nerve damage caused by e.g. surgery, virus infection, CNS disorders or metabolic diseases (especially diabetes), chemotherapy or cancer tumour infiltration. Neuropathic pain can thus be grouped according to its cause: neuropathic back pain, fibromyalgia, diabetic neuropathy, neuropathic cancer pain, complex regional pain syndrome, HIV/AIDS neuropathy, post-herpatic neuralgia, phantom pain and trigeminal neuralgia.

Towards 8% of the population is believed to suffer from neuropathic pain. For example, it is assumed that there are 3.5 million patients in Germany (6%) and 3 million in the United Kingdom (7.5%) who suffer from neuropathic pain. However, the syndrome is often underdiagnosed and undertreated.

Neuropathic pain can be lifelong and lead to functional impairment; symptoms may be mild to disabling and often escalate over time. Neuropathic pain usually produces a burning, prickling or stinging sensation and is often a condition which is frustrating and difficult to handle for patients and doctors, as standard pain treatment is of little help in relieving symptoms. Treatment consists of antidepressants, opioids, NSAIDs and antiepileptics, but their efficacy is limited, so the need for new drugs is considerable.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NTAL THERAPEUTICS

Comparison of the Novel Subtype-Selective $GABA_A$ Receptor-Positive Allosteric Modulator NS11394 [3′-[5-(1-Hydroxy-1-methyl-ethyl)-benzoimidazol-1-yl]-biphenyl-2-carbonitrile] with Diazepam, Zolpidem, Bretazenil, and Gaboxadol in Rat Models of Inflammatory and Neuropathic Pain

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FINANCIAL REVIEW

The Annual Report 2008 includes the consolidated financial statements of NeuroSearch A/S, comprising the parent company and the four wholly-owned subsidiaries NeuroSearch Sweden AB, Poseidon Pharmaceuticals A/S, NeuroScreen ApS and NsExplorer A/S.

Liquidity and capital resources
Capital resources stood at DKK 481.5 million as at 31 December 2008, primarily consisting of term deposits and mortgage bonds.

In January 2008, NeuroSearch issued 185,755 new shares with a nominal value of DKK 20 each to the vendors of Carlsson Research AB at a price of DKK 319.21 each as a milestone relating to the first dosing of ACR343 in a Phase I clinical study.

In May 2008, NeuroSearch issued 300,000 new shares in a private placement to institutional investors at DKK 280 per share to fund a milestone payment of SEK 100 million termed of success to the vendors of Carlsson Research AB relating to ACR16 in Phase III.

Income statement
The Group posted a consolidated operating loss in 2008 of DKK 366.0 million (2007: DKK 253.5 million), which was a slightly lower loss than the previously announced forecast for 2008 of a loss before financials in the region of DKK 400 million.

NeuroSearch posted a loss after tax of DKK 382.0 million (2007: DKK 268.4 million).

The consolidated loss included a combined loss after tax of DKK 85.3 million (2007: DKK 61.9 million) from the subsidiaries NeuroSearch Sweden, Poseidon Pharmaceuticals, NeuroScreen and NsExplorer, of which activities in NeuroSearch Sweden accounted for a loss after tax of DKK 87.2 million (2007: DKK 54.6 million).

Revenue
Consolidated revenue for 2008 was DKK 66.8 million (2007: DKK 115.5 million), which consisted of revenue from the research and development partnership with GlaxoSmithKline (GSK).

Costs
Consolidated costs totalled DKK 432.8 million (2007: DKK 368.7 million), which represented an increase of DKK 64.1 million. The increase was primarily attributable to development costs relating to tesofensine (obesity) and ACR16 (Huntington's disease). The costs included a calculated expense of DKK 23.1 million (2007: DKK 20.6 million) of warrants granted in the years from 2005 to 2008.

Development costs increased from DKK 131.7 million in 2007 to DKK 176.9 million in 2008. Consolidated development costs in 2008 mainly concerned activities relating to tesofensine (obesity) and ACR16 (Hungtington's disease).

Research costs and general and administrative costs were on a level with 2007.

Investments in associates
NeuroSearch's shares of the results of associates – NsGene A/S, Sophion Bioscience A/S, Atonomics A/S and ZGene A/S – are recognised in the income statement. The shares of results were a combined loss of DKK 18.6 million (2007: DKK 20.5 million).

Other financials
Other financials amounted to a net expense of DKK 21.1 million in 2008 (2007: DKK 12.8 million). This includes interest expense of DKK 7.3 million (2007: DKK 7.5 million) on loans secured on the company's property and the financial element of the contingent consideration related to NeuroSearch Sweden AB of DKK 6.9 million (2007: DKK 11.4 million). The financial element of the contingent consideration has no impact on the cash flow statement. This line item includes net income of DKK 23.4 million (2007: DKK 4.0 million) on other financial items and fair value adjustments totalling DKK 10.2 million (2007: DKK 8.0 million) of available-for-sale financial assets. The DKK 8 million increase in the net expense was mainly attributable to negative returns on certain investment securities, following the negative trend in the financial markets in general.

Income taxes
The NeuroSearch Group has tax assets of DKK 333 million (2007: DKK 240 million), of which DKK 61 million relating to NeuroSearch Sweden AB has been recognised and offset against the deferred tax liability relating to the Swedish activities. The increase in the tax asset in 2008 of DKK 33.9 million has been taken to the income statement. The remaining tax assets are not recognised in the balance sheet as it is still deemed that sufficient certainty has not been established as to whether the tax assets can be used for offset against future taxable income.

Allocation of loss
It is proposed that the year's consolidated loss of DKK 382.0 million be transferred to retained earnings.

Balance sheet
The balance sheet stood at DKK 1,245.8 million at 31 December 2008 (2007: DKK 1,780.6 million).

Net investments in property plant and equipment in 2008 totalled DKK 50.3 million (2007: DKK 15.7 million). Of this amount, DKK 23.5 million (2007: DKK 1.7 million) was an investment in expanding the company's facilities at Ballerup, DKK 8.0 million was invested in the acquisition of the 9,000 square metres of land adjacent to the original plot of land, and the remaining DKK 18.8 million (2007: DKK 14 million) was primarily invested in technical equipment.

Cash and cash equivalents including securities and investments totalled DKK 453.4 million at 31 December 2008 (2007: DKK 845.3 million).

Statement of cash flows
The cash flow from operating activities amounted to a cash outflow of DKK 339.9 million in 2008 against a cash outflow of DKK 218.8 million for 2007.

The cash flow from investing activities was a net cash outflow of DKK 185.2 million compared to a net cash inflow of DKK 203.3 million in 2007.

The cash flow from financing activities was a cash inflow of DKK 56.3 million compared to a cash inflow of DKK 751.3 million for 2007.

Cash and cash equivalents amounted to DKK 237.1 million at 31 December 2008 (2007: DKK 727.5 million).

Statement of movements in equity
Consolidated equity was reduced by the consolidated net loss of DKK 382.0 million. Equity rose by a net amount of DKK 144.0 million from the share issues in the spring of 2008 and the capital increase made in connection with the exercise of warrants by employees.

Financial risks
For further details, see the discussion under "NeuroSearch's risk profile" on pages 38-39 and information on financial risks stated in note 24 to the financial statements.

Related parties
The members of NeuroSearch's Executive Management, Board of Directors, its subsidiaries and the associates NsGene A/S, Sophion Bioscience A/S, Atonomics A/S and ZGene A/S are considered to be related parties. The company also considers Bavarian Nordic A/S to be a related party.

Events after the balance sheet date
After the end of the financial year, NeuroSearch has entered into comprehensive drug discovery and development alliances with both Lilly and GlaxoSmithKline. Under the agreement with Lilly, NeuroSearch is entitled to receive up to USD 30 million (DKK 175.1 million) during the three-year term of the agreement, and under the agreement with GlaxoSmithKline, NeuroSearch is entitled to an undisclosed upfront payment. Under the agreement with Lilly, NeuroSearch is entitled to milestone payments of up to USD 320 million (DKK 1.9 billion) for each product that is successfully developed and marketed as well as royalty payments on global sales revenue for the products. Under the agreement with GlaxoSmithKline, NeuroSearch may potentially receive up to DKK 812 million in milestone payments until marketing as well as royalties on future sales for each product.

Astellas has decided not to continue the development of ACR16 against schizophrenia. All rights will thereafter revert to NeuroSearch. The transaction has no effect on the income statement, but a contingent consideration liability of SEK 125 million (DKK 85.1 million), carrying amount DKK 56.0 million which NeuroSearch was committed to pay to the vendors of Carlsson Research AB in connection with the initiation of Phase II clinical studies by Astellas will no longer apply.

With NS2359, which is being developed under a licence agreement with GSK, we did not obtain the desired results within depression and further development for this indication has been stopped.

Outlook for 2009
NeuroSearch expects a loss before financials and other shares of results in the region of DKK 350 million.

RISK MANAGEMENT AT NEUROSEARCH

Drug development involves a large financial risk. The average development period is typically 8-12 years, costs are high and the probability reaching the market is relatively low. At NeuroSearch, the risk of each drug programme as well as the company's overall risk are assessed in a continuous process, and in the annual strategic planning specific consideration is given to scientific, development, commercial and financial risks. Management believes that NeuroSearch has no special commercial and scientific risks beyond what is normal in the biopharmaceutical industry.

Scientific and development risks

The following factors are assessed regularly for all drug discovery and development programmes as part of routine committee work in which both project workers and management participate:

- The scientific rationale (known or new mechanism)
- NeuroSearch's inhouse knowledge and the strength of experimental models
- Attracting and retaining employees who have the relevant knowledge and experience
- Technological limits
- The complexity of clinical development, access to patients and the speed at which Proof of Concept can be established
- The occurrence of unexpected and adverse effects, even late in a development process (Phase II or Phase III studies)
- Regulatory assessment of a drug candidate's efficacy and safety profile and the probability of final approval

Commercial risks

The following factors are assessed in connection with the commencement of a drug discovery or development programme and regularly evaluated in connection with reassessing the pipeline:

- Degree and scope of patent protection
- Market size (prevalence and developments in patient numbers)
- Competitive situation (existing drugs as well as new compounds under development for the same disease)
- Development time and related costs
- Interest from potential partners
- Market access

The pipeline of drugs under development matured substantially during 2008, in particular with the initiation of Phase III studies of ACR16, the readying of tesofensine for Phase III and progress in a number of other development programmes. This means that the probability of NeuroSearch bringing products to market increased significantly in 2008, and the time horizon for this potentially happening has been reduced.

Financial risks

The financial risks are assessed regularly by the company's management and are included in reporting to the Board of Directors. The following things are considered important:

- Potential coming revenue generated via partnerships
- Financing opportunities in the equity market
- Short-term liquidity profile of development programmes and
- Cash management and treasury management

NeuroSearch pursues a partnering strategy, which contributes to reducing a large part of the financial risks. Today, NeuroSearch has strong R&D agreements with a number of large international pharmaceutical companies. These agreements contribute liquidity directly to NeuroSearch and make substantial contributions to the significant costs involved in developing and commercialising new drugs. The partners will also handle commercialisation of the products. When partnership agreements are entered into, the external partner always subjects the programmes to a thorough examination that includes both scientific and commercial aspects. Thus, NeuroSearch enjoyed a five-year alliance with GSK that resulted in the contribution of substantial financial resources, know-how, etc. The drug discovery part of the partnership expired at the end of 2008, but it is a defined goal to pursue a similar strategy going forward. As a result, NeuroSearch has signed new strategic partnership agreements with pharmaceutical companies GSK and Eli Lilly in the early months of 2009 to secure a substantial financial platform for NeuroSearch's future operations and the sharing of both financial and commercial risks.

Management believes, that as a consequence of the development and licence agreements NeuroSearch enters into with large pharmaceutical companies, it has a favourable risk profile compared with companies in the biotech industry in general.

However, NeuroSearch has decided as far as possible to complete the full development process and commercialisation of certain specialist products inhouse and thus assume greater risks in the late-stage-development and commercialisation process, which also involves regulatory approvals and responsibility for production.

At NeuroSearch, we are aware of our business risks and organise the management of our company with a view to minimising such risks

Risk management for selected business areas

Capital resources
Drug development is a long process and requires a lot of resources. Until we have the first products on the market, we will be a capital consuming company in connection with our investments in drug discovery and drug development. It is therefore important that the company always has sufficient financial resources. At all Board meetings, the Board of Directors receives reporting on the amount and scope of the company's financial resources and management's assessment of the potential of procuring the necessary capital.

The global credit crisis, which worsened in 2008, has made it less attractive to obtain funding in the equity market for the time being, so NeuroSearch has elected to focus on retaining a high level of capital resources through a strongly focused partnering strategy, with the goal of being as independent as possible of capital contributions via the equity market.

In the autumn of 2007, NeuroSearch made a large-scale equity offering to ensure completion of the full development process for ACR16 and the continuation of other activities. By the end of 2008, it was expected that this would enable NeuroSearch to fund all planned activities through mid-2010, assuming that no new success-based payments were received. With the new partnership agreements entered into during the early months of 2009, NeuroSearch now expects to be able to fund its operations until the end of 2010 and thus to be able to control its cash flow until the expected marketing of ACR16 in 2011, after which operating profits and cash inflows are expected.

Consequently, NeuroSearch does not believe that the credit crisis has affected or will affect the company's activities or plans in the years ahead. The capital increase in 2007 gave NeuroSearch the freedom to focus on its core activities at a time when the financial markets must be said to be unstable and risky.

Securing of the company's operations and assets
NeuroSearch has taken out insurance to cover both any operating losses, losses due to claims in connection with clinical studies and loss of assets in connection with fire, theft or the like. All insurance is handled by an external insurance broker who reports at least once a year whether the company's insurance cover is considered to be sufficient and reasonable.

Administration of cash and cash equivalents
NeuroSearch's Board of Directors has adopted a "Treasury Policy" containing guidelines for the management of the company's cash and cash equivalents, including securities. This policy describes, among other things, in which securities investments can be made and that the investments must be handled and managed by investment departments of leading Danish banks. Furthermore, the "Treasury Policy" contains guidelines on the use of financial instruments. The Board of Directors reviews the document at least once a year to ensure that the guidelines are sound and in line with the company's operations.

KNOWLEDGE MANAGEMENT

Knowledge management at NeuroSearch is to ensure that academic knowledge can be turned into patentable and viable products

NeuroSearch bases its business on the accumulation, development and exploitation of knowledge in the field of drug discovery and drug development. This knowledge forms the basis of the commercialisation of projects and products. Thus it is important that NeuroSearch can exploit and anchor new knowledge within the organisation, so that the framework for creating value is maintained at an optimal level.

We define knowledge management as the part of the management process that involves the procurement, sharing, development and consolidation of knowledge resources. Knowledge management is the starting point for NeuroSearch's targeted efforts to develop a dynamic knowledge base.

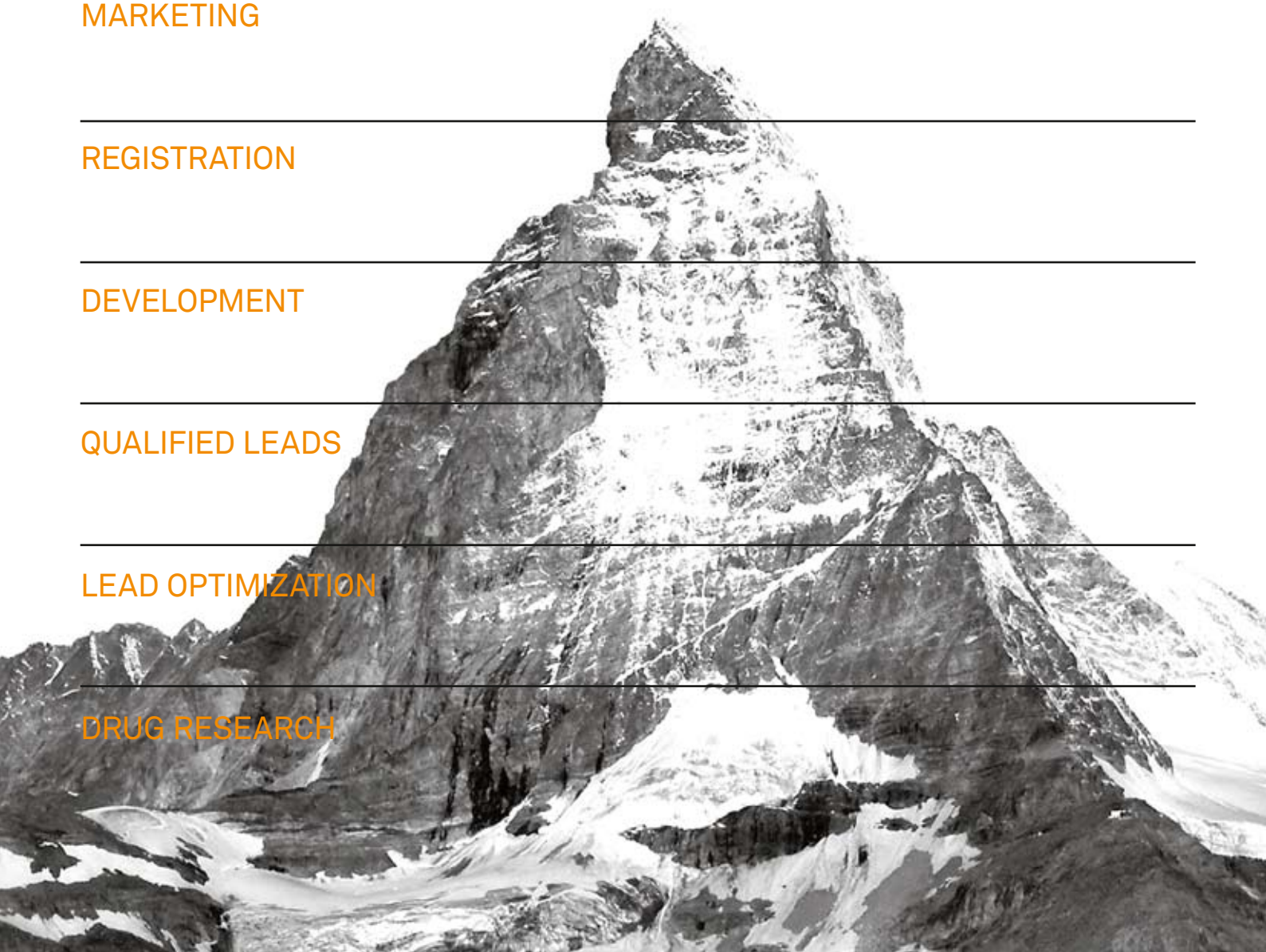
Focus on new opportunities
The high productivity in our drug discovery division in recent years has implied that our goal now is in average to select three development candidates per year. It is vital that we maintain a suitable balance in the use of resources between early research projects and projects believed to have the shortest lead time to commercial success and for which the probability of success is highest.

Lead optimization programmes, are mature drug discovery projects from which NeuroSearch expects to be able to select development candidates, so-called Qualified Leads, within a short period of time. It is important to ensure that sufficient resources are available for these programmes.

As in previous years, NeuroSearch spent a considerable proportion of its research resources in 2008 (43%) on its lead optimization programmes.

NEUROSEARCH'S MOST IMPORTANT KNOWLEDGE RESOURCE IS:

OUR ABILITY TO VALIDATE ACADEMIC KNOWLEDGE AND COMBINE IT INTO VALUE-CREATING, INNOVATIVE PROJECTS THROUGH THE DYNAMIC COORDINATION OF CROSS-DISCIPLINARY R&D WORK



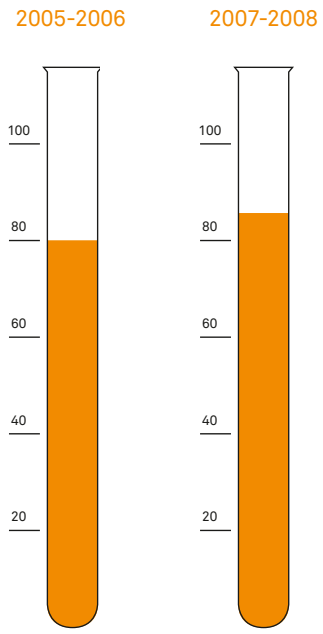
It is important for NeuroSearch's future that new knowledge is constantly validated and developed. Exploration of new ideas is the foundation upon which the drug discovery projects of the future are built, and NeuroSearch considers it important that its researchers keep up to date in their areas of responsibility while also having the freedom to pursue their scientific theories.

This will derive from activities such as:
- Attending conferences
- Participation in scientific networks
- Publication of scientific articles
- Teaching of students

For researchers in biology/pharmacology, writing articles is an activity that ensures – more than anything else – that they can keep abreast with developments in their scientific fields. Last year, NeuroSearch introduced a success parameter for the company's innovative power: Each researcher should co-author at least one scientific article every second year.

Forefront researchers

Researchers who had co-authored at least one article



Of the researchers at NeuroSearch (i.e. those with a master's degree or higher) who were employed in biological/pharmacological functions at NeuroSearch throughout the period 2007-2008, 85% had co-authored at least one article during that time. The corresponding rate for 2005-2006 was 80%.

It is NeuroSearch's declared goal to increase scientific productivity – not in order to produce more articles, but to ensure that all its researchers remain at the scientific forefront in their core areas.

"My research takes place at the cross fields of the university and NeuroSearch, and I am convinced that the exciting synergy effects that arise there can create value in both of these worlds"

NeuroSearch contributes actively in the education of new scientists

One of the Business PhD researchers at NeuroSearch, Morten Skøtt Thomsen, received the BusinessPhD Association Dissemination Award. The award was presented at the annual meeting of ATV – the Danish Academy of Technical Sciences.

NeuroSearch scientist receives research award for his work within the significance of ion channels on the heart function

Morten Grunnet, PhD, Head of the Department of Cardiac Physiology at NeuroSearch received the 2008 research award of the foundation Reinholdt W. Jorck og Hustrus Fond. In the motivation for the award it was stated, among other things that "Morten Grunnet combines basic research and applied research in an ideal way to the effect that he generates new knowledge about the function of the heart and concurrently contributes to better treatment for patients with heart problems, in particular arrhythmia, in collaboration with the pharmaceutical industry".

ENVIRONMENTAL IMPACT AND ETHICS

ENVIRONMENT

NeuroSearch does not currently issue separate environmental reports because its activities only have a limited impact on the environment. NeuroSearch is aware of its potential external environmental impact and therefore continuously evaluates how various environmental factors can be improved with respect to preventing, reducing or remedying damage to the environment.

The external environment
The company does not yet have any actual industrial production, so its discharge into the air, soil and water is exceedingly limited.

In recent years, NeuroSearch has focused on reducing its consumption of power and water. In 2008, we expanded the head office in Ballerup by 819 square meters of space, including 32 new office workplaces. The latest technologies were used to achieve energy-conscious solutions and control for lighting and heating. In addition, a completely new environmental yard of about 450 square meters has been added which meets all demands with respect to safety and correct handling of all types of waste handled. In spite of this addition and the increase in the number of staff, our power consumption declined with 3% compared to the 2007 level. Consumption of water was on a level with 2007.

NeuroSearch uses natural gas to heat the head office in Ballerup. The gas consumption in 2008 increase by almost 2% year on year without degree-day adjustment. At Gothenburg, a district heating system is used in which large amounts of waste heat from industrial or other processes is re-circulated into a network of heat-pipes running through the city.

NeuroSearch uses small quantities of radioactive trace elements in certain laboratory experiments. This radioactive material is stored and disposed of in compliance with the guidelines and instructions issued by the Danish National Institute of Radiation Protection.

The indoor environment
We have a good working environment at NeuroSearch which we want to maintain and develop. There is always room for improvement, so we will constantly work to ensure that NeuroSearch will continue to be a safe and healthy workplace, in terms of both the psychological and physical working environment.

NeuroSearch has always focused on working environment activities, and in 2008 we decided to establish a dedicated working environment department.

In the years ahead, working environment activities at NeuroSearch will be more structured and uniform in the organisation, and we will work towards achieving a working environment certification level. This will lead to efficiency improvements in our working environment activities, including documentation, while also ensuring that we can continue to work in the optimum manner in our day-to-day activities taking into account employee safety and health.

"We currently have a good working environment at NeuroSearch which it is my goal to maintain and develop so that our company appears as a modern and attractive place of employment"

Karina Borup, Working Environment Supervisor at NeuroSearch

NeuroSearch complies with all regulatory requirements with respect to animal experiments, ensuring that they are performed in the most humane and appropriate manner

ETHICS

The regulatory authorities require that all new drugs are subject to extensive and lengthy studies before they can be marketed. These studies include testing in animals and clinical trials in healthy humans and in patients. Another reason why these animal experiments are necessary is the need to understand disease mechanisms and the safety of potential new drugs before they are administered to humans. NeuroSearch is in a close dialogue with the authorities on how to reduce the number of experiments and how to improve experiments conducted. NeuroSearch also follows the regulatory rules closely with respect to storing of laboratory animals. The latest initiatives include "environmental enrichment", which includes the layout of cages so that the animals can build nests, clean themselves and have other natural behaviour.

External contract research organisations are carefully selected when safety experiments are to be made in animals before clinical studies are conducted with the company's drug candidates. NeuroSearch only uses European organisations of good international repute that comply with all European standards on animal welfare and receive relevant inspections by the authorities.

As a relatively new initiative, NeuroSearch has begun to use zebra fish as test organisms. For instance, it is possible to induce a condition in the larva of zebra fish which is similar to epileptic seizures, and if a drug compound is added to the water, it is possible to measure whether the compound inhibits the seizures and could thus be a new anti-epileptic drug. So far, zebra fish have only replaced a small part of the other laboratory animals that are normally used, but it is possible that they can also be used as models for other diseases in future. In this respect, the genes of the fish can be mutated so that they can be used as a model for disorders such as Alzheimer's disease.

In fact, using larva from zebra fish instead of rodents has great ethical and economic benefits. The regulatory authorities, especially the US health authorities (the FDA) have shown interest in this new type of laboratory animals. Zebra fish could potentially be accepted as animal models for testing of new pharmaceuticals within a few years, which could considerably reduce the number of other laboratory animals used.

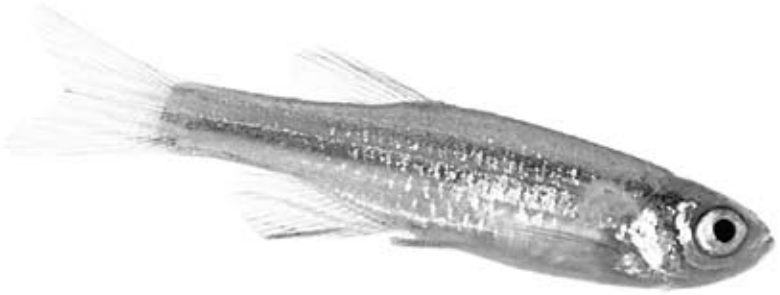
NeuroSearch aims to respect a number of formulated international principles. These principles concern:

- The UN Convention on the Rights of the Child concerning child labour
- Equal rights at work with respect to gender, race and religion
- The right of the individual to establish and be a member of a legal labour union
- International and national environmental law

NeuroSearch is, furthermore, subject to and complies with the international standards for drug development listed below. They are intended to provide quality assurance of laboratory studies and clinical trials of potential pharmaceuticals and the processing of data resulting from the studies.

- Good Laboratory Practice (GLP) must generally be followed by anyone involved in drug development
- Good Clinical Practice (GCP) is a set if rules that govern clinical trials involving both healthy volunteers and patients
- Good Manufacturing Practice (GMP) is a set of rules on production, including the production of pharmaceuticals for preclinical and clinical studies.

NeuroSearch is in a close dialogue with the authorities on how to reduce the number of experiments and how to improve the experiments



As a relatively new initiative, NeuroSearch has begun to use larva from zebra fish as test organism

AFP Photo: Don Emmert

SHAREHOLDER INFORMATION

NeuroSearch's shares are listed on the Nasdaq OMX Copenhagen under securities identification code 1022466 (NEUR.CO) and has since January 2006 been included in the MidCap+ segment.

Share performance
On 30 December 2008, the closing price of NeuroSearch's shares was DKK 136 compared with a year-end price of DKK 326 in 2007, equivalent to a 58% price drop in 2008. By comparison, the OMX Copenhagen Healthcare Index (OMX Copenhagen Health Care) fell by approximately 43%, whilst the OMX Copenhagen All Shares index fell by approximately 60%.

Turnover of NeuroSearch shares in 2008 totalled approximately DKK 2.4 billion, and 9.8 million shares were traded during the year. This corresponded to an average daily turnover of DKK 9 million for the year. In 2007, turnover totalled approximately DKK 5.7 billion, and a total of approximately 18 million shares were traded.

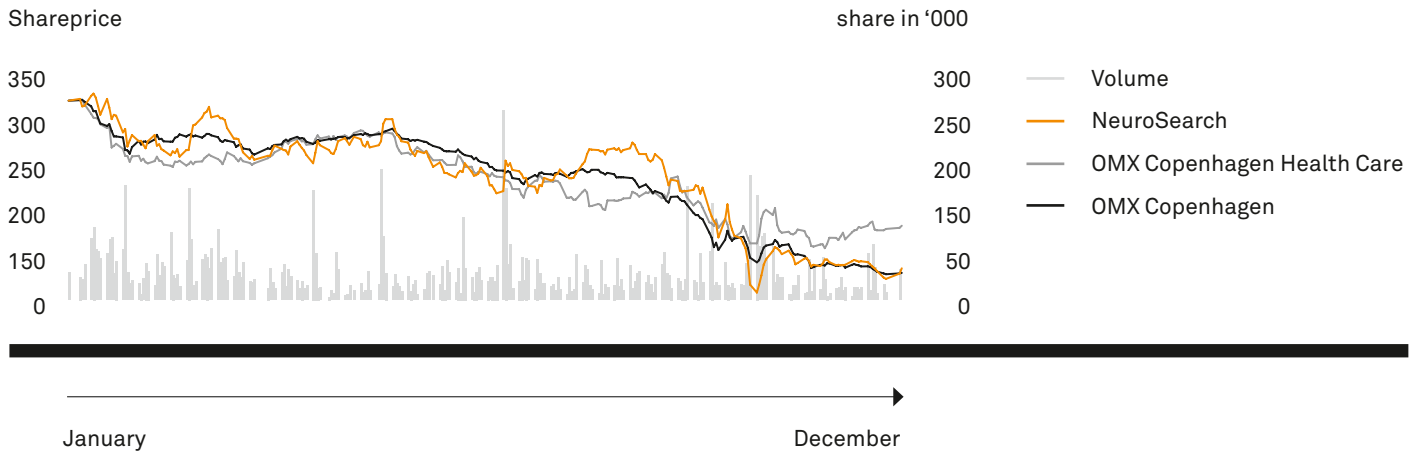
NeuroSearch's market capitalisation on 30 December 2008 was close to DKK 2.1 billion compared with close to DKK 5 billion at year-end 2007.

Share capital
In January 2008, NeuroSearch issued 185,755 new shares with a nominal value of DKK 20 each to the vendors of Carlsson Research AB at a price of DKK 319.21 each as a milestone relating to the first dosing of ACR343 in a Phase I clinical study.

In March 2008, NeuroSearch issued 13,290 new shares with a nominal value of DKK 20 each related to the exercise of warrants granted in 2004. The new shares were subscribed under the warrant programme without pre-emption rights to the company's existing shareholders or others at DKK 248.39 per share.

In May 2008, NeuroSearch issued 300,000 new shares in a private placement to institutional investors at DKK 280 per share to fund a milestone payment relating to ACR16 in Phase III of SEK 100 million (approximately DKK 80 million/approximately EUR 10.7 million) to the vendors of Carlsson Research AB.

Share price performance in 2008



In September 2008, NeuroSearch issued 1,553 new shares with a nominal value of DKK 20 each related to the exercise of warrants granted in 2004. The new shares were subscribed under the warrant programme without pre-emption rights to the company's existing shareholders or others at DKK 248.39 per share.

In February 2009 NeuroSearch and Lilly entered a research and development agreement. As part of the payment Lilly will make an equity investment of USD 17 million (DKK 99.2 million). The investment comprise of 530,745 new shares in NeuroSearch of DKK 20 nominal value. The shares will be subscribed at a price of DKK 187 per share of a nominal value of DKK 20 each.

The Board of Directors continuously assesses NeuroSearch's capital and share structure to ensure that the company's financial resources can support its strategic goals.

Ownership structure
On 31 December 2008, NeuroSearch had 19,482 registered shareholders, who held a total of 12,148,408 shares. Registered shares accounted for 77% of the share capital. In 2008, NeuroSearch got an additional 1,062 registered shareholders, and the percentage of registered shareholders concurrently rose by 4%.

Since NeuroSearch's shares are bearer securities, no exact registration exists of the holders.

The following investors have notified NeuroSearch that they hold more than 10% of the shares in the company:

ATP, Kongens Vænge 2, 3400 Hillerød

The following investors have notified NeuroSearch that they hold more than 5% of the shares in the company:

Glaxo Group Limited, Berkeley Ave., Greenford, Middlesex, UB6 0NN, United Kingdom

OppenheimerFunds Inc., Two World Financial Center, 225 Liberty Street, 11th floor, 10281 New York, USA

NeuroSearch does not expect to declare a dividend until the company has achieved a sufficient capital base through company-generated earnings to warrant the distribution of dividends. This could take place through the development and commercialisation of the company's proprietary pharmaceutical products combined with earnings from collaboration agreements.

Geographical distribution of shareholders

DK: 55%

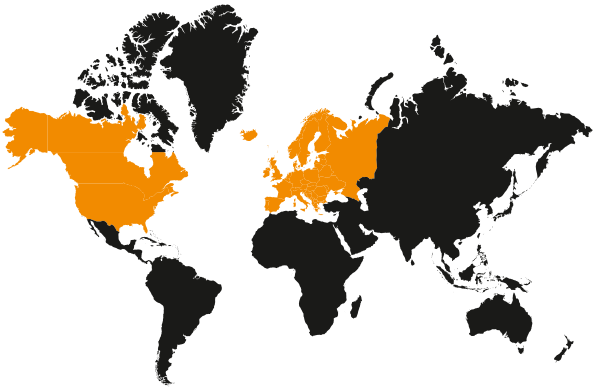
Scandinavian Countries: 5%

UK: 10%

USA/Canada: 25%

Europe: 4%

Others: 1%



On 31 December 2008, the members of the Board of Directors, the Executive Management and the employees held shares in the company as shown below:

SHAREHOLDERS	Number of shares at 31 December 2008
Thomas Hofman-Bang, Chairman	3,100
Allan Andersen, Board member	16,383
Torbjörn Bjerke, Board member	0
Anders Ullman, Board member	0
Gerard van Odijk, Board member	0
Lars Siim Madsen, employee representative	0
Torben Skov, employee representative	990
Mads P. Gersdorff Korsgaard, employee representative	818
Executive Management (5 persons)	65,693
Other employees	251,868
Total	**338,852**[1)]

1) Equivalent to 2.2% of the outstanding share capital of 15,743,285 shares at 31 December 2008.

NeuroSearch does not hold any treasury shares.

Financial reporting in 2009 are:
4 March 2009: Annual Report 2008

29 April 2009: Annual General Meeting and Q1 2009 interim report

26 August 2009: H1 2009 interim report

11 November 2009: Q3 2009 interim report

Financial calendar 2009
The annual general meeting will be held at the Radisson SAS Falconer on Wednesday, 29 April 2009 at 4 p.m. NeuroSearch expects to release its Q1 2009 report on the same date.

Inhouse stock exchange code of ethics
The Board of Directors, management and all other employees of NeuroSearch are subject to the NeuroSearch stock exchange code of ethics. This means that the persons affected are only allowed to deal in NeuroSearch shares during periods of four weeks after the release of the annual and interim reports respectively. NeuroSearch has established a system for monitoring insider trading in company shares.

Information regarding change of control of NeuroSearch

The EU Takeover Directive, which has been implemented as part of the Danish Financial Statements Act, includes certain rules requiring listed companies to provide information that may be of interest to the market and potential bidders. The information to be disclosed must include any change of control clause that would apply to the company in the event of a change in the company's ownership structure.

Please see separate section for information on the ownership structure of NeuroSearch. See note 3 "Staff" for information on change of control clauses in relation to the company's warrant programmes and note 23 to the financial statements on contractual obligations. Other than as set out above, NeuroSearch is not a party to any material agreement which will take effect or be changed or terminated in connection with a change of control in the company if a takeover bid is made.

Warrant programme

NeuroSearch's warrant programme has been established in order to attract and retain highly skilled employees. In the planning of the programme, NeuroSearch has focused on ensuring that both new and existing employees see a direct relationship between the work they do and the progress made by NeuroSearch.

The members of the Board of Directors and the Executive Management and other employees participate in the warrant programme. The programme is based on grants once a year in order to ensure balanced grants, taking into account each employee's performance, company performance and movements in the price of NeuroSearch's shares over time. The Board of Directors has resolved that the programme may not exceed 10% of the issued share capital at any time (at year-end 2008 the warrant programme amounted to 7.6% of the share capital). The exercise price is determined on the basis of the share price on the date of grant plus 10% per year during the vesting period. This ensures that shareholders get a reasonable return on their investment before the employees earn value on their warrants.

Warrants in 2008

On 27 August 2008, the Board of Directors decided to issue 350,000 warrants (13,500 warrants to members of the Board of Directors, 65,000 warrants to members of the Executive Management and 271,500 warrants to other employees), entitling the holders to subscribe for shares with a total nominal value of up to DKK 7,000,000. The exercise price has been fixed at DKK 361 per warrant. There are three exercise periods, which are defined as four weeks after the publication of the following company announcements: Q3 2011 interim report, annual report 2011 and Q1 2012 interim report.

The following table shows the most important information about the warrants granted and outstanding:

Warrants granted in 2004, 2005, 2006, 2007 and 2008 made up at 31 December 2008

Year	Exercise price, DKK	Exercise period	Board of Directors	Executive Management	Other employees[1]	Total (DKK 20 each)	Market value[2]
2004	248.39	March 2009	4,944	20,834	70,614	96,392	0.0
2005	181.23	May 2009 Nov. 2009 March 2010	7,416	28,672	122,008	158,096	2.2
2006	202.27	May 2009 Nov. 2009 March 2010	-	-	12,359	12,359	0.1
2007-I	380.84	May 2010 Aug. 2010 March 2011	-	41,165[3]	204,151	245,316	1.0
2007-II	342.00	Nov. 2010 May 2011 Nov. 2011	14,777	63,331[4]	256,534	334,642	3.2
2008	361.00	Nov./dec. 2011 March/apr. 2012 Aug./sep. 2012	13,500	65,000[4]	267,364	345,864	4.6
Total			**40,637**	**219,002**	**933,030**	**1,192,669[5]**	**11.1**

1) Warrants to other employees have been determined as a net figure less those of employees who are no longer with the company.
2) The market value has been determined in DKK million at the end of the exercise period. The calculation was made as at 30 December 2007 using the Black & Scholes model, applying an average market price of DKK 134.94 per share and a volatility rate of 44.09%, equivalent to the annual volatility of the price of NeuroSearch's shares over the last three years before the balance sheet date (Source: Danske Markets).
3) The grant was made to the Executive Management consisting of four persons.
4) The grant was made to the Executive Management consisting of five persons.
5) The aggregate warrant programme corresponds to 7.6% of the share capital at 31 December 2008.

NEUROSEARCH'S IR POLICY WAS IN THE PAST YEAR RECOGNISED, WHEN WE AGAIN WAS NOMINATED FOR THE IR NORDIC AWARDS

Openness
It is our goal at NeuroSearch to maintain open, honest and dynamic communications with our shareholders, other investors, analysts, the press and other stakeholders in Denmark and abroad. As part of this goal, we wish to ensure that these parties have easy access to relevant information and to a dialogue with our management regarding our financial and business performance as well as its strategies and goals.

Applying a balanced and efficient communications and information policy, we wish to give our stakeholders the best possible basis for assessing NeuroSearch's activities and potential. That way, we aim to ensure that our share price reflects to the best possible extent the company's true value and development potential.

Our most important communications tools are corporate announcements and press releases which are issued via GlobeNewswire, (a Nasdaq OMX company), distribution service, NeuroSearch's website and through direct contact and dialogue with all company stakeholders. Therefore, NeuroSearch regularly holds individual meetings, presentations and teleconferences in connection with important announcements and participates in investor conferences and other events in Denmark and abroad. The company seeks to visit the most important financial centres in the United States and Europe at least twice a year. PowerPoint presentations that have been given on various occasions are subsequently made available on the website, and the website also contains an overview of planned activities in our "IR calendar".

NeuroSearch's IR policy was officially recognised again in 2008, when the company was nominated for the third consecutive year as one of three companies for the IR Nordic Awards in the category "Best IR by a Danish small/mid cap company".

Activities in 2008
In the course of 2008, NeuroSearch's management held a large number of investor meetings, participated in investor conferences, and held presentations in several countries for a very large number of institutional investors and analysts. In November, we also held a Capital Markets Day at NeuroSearch which was attended by Danish and international investors and analysts.

NeuroSearch continues to collaborate with the Nasdaq OMX Copenhagen, the Danish Shareholders' Association, other Danish biotech companies and a number of banks and providers of share services to organise meetings and other events targeting private investors in Denmark. In 2008, we held presentations for more than 1,500 private investors, including an event for our private shareholders at NeuroSearch's head office in Ballerup.

Efficient and broad analyst coverage is important to attract the attention of international institutional investors. Also in this area, we saw very positive developments in 2008, as JP Morgan, Goldman Sachs, SEB Enskilda, Kaupthing and Sydbank all began to cover our share and issue analyst reports with favourable assessments and buy recommendations.

Letters to shareholders
NeuroSearch issues a letter to all registered shareholders twice a year in which our CEO Flemming Pedersen provides information on developments in the company and gives an account of key plans and prospects for the next six month period. The latest letter to shareholders is available on our website. Moreover, all new registered NeuroSearch shareholders receive a welcome letter with information on our investor relations.

We invite all our shareholders to register with the company.

Hanne Leth Hillman
Director of Investor Relation & Corporate Communications

"At NeuroSearch we believe that investor relations is mainly about the development of good relations and a continuing and open dialogue with our shareholders, other investors, the players in the equity market and with relevant media. Ensuring that our dissemination of information is consistent is important to us, and we aim to communicate in a differentiated manner adapted to the needs and background of our various stakeholders. We are confident that this enables us to help provide the greatest possible insight into and understanding of our company and its potential"

NeuroSearch's website

NeuroSearch considers it important that our website is updated at all times so that shareholders and other stakeholders can always get an overview of company news and on the status of the development of the individual products in our pipeline as well as in-depth information on our development programmes and research platform. The website is changed continuously and we seek to adapt it to the requirements of all our stakeholders. We welcome any comments and proposals for changes from users of the website.

For comments and proposals regarding NeuroSearch's website, please contact Helle S. Prudinsky, IR & Corporate Communications Manager, at hsp@neurosearch.dk.

The website provides access to an archive of the last four years' company announcements, press releases, financial statements and company presentations used during the past year. The website also includes a list of analysts who monitor NeuroSearch and issue investment recommendations.

Website: www.neurosearch.com

E-mail and SMS service
NeuroSearch invites all shareholders and other stakeholders to register for our e-mail service in order to automatically receive company announcements and press releases directly by e-mail.

You can register for NeuroSearch's e-mail and text message service at:

www.neurosearch.com under "Investor relations / Mailing list"

From January 2009, we can also send a text message whenever new releases are issued. Registration for this service can also be made under "Investor relations/Mailing list".

BOARD OF DIRECTORS

Gerard W. M. van Odijk
President & CEO, Teva Pharmaceuticals Europe B.V. (born 1957, independent Board member since 2008)
Bavarian Nordic A/S, Board member

Lars Siim Madsen
ph.d., Vice President, Director of Transitional R&D (born 1970, Board member since 2004, Employee re-elected in 2008)

Mads P. Gersdorff Korsgaard
ph.d., Senior Research Scientist (born 1971, Board member since 2008, Employee elected in 2008)

Thomas Hofman-Bang (Chairman)
CEO, NKT-Holding A/S (born 1964, independent Board member since 2007)
Large number of executive positions in the NKT Group
BL&S Capital Management Fondsmæglerselskab A/S, chairman
Rambøll Group A/S, Board member
Nordea Invest Fund Management A/S, Board member

Allan Andersen
CEO, Freja ejendomme A/S
(born 1945, independent Board member since 1990)
Connectia A/S, vice chairman

Torben Skov
Laboratory Technician
(born 1967, Board member since 2004, Employee re-elected in 2008)

Anders Ullman
Executive Vice President, Nycomed
(born 1956, independent Board member since 2008)
Nycomed GmbH, Konstanz, Germany, member of the Executive Management
Nycomed Asset Management GmbH, Konstanz, Germany, Board member
Nycomed Private Ltd, Mumbai, India, member of the Executive Management

Torbjörn Bjerke
CEO, Orexo AB
(born 1962, independent Board member since 2006)
DBV Technologies S.A., Board member
Action Pharma Holding I A/S and Action Pharma A/S, Board member
TopoTarget A/S, Board member
TBIOTECH ApS, member of the Executive Management

EXECUTIVE MANAGEMENT

Frank Wätjen
ph.d., Executive Vice President,
Director of Drug Development
(born 1952, member of the Executive Management since 2000)

Jørgen Drejer
ph.d., Executive Vice President, Director of Drug Discovery
(born 1955, member of the Executive Management since 2000)
Atonomics A/S, Board member
MediCult A/S, Board member
NsGene A/S, Board member
Delta, Board member

Dieter H. Meier
MD, MBA, Executive Vice President, CMO
(born 1955, member of the Executive Management since 2007)
CenTrail (Germany), Board member

Flemming Pedersen
M.Sc. (aud), CEO
(born 1965, member of the Executive Management since 2001)
Atonomics A/S, chairman
Sophion Bioscience A/S, chairman
Bavarian Nordic A/S, Board member
Astion Pharma A/S, Board member
MBIT Consulting A/S, Board member
NsGene A/S, Board member
Naapster ApS, manager

Finn Eggert Sørensen
Cand.pharm,
Executive Vice President, CBO
(born 1954, member of the Executive Management since 2004)
ZGene A/S, chairman
Neurokey A/S, Board member

MANAGEMENT STRUCTURE

Board practices
All members of the Board of Directors elected by the shareholders at the general meeting are elected for terms of one year, whereas employee representatives are elected for four-year terms. The employee representatives are up for election again in 2012.

Six Board meetings were held during 2008. The Board performs its duties in accordance with its rules of procedure. The rules of procedure include rules on the allocation of powers and duties between the Board of Directors and the Executive Management and on the maintenance of minute books, the register of shareholders and protocols. Before each meeting, the Board of Directors receives a report from the Executive Management on the status of the business which may be of interest to the Board, including a status report on development and discovery projects, the budget, other financial information, the organisation and investor relations activities, corporate ventures, etc. In addition, the Board of Directors receives a status report on the activities of the company every month. The Board's rules of procedures provide for the possibility of setting up audit and/or remuneration committees. NeuroSearch has set up an audit committee, which comprises the entire Board of Directors. No remuneration committee had been set up due to the limited size of the company.

Other Board duties include establishing policies and making decisions such as on:

- the rolling five-year strategic plan, which is prepared every year
- the budget for the coming year, which is prepared on the basis of the strategic plan and emphasises detailed projects and activity forecasts
- material collaboration agreements
- incentive plans
- the annual report
- the appointment of executive officers

Once a year, the Chairman of the Board of Directors evaluates the competencies of the Board members to ensure the best possible use of them in relation to NeuroSearch. Furthermore, the collaboration between the Board of Directors and the Executive Management is evaluated once a year, and the Board of Directors regularly reviews the work of the Executive Management based on criteria set in advance. The evaluation of the work of the Executive Management is conducted in a close dialogue between the CEO of NeuroSearch and the Chairman of the Board of Directors. The results of the evaluation process are subsequently considered by the entire Board of Directors.

Remuneration policy for the Board of Directors
Members of NeuroSearch's Board of Directors receive a fixed fee, and warrants may be granted to them, the aggregate number of which is set out in the company's articles of association. The fees to the Board of Directors are fixed according to the standards in the market and reflect demands to their competencies and efforts in light of the scope of their work and the number of Board meetings. The shareholders in general meeting authorise the maximum number of warrants that can be granted to members of the Board of Directors in each of the warrant programmes, and the Board of Directors then evaluates on a case-by-case basis whether it should participate in the warrant programme.

The Chairman receives twice the fee of an ordinary Board member. The Chairman's fee in respect of 2007 was DKK 400 thousand, and fees paid to each of the ordinary members amounted to DKK 200 thousand, equivalent to a total of DKK 1.8 million. The members of the Board of Directors participate in the warrant programme and were granted a total of 13,500 warrants in 2008. The members of the Board of Directors did not receive any other remuneration from NeuroSearch in 2008, except for members who are employees of NeuroSearch, who also received their normal salaries.

A proposal will be submitted to the Annual General Meeting that the fees to the members of the Board of Directors remain unchanged.

Remuneration policy for the Executive Management
The Executive Management consists of five persons who are employed on a contractual basis. The members of the Executive Management received a total of DKK 17.3 million in salaries inclusive the calculated value of warrants in 2008. The members of the Executive Management participate in the warrant programme and were granted a total of 65,000 warrants in 2008.

Corporate governance
Pursuant to the rules of the Nasdaq OMX Copenhagen, listed companies must state in their annual reports their position relative to the latest updated version of "Corporate Governance Recommendations 2005". This must be done applying the "comply or explain" principle.

NeuroSearch generally complies with all recommendations in each of the main sections of the Corporate Governance Recommendations with a few exceptions which are described below.

The composition of the Board of Directors
- It is recommended that, prior to the election of new Board members, the Board of Directors distributes a description of the candidates nominated together with the notice convening the general meeting. NeuroSearch seeks to comply with the recommendation to the extent possible.
- The recommendations emphasise that Board members should have the necessary time to handle their Board work, and the recommendations also include the scope of other directorships a Board member should hold. NeuroSearch does not believe that it is the task of the Board of Directors to control Board members' other working circumstances. In the nomination of Board members, NeuroSearch naturally considers it important that the candidates are aware of the scope of the work involved and have the necessary time to perform the role as a member of the Board of Directors.
- It is recommended that an age limit be set for Board members. NeuroSearch intends to prepare guidelines on this in 2009.

NeuroSearch meets the other recommendations in this main section.

Remuneration to the Board of Directors and Executive Management
- The recommendations emphasise openness around the remuneration of the Board of Directors and Executive Management. NeuroSearch has elected to disclose the remuneration paid to the company's registered CEO. The remuneration of the other members of the Executive Management is disclosed as an aggregate amount. The employment conditions and remuneration of the members of the Executive Management do not deviate from the general standards in the industry.

NeuroSearch meets all other recommendations in this main section.

Audit
- It is recommended that audit agreements and the related auditor's fee are agreed between the Board of Directors and the auditor. An audit committee has been set up to among other things review audit agreements and audit fees.

NeuroSearch complies with all other recommendations in this main section.

NeuroSearch has posted additional relevant information on corporate governance on the corporate website, www.neurosearch.com, under "Investor relations/Corporate governance".

Auditors
PricewaterhouseCoopers
Statsautoriseret Revisionsaktieselskab
Strandvejen 44
DK-2900 Hellerup
Denmark

Legal advisers
Kromann Reumert
Sundkrogsgade 5
DK-2100 Copenhagen Ø
Denmark

Bank
Nordea Bank Danmark A/S
Vesterbrogade 8
P.O. Box 850
DK-0900 Copenhagen C
Denmark

MANAGEMENT'S STATEMENT

Ballerup, 4 March 2009

The Board of Directors and the Executive Management today considered and approved the Annual Report of NeuroSearch A/S for the financial year 1 January - 31 December 2008.

The consolidated financial statements are presented in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU. The financial statements of the parent company, NeuroSearch A/S, are presented in accordance with the Danish Financial Statements Act. In addition, the Annual Report is presented in accordance with the other accounting regulations applicable to companies listed on the Nasdaq OMX Copenhagen. In our opinion, the accounting policies applied are expedient, thus ensuring that the Group's internal control relevant to preparing and presenting the Annual Report is adequate to ensure that the Annual Report gives a true and fair view of the Group's and the Parent's financial position at 31 December 2008 and of the results of their operations and the consolidated cash flows for the financial year 1 January – 31 December 2008, together with a description of the material risk and uncertainties the Group faces.

The Annual Report is submitted for approval by the Annual General Meeting.

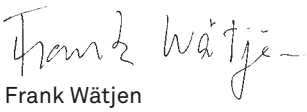
Executive Management

Flemming Pedersen
CEO

Finn E. Sørensen
CBO

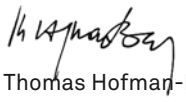
Dieter H. Meier
CMO

Jørgen Drejer
Director of Drug Discovery



Frank Wätjen
Director of Drug Development

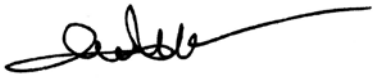
Board of Directors



Thomas Hofman-Bang
Chairman

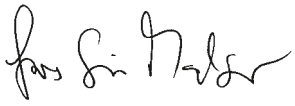
Allan Andersen

Torbjörn Bjerke



Anders Ullman

Gerard van Odijk



Lars Siim Madsen
Employee representative

Torben Skov
Employee representative

Mads P. Gersdorff Kørsgaard
Employee representative

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of NeuroSearch A/S
We have audited the Annual Report of NeuroSearch A/S for the financial year 1 January - 31 December 2008, pages 1-95, which comprises Management's Statement, Management's Review, accounting policies, income statement, balance sheet, statement of changes in equity and notes for the Group as well as for the Parent Company and consolidated cash flow statement.

The Consolidated Financial Statements is prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the Parent Company Financial Statements is prepared in accordance with the Danish Financial Statements Act. Further, the Annual Report is prepared in accordance with additional Danish disclosure requirements for annual reports of listed companies.

Management's Responsibility for the Annual Report
Management is responsible for the preparation and fair presentation of the Annual Report in accordance with the said legislation and accounting standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of an Annual Report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on the Annual Report based on our audit. We conducted our audit in accordance with Danish Auditing Standards. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance that the Annual Report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Annual Report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Annual Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the Annual Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the Annual Report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

Opinion
In our opinion, the Annual Report gives a true and fair view of the financial position at 31 December 2008 of the Group and of the results of the Group operations and cash flows for the financial year 1 January - 31 December 2008 in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for annual reports of listed companies.

In addition, in our opinion, the Annual Report gives a true and fair view of the financial position at 31 December 2008 of the Parent Company and of the results of the Group operations for the financial year 1 January - 31 December 2008 in accordance with the Danish Financial Statements Act and additional Danish disclosure requirements for annual reports of listed companies.

Hellerup, 4 March 2009

PricewaterhouseCoopers
Statsautoriseret Revisionsaktieselskab

Mogens Nørgaard Mogensen
State Authorised Public Accountant

Brian Benjamin Staalkjær
State Authorised Public Accountant

CONSOLIDATED FINANCIAL STATEMENT FOR NEUROSEARCH GROUP

Accounting policies

NeuroSearch's accounting policies applied in the preparation of the consolidated financial statements are set out below. The accounting policies are unchanged from previous years, except for the elements described in the section below.

Basis of preparation
The Annual Report has been prepared in accordance with the International Financial Reporting Standards as approved by the EU and additional Danish disclosure requirements for the annual reports of listed companies. Additional Danish disclosure requirements for the presentation of financial statements are imposed by the Statutory Order on Adoption of IFRS issued under the Danish Financial Statements Act and by the Nasdaq OMX Copenhagen.

The financial statements of the parent company, NeuroSearch A/S, are presented in accordance with the provisions of the Danish Financial Statements Act. The financial statements are presented on pages 85-95, and the accounting policies are described on page 86.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss.

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 NeuroSearch's accounting policies. The areas involving a higher degree of judgment or complexity, and areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 1.

The consolidated financial statements are presented in DKK, which is the functional currency of the parent company.

Adoption of new standards
NeuroSearch has opted for early implementation of IFRS 7 "Financial instruments, disclosures". In the Annual Report for 2008, NeuroSearch moreover applied all new and amended standards and interpretations that have come into force and been adopted by the EU with effect for the current financial period.

The standards and interpretations in question are as follows; only relevant standards are mentioned:

Amendment of IAS 39 "Financial instruments" and IFRS 7
The amendment of IAS 39 eases the provisions for when, after initial recognition, a financial instrument can be transferred from one classification (fair value through profit or loss, available-for-sale, etc.) to another classification. The amendment did not have any effect on this Annual Report. As a result, the amendments to IFRS 7 regarding disclosures in connection with reclassification did not have any effect, either.

IAS 1 "Presentation of financial statements"
The amendment concerns capital disclosures. The amendment requires additional disclosures about the company's capital resources and how the capital is managed. The new disclosure requirements have been implemented in this Annual Report. The implementation does not have any effect on equity or results of operations.

IFRS 2 "Share-based payment"
Concerns the distinction between vesting conditions and restrictions and the accounting treatment of cancellations. The amendment did not have any effect on this Annual Report.

IFRIC 10 "Interim financial reporting and impairment
The interpretation implies that impairment of goodwill recognised in an interim report cannot be reversed when the annual report is prepared. The interpretation did not have any effect on this Annual Report.

IFRIC 11 "IFRS 2 – Group and treasury share transactions"
The interpretation concerns share-based payment in the Group. The interpretation did not have any effect on this Annual Report.

In addition, the IASB has issued the following amendments to standards and new interpretations that have been adopted by the EU, but which have not yet come into force:

IAS 1 "Presentation of financial statements"
The standard allows the option of presenting a new income statement and contains a requirement for the presentation of a statement of comprehensive income. Except for changes in options and requirements as to presentation, the amendment has no effect on equity and results of operations. The requirements of the standard will be implemented in 2009.

Finally, the IASB has issued the following amendments to standards and new interpretations that have not yet been adopted by the EU:

IAS 27 "Consolidated and separate financial statements"
Pursuant to the amendment, if a company acquires or disposes of investments in a subsidiary without losing control, the difference between the purchase price or selling price and the carrying amount thereof should be accounted for as an equity transaction. The application of this amended standard is not expected to have any material impact on the annual reports for coming financial years.

IFRIC 16 "Hedges of a net investment in a foreign operation"
Concerns hedge accounting of the currency risk in a foreign operation. The interpretation is not expected to have a material impact.

Basis of consolidation
Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are continuously exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The consolidated financial statements are prepared by adding the audited financial statements of the parent company and the individual subsidiaries, all of which are prepared in accordance with the Group's accounting policies. On consolidation, intercompany income and expenses, shareholdings, balances, dividends and unrealised intercompany gains and losses are eliminated.

All subsidiaries are consolidated:
- NeuroSearch Sweden AB
- Poseidon Pharmaceuticals A/S
- NeuroScreen ApS
- NsExplorer A/S

Business combinations
Newly acquired or newly established companies are recognised in the consolidated financial statements from the date of acquisition. The comparative figures are not adjusted to reflect acquisitions.

The purchase method is applied for acquisitions if NeuroSearch A/S gains control of the company acquired. Identifiable assets, liabilities and contingent liabilities in companies acquired are measured at the fair value at the date of acquisition. Identifiable intangible assets are recognised if they can be separated or arise from a contractual right and the fair value can be reliably measured. Deferred tax on revaluations made is recognised.

The date of acquisition is the date on which control of the acquired company actually passes to NeuroSearch A/S.

For business combinations, any excess of the cost of acquisition over the fair value of the acquired identifiable assets, liabilities and contingent liabilities is recognised as goodwill under intangible assets. Goodwill is not amortised, but is tested for impairment annually. The first impairment test is performed before the end of the year of acquisition. On acquisition, goodwill is transferred to the cash-generating units which will subsequently form the basis for future impairment tests. Any goodwill arising and any fair value adjustments made on the acquisition of a foreign entity whose functional currency is not the same as the NeuroSearch Group's presentation currency are treated as assets and liabilities of the foreign entity and translated to the foreign entity's functional currency at the exchange rate at the transaction date. Any excess of the fair value over the cost of acquisition (negative goodwill) is recognised in the income statement at the acquisition date.

The cost of a company is the fair value of the agreed consideration paid plus costs directly attributable to the acquisition. If parts of the consideration are conditional on future events, these parts of the consideration are recognised in cost to the extent the events are likely and the consideration can be reliably measured.

If the measurement of acquired identifiable assets, liabilities and contingent liabilities is subject to uncertainty at the time of acquisition, initial recognition will be made on the basis of a preliminary calculation of fair values. If it later turns out that the identifiable assets, liabilities and contingent liabilities had a different fair value at the time of acquisition than that originally assumed, goodwill will be adjusted until 12 months after the acquisition. The effect of the adjustments will be recognised in the opening shareholders' equity, and the comparative figures will be restated accordingly. Henceforth, goodwill will be adjusted only to reflect changes in estimates of contingent consideration, apart from material errors. However, where the acquired company's deferred tax assets not recognised at the date of acquisition are subsequently realised, the tax benefit is recognised in the income statement and the carrying amount of goodwill will concurrently be written down to such amount as would have been recognised had the deferred tax asset been recognised as an identifiable asset at the date of acquisition.

Any gains or losses on the disposal of subsidiaries and associates are stated as the difference between the sales amount and the carrying amount of net assets, including goodwill, at the date of disposal plus anticipated disposal costs.

Segment information
The Group is managed as a single business unit operating in the Nordic region, which is considered a single geographic market. It is not possible to identify separate business areas for the individual product candidates or geographic markets. Therefore, it is not relevant to report segment information by business segments or geographic markets.

Foreign currency translation
For each of the reporting companies in the Group, a functional currency is determined. The functional currency is the currency used in the primary economic environment in which the individual reporting entity operates. Transactions in currencies other than the functional currency are transactions denominated in foreign currencies.

On initial recognition, transactions denominated in foreign currencies are translated into the functional currency at the exchange rate ruling at the transaction date. Exchange differences arising between the exchange rate at the transaction date and the exchange rate at the date of actual payment are recognised in the income statement under financial income or financial expenses.

Receivables, payables and other monetary items denominated in foreign currencies are translated into the functional currency at the exchange rates ruling at the balance sheet date. The difference between the exchange rate ruling at the balance sheet date and the exchange rate ruling at the date when the receivable or payable arose, or the exchange rate applied in the most recent annual report, is recognised in the income statement under financial income or financial expenses.

On consolidation of companies with functional currencies other than DKK, the income statements are translated at the exchange rates ruling at the transaction date and the balance sheets are translated at the exchange rates ruling at the balance sheet date. The average exchange rate for each individual month is used as the transaction date, provided this does not give a much different view. Exchange differences arising on the translation of the opening equity of such companies at the exchange rates ruling at the balance sheet date and on the translation of the income statements from the exchange rates ruling at the transaction date to the exchange rates ruling at the balance sheet date are taken directly to equity in a separate reserve for currency translation.

Foreign exchange adjustment of balances that are considered as part of the overall net investment in companies with functional currencies other than DKK are recognised directly in equity in the consolidated financial statements in a separate reserve for currency translation. Similarly, exchange gains and losses on the part of loans and derivative financial instruments effectively hedging the net investment in such companies and which effectively hedge against corresponding exchange gains/losses on the net investment in the companies are taken directly to equity in the consolidated financial statements in a separate reserve for currency translation.

On full or partial divestment of foreign entities or on repayment of balances that are considered to be part of the net investment, the attributable part of the accumulated exchange rate adjustments recognised directly in equity is recognised in the income statement together with any gain or loss on the divestment.

The Group does not use derivative financial instruments to hedge the fair value of a recognised asset or a recognised liability.

Derivative financial instruments
The Group uses forward exchange contracts to hedge expected transactions. When a contract is entered into, the Group designates each individual forward exchange contract that meets the conditions of IAS 39 as a hedge of a specific hedged item.

All contracts are measured at fair value at the balance sheet date. Positive and negative fair values are included in other receivables and other payables respectively. The fair values are calculated on the basis of current market data and recognised valuation methods.

Value adjustments of forward exchange contracts designated as hedges of expected transactions are recognised directly in equity if the hedge is effective. Accumulated value adjustments of these contracts are reclassified from equity to financial income/expense in the income statement when the hedged transaction has been recognised in the income statement.

Contracts that do not qualify for hedge accounting are similarly measured at fair value. Such contracts are included in the line item "Other financial assets at fair value through profit or loss" under financial income/expense.

Income tax and deferred tax
Tax on income for the year, consisting of the year's current tax and deferred tax, is recognised in the income statement to the extent that it relates to the income or loss for the year and in equity to the extent that it relates to amounts recognised in equity. Current tax liabilities are recognised in the balance sheet as short-term liabilities to the extent such items have not been paid. If the tax paid during the year exceeds current tax for the year and prior years, the amount expected to be repaid is recognised in the balance sheet under receivables. Current tax includes tax payable based on the year's expected taxable income and any adjustments of prior year tax charged to the income statement.

Deferred taxation is calculated on all temporary differences between accounting and tax values. Deferred tax is calculated at the rate of 25%. Deferred tax arising on tax-deductible temporary differences (tax assets) is included in the balance sheet only if there is reasonable certainty that the tax assets can be set off by NeuroSearch A/S against future taxable income. The amounts of tax-deductible temporary differences which are not capitalised are disclosed in a note to the financial statements.

NeuroSearch A/S is jointly taxed with its Danish group companies. The jointly taxable income is stated as the sum of the individual results of the group companies after deduction of loss carry-forwards, as separate losses from previous assessment years may only be deducted and carried forward with the individual company. In case of carry-forwards, the oldest losses must be set off first.

If the joint taxable income is positive, the profit is distributed proportionately between the profit-making companies. If the joint taxable income is negative, the loss is distributed proportionately between the loss-making companies and carried forward with the company in question for set-off in subsequent years.

Leasing
Lease contracts under which substantially all the risks and rewards incidental to ownership are transferred to the Group are classified as finance leases. Assets held under finance leases are recognised in the balance sheet at the lower of the fair value and the net present value of the minimum lease payments at the inception of the lease, and the corresponding amount is included in liabilities. The present value of the future lease payments is calculated using the interest rate implicit in the lease. The lease payments are deemed to comprise interest and repayments. Interest is charged to the income statement. The assets are depreciated over their expected useful economic lives like other similar groups of assets or over the shorter lease term, and the liability is reduced by the repayment portion of the lease payment.

Lease payments for assets held under operating leases are charged to the income statement on a straight-line basis. Commitments under operating leases are disclosed in the notes to the financial statements.

Share-based payment (warrants)
NeuroSearch has established equity-settled share-based payment plans (warrants). The employee services received in exchange for the grant of the warrants or shares is recognised as an expense and allocated over the vesting period. The amount is determined as the fair value of the equity instruments granted. The total amount recognised over the vesting period corresponds to the fair value of the warrants or shares that actually vest. The fair value is determined at the grant date and is not adjusted subsequently.

On each balance sheet date, NeuroSearch reassesses its estimates of the number of warrants expected to be exercised. NeuroSearch recognises any impact of such reassessment of the original estimates in the income statement (catch up) with a corresponding adjustment in equity over the remaining vesting period. Prior-year adjustments are recognised in the income statement in the adjustment year.

INCOME STATEMENT

Revenue recognition
Revenue consists of milestone payments and other income from research and development agreements. Revenue is recognised when it is probable that future economic benefits will flow to NeuroSearch and these benefits can be measured reliably.

Up-front payments that are attributable to subsequent research and/or development activities are recognised as deferred revenue and will subsequently be recognised as revenue over the expected contract period. Non-refundable up-front payments and milestone payments that are not attributable to subsequent research and/or development activities or other delivery obligations are recognised as revenue when the contracts are signed or when the milestone criteria are met respectively.

Public grants
The Group receives government grants to certain Ph.D. students and research programmes. Government grants are recognised at the time when a final and firm right to the grant has been obtained. Grants related to costs incurred are set off against research costs. Conditional repayment obligations regarding the grants received are disclosed in a note to the financial statements as contingent liabilities to the extent that they are not expected to become unconditional.

Research costs
Research costs include salaries, other costs, including patent costs, and depreciation attributable to NeuroSearch's research activities. Research costs are expensed in the year in which they are incurred. Government grants, if any, are set off against the research costs.

Development costs
Development costs include salaries and costs relating to specific development programmes. A specific development programme is characterised by a single compound being tested in a number of studies to illustrate the physical-chemical properties, toxicology and effect in humans. Development costs are capitalised if it is sufficiently certain that the costs are recoverable.

General and administrative costs
General and administrative costs include salaries, other staff costs, office costs, etc. as well as depreciation.

Financials
Financial items comprise interest, financial expenses for finance leases, realised and unrealised currency translation adjustments and fair value adjustments of securities. Interest income and expenses are recognised in the income statement at the amounts relating to the relevant financial year.

BALANCE SHEET

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "Intangible assets". Goodwill on acquisitions of associates is included in "Investments in associates". Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill in respect of the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Development projects
Development projects acquired in connection with business combinations are measured at cost less accumulated depreciation and impairment.

After completion of the development work, development projects are amortised on a straight-line basis over their estimated useful economic lives from the time the asset is ready for use. The amortisation period is expected to be 12 years. The basis of amortisation is reduced by any impairment writedowns.

Inhouse development costs are capitalised if it is sufficiently certain that future earnings from the product can cover not only production, sales and administrative costs, but also the development costs themselves. However, management has assessed that, in view of the general risk related to the development of pharmaceutical products, such sufficient certainty cannot be obtained at the present time that sufficient future earnings will be achieved, and all development costs are therefore expensed in the year they are incurred. The future financial benefits in relation to the product development cannot be estimated with sufficient certainty until the development has been completed and the necessary regulatory approvals have been obtained.

Licences and patent rights
Licences and patent rights acquired for consideration are measured at cost.

Licences and patents have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives (15-20 years), however, not longer than the licence agreement or patent period.

Property, plant and equipment
Land and buildings are measured at historic cost, in the case of buildings less accumulated depreciation and impairment losses. Plant and machinery and other plant and equipment are measured at purchase price less accumulated depreciation and impairment losses. Historic cost and purchase price include expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the carrying amount of the asset or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Property, plant and equipment is depreciated on a straight-line basis over the useful economic lives of the assets to the expected residual values. The depreciation is based on an estimate of the useful economic lives for uniform categories of assets. The residual value is reassessed annually to the amount management believes is recoverable for the asset on the balance sheet date if the asset was already so old and used as it will be at the time when the asset is expected to be sold. The residual values and useful lives of the assets are reviewed, and adjusted if appropriate, at each balance sheet date. If the depreciation period or the residual value are changed, the effect on depreciation going forward is recognised as a change in accounting estimates.

The expected useful economic lives are as follows:

Buildings	40 years
Plant and machinery	5-10 years
Other plant and equipment	5-10 years
IT equipment	3-5 years

The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset is higher than the estimated recoverable amount as described below. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement as research, development and general and administrative costs respectively.

Impairment of non-financial assets
Assets that have an indefinite useful life (goodwill) are not amortised and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of the asset less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that have previously suffered impairment are reviewed for possible reversal of the impairment at each balance sheet date.

Investments in associates
Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method and are initially recognised at cost.

The Group's investments in associates include goodwill (net of accumulated impairment losses) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative

post-acquisition movements are adjusted against the carrying amount of the investment. If the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Financial assets
The Group and the parent company classify their financial assets in the following categories:

- at fair value through profit or loss
- loans and receivables
- available for sale

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets on initial recognition and re-evaluates this designation at every reporting date.

Financial assets measured at fair value through profit or loss
Financial assets designated as measured at fair value through profit or loss on initial recognition are those that are managed and whose performance is evaluated on a fair value basis, in accordance with a documented Group investment strategy. The investments and returns thereon are included on this fair value basis in the management reporting. Assets in this category are classified as current assets if they are expected to be realised within 12 months of the balance sheet date. Marketable securities have been designated by management as financial assets measured at fair value through profit or loss.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities longer than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "Other receivables" in the balance sheet.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on the trading date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Investments are no longer recognised when the rights to receive cash flows from the investments have expired or have been transferred and NeuroSearch has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest rate.

Gains and losses arising from changes in the fair value of the "Financial assets at fair value through profit or loss" category, including interest and dividend income, are presented in the income statement in the period in which they arise.

Changes in the fair value of listed and unlisted shares classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement. Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement.

The fair values of listed securities are based on current market prices. If the market for a financial asset is not active (as for unlisted securities), NeuroSearch establishes, to the extent possible, the fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs. If it is not considered possible to state the fair value reliably, the purchase price at the date of investment is applied as fair value if the unlisted company follows the plans for research and business activities decided at the time of financing. If the company does not comply with these plans, and this is considered to decrease the company's value, the investment is written down to an estimated fair value. If, since the original investment, the unlisted companies have been assessed and valued by an independent third party in connection with investment of new capital, the new assessment is applied as fair value.

The Group assess at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement.

Trade receivables
Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that NeuroSearch will not be able to collect all amounts due according to the original terms of receivables. Significant difficulties of the debtor, probability that the debtor will enter into bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement under research costs or development costs.

Cash and cash equivalents
Cash and cash equivalents includes cash in hand, deposits held at call with banks, short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are stated as borrowings under current liabilities in the balance sheet.

Financial liabilities
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any differences between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Debt to mortgage and credit institutions is recognised at the time the loans are obtained and is initially measured at fair value, being the proceeds after deduction of transaction costs. In the subsequent periods, financial liabilities are recognised at amortised cost, calculated at the effective interest rate.

In addition, the capitalised residual lease liability under finance leases is recognised under financial liabilities.

Other liabilities, which comprise trade creditors, amounts owing to subsidiaries and associates and other debt, are measured at amortised cost.

Contingent consideration
Contingent consideration concerns the part of consideration in connection with business combination that is contingent upon future events. If the future events are deemed to be probable (more than 50% probability), and the consideration can be reliably determined, such consideration is recognised as part of the consideration for the transaction and recognised as contingent consideration. For NeuroSearch, such future events will primarily be related to milestone payments. Contingent consideration is recognised as of the date of acquisition. The fair value is determined as the net present value of the cash flows the probable future events may be expected to generate discounted at an effective rate of interest based on short-term government bonds. If the determined probabilities of future events change after the acquisition date, the contingent consideration and the related goodwill is adjusted accordingly.

Contingent consideration denominated in foreign currency is adjusted to the exchange rate ruling on the balance sheet date. Such exchange rate adjustments are recognised directly in equity in a separate currency translation reserve as it represents an effective hedge of the net investment in foreign subsidiaries.

STATEMENT OF CASH FLOWS

The statement of cash flows is prepared according to the indirect method based on net profit. The statement shows NeuroSearch's cash flows broken down by operating, investing and financing activities and cash and cash equivalents at the end of the year. For the cash flow statement, cash flows from foreign subsidiaries are translated at average exchange rates for the year.

Cash flows from operating activities represent the net profit/loss adjusted for non-cash operating items and changes in working capital.

Cash flows from investing activities include cash flows from the purchase and sale of intangible assets, property, plant and equipment, long-term financial assets and marketable securities with original maturities of more than three months.

Cash flows from financing activities include cash flows from capital increases, the raising and repayment of long-term debt and financial items.

Capital resources
The company's capital resources include cash and cash equivalents, securities, listed securities, unused credit facilities and other kinds of unconditional commitments for liquidity-creating facilities

ACCOUNTING POLICIES FOR NON-FINANCIAL ITEMS

Number of subjects in clinical studies
Information on number of subjects expected to be included in clinical studies is made up according to available clinical protocols.

Number of first filings and patent families
The term "first filing" is used for an initial patent application for a new invention. Normally, such a first filing is followed up by several applications for the same invention, for instance for other countries. Most often, the patent process results in the issuance of patents from these applications. Applications and issued patents targeting the same invention are called a patent family.

Income statement for the period 1 January – 31 December (DKK thousands)

Note		2008	2007
	Revenue	66,766	115,206
	Total revenue	**66,766**	**115,206**
2,3	Research costs	216,766	200,436
3	Development costs	176,885	131,747
2,3	General and administrative costs	39,115	36,478
	Total costs	**432,766**	**368,661**
	Operating profit/(loss)	**(366,000)**	**(253,455)**
10	Share of profit/(loss) of associates	(18,607)	(20,487)
11	Result of available-for-sale financial assets	(10,186)	(7,966)
4	Financial income	22,210	9,869
5	Financial expense	43,336	22,686
	Total financials	**(49,919)**	**(41,270)**
	Profit/(loss) before taxes	**(415,919)**	**(294,725)**
6	Tax on profit/(loss) for the year	33,928	26,295
	NET PROFIT/(LOSS)	**(381,991)**	**(268,430)**
7	Earnings per share, DKK	(24.47)	(21.17)
7	Diluted earnings per share, DKK	(24.47)	(21.17)

No dividend has been paid during this or earlier reporting periods.

Balance sheet as of 31 December (DKK thousands)

Note	ASSETS	2008	2007
8	Goodwill	107,520	136,843
8	Development projects	448,327	584,941
8	Licences and patents	3,959	5,921
9	Land and buildings	131,106	124,739
9	Plant and machinery	39,696	36,465
9	Other plant and equipment	5,332	3,333
9	Prepayments on property, plant and equipment	26,364	5,942
10	Investments in associates	8,175	9,018
11	Available-for-sale financial assets	2,539	9,965
	Total non-current assets	**773,018**	**917,167**
	Receivables from associates	863	437
12	Other receivables	18,515	17,741
11	Available-for-sale financial assets	13,213	29,330
13	Other financial assets at fair value through profit or loss	203,038	88,416
14	Cash	237,125	727,527
	Total current assets	**472,754**	**863,451**
	TOTAL ASSETS	**1,245,772**	**1,780,618**

Note	EQUITY AND LIABILITIES	2008	2007
	Share capital	314,866	304,854
	Reserve for currency translation	(51,538)	(4,744)
15	Other reserves	5,270	21,012
	Retained earnings	575,460	800,282
	Total equity	**844,058**	**1,121,404**
16	Deferred tax	65,446	137,648
16	Contingent consideration	44,214	48,125
17	Mortgage debt	138,110	105,721
18	Other long-term debt	28,414	19,172
	Total non-current liabilities	**276,184**	**310,666**
19	Current portion of long-term debt	66,199	269,404
	Deferred income	-	13,422
	Trade and other payables	27,035	42,978
	Other liabilities	32,296	22,744
	Total current liabilities	**125,530**	**348,548**
	Total liabilities	**401,714**	**659,214**
	TOTAL EQUITY AND LIABILITIES	**1,245,772**	**1,780,618**

1	Accounting estimates and judgments
20	Fees to auditors appointed at the general meeting
21	Related parties
22	Mortgages and collateral security
23	Contingent assets, contingent liabilities and commitments
24	Financial risks

Statement of cash flows for the period 1 January - 31 December (DKK thousands)

Note		2008	2007
	Net profit/(loss)	(381,991)	(268,430)
25	Adjustments	62,587	54,096
	Change in working capital:		
	Net change in receivables	(689)	(4,197)
	Net change in current debt	(19,813)	(291)
	Cash flows from operating activities	**(339,906)**	**(218,822)**
9	Payments to acquire property, plant and equipment	(50,269)	(15,716)
9	Payments from sale of property, plant and equipment	97	-
	Investments in associates	(13,145)	(8,164)
	Loans to associates	(2,490)	(4,008)
	Payments to invest in available-for-sale financial assets	(4,798)	(2,000)
	Proceeds from sale of available-for-sale financial assets	-	2,795
	Net change in securities (more than three months)	(114,622)	230,376
	Cash flows from investing activities	**(185,227)**	**203,283**
	Net proceeds from equity issues	144,026	754,736
	Payment of contingent consideration	(139,615)	-
	Proceeds from long-term borrowings	58,760	11,646
	Repayment of long-term borrowings	(13,761)	(13,590)
	Financial payments received/(paid)	6,843	(1,524)
	Cash flows from financing activities	**56,253**	**751,268**
	Net cash flows	**(468,880)**	**735,729**
	Unrealised gain/(loss) on securities	(20,442)	(959)
	Net increase/(decrease) in cash and cash and cash equivalents	**(489,322)**	**734,770**
	Cash and cash equivalents at 1 January	727,527	(7,211)
	Foreign exchange adjustments of cash and cash equivalents	(1,080)	(32)
	Cash and cash equivalents at 31 December	**237,125**	**727,527**
14	**Cash at 31 December**	**237,125**	**727,527**
13	Securities at 31 December	203,038	88,416
11	Other available-for-sale financial assets at 31 December	13,213	29,330
	Other capital reserves at 31 December	28,082	80,931
	Capital resources at 31 December	**481,458**	**926,204**

The cash and cash equivalents of associates is not recognised in the consolidated financial statements. The total capital resources in associates, consisting of cash and cash equivalents, amounted to DKK 42.7 million at 31 December 2008 (31 December 2007: DKK 33 million).

Statement of movements in equity (DKK thousands)

	Share capital*	Share premium**	Reserve for currency translation	Other reserves***	Retained earnings	Total
Equity at 1 January 2007	**246,390**	**0**	**5,145**	**54,261**	**351,873**	**657,669**
Fair value adjustment of available-for-sale financial assets	-	-	-	(33,249)	-	(33,249)
Exchange rate adjustment of net investment in foreign subsidiary	-	-	(21,750)	-	-	(21,750)
Fair value adjustment of hedge of net investment in foreign subsidiary	-	-	11,861	-	-	11,861
Net income for the year recognised directly in equity	0	0	(9,889)	(33,249)	0	(43,138)
Net profit/(loss)	-	-	-	-	(268,430)	(268,430)
Total recognised income for the year	0	0	(9,889)	(33,249)	(268,430)	(311,568)
Rights issue:						
- proceeds from share issue	55,092	716,190	-	-	-	771,282
- costs of share issue	-	(42,962)	-	-	-	(42,962)
Employee warrant programme:						
- costs of share-based payment	-	-	-	-	20,567	20,567
- proceeds from share issue	3,372	23,176	-	-	-	26,548
- costs of share issue	-	(132)	-	-	-	(132)
Transfer	-	(696,272)	-		696,272	0
Equity at 31 December 2007	**304,854**	**0**	**(4,744)**	**21,012**	**800,282**	**1,121,404**
Equity at 1 January 2008	**304,854**	**0**	**(4,744)**	**21,012**	**800,282**	**1,121,404**
Fair value adjustment of available-for-sale financial assets	-	-	-	(15,742)	-	(15,742)
Exchange rate adjustment of new investment in foreign subsidiary	-	-	(75,076)	-	-	(75,076)
Fair value adjustment of hedge of net investment in foreign subsidiary	-	-	28,282	-	-	28,282
Net income for the year recognised directly in equity	0	0	(46,794)	(15,742)	0	(62,536)
Net profit/(loss)	-	-	-	-	(381,991)	(381,991)
Total recognised income for the year	0	0	(46,794)	(15,742)	(381,991)	(444,527)
Rights issue:						
- proceeds from share issue	9,715	133,580	-	-	-	143,295
- costs of share issue	-	(2,850)	-	-	-	(2,850)
Employee warrant programme:						
- costs of share-based payment	-	-	-	-	23,155	23,155
- proceeds from share issue	297	3,390	-	-	-	3,687
- costs of share issue	-	(106)	-	-	-	(106)
Transfer	-	(134,014)	-	-	134,014	0
Equity at 31 December 2008	**314,866**	**0**	**(51,538)**	**5,270**	**575,460**	**844,058**

* Under Danish corporate law, share capital may not be used for distribution of dividends.

** In accordance with the Danish Public Companies Act, "Share premium" has been transferred to "Retained earnings". Accumulated "Share premium" was DKK 1,954 million at 31 December 2008 (2007: DKK 1,820 million).

*** Other reserves are specified in note 15.

	2004	2005	2006	2007	2008
Share capital at 1 January	153,917	154,816	157,790	246,390	304,854
Equity issues	-	-	87,562	55,092	9,715
Exercise of warrants	899	2,974	1,038	3,372	297
Share capital at 31 December	**154,816**	**157,790**	**246,390**	**304,854**	**314,866**

The total number of shares is 15,743,285 (2007: 15,242,687 shares) with a nominal value of DKK 20 each (2007: DKK 20 per share). All issued shares are fully paid up. All shares carry the same rights. The company has issued warrants to the management and a number of employees. See note 3.

Notes to the financial statements (DKK thousands)

1. Significant accounting estimates and judgments

The preparation of the consolidated financial statements requires us to make estimates and judgments that affect our reporting of assets, liabilities and expenses and the related disclosure of contingent assets and liabilities. We review our estimates on an on-going basis. We base our estimates on historical experience and on various other assumptions which NeuroSearch believes to be reasonable under the circumstances. However, the actual results may differ significantly from these estimates. We believe that the accounting policies relating to revenue recognition, share-based payment, development costs, goodwill, contingent consideration and deferred tax involve estimates or judgments by management that could materially affect NeuroSearch's reported financial position and results of operations.

Revenue recognition
NeuroSearch receives fees from collaboration and licensing agreements for the performance of research services, licence option fees, and licence fees payable as upfront and milestone payments. Revenue is recognised from licensing agreements and milestone payments under which NeuroSearch has no continuing performance obligations and NeuroSearch is certain that the company will receive the revenue. NeuroSearch has multiple performance obligations under contracts related to research services and related licence options which are deferred until the relevant licence option is exercised or lapses. Expenses incurred for the research services performed under such agreements are deferred up to the amount of the deferred revenue.

Revenues from conditional, non-refundable grants received from governmental agencies in advance of incurred expenses are recognised as deferred income. Revenues from funding received upon proof of incurred expenses are recognised when such expenses are actually incurred.

Consolidated revenue for 2008 was DKK 66.8 million (2007: DKK 115.2 million).

Share-based payment
NeuroSearch has established equity-settled share-based payment plans (warrants). The employee services received in exchange for the grant of the warrants or shares is recognised as an expense and allocated over the vesting period. The amount is determined as the fair value of the equity instruments granted. The total amount recognised over the vesting period corresponds to the fair value of the warrants or shares that actually vest. The fair value is determined at the grant date and is not adjusted subsequently. In the determination of the fair value at the grant date a volatility equalling the annual volatility on the company's shares over the past three years is used.

On each balance sheet date, the estimates of the number of warrants expected to be exercised are reassessed. Any impact of such reassessment of the original estimates is recognised in the income statement with a corresponding adjustment in equity over the remaining vesting period. Prior-year adjustments are recognised in the income statement in the adjustment year.

In 2008, DKK 23.1 million was recognised in the Group (2007: DKK 20.6 million).

Development projects and impairment tests
Inhouse development costs are capitalised if it is sufficiently certain that future earnings from the product can cover not only production, sales and general and administrative costs, but also the development costs themselves. In all other cases, development costs are expensed in the year they are incurred. It is management's assessment that the future financial benefits in relation to the in-house development costs cannot be estimated with sufficient certainty until the development has been completed and the necessary regulatory approvals have been obtained.

Acquired development projects are capitalised if, according to IAS 38, they are identifiable and can be separated. The carrying amount of inhouse development costs was DKK 176.9 million for the Group (2007: DKK 131.7 million); they have all been recognised.

The carrying amount of acquired capitalised development costs was DKK 448.3 million for the Group (2007: DKK 584.9 million). The impairment test and the particularly sensitive factors in that connection are described in note 8. No impairment losses were recognised on acquired development projects in 2007. As a result of the decision by Astellas to give up further development of ACR16 against schizophrenia, management has decided to write down the development project. First by reversing the related contingent consideration against goodwill by DKK 15.7 million and development projects by DKK 40.3 million and hereafter write-down of the remaining carrying value of the development project of further DKK 82.1 million and reversal of related deferred tax liability of DKK 34.3 million. Pursuant to the collaboration agreement, Astellas has returned the licence rights for ACR16 to NeuroSearch. This return of license rights is considered compensation for the decision by Astellas to give up the ACR16 project for schizophrenia and recognised in the balance sheet at a fair value of DKK 66.4 million. The compensating income net of deferred tax liability of DKK 18.6 million has been take to income and has been offset against development costs in the income statement.

Goodwill impairment test
In the annual goodwill impairment test, an assessment is made of how the parts of the Group to which the goodwill relates will be able to generate sufficient cash flows in future to support the value of goodwill and other net assets in the relevant part of the organisation. As a result of the nature of the Group's business, it must be estimated over expected cash flows many years into the future, which naturally leads to a certain amount of uncertainty. This uncertainty is reflected in the discount factor applied.

The carrying amount of goodwill was DKK 107.5 million for the Group (2007: DKK 136.8 million). The impairment test and the particularly sensitive factors in that connection are described in note 8. No impairment losses were recognised on goodwill in 2007. As a result of the decision by Astellas to give up further development of ACR16 against schizophrenia, management has decided to take an impairment loss on the development project. An impairment loss on goodwill of DKK 15.6 million has been recognised.

Contingent consideration
The contingent consideration concerns the acquisition of NeuroSearch Sweden AB in 2006.

Management assessed, as of the date of acquisition, the probabilities of future milestone payments materialising. Probable milestones were discounted as of the date of acquisition at an effective rate of interest of 3.7%. Management assesses on an annual basis the probabilities on which the calculation of contingent consideration was based. As of the balance sheet date, management deemed it necessary to reassess the probabilities applied at the date of acquisition. As a result, contingent consideration and goodwill was adjusted in 2008 by minus DKK 15.5 million and minus DKK 13.7 million respectively after impairment of ACR16 Schizophrenia and payment for the year of contingent consideration (2007: DKK 64.5 million and DKK 98.3 million). Additional information regarding the adjustment of contingent consideration is given in note 16.

Deferred tax
Deferred tax assets are recognised when it is likely that there will be sufficient future taxable income to utilise the temporary differences and unutilised tax losses.

Management has assessed whether the tax assets should be recognised as income in the income statement and as an asset in the balance sheet. Based on the applicable accounting criteria, management solely considers it possible to recognise the tax asset (a reduction in tax liability) in respect of NeuroSearch Sweden AB, as it reduces the tax liability provided in respect of assets for which the consideration exceeded the carrying amount when the acquisition was made. See note 16. The remaining tax assets in the Group are currently not deemed to meet the criteria for recognition. So far, the decision is to continue to disclose the size of the assets in the notes to the financial statements. Management will regularly reconsider whether the accounting criteria for recognising the assets in the balance sheet and income statement have been met.

The carrying amount of unrecognised tax assets was DKK 1,092 million for the Group (2007: DKK 855 million), and of deferred tax liabilities DKK 65.4 million for the Group (2007: DKK 137.6 million).

2. Amortisation, depreciation and impairment	2008	2007
Intangible assets:		
Recognised in:		
Research costs	1,962	1,971
	1,962	**1,971**
Property, plant and equipment:		
Recognised in:		
Research costs	13,685	12,778
General and administrative costs	2,471	2,053
	16,156	**14,831**

3. Staff	2008	2007
Staff costs were:		
Salaries and wages	119,098	107,657
Share-based payment	23,154	20,567
Pension	10,431	9,578
Social security costs	6,402	6,015
Other staff costs	7,016	6,662
	166,101	**150,479**
Recognised in:		
Research costs	104,109	99,025
Development costs	39,271	29,635
General and administrative costs	22,721	21,819
	166,101	**150,479**
Average number of employees	242	230

NeuroSearch considers the entire Executive Management to be "key management".

Remuneration to the Executive Management and Board of Directors:		
Executive Management:		
Salaries*	12,188	10,042
Pension costs	1,249	1,068
Share-based payment	5,074	4,504
Total	**18,511**	**15,614**
Board of Directors:		
Fees	1,800	1,800
Share-based payment	590	442
Total	**2,390**	**2,242**
Total remuneration to the Executive Management and Board of Directors	**20,901**	**17,856**

* Salaries to the Executive Management include the value of free company car and other benefits.

The remuneration paid to Flemming Pedersen, CEO, was DKK 4,918 thousand including pensions, costs of free company car and share-based payment calculated in accordance with IFRS2 (2007: DKK 4,530 thousand). As at 31 December 2008, the company's CEO held 75,482 warrants (2007: 55,482).

The company's period of notice to members of the Executive Management is 12 months. In connection with major changes to the company's ownership structure, this notice of termination for the company's CEO is extended by a further 12 months during a transitional period. The period of notice to be given by members of the Executive Management to the company is between 3 and 6 months. For additional information on remuneration to the Executive Management and Board of Directors, see "Management structure" in the Management Report.

Staff continue

	Warrant programme granted in 2004	Warrant programme granted in 2005	Warrant programme granted in 2006	Warrant programme granted in January 2007	Warrant programme granted in September 2007	Warrant programme granted in 2008	Total
Share-based payment							
Outstanding at 1 January 2007	146,911	152,592	11,709	0	0	0	311,212
Granted during the period	-	-	-	240,000	325,000	-	565,000
Effect of dilution in connection with rights issue*	8,038	8,278	650	13,069	17,940	-	47,975
Exercised during the period	(42,937)	-	-	-	-	-	(42,937)
Forfeited during the period in connection with resignation	(777)	(2,262)	-	(3,238)	(473)	-	(6,750)
Outstanding at 31 December 2007	**111,235**	**158,608**	**12,359**	**249,831**	**342,467**	**0**	**874,500**
Outstanding at 1 January 2008	111,235	158,608	12,359	249,831	342,467	0	874,500
Granted during the period	-	-	-	-	-	350,000	350,000
Exercised during the period	(14,843)	-	-	-	-	-	(14,843)
Forfeited during the period in connection with resignation	-	(512)	-	(4,515)	(7,825)	(4,136)	(16,988)
Outstanding at 31 December 2008	**96,392**	**158,096**	**12,359**	**245,316**	**334,642**	**345,864**	**1,192,669**

* NeuroSearch made a rights issue on 23 November 2007 of shares with a nominal value of DKK 55,091,580 at a price below the market value of the shares. The Board of Directors therefore resolved, in accordance with NeuroSearch's articles of association and the existing warrant programmes, to adjust the number of warrants granted to NeuroSearch's employees as well as the exercise price.
The adjustment was made to ensure that the value to the employees of the warrants is retained following the capital increase. The adjustment implied that the employees were granted a number of additional warrants and that the exercise prices were reduced.

	Outstanding at 31 December 2008	Average exercise price	Latest exercise period	Market value per warrant on date of grant	Market value on date of grant of warrants outstanding at 31 December 2008	Market value on date of grant of warrants outstanding at 31 December 2007
Warrant programme						
2004	96,392	248.39	March 2009	47.24	4,554	5,255
2005	158,096	181.23	March 2010	53.10	8,395	8,422
2006	12,359	202.27	March 2010	60.40	746	746
2007-I	245,316	380.84	March 2011	66.47	16,306	16,606
2007-II	334,642	342.00	November 2011	76.17	25,490	26,086
2008	345,864	361.00	September 2012	64.52	22,315	-
	1,192,669				77,806	57,115
Recognised cost of share-based payment:						
Recognised in previous years					31,349	10,782
Recognised in current year					23,154	20,567
Recognised share-based payment at 31 December					**54,503**	**31,349**

For additional information on exercise periods, see "Shareholder information" in the Management Report. There were two exercise windows in the 2004 programme in March and September 2008 respectively and one exercise window in the 2005 and 2006 programmes in November 2008. The last exercise window in the 2004 programme will occur in March 2009. Moreover, there are two exercise periods in 2009 in the 2005 and 2006 programmes in May and November respectively.

Staff continue

	2008	2007-II	2007-I	2006	2005	2004
Average share price on date of grant (DKK)	269.57	275.00	284.31	193.73	157	234
Exercise price (DKK)	361.00	342.00	380.84	202.27	181.23	248.39
Expected volatility*	36%	38%	38%	45%	51%	29%
Expected term	49 months	51 months	48 months	55 months	55 months	55 months
Expected dividend per share	0	0	0	0	0	0
Risk-free interest rate (based on Danish government bonds)	4.29%	4.23%	3.85%	3.73%	2.41%	3.40%

* The expected volatility is based on the historic volatility over the past three years (2004: 90 days).

During the vesting period, which is three years, the warrant holder earns the right to exercise 1/36 of the warrants granted per month. If a warrant holder resigns from NeuroSearch or one of its subsidiaries, he or she retains the right to exercise the number of warrants vested on the date of severance (e.g. 12/36 of the warrants granted on resignation after 12 months of a vesting period of 36 months). The right to exercise additional warrants is forfeited. If a warrant holder leaves his or her position with NeuroSearch or one of its subsidiaries due to termination by NeuroSearch or one of its subsidiaries without this being due to breach of contract by the warrant holder, the warrant holder will retain the right to exercise the warrants.

If a change of control in NeuroSearch involves other parties than the existing shareholders, it would basically not affect the terms of the warrants issued. However, the Board of Directors may decide that warrant holders must exercise all warrants granted to them and transfer the shares on the same terms as the other selling shareholders or otherwise waive their right to exercise their warrants, whereby they will lapse.

4. Financial income

	2008	2007
Interest income	13,996	4,027
Foreign exchange gains	8,214	403
Net fair value adjustment of financial assets measured at fair value through profit or loss	0	5,439
Total	**22,210**	**9,869**

5. Financial expense

	2008	2007
Interest expense	9,713	9,567
Foreign exchange losses	10,816	1,766
Financial element of contingent consideration	6,886	11,353
Net fair value adjustment of financial assets measured at fair value through profit or loss	15,921	-
Total	**43,336**	**22,686**

6. Tax (DKK million)

	2008	2007
Calculated tax on the year's loss	-	-
Deferred tax asset relating to foreign activities offset against deferred tax	(34)	(26)
Tax on the year's loss (income)	**(34)**	**(26)**

As of 31 December 2008, the Group had tax losses carried forward of approximately DKK 1,200 million which can be carried forward indefinitely. In addition, the Group had deductible temporary differences of approximately DKK 120 million.

In the financial statements, the value of the deferred tax asset has been written down to zero as a result of uncertainty as to the Group's ability to generate sufficient future taxable revenues for the tax asset to be utilised. However, the part of the deferred tax asset that relates to the Swedish activities has been recognised and offset against the deferred tax that was recognised in connection with the acquisition of NeuroSearch Sweden AB in 2006. See note 16 for a description.

Tax (DKK million) continue	2008	2007
The statement below shows the year's movements in the potential tax asset:		
Tax on pre-tax loss	104	74
Share of profit/(loss) of associates	(5)	(5)
Permanent deviations relating to share-based payment, etc.	(5)	(5)
Other non tax-deductible	(2)	1
Adjustment of deffered tax for prior years	(3)	-
Effect of change in tax rate	-	(21)
Higher tax rate in foreign subsidiaries	4	2
Change in deferred tax asset (increase of potential tax asset)	**93**	**46**
Breakdown of unrecognised deferred tax assets:		
Tax losses carried forward (available indefinitely)	1,200	912
Rights	101	(3)
Non-current assets	(21)	(10)
Patent costs	5	10
Assets held under finance leases	36	27
Other	-	13
Total temporary differences	**1,321**	**949**
Calculated potential deferred tax asset at local tax rate	333	240
Set off against deferred tax liability*	(60)	(26)
Writedown of deferred tax asset	(273)	(214)
Recognised deferred tax asset	**0**	**0**

*See note 16 for further description.

7. Earnings per share (EPS)

	2008	2007
Net profit/(loss) (DKK thousands)	(381,991)	(268,430)
Average number of outstanding shares (in thousands)	15,609	12,680
Dilutive effect of outstanding warrants "in the money" (in thousands)*	-	-
Average number of outstanding shares including dilutive effect of warrants "in the money" (in thousands)	**15,609**	**12,680**
Earnings per share for the year (DKK)	**(24.47)**	**(21.17)**
Earnings per share for the year, diluted (DKK)	**(24.47)**	**(21.17)**

* The warrants have an anti-dilutive effect as a result of the loss for the year, and they have consequently not been taken into account in connection with the calculation of diluted earnings per share. The diluted earnings per share are therefore the same as the basic earnings per share.

8. Intangible assets

	Goodwill	Development projects	Licences and patents
Cost at 1 January 2008	136,843	584,941	19,683
Addition from compensation	-	66,437	-
Reassessment of contingent consideration related to acquisition	323	-	-
Currency adjustment	(13,995)	(80,663)	-
Cost at 31 December 2008	123,171	570,715	19,683
Amortisation and impairment at 1 January 2008	0	0	13,762
Amortisation	-	-	1,962
Impairment from disposal of milestone payment recognised in contingent considerations*	15,651	40,301	-
Impairment of development project	-	82,087	-
Amortisation and impairment at 31 December 2008	15,651	122,388	15,724
Carrying amount at 31 December 2008	**107,520**	**448,327**	**3,959**

* See note 16 for a description of movements in contingent consideration.

Intangible assets continue

	Goodwill	Development projects	Licences and patents
Cost at 1 January 2007	38,506	611,253	20,054
Reassessment of contingent consideration related to acquisition*	99,995	-	-
Disposals	-	-	371
Currency adjustment	(1,658)	(26,312)	-
Cost at 31 December 2007	136,843	584,941	19,683
Amortisation and impairment at 1 January 2007	0	0	11,988
Amortisation	-	-	1,971
Disposals	-	-	197
Amortisation and impairment at 31 December 2007	0	0	13,762
Carrying amount at 31 December 2007	**136,843**	**584,941**	**5,921**

* See note 16 for a description of movements in contingent consideration.

Goodwill represents the amounts paid in excess of the carrying amounts of assets in connection with the acquisition of the development projects in connection with the business combination. Goodwill is thus allocated fully to the activities in NeuroSearch Sweden AB, where the acquired development projects are each considered independent cash-generating units.

Development projects represent the three development programmes, ACR16, ACR325 and ACR343, which NeuroSearch acquired in connection with the acquisition of Carlsson Research in 2006. As a result of the decision by Astellas to give up further work on ACR16 for schizophrenia, this development project was written down as at 31 December 2008. First by reversing the related contingent consideration against goodwill by DKK 15.7 million and development projects by DKK 40.3 million and hereafter write-down of the remaining carrying value of the development project of further DKK 82.1 million and reversal of related deferred tax liability of DKK 34.3 million. The net write-down of DKK 47.8 million has been recognised in the income statement under development costs. In accordance with the collaboration agreement, Astellas has returned the licence rights to ACR16 to NeuroSearch, including the global marketing rights outside Europe and the United States. This return of licence rights is considered compensation for the decision by Astellas to give up the ACR16 project for schizophrenia and recognised in the balance sheet at a fair value of DKK 66.4 million. The compensating income net of deferred tax liability of DKK 18.6 million has been take to income and has been offset against development costs in the income statement.

Moreover, the carrying amount of intangible assets, including goodwill, was tested for impairment as of 31 December 2008. The test did not result in a need to write down the carrying amounts any further as the recoverable amount of goodwill and development projects as a whole corresponds at least to the carrying amounts.

In the impairment test, the discounted cash flow of each cash-generating development project is compared to the carrying amounts. The valuation is based on the cash flows generated by the projects individually during the period from launch of the product until five years after patent expiry. Material assumptions such as market and price expectations, expected market share and expect costs in connection with launch and production are based on an assessment of each development project. In the calculation of discounted cash flows, discount factors of approximately 12% are applied, which reflects the risks involved in the development of pharmaceuticals.

9. Property, plant and equipment

	Land and buildings	Plant and machinery	Other plant and equipment	Prepayments
Cost at 1 January 2008	175,147	103,237	23,860	5,942
Additions	8,409	13,012	4,253	24,595
Currency adjustment	-	(489)	-	-
Transfer	2,883	1,103	187	(4,173)
Disposals	1,673	15,901	10,964	-
Cost at 31 December 2008	184,766	100,962	17,336	26,364
Depreciation and impairment at 1 January 2008	50,408	66,772	20,527	0
Depreciation	4,680	9,043	2,433	-
Currency adjustment	-	(175)	-	-
Disposals	1,428	14,374	10,956	-
Depreciation and impairment at 31 December 2008	53,660	61,266	12,004	0
Carrying amount at 31 December 2008*	**131,106**	**39,696**	**5,332**	**26,364**
* Of which carrying amount of assets held under finance leases	0	34,537	4,966	0
Cost at 1 January 2007	174,416	94,428	22,190	1,730
Additions	565	7,539	1,670	5,942
Currency adjustment	-	(153)	-	
Transfer	166	1,564	-	(1,730)
Disposals	-	141	-	-
Cost at 31 December 2007	175,147	103,237	23,860	5,942

Property, plant and equipment continue

	Land and buildings	Plant and machinery	Other plant and equipment	Prepayments
Depreciation and impairment at 1 January 2007	46,048	58,530	18,471	0
Depreciation	4,360	8,415	2,056	-
Currency adjustment	-	(32)	-	-
Disposals	-	141	-	-
Depreciation and impairment at 31 December 2007	50,408	66,772	20,527	0
Carrying amount at 31 December 2007**	**124,739**	**36,465**	**3,333**	**5,942**
** Of which carrying amount of assets held under finance leases	0	29,465	2,945	0

10. Investments in associates

2008 — **NeuroSearch A/S's share**

Name	Registered office	Ownership interest (%)	Share capital	Equity	Assets	Revenue	Net profit/ (loss)	Equity	Profit/ (loss) before tax	Net profit/ (loss)
NsGene A/S	Ballerup	25.9	123,117	6,654	39,522	0	(36,996)	1,724	(9,406)	(9,406)
Sophion Bioscience A/S	Ballerup	30.1	135,444	8,862	27,675	*	1,288	2,670	309	309
Atonomics A/S	Copenhagen	18.8**	16,343	60,382	75,302	8,441	(4,013)	11,321	(3,517)	(3,517)
ZGene A/S	Hoersholm	20.9	6,487	6,792	8,998	0	(13,597)	1,422	(990)	(990)
				82,690			**(53,318)**	**17,137**	**(13,604)**	**(13,604)**
Adjustment for intercompany gains regarding IPR at 31 December								(578)	-	-
Adjustment to Group accounting policies								(10,091)	(4,318)	(4,318)
Change in intercompany gains on IPR								-	633	633
Reversal of share of negative net asset value in associates								1,707	1,707	1,707
Net unrealised gains/(losses) on equity issues in associates								-	(1,318)	(1,318)
Recognised value of investments in associates								**8,175**	**(16,900)**	**(16,900)**
Writedown of receivables from associates**									(1,707)	(1,707)
Profit/(loss) from investments in associates									**(18,607)**	**(18,607)**

2007 — **NeuroSearch A/S's share**

Name	Registered office	Ownership interest (%)	Share capital	Equity	Assets	Revenue	Net profit/ (loss)	Equity	Profit/ (loss) before tax	Net profit/ (loss)
NsGene A/S	Ballerup	25.2	37,755	(41,646)	32,785	-	(36,632)	(10,503)	(9,239)	(9,239)
Sophion Bioscience A/S	Ballerup	29.7	129,161	1,361	21,867	*	(15,614)	404	(4,637)	(4,637)
Atonomics A/S	Copenhagen	18.8**	16,343	64,845	69,585	-	(8,535)	12,158	(4,876)	(4,876)
				24,560			**(60,781)**	**2,059**	**(18,752)**	**(18,752)**
Adjustment for intercompany gains regarding IPR at 31 December								(1,103)	-	-
Adjustment to Group accounting policies								(3,134)	(2,943)	(2,943)
Change in intercompany gains on IPR								-	1,025	1,025
Reversal of share of negative net asset value in associates								11,196	8,811	8,811
Net unrealised gains/(losses) on equity issues in associates								-	183	183
Recognised value of investments in associates								**9,018**	**(11,676)**	**(11,676)**
Writedown of receivables from associates***									(8,811)	(8,811)
Profit/(loss) from investments in associates									**(20,487)**	**(20,487)**

Notes regarding associates follows on page 78

Investments in associates continue

* The company does not disclose its revenue in external reporting relying on the exemption provisions for class B companies pursuant to the Danish Financial Statements Act.

** NeuroSearch A/S's investment in Atonomics A/S is recognised as an investment in an associate as NeuroSearch holds significant influence as a result of its ownership interest and directorships on the Board of Directors. NeuroSearch's investment in Atonomics A/S is recognised as an investment in an associate as NeuroSearch holds significant influence as a result of its ownership interest and directorships on the Board of Directors. NeuroSearch A/S has granted convertible loans to Atonomics totalling DKK 2,490 thousand. The loan, on which no instalments are paid, falls due on 30 September 2009. An impairment loss has been recognised on the loan amount receivable equivalent to NeuroSearch A/S's share of the negative net asset value. The receivable of DKK 2,490 thousand had consequently been written down to DKK 783 thousand at 31 December 2008.

*** NeuroSearch A/S has granted convertible loans to NsGene A/S totalling DKK 11,543 thousand, including interest. The loan, on which no instalments are paid, falls due on 28 February 2008. NsGene A/S has the right to terminate and redeem the loan at any time during the term of the loan by repaying the loan principal and accrued interest. NeuroSearch A/S has the right to demand at any time during the term of the loan that the loan and accrued interest is converted into shares in the company at a conversion price of DKK 100 per share. An impairment loss has been recognised on the loan amount receivable equivalent to NeuroSearch A/S's share of the negative net asset value. The receivable of DKK 11,543 thousand had consequently been written down to DKK 347 thousand at 31 December 2007.

11. Available-for-sale financial assets

	2008	2007
Fair value at 1 January	39,295	81,305
Additions (at cost)	4,798	2,000
Disposal (at cost)	(2,412)	
Fair value adjustment reversed from equity	374	*(3,919)
Writedown through profit or loss*	(10,186)	(10,761)
Fair value adjustments for the year transferred to equity	(16,117)	(29,330)
Fair value at 31 December	**15,752**	**39,295**

Available-for-sale financial assets are recognised in the balance sheet as follows:		
Available-for-sale assets classified as current assets	13,213	29,330
Available-for-sale assets classified as non-current assets	2,539	9,965
	15,752	**39,295**

Breakdown of available-for-sale financial assets		
Listed shares:		
Bavarian Nordic A/S	13,213	**29,330
Unlisted shares:		
ZGene A/S***	-	7,426
PainCeptor Pharma Corporation Inc.	2,539	2,539
Fair value at 31 December	**15,752**	**39,295**

* PainCeptor Pharma Corporation Inc. raised equity capital in 2007. NeuroSearch decided not to participate in the offering. Baled on the valuation at the time of the offering, an unrealised prior-year gain of DKK 3.9 million has been reversed from equity, and the investment has been written down by an additional DKK 10.8 million, which has been recognised in the income statement under "Profit/(loss) from available-for-sale financial assets".

** NeuroSearch sold its preemptive rights received in connection with Bavarian Nordic's rights issue in March 2007. The gain from this was DKK 2.8 million, which has been recognised in the income statement under "Profit/(loss) from available-for-sale financial assets".

*** After the latest capital increase in the autumn 2008 NeuroSearch A/S's equity interest represents 20.9%. Hereafter the investment is disclosed as investment in associated companies in note 10.

12. Other receivables

	2008	2007
VAT reimbursement	2,645	6,153
Prepaid costs*	10,089	8,602
Other receivables	5,781	2,986
	18,515	**17,741**

* Prepaid costs concern research activities, leasing, insurance, subscriptions, etc.

The carrying amount of other receivables largely corresponds to their fair values. Other receivables, etc. are not subject to any material credit risk as they primarily concern receivables from large international partners, prepaid costs and VAT. As of 31 December 2008, there were no indications of impairment of other receivables, and consequently no impairment losses have been recognised thereon.

13. Other financial assets measured at fair value through profit or loss

	2008		2007	
	Cost	Market value	Cost	Market value
Breakdown of bonds and unit trusts:				
Dansk mortgage bonds	131,074	132,479	84,229	83,426
Unit trusts	92,406	70,559	5,147	4,990
Total other financial assets measured at fair value	**223,480**	**203,038**	**89,376**	**88,416**
Terms to maturity of bonds:				
Less than 1 year	59,393	59,676	-	-
Between 1 and 5 years	8,758	8,803	46,130	45,952
More than 5 years	62,923	64,000	38,099	37,474
Total	**131,074**	**132,479**	**84,229**	**83,426**

Mortgage bonds are callable by the debtor at par.

The bonds are at fixed interest, and price fluctuations as a result of changes in the interest-rate market therefore affect the fair value of the bond portfolio.

Financial assets which are measured through profit or loss on initial recognition (securities) are financial assets that are managed and whose return is evaluated on the basis of changes in their fair values, in accordance with the Group's documented investment strategy. Information on such financial assets at fair value is used in the internal reporting to the company's management. It is the Group's investment strategy to invest free cash in securities as part of its long-term strategy of securing its capital resources.

Danish mortgage bonds does not involve material credit risks.

Unit trusts comprise units managed by Nordea Investment Management and Danske Capital and primarily comprises investments in bonds. The credit risk relating to unit trusts is deemed to be higher than the risk relating to Danish mortgage bonds.

14. Cash

	2008	2007
Money market accounts	32,989	41,775
Fixed-term deposits	200,252	682,002
Escrow account regarding building project	3,884	3,750
	237,125	**727,527**

NeuroSearch is subject to credit risk with respect to bank deposits. The maximum credit risk corresponds to the carrying amount. No credit risk is considered to exist in relation to cash as the counterparties are Nordea and Dansk Bank, which are covered by the temporary Danish government guarantee.

15. Other reserves

Other reserves comprise unrealised gains and losses as a result of fair value adjustments of available-for-sale financial assets as disclosed in note 11.

	Fair value	Unrealised value adjustment
A breakdown of fair value adjustments by investment is given below:		
Bavarian Nordic	29,330	21,386
ZGene	7,426	(374)
PainCeptor	2,539	-
As at 31 December 2007	**39,295**	**21,012**
Bavarian Nordic	13,213	5,270
PainCeptor	2,539	-
As at 31 December 2008	**15,752**	**5,270**

16. Acquisition of subsidiaries and operations

In 2006, NeuroSearch acquired all the shares in Carlsson Research AB (now NeuroSearch Sweden AB). Contingent consideration and the deferred tax related to the acquisition are described below. No acquisitions were made in 2007 or 2008.

Contingent consideration
The agreed consideration consisted of an initial payment and of future payments to be made in connection with and subject to successful attainment of agreed milestones relating to the development programmes ACR16, ACR325 and ACR343. As of the date of acquisition, the estimated consideration totalled SEK 875 million (DKK 707 million). The net present value of the consideration, adjusted for estimated probability and timing was recognised in the opening balance in the amount of DKK 283.6 million.

Based on management's estimate of the probability and timing of attainment of the agreed milestones, discounted at the rate of 3.7% and translated at the DKK/SEK exchange rate as of the balance sheet date, contingent consideration was adjusted during 2007 and recognised in the amount of DKK 64.5 million as of 31 December 2007. In 2008 NeuroSearch paid milestones amounting to SEK 175 million which were recognised as part of the contingent liability corresponding to a value of DKK 139 million. As Astellas has deciced not to continue further development of ACR16 within Schizophrenia a deffered payment obligation of SEK 125 million (DKK 85.1 million) recognized as part of the contingent consideration at a value of DKK 56.0 million terminates. As at 31 December 2009 management has reassessed probability and timing of attainment of the remaining milestones and have not found it nessesary to make further adjustments except for the translation of the contingent consideration at the DKK/SEK exchange rate as of the balance sheet date.

	2008	2007
Contingent consideration at 1 January	304,186	239,725
Reassessment of contingent consideration related to acquisition	-	56,832
Payment of current liabilities for the year	(139,036)	-
Impairment for the year	(55,951)	-
Currency adjustment	(15,497)	7,629
Contingent consideration at 31 December	**93,702**	**304,186**

Current liabilities	49,488	256,061
Non-current liabilities	44,214	48,125

Deferred tax
In connection with the business combination, deferred tax was recognised in the consolidated financial statements on the difference between the value of the net assets acquired and the fair values. No deferred tax is recognised on goodwill.

Deferred tax	**2008**	**2007**
Breakdown of deferred tax:		
Carrying amount of development projects. See note 8	448,327	584,941
Tax rate in Sweden	28%	28%
Deferred tax at 31 December	(125,532)	(163,783)
Offset of tax asset, beginning of year	26,295	-
Offset of tax asset for the year. See note 6	33,928	26,295
Adjustment	(137)	(159)
Carrying amount at 31 December	**(65,446)**	**(137,648)**

Deferred tax is classified in the balance sheet under non-current liabilities as management does not expect the deferred to tax liability to crystallise in part or in full in 2009.

17. Mortgage debt

	2008	2007
Breakdown of debt to financial institutions stated in the balance sheet:		
Total debt	**143,753**	**111,006**
Current portion	5,643	5,285
Non-current portion	138,110	105,721
Of which with maturity of more than five years	111,446	80,749

Mortgage debt consists of two mortgage-backed loans with a term to maturity of 12 years and 6 months at fixed rate for the following four years of 6.653% and 5.883% respectively, and a mortgage loan with a term to maturity of 30 years at a floating rate of 5.57% as at 20 December 2008.

The fair value of the mortgage debt, which corresponds to the market value of the underlying bonds, was DKK 150 million at 31 December 2008 (2007: DKK 112 million).

18. Finance leases

	2008	2007
Breakdown of liabilities under finance leases in the balance sheet:		
Total liabilities	**39,482**	**27,230**
Current portion	11,068	8,058
Non-current portion	28,414	19,172
The gross at net lease liability is as follows:		
Maturing:		
Within 1 year	13,434	9,457
Between 1 and 5 years	31,752	20,861
Minimum lease payments	45,186	30,318
Future interest rate on leases	(5,536)	(3,193)
Present value of lease liability	**39,650**	**27,125**

NeuroSearch's finance leases primarily concern laboratory equipment and IT equipment. The leases are concluded as and when new laboratory equipment is acquired and are motivated by financing requirements. The leases include options to buy the leased assets on expiry of the leases at prices which are expected to be substantially below market price. NeuroSearch expects to exercise these options, and the purchase price is consequently recognised in the aggregate lease liability. Payments on the leases are variable based on fluctuations in the reference rate of interest, CIBOR (1-3 month rate of interest) and the Nationalbank's rate for certificates of deposit (the Danish central bank). The basic rate of interest on the leases at 31 December 2008 was between 3.75% and 5.57%.

19. Current portion of long-term debt

	2008	2007
Contingent consideration	49,488	256,061
Mortgage debt	5,643	5,285
Liabilities under finance leases	11,068	8,058
Total debt	**66,199**	**269,404**

20. Fees to auditors appointed at the general meeting

	2008	2007
Audit	535	535
Other assurance engagements	81	75
Tax advice	676	507
Non-audit services	238	380
Total fees	**1,530**	**1,497**

The fees for services in connection with equity issues, DKK 0.1 million (2007: DKK 2.4 million related to the rights issue and acquisition) was offset against the gross proceeds and recognised in equity as part of the costs incurred in connection with the share issue.

21. Related-party transactions

NeuroSearch related parties
Related parties with a significant influence comprise the company's Executive Management, Board of Directors, subsidiaries and the associates NsGene A/S, Sophion Bioscience A/S, Aronomics A/S and ZGene A/S. The company also considers Bavarian Nordic A/S to be related parties as some of their board members are also NeuroSearch Board members.

Transactions with related parties
During the year, there were minor transactions with associated companies, all of which took place on an arm's length basis.

For information on remuneration paid to the members of the Executive Management and Board of Directors, please see note 3 "Staff". See "Shareholder information" for a description of warrants issued to the members of the company's Executive Management and Board of Directors.

22. Mortgages and collateral security

Nordea Bank Danmark A/S has issued a guarantee to Nordea Finans Danmark A/S for mortgage loans totalling DKK 107 million. In security of Nordea's guarantee, a mortgage for DKK 132 million has been registered on the land and buildings. In security of loan at Nordea Kredit Realkreditaktieselskab, a mortgage for DKK 38 million has been registered on the land and buildings. The carrying amount of land and buildings is DKK 156 million (prepayments on building are included).

23. Contingent assets, contingent liabilities and commitments

Contingent assets
The Group has an unrecognised deferred tax asset of DKK 333 million (2007: DKK 240 million). See note 6 for a breakdown of the tax asset.

Contingent liabilities
The Group has no contingent liabilities.

Contractual obligations
Except for the collaboration and licence agreements with Eli Lilly, GlaxoSmithKline and Abbott NeuroSearch has no material contractual obligations. In the company's partnership agreements there are no material change of control clauses.

Rent and lease liabilities	2008	2007
Minimum lease payments under operating lease contracts and rent commitments amount to:		
0-1 year	3,892	4,611
1-5 years	12,745	14,006
> 5 years	164	3,417
Total	**16,801**	**22,034**

The operating leases primarily concern company cars and office furniture and equipment. In 2008 DKK 4.5 million was recognised in the income statement (2007: DKK 5.5 million). The leases are subject to terms of interminability of between 2 and 60 months. The Group has rent commitments which totalled DKK 11,026 thousand at the balance sheet date (2007: DKK 18,763 thousand) for the period of interminability, which runs until 31 December 2013.

24. Financial risks

Based on NeuroSearch's financial assets and liabilities, the Group is exposed to certain financial risks, primarily interest-rate risks, liquidity risks and foreign currency risks. Group policy is to not actively conduct speculation in financial risks. Accordingly, the Group's financial management exclusively involves the management of financial risks that arise as a direct consequence of the Group's operations and financing. The general framework for NeuroSearch's financial risk management is laid down in the annual strategic planning, which takes into account factors such as the scientific, commercial and financial risks. In this connection, reference is made to "NeuroSearch's risk profile" on pages 38-39.

For a description of the accounting policies and method applied, including the recognition criteria and basis of measurement, see the relevant section under "Accounting policies".

Hedging of net investments in foreign subsidiary
The part of the Group's non-current liabilities that relates to contingent consideration for the acquisition of A. Carlsson Research AB is classified in the consolidated financial statements as hedging of net investment in foreign subsidiary. The fair value of the contingent consideration was DKK 93.7 million (DKK 304.1 million) at 31 December 2008. Translation losses on the translation of the contingent consideration at the DKK/SEK exchange rate on the balance sheet date is recognised directly in equity under a separate reserve for currency translation as it is an effective hedge (see statement of movements in equity on page 70).

Interest-rate risk
The general purpose of managing interest-rate risk is to limit the adverse impact of interest-rate fluctuations on earnings and the balance sheet. Fluctuations in the interest-rate level affect both the company's income statement and balance sheet. NeuroSearch is primarily exposed to interest-rate risks in connection with interest-bearing assets and liabilities. Excess cash is primarily invested in investment-grade, short-term, liquid government and mortgage bonds, unit trusts or in money market deposits, all denominated in DKK.

The weighted average duration of the bond portfolioat 31 December 2008 was 3.12 years. The risk of mortgage bonds being redeemed has been taken into account in the calculation of the duration of the bond portfolio.

The bonds are at fixed interest, and price fluctuations as a result of changes in the interest-rate market therefore affect the fair value of the bond portfolio. Unit trusts "High Yield" are bonds with a lower credit rating, and the generally higher risk is compensated for by higher yields. The split between High Yield unit trusts and Danish mortgage bonds is disclosed in note 13.

The company's portfolio of securities is measured at fair value through profit or loss, and changes in market interest rates will consequently affect net profit. Available-for-sale financial assets are measured at fair value and recognised directly in equity. Changes in market interest rates would consequently not affect net profit. Mortgage debt is measured at amortised cost. A minor part of the mortgage debt is obtained with variable interest and as a consequence hereof change in market interest rate will affect the result for the year. The remaining part of the mortgage debt is obtained with a fixed effective rate. Lease liabilities are measured at amortised cost equivalent to the nominal value as loans have been contracted at floating rates equivalent to the market rate, and changes in the market rate would consequently affect net profit.

As at 31 December 2008, fluctuations in interest rates of +/- 1 percentage point would – everything else being equal – have had an effect on pre-tax profit of +/- DKK 5.3 million (2007: DKK 4.1 million), primarily as a result of changes in the fair values of securities.

The interest risk profile of securities is disclosed in note 13, and for loans in notes 17 and 18.

Share price risk
The company makes strategic investments in certain listed and unlisted shares, whereby the company assumes a share price risk as a result of fluctuations in market prices. The investments are classified in the balance sheet as "Available-for-sale financial assets".

As of 31 December 2008, fluctuations in the market prices of +/- 10% would – everything else being equal – have had an effect on "Other reserves" under equity of +/- DKK 1.6 million (2007: DKK 3.9 million) as a result of the change in unrealised fair value adjustments of "Available-for-sale financial assets".

Foreign exchange risks
The general objective of currency risk management is to limit the short-term adverse impact of exchange-rate fluctuations on earnings and cash flows and thus increase the predictability of the financial results. The company's transactions denominated in foreign currency are not deemed to have any significant impact on the income statement and balance sheet. However, the Group's policy is that management regularly evaluates the need to hedge expected exchange rate risks as a result of future transactions denominated in foreign currency.

As at 31 December 2008, the Group had entered into forward currency contracts that do not qualify for hedge accounting under IAS 39 in respect of forward exchange transactions. The contracts are included in the line item "Other liabilities" in the amount of DKK 0.8 million at 31 December 2008 (2007: DKK 0 million).

Exchange-rate risks primarily relate to project revenue and costs to and from foreign partners. It is management's strategy to seek to offset exchange-rate risks by matching revenue and costs in the same currencies. In the research and development agreement with GSK, cash flows agreed in EUR are not currently deemed to involve a material exchange-rate risk relative to DKK.

Financial risks continue

The table shows the effect on the profit/loss and equity of probable changes in the financial variables on the balance sheet

	2008		2007	
	Fluctuation	**Effect**	**Fluctuation**	**Effect**
EUR	+/- 2%	104	+/- 2%	1,333
GBP	+/- 5%	2,751	+/- 5%	1,905
SEK	+/- 5%	8,781	+/- 5%	1,939
USD	+/- 10%	2,453	+/- 10%	740

The consolidated income statement is also affected by changes in the exchange rate of SEK to DKK, because the results of the subsidiary NeuroSearch Sweden AB are translated into DKK at the end of the year using average exchange rates.

Liquidity risk
A breakdown of the company's aggregate liquidity risk on financial assets and liabilities is given below:

	<12 months	**1-2 years**	**3-5 years**	**> 5 years**	**Total*)**	**Fair value****	**Carrying amount**
At amortised cost							
Mortgage debt	14,274	14.784	44,352	174,203	247,613	150,371	143,753
Lease liability	13,492	11.561	20,133	-	45,186	39,650	39,482
Trade and other creditors	27,035	-	-	-	27,035	27,035	27,035
Other liabilities	32,296	-	-	-	32,296	32,296	32,296
At fair value							
Contingent consideration	49,488	44.214	-	-	93,702	93,702	93,702
Total financial liabilities at 31 December 2008	**136,585**	**70.559**	**64,485**	**174,203**	**445,832**	**343,054**	**336,268**
Loans and receivables							
Cash	237,125	-	-	-	237,125	237,125	237,125
Receivables from associates	863	-	-	-	863	863	863
Other receivables	18,515	-	-	-	18,515	18,515	18,515
Available for sale							
Available-for-sale financial assets	13,213	-	-	-	13,213	13,213	13,213
At fair value							
Other financial assets at fair value	59,676	4.872	25,478	113,012	203,038	203,038	203,038
Total financial liabilities at 31 December 2008	**329,392**	**4.872**	**25,478**	**113,012**	**472,754**	**472,754**	**472,754**
Net total at 31 December 2008	**192,807**	**(65.687)**	**(39,007)**	**(61,191)**	**26,922**	**129,700**	**136,486**

* All cash flows are non-discounted and include all liabilities under contracts entered into, including, among other things, future interest payments on loans.
** The fair value of financial liabilities is determined as the discounted cash flows based on the market rates and credit conditions on the balance sheet date.

Financial risks continue

	<12 months	1-2 years	3-5 years	>5 years	Total*)	Fair value**	Carrying amount
At amortised cost							
Mortgage debt	12,494	12,494	37,483	109,327	171,798	112,000	111,006
Lease liability	9,457	8,837	12,024	-	30,318	27,125	27,230
Trade and other creditors	42,978	-	-	-	42,978	42,978	42,978
Other liabilities	22,744	-	-	-	22,744	22,744	22,744
At fair value							
Contingent consideration	256,061	48,125	-	-	304,186	304,186	304,186
Total financial liabilities at 31 December 2007	**343,734**	**69,456**	**49,507**	**109,327**	**572,024**	**509,033**	**508,144**
Loans and receivables							
Cash	727,527	-	-	-	727,527	727,527	727,527
Receivables from associates	437	-	-	-	437	437	437
Other receivables	17,741	-	-	-	17,741	17,741	17,741
Available for sale							
Available-for-sale financial assets	29,330	-	-	-	29,330	29,330	29,330
At fair value							
Other financial assets at fair value	-	42,029	3,922	42,465	88,416	88,416	88,416
Total financial assets as 31 December 2007	**775,035**	**42,029**	**3,922**	**42,465**	**863,451**	**863,451**	**863,451**
Net total at 31 December 2007	**431,301**	**(27,427)**	**(45,585)**	**(66,862)**	**291,427**	**354,418**	**355,307**

* All cash flows are non-discounted and include all liabilities under contracts entered into, including, among other things, future interest payments on loans.
** The fair value of financial liabilities is determined as the discounted cash flows based on the market rates and credit conditions on the balance sheet date.

The company ensures it has sufficient capital resources through a combination of cash management, highly liquid marketable securities and non-guaranteed and guaranteed credit facilities.

See the cash flow statement on pages 69 for a specification of capital resources as of 31 December 2008 and 2007.

25. Adjustments

	2008	2007
Amortisation, depreciation and impairment	18,118	16,802
Losses/gains on sales of non-current assets	1,681	173
Financial income and expense	21,126	12,817
Profit/(loss) from assets available for sale	10,186	7,966
Profit/(loss) from investments in associates	18,607	20,487
Share-based payment	23,155	20,567
Tax for the year	(33,928)	(26,295)
Currency adjustment	3,642	1,579
Total	**62,587**	**54,096**

FINANCIAL STATEMENTS FOR THE PARENT COMPANY, NEUROSEARCH A/S

Accounting policies

Basis of preparation
The financial statements of the parent company are presented in accordance with the Danish Financial Statements Act (reporting class D) and other accounting regulations applicable to companies listed on the Nasdaq OMX Copenhagen.

The accounting policies of the parent company are the same as those of the Group, however, with the addition of the policies described below. The Group's accounting policies are described on pages 62-66 of the Annual Report.

Changes in accounting policies
For 2008, the accounting policies have been changed to the effect that the financial statements of the parent company are presented in accordance with the Danish Financial Statements Act (reporting class D). The change means that investments in subsidiaries and associates are accounted for under the equity method as opposed to what would be the case under IFRS, where they would be recognised and measured at cost. The comparative figures for 2007 have been restated to reflect these accounting policies.

Furthermore, residual values of property, plant and equipment (primarily property) are no longer revalued annually, which is required under IFRS. However, this has no effect on the results of the accounting policy changes, as the residual values at the time of transition were the same as in the consolidated financial statements.

The application of the provisions of the Danish Financial Statements Act has resulted in the following changes to the parent company financial statements for 2007.

(DKK thousands)	Profit/(loss)	Equity
Adjustment of opening equity 2007:		
Equity as at 31 December 2006 in accordance with IFRS		819,544
Adjustment of investments in subsidiaries to equity value		(70,958)
Adjustment of investments in associates to equity value		(90,917)
Effects of accounting policy changes		(161,875)
Adjusted equity as at 1 January 2007 in accordance with the Danish Financial Statements Act		**657,669**
Adjustment of comparative figures for profit/(loss) for 2007 and equity as at 31 December 2007:		
Profit/(loss) and equity as per the 2007 Annual Report in accordance with IFRS	(186,498)	1,369,956
Adjustment of investments in subsidiaries to equity value	(61,445)	(137,148)
Adjustment of investments in associates to equity value	(20,487)	(111,404)
Impairment of goodwill	(9,775)	(9,775)
Effects of accounting policy changes	(91,707)	(258,327)
Adjusted profit/(loss) and equity as at 31 December 2007 in accordance with the Danish Financial Statements Act	**(278,205)**	**1,111,629**

Supplementary accounting policies for the parent company

Financial assets
Investments in subsidiaries and associates are recognised in the parent company financial statements under the equity method, i.e. at the proportionate share of the net asset value of these companies. Positive differences between historic cost and net asset value on the date of acquisition are recognised in the parent company's financial statements under financial assets as part of the investments in subsidiaries (goodwill). Goodwill is amortised on a straight-line basis over the expected life of patents, estimated to be 20 years. Goodwill arising on acquisitions is amortised over the residual life of the patents.

The share of the results of subsidiaries less unrealised intra-group gains is recognised in the parent company's income statement.

Net revaluation of investments in subsidiaries and associates exceeding the dividend declared by the companies is recognised in equity as reserve for net revaluation according to the equity method.

For subsidiaries with negative equity, a provision is recognised equivalent to the negative equity to the extent the company has a legal or constructive obligation.

Cash flow statement
In accordance with section 86(4) of the Danish Financial Statements Act, a separate cash flow statement has not been prepared for the parent company as it is included in the Group. See the consolidated cash flow statement on page 69.

Income statement for the period 1 January – 31 December (DKK thousands)

Note		2008	2007
	Revenue	80,281	121,527
	Total revenue	**80,281**	**121,527**
1,2	Research costs	189,900	177,595
2	Development costs	108,507	81,237
1,2	General and administrative costs	33,743	32,041
	Total costs	**332,150**	**290,873**
	Operating profit/(loss)	**(251,869)**	**(169,346)**
8	Share of profit/(loss) of subsidiaries before tax	(127,125)	(98,006)
8	Share of profit/(loss) of associates	(18,607)	(20,487)
9	Result of available-for-sale financial assets	(10,186)	(7,966)
3	Financial income	25,996	13,624
4	Financial expense	41,981	22,319
	Total financials	**(171,903)**	**(135,154)**
	Profit/(loss) before taxes	**(423,772)**	**(304,500)**
5	Tax on profi/(loss) for the year	33,928	26,295
	Net profit/(loss)	**(389,844)**	**(278,205)**
	Allocation of loss	0	0
	Reserve for net revaluation according to the equity method	(389,844)	(278,205)
	Retained earnings	**(389,844)**	**(278,205)**

No dividend has been paid during this or earlier reporting periods.

Balance sheet as of 31 December (DKK thousands)

Note	ASSETS	2008	2007
6	Licences and patents	3,959	5,921
7	Land and buildings	131,106	124,739
7	Plant and machinery	37,692	34,130
7	Other plant and equipment	5,332	3,333
	Prepayments on property, plant and equipment	26,364	5,942
8	Investments in subsidiaries	469,101	580,722
8	Investments in associates	8,175	9,018
9	Available-for-sale financial assets	2,539	9,965
	Total fixed assets	**684,268**	**773,770**
	Receivables from associates	863	437
10	Other receivables	13,175	13,754
9	Available-for-sale financial assets	13,213	29,330
11	Other financial assets at fair value through profit or loss	203,038	88,416
12	Cash	234,179	719,331
	Total current assets	**464,468**	**851,268**
	Total assets	**1,148,736**	**1,625,038**

Note	EQUITY AND LIABILITIES	2008	2007
	Share capital	314,866	304,854
	Exchange rate reserve	(51,538)	(4,744)
13	Other reserves	5,270	21,012
	Retained earnings	557,834	790,507
	Total equity	**826,432**	**1,111,629**
8	**Provisions**	**0**	**6,573**
14	Contingent consideration	44,214	48,125
15	Mortgage debt	138,110	105,721
16	Other long-term debt	28,414	19,172
	Total non-current liabilities	**210,738**	**173,018**
17	Current portion of long-term debt	66,199	269,404
	Deferred income	-	13,422
	Trade and other payables	23,911	32,407
	Other liabilities	21,456	18,585
	Total current liabilities	**111,566**	**333,818**
	Total liabilities	**322,304**	**513,409**
	Total equity and liabilities	**1,148,736**	**1,625,038**

18	Fees to auditors appointed at the general meeting
19	Related parties
20	Mortgages and collateral security
21	Contingent assets, contingent liabilities and commitments
22	Financial risks

Statement of movements in equity (DKK thousands)

	Share capital	Share premium	Exchange rate reserve	Other reserves	Retained earnings	2008 total	2007 total
Equity at 1 January 2008	**304,854**	**0**	**(4.744)**	**21,012**	**790,507**	**1,111,629**	**657,669**
Fair value adjustment of available-for-sale financial assets	-	-	-	(15,742)	-	(15,742)	(33.249)
Exchange rate adjustment of net investment in foreign subsidiary	-	-	(75,076)	-	-	(75,076)	(21,750)
Fair value adjustment of hedge of net investment in foreign subsidiary	-	-	28,282	-	-	28,282	11,861
Net profit/(loss)	-	-	-	-	(389,844)	(389,844)	(278,205)
Rights issue:							
- proceeds from share issue	9,715	133,580	-	-	-	143,295	771.282
- costs of share issue	-	(2,850)	-	-	-	(2,850)	(42.962)
Employee warrant programme:							
- costs of share-based payment	-	-	-	-	23,155	23,155	20.567
- proceeds from share issue	297	3,390	-	-	-	3,687	26.548
- costs of share issue	-	(104)	-	-	-	(104)	(132)
Transfer	-	(134,016)	-	-	134,016	0	0
Equity at 31 December 2008	**314,866**	**0**	**(51,538)**	**5,270**	**557,834**	**826,432**	**1,111,629**

	2004	2005	2006	2007	2008
Share capital at 1 January	153,917	154,816	157,790	246,390	304,854
Equity issues	-	-	87,562	55,092	9,715
Exercise of warrants	899	2,974	1,038	3,372	297
Share capital at 31 December	**154,816**	**157,790**	**246,390**	**304,854**	**314,866**

The total number of shares is 15,743,285 (2007: 15,242,687 shares) with a nominal value of DKK 20 each (2007: DKK 20 per share). All issued shares are fully paid up. All shares carry the same rights. The company has issued warrants to the management and a number of employees. See note 3 in the consolidated financial statement.

Notes (DKK thousands)

1. Amortisation, depreciation and impairment	2008	2007
Intangible assets:		
Recognised in:		
Research costs	1,962	1,971
	1,962	**1,971**
Property, plant and equipment:		
Recognised in:		
Research costs	12,715	11,604
General and administrative costs	2,402	1,990
	15,117	**13,594**

2. Staff	2008	2007
Staff costs were:		
Salaries and wages	107,356	96,155
Share-based payment	20,492	18,363
Pension	8,911	7,757
Social security costs	1,315	1,153
Other staff costs	6,170	6,192
	144,244	**129,620**
Recognised in:		
Research costs	89,012	85,581
Development costs	36,335	25,671
General and administrative costs	18,897	18,368
	144,244	**129,620**
Average number of employees	208	197

NeuroSearch considers the entire Executive Management to be "key management". The Executive Management consists of five persons, including the CEO, who is registered with the Danish Commerce and Companies Agency.

Remuneration to the Executive Management and Board of Directors:		
Executive Management:		
Salaries*	11.294	9.161
Pension costs	912	811
Share-based payment	4.573	4.137
Total	**16.779**	**14.109**
Board of Directors:		
Fees	1.800	1.800
Share-based payment	590	442
Total	**2.390**	**2.242**
Total remuneration to the Executive Management and Board of Directors	**19.169**	**16.351**

* Salaries to the Executive Management include the value of free company car and other benefits

The remuneration paid to Flemming Pedersen, CEO, was DKK 4,918 thousand including pensions, costs of free company car and share-based payment calculated in accordance with IFRS2 (2007: DKK 4,530 thousand). As at 31 December 2008, the company's CEO held 75,482 warrants (2007: 55,482).

The company's period of notice to members of the Executive Management is 12 months. In connection with major changes to the company's ownership structure, this notice of termination for the company's CEO is extended by a further 12 months during a transitional period. The period of notice to be given by members of the Executive Management to the company is between 3 and 6 months. For additional information on remuneration to the Executive Management and Board of Directors, see "Management structure" in the Management Report.

For information on share-based payment plans for the Board of Directors, Executive Management and other employees, see note 3 to the consolidated financial statements.

3. Financial income	2008	2007
Interest income	21,788	7,782
Foreign exchange gains	4,208	403
Net fair value adjustment of financial assets measured at fair value through profit or loss	-	5,439
Total	**25,996**	**13,624**

4. Financial expense	2008	2007
Interest expense	14,402	9,566
Foreign exchange losses	4,772	1,400
Financial element of contingent consideration	6,886	11,353
Net fair value adjustment of financial assets measured at fair value through profit or loss	15,921	-
Total	**41,981**	**22,319**

5. Tax (DKK million)	2008	2007
Calculated tax on the year's loss	-	-
Deferred tax asset relating to foreign activities offset against the statement at equity method	(34)	(26)
Tax on the year's loss (income)	**(34)**	**(26)**

As of 31 December 2008, the parent company had tax losses carried forward of approximately DKK 912 million which can be carried forward indefinitely. In addition, the parent company had deductible temporary differences of approximately (net) DKK 121 million.

In the financial statements, the value of the deferred tax asset has been written down to zero as a result of uncertainty as to the company's and the Group's ability to generate sufficient future taxable revenues for the tax asset to be utilised. However, the part of the deferred tax asset that relates to the Swedish activities has been recognised and offset against the deferred tax that was recognised in connection with the acquisition of NeuroSearch Sweden AB in 2006. See note 16 in the consolidated financial statements for a description.

The statement below shows the year's movements in the potential tax asset:

Tax on pre-tax loss	106	76
Share of profit/(loss) of subsidairies and associates	(9)	(30)
Permanent deviations relating to share-based payment, etc.	(5)	(4)
Other non tax-deductible	(2)	1
Adjustment of deffered tax for prior years	(3)	-
Effect of change in tax rate	-	(15)
Change in deferred tax asset (increase of potential tax asset)	**87**	**28**
Breakdown of unrecognised deferred tax assets:		
Tax losses carried forward (available indefinitely)	912	646
Rights	101	(3)
Non-current assets	(21)	(10)
Patent costs	5	10
Assets held under finance leases	36	27
Other	-	13
Total temporary differences	**1,033**	**683**
Calculated potential deferred tax asset at local tax rate	258	171
Writedown of deferred tax asset	(258)	(171)
Recognised deferred tax asset	**0**	**0**

6. Intangible assets

	Licences and patents	
	2008	**2007**
Cost at 1 January	19,620	19,991
Disposals	-	371
Cost at 31 December	19,620	19,620
Amortisation and impairment at 1 January	13,699	11,925
Amortisation	1,962	1,971
Disposals	-	197
Amortisation and impairment at 31 December	15,661	13,699
Carrying amount at 31 December	**3,959**	**5,921**

For information regarding impairment test of intangible assets reference is made to note 8 in the consolidated financial statement.

7. Property, plant and equipment

	Land and buildings	**Plant and machinery**	**Other plant and equipment**	**Prepay-ments**	**2008 total**	**2007 total**
Cost at 1 January 2008	175,147	99,562	23,659	5,942	304,310	288,890
Additions	8,409	11,945	4,253	24,595	49,202	15,420
Transfer	2,883	1,103	187	(4,173)	0	0
Disposal	1,673	15,769	10,763	-	28,205	0
Cost at 31 December 2008	184,766	96,841	17,336	26,364	325,307	304,310
Depreciation and impairment at 1 January 2008	50,408	65,432	20,326	0	136,166	122,572
Depreciation	4,680	8,004	2,433	-	15,117	13,594
Disposal	1,428	14,287	10,755	-	26,470	0
Depreciation and impairment at 31 December 2008	53,660	59,149	12,004	0	124,813	136,166
Carrying amount at 31 December 2008*	**131,106**	**37,692**	**5,332**	**26,364**	**200,494**	**168,144**
* Of which carrying amount of assets held under finance leases	0	34.537	4.966	0	39.503	32.410

8. Investments in subsidiaries and associates

	Subsidiaries		**Associates**	
	2008	**2007**	**2008**	**2007**
Cost at 1 January	657,318	532,403	109,226	95,555
Additions	-	-	27,253	13,671
Contribution recognized in the investment	114,759	83,120	-	-
Closure of developmentprojects	(55,950)	-	-	-
Reassessment of contingent consideration related to acquisition*	322	63,545	-	-
Exchange rate adjustment	(72,035)	(21,750)	-	-
Cost at 31 December	644,414	657,318	136,479	109,226
Amortisation and impairment at 1 January	(147,979)	(77,693)	(111,404)	(90,917)
Net profit/(loss)	(119,271)	(88,231)	(13,604)	(18,752)
Amortisation and impairment of goodwill	(7,853)	(9,775)	-	-
Capitalisation of deferred tax	33,928	26,295	-	-
Currency adjustments	3,118	1,425	-	-
Other adjustments	-	-	(5,003)	(1,753)
Amortisation and impairment at 31 December	(238,057)	(147,979)	(130,011)	(111,404)
Offset against receivables	62,744	64,810	1,707	11,196
Transfer to provisions related to subsidiary	-	6,573	-	-
Transfer for offset against receivables or provisions at 31 December	62,744	71,383	1,707	11,196
Carrying amount at 31 December	**469,101**	**580,722**	**8,175**	**9,018**

* See note 16 to the consolidated financial statements for a description of movements in contingent consideration.

Investments in subsidiaries and associates continue

Accumulated amortisation of goodwill at 31 December 2008 totalled DKK 17,626 thousand (2007: DKK 9,775 thousand).

Of the carrying amout at 31 December 2008 DKK472,777 thousand (2007: DKK 574,361 thousand) relates to intangible assets from the business combination. For information regarding the impairment test carried out of the carrying amount of intangible assets, see note 8 to the consolidated financial statements.

Subsidiaries:

Navn	Registered office	Ownership interest (%)	Share capital	Equity	Assets	Revenue	Net profit/ (loss)
NeuroSearch Sweden AB	Gothenburg	100	1,980	(187,239)	10,564	1,643	(121,173)
Poseidon Pharmaceuticals A/S*	Ballerup	100	10,500	3	28	0	(2,120)
NeuroScreen ApS	Ballerup	100	131	(346)	54	0	(170)
NsExplorer A/S	Ballerup	100	564	(3,344)	10	0	(49)

* After elimination of intercompany transaction.

The specification of associates is identical to that of the Group, and reference is therefore made to note 10 to the consolidated financial statements.

9. Available-for-sale financial assets

The specification for the parent company is identical to that of the Group, and reference is therefore made to note 11 to the consolidated financial statements.

10. Other receivables

	2008	2007
VAT reimbursement	2,064	4,527
Prepaid costs*	7,958	7,050
Other receivables	3,153	2,177
	13,175	**13,754**

* Prepaid costs concern research activities, leasing, insurance, subscriptions, etc.

The carrying amount of other receivables largely corresponds to their fair values. Other receivables, etc. are not subject to any material credit risk as they primarily concern receivables from large international partners, prepaid costs and VAT.
As of 31 December 2008, there were no indications of impairment of other receivables, and consequently no impairment losses have been recognised thereon.

11. Other financial assets measured at fair value through profit or loss

The specification for the parent company is identical to that of the Group, and reference is therefore made to note 13 to the consolidated financial statements.

12. Cash

	2008	2007
Money market accounts	30,043	33,579
Fixed-term deposits	200,252	682,002
Escrow account regarding building project	3,884	3,750
	234,179	**719,331**

NeuroSearch is subject to credit risk with respect to bank deposits. The maximum credit risk corresponds to the carrying amount. No credit risk is considered to exist in relation to cash as the counterparties are Nordea and Dansk Bank, which are covered by the temporary Danish government guarantee.

13. Other reserves

The specification for the parent company is identical to that of the Group, and reference is therefore made to note 15 to the consolidated financial statements.

14. Acquisition of subsidiaries and operations

The specification for the parent company is identical to that of the Group, and reference is therefore made to note 16 to the consolidated financial statements.

15. Mortgage debt

The specification for the parent company is identical to that of the Group, and reference is therefore made to note 17 to the consolidated financial statements.

16. Finance leases

The specification for the parent company is identical to that of the Group, and reference is therefore made to note 18 to the consolidated financial statements.

17. Current portion of long-term debt

The specification for the parent company is identical to that of the Group, and reference is therefore made to note 19 to the consolidated financial statements.

18. Fees to auditors appointed at the general meeting

A separate statement has not been prepared for the parent company of fees to the auditors appointed at the general meeting as the fees are included in the statement for the Group pursuant to section 96(3) of the Danish Financial Statements Act. See note 20 to the consolidated financial statements for the statement for the Group.

19. Related-party transactions

The specification for the parent company is identical to that of the Group, and reference is therefore made to note 21 to the consolidated financial statements.

20. Mortgages and collateral security

The specification for the parent company is identical to that of the Group, and reference is therefore made to note 22 to the consolidated financial statements

21 Contingent assets, contingent liabilities and commitments

Contingent assets
The parent company has an unrecognised deferred tax asset of DKK 258 million (2007: DKK 171 million). See note 5 for a breakdown of the tax asset.

Contingent liabilities
The parent company has issued letters of comfort for Poseidon Pharmaceuticals A/S, NeuroScreen ApS, NsExplorer A/S and NeuroSearch Sweden AB stating that NeuroSearch A/S will cover the capital requirements of the companies within the budgeted activity limits.

Contractual obligations
Except for the collaboration and licence agreements with Eli Lilly, GlaxoSmithKline and Abbott NeuroSearch has no material contractual obligations. There are no material contractual obligations. In the company's partnership agreements there are no material change of control clauses.

Rent and lease liabilities	**2008**	**2007**
Minimum lease payments under operating lease contracts amount to:		
0-1 year	956	1,274
1-5 years	1,252	1,025
> 5 years	-	-
Total	**2,208**	**2,299**

The operating leases primarily concern company cars and office furniture and equipment. In 2008, DKK 1.2 million was recognised in the income statement (2007: DKK 1.1 million). The leases are subject to terms of interminability of between 2 and 60 months.

22. Financial risks

See information in the consolidated financial statements note 24.

GLOSSARY

ADHD (Attention Deficit Hyperactivity Disorder): A development and behaviour disorder characterised by poor concentration, and distractibility, hyperactivity and impulsivity.

Agonist: A compound which binds to a receptor and releases a physiological response in a cell. Autoimmune diseases:Chronic, systemic diseases caused by the immune system attacking the body's own tissue. Rheumatoid arthritis and multiple sclerosis are examples of autoimmune diseases.

BMI (Body Mass Index): A key index for relating a person's weight to his/her height. The BMI is calculated by dividing weight in kilos by height in meters squared.

CNS: The central nervous system, consisting of the brain and the spinal cord.

Dementia: Loss of intellectual functions (such as thinking, memory and reasoning) to such an extent that it impacts a person's daily activities. Dementia is not a disease in itself, but a consequence of certain diseases or disorders.

Double-blinded: A clinical study that has been coded so that neither the investigators (health care providers) carrying out the study, nor the study subjects, know which treatment the individual subject receives. The outcome can only be determined when the results are decoded.

Dopamine: A neurotransmitter with major impact on our wellbeing, the way we perceive things and on our motor function and ability. Dopamine also has a strong impact on our need system.

Dopaminergic stabiliser: A drug compound which can both enhance and counteract dopamine-related functions depending on the dopamine level from the outset.

Dyskinesia: Abnormality in performing voluntary muscle movements.

Phase I: The first clinical studies carried out with a new drug compound to establish how it is absorbed, tolerated, metabolised and secreted in the human body. Traditionally, these studies involve a limited number of studies in small groups of healthy individuals.

Phase Ib: As Phase I studies, but typically with repeated dosing in patients.

Phase II: Clinical studies following the first positive Phase I/Ib results and which are conducted to determine the effect and tolerance of a drug candidate at various dosage levels compared with placebo. Conducted on a small number of carefully monitored patients suffering from the targeted disease. Phase I and Phase II studies often overlap.
Phase II studies can be divided into Phase IIa (preliminary Phase II studies which are conducted to get an indication of the efficacy of a drug candidate) and Phase IIb studies which normally include several dosage levels and more patients than Phase IIa with a view to establishing proof of the efficacy (Proof of Concept).

Phase III: Extensive, pivotal clinical studies of a drug candidate in a large number of patients. Phase III can be initiated after establishment of Proof of Concept in Phase II and approval of existing safety data. In Phase III, a new drug candidate is evaluated relative to placebo and existing therapies (if available). The trials are often double-blinded and require detailed statistical evaluations Phase III studies are designed so that positive results can lead to the submission of an application for registration with the health authorities.

FDA: The Food and Drug Administration (FDA) – the US health authorities.

GABA (Gamma amino butyric acid): The primary inhibitory neurotransmitter in the brain.

GABA modulator: A substance which interacts with GABA receptors, thereby interfering with the action of GABA.

GLP: Good Laboratory Practice. A collection of detailed standards that mandate specific operating procedures that cover operating procedures for basic research, data acquisition and reporting. Also included are laboratory design and utilisation requirements, such as finishes and number of air changes, which are enforced by regulatory agencies.

GMP (Good Manufacturing Practice): Describes the part of the quality control which ensures that pharmaceutical products are produced and controlled in a uniform manner in accordance with the quality standards applicable to their future use.

hERG (human ether-a-gogo related gene): A gene that encodes a specific ion channel which is vital to normal cardiac rhythm.

Cerebral cortex: The outermost layer of the cerebral hemispheres of the brain. This are of the brain is involved in all forms of conscious experience, including perception, emotion, thought and planning, personality and the control of correct social behaviour.

IFRS: International Financial Reporting Standards.

Ion channel: Protein in a cell membrane that allows electrically charged atoms (ions) to enter and exit, thereby contributing to the regulation of cell activity.

Kinetic profile: The characteristics of a compound with respect to how it is absorbed, degraded and excreted by the body.

Clinical studies: The part of the development of a new drug candidate involving testing in humans to establish the drug's safety and efficacy profile. Clinical studies are usually divided into three phases: I – III.

Cognitive: Refers to the ability to think, learn and remember.

Lead optimisation stage: The final drug discovery phase leading to the selection of a drug candidate.

Drug candidate: A new chemical or biological substance which is deemed to have the desired therapeutic properties and which is under development with a view to later approval and marketing.

Metabolism: The sum of the processes by which a particular substance is handled in the living body.

Modulator: A compound which alters the function of an ion channel or a receptor.

Monoamine re-uptake inhibitor: A compound which inhibits re-uptake of monoamine neurotransmitters (such as dopamine, serotonin and noradrenaline) into nerve cells. Thereby, the effect of dopamine is enhanced.

Monoamines: A group of synaptic neurotransmitters comprising dopamine, serotonin and noradrenaline.

Neuropathic pain: Pain caused by damage to nerve cells.

Neurotransmitter: Chemical substance that transmits nerve impulses between nerve cells over the synapsis and which thereby change both the frequency and intensity of the messages cells send to each others. The greater the number of neurotransmitters, the stronger the signals.

NNR: Neuronal nicotinic receptor. An ion channel in nerve cells which opens when nicotine or the signalling compound acetylcholine is present.

Noradrenaline: Neurotransmitter of the monoamine type.

Orphan Drug designation: A special classification granted by the health authorities to a new drug substance under development targeting a rare disease with less than 200,000 registered patients. Orphan Drug designation gives special development and commercial rights.

Parkinsonism: Lack of voluntary movement.

Placebo: Inactive compound used in clinical studies, used in evaluation.

Placebo-controlled: A term used to describe a clinical method in which placebo is given to one group of patients in a study in order to procure neutral safety and efficacy values for comparison with the efficacy of a drug substance being studied and which is administered to other groups of patients. The results obtained in the two groups are then compared to see if the investigational treatment is more effective than the placebo.

Proof of Concept: Statistical evidence of a medication's effect in the relevant patient population. Clinical Phase II/IIb studies are typically designed as so-called Proof of Concept studies.

Preclinical development: Consists primarily of chemical upscaling, animal safety studies and pharmacokinetics in preparation for administration of the drug into humans.

Randomised study: A clinical study method in which the study subjects or patients are allocated at random to receive one of several clinical interventions (placebo or active drug).

Receptor: Specialised protein positioned on the cell membrane to which neurotransmitters bind and transmit signals.

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