Newron
Pharmaceuticals

Annual Report 2017

Corporate profile

Newron is a biopharmaceutical company focused on the development of novel therapies for patients with diseases of the central and peripheral nervous system. The Company is listed on the Swiss Stock Exchange SIX (ticker symbol: NWRN). Newron is headquartered in Bresso near Milan, Italy, with a subsidiary in Morristown, NJ, USA.

Xadago® (safinamide) has received marketing authorization for the treatment of Parkinson's disease in the European Union, Switzerland and the USA, and is commercialized by Newron's partner Zambon. US WorldMeds holds the commercialization rights in the USA. Meiji Seika has the rights to develop and commercialize Safinamide in Japan and other key Asian territories.

Newron has a strong pipeline of promising treatments for rare disease patients at various stages of clinical development, including Sarizotan for patients with Rett syndrome and Ralfinamide for patients with specific rare pain indications. Newron is also developing Evenamide as the potential first add-on therapy for the treatment of patients with positive symptoms of schizophrenia.

More information about the Company is available on www.newron.com

Key Corporate Events

2017 Highlights

Xadago® (safinamide)

- Xadago® available in the US for the treatment of Parkinson's disease as add-on therapy to levodopa/carbidopa, following US FDA approval
- Newron received EUR 11.3 million milestone payment for US approval of Xadago®
- Seqirus and Zambon entered into a partnership for Xadago® in Australia and New Zealand
- Meiji Seika and Eisai announced a collaboration for the development and commercialization of Xadago® in Japan and key territories in Asia
- Valeo Pharma and Zambon formed partnership for Xadago® in Canada
- Zambon launched Xadago® in Portugal, Austria and Finland for patients with mid- to late-stage Parkinson's disease, Xadago® now available in 14 European countries
- Dossiers for marketing authorization filed by Zambon and its partners in Brazil, Colombia, Canada and Australia
- Meji Seika Pharma and and Eisai Co. announced that primary endpoint was met in a Phase II/III clinical study with safinamide as add-on therapy to levodopa in patients with Parkinson's disease in Japan (post end of reporting period)
- Meiji plans to file for marketing authorization of safinamide with the Japanese Pharmaceutical and Medical Device Agency in 2018 (post end of reporting period)
- Post end of reporting period, Zambon informed Newron that they and Medison Pharma have entered into a partnership for Xadago in Israel

Evenamide

- Evenamide met Phase IIa study objectives of good tolerability, safety, and preliminary evidence of efficacy as add-on therapy for the treatmet of patients with chronic schizophrenia
- Encouraging results presented at International Congress on Schizophrenia Research and at European College of Neuropsychopharmacology Congress
- Meetings with number of health authorities confirmed their acceptance of preliminary evidence of efficacy and of the design of two potentially pivotal studies' being key components of the Phase III development program that is expected to commence towards the end of 2018

Sarizotan

- Newron amended Sarizotan Treatment of Apneas in Rett Syndrome (STARS) study to include Rett syndrome patients under 13 years of age, after receiving FDA approval
- STARS study is launched at trial sites in Italy, Australia, the UK and India
- Poster presentation on largest and most comprehensive qualitative study to examine burden of Rett syndrome given at 22nd Annual International Meeting of the International Society for Pharmaco-economics and Outcomes Research (ISPOR)
- Newron supported Rett syndrome Awareness Month and Global Rare Disease Day®
- Newron presented at European Rett-Syndrome Congress and hosted Advisory Board Meeting

Corporate

- Newron raised CHF 27.0 Million in a private placement of new shares

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Shareholder Letter

Ulrich Köstlin Stefan Weber

Dear Shareholder,

We are pleased to report that the past year has been another successful twelve months for Newron. Notably, during this time Xadago® (safinamide) received FDA approval and was launched in the United States. We are delighted that Parkinson's disease patients in the US now have access to this treatment option, the first New Chemical Entity approved in more than a decade for this disease. We also made further progress with our pipeline products sarizotan and Evenamide and are excited about the potential treatment opportunities they may bring to Rett syndrome and schizophrenia patients, respectively.

This year's launch of Xadago in the US, as an add-on therapy for patients with Parkinson's disease currently taking levodopa/carbidopa and experiencing so-called "OFF" episodes, was an important milestone for the Company. As a result of the FDA's approval, we received EUR 11.3 million of milestone payments from our partner Zambon. In addition to the product's launch in the US, Zambon also made Xadago available to patients in Portugal, Finland and Austria, in 2017. The dossiers for marketing authorization for Xadago in Brazil and Colombia have been filed and are under review by the relevant authorities.

During the past twelve months, we were pleased that our partner Zambon entered into partnerships for Xadago with Seqirus in Australia and New Zealand, and with Valeo Pharma in Canada. Seqirus in the meantime has filed the dossier for marketing authorization in Australia and will undertake the commercialization in Australia and New Zealand; and in Canada, Valeo Pharma has filed the dossier for marketing authorization and will be responsible for all regulatory, sales and marketing, quality, and distribution activities. Post end of reporting period, we were pleased to learn from Zambon that they have entered into a partnership with Medison Pharma for Xadago in Israel. In addition, our partner in Asia, Meiji Seika, entered into a collaboration with Eisai for the development and commercialization of Xadago in Japan and Asia. Post-period in February 2018, these two companies announced that the primary endpoint was met in a Phase II/III clinical study with safinamide as add-on to levodopa in patients with Parkinson's disease. Consequently, Meiji plans to file for marketing authorization of safinamide with the Japanese Pharmaceutical and Medical Device Agency (PMDA) during 2018. We look forward to this innovative product being made available to patients in these territories and in others in the future.

Newron's current Pipeline

Product		Phase I	Phase II	Phase III	Market	Commercial Rights
Xadago® (safinamide)[1]	**EU** Adjunctive therapy in PD					**Zambon**
	US Adjunctive therapy in PD					**Zambon / US World Meds**
	JPN Adjunctive therapy in PD					**Meiji Seika / Eisai**
	EU / US Levodopa Induced Dyskinesia (PD LID)					**Zambon**
Sarizotan[2]	Rett syndrome (Orphan drug status)					**Newron**
Evenamide (NW-3509)[1]	Adjunctive therapy in Schizophrenia					**Newron**
	Adjunctive therapy in Clozapine-TRS					
Ralfinamide[1]	Orphan indication in neuropathic pain					**Newron**

[1] Safinamide, Evenamide and Ralfinamide all developed from Newron's ion channel based research
[2] Sarizotan was licensed from Merck KGaA

A study with Xadago to demonstrate the reduction of dyskinesia in PD patients with Levodopa Induced Dyskinesia (LID), scheduled to start in the second half of 2018, is in planning together with our partner Zambon. If prior evidence of Xadago's benefits in this area of high unmet need in the PD therapy is confirmed, Xadago's commercial potential could be significantly enhanced.

We have also made strong progress with Evenamide, our drug candidate with a novel mechanism of action, offering a new treatment option for patients suffering from schizophrenia. Earlier in the year we announced, and presented the results of a Phase IIa study at the 16th International Congress on Schizophrenia Research in San Diego as well as the 30th European College of Neuropsychopharmacology Congress. The study demonstrated evidence of efficacy in significantly improving symptoms of psychosis compared with placebo when added to two of the most commonly prescribed atypical antipsychotics in patients with chronic schizophrenia. It also indicated that Evenamide is a highly selective sodium channel antagonist, and does not interact with any of the neurotransmitters, enzymes or transporters affected by most antipsychotics. These results, alongside earlier preclinical results, which stimulated release of glutamate by Evenamide, have been discussed with a number of health authorities and meetings with the EMA's CHMP and the FDA are scheduled for early 2018.

Newron intends to finalize the design of two potentially pivotal efficacy studies of the Phase III development program expected to commence towards the end of 2018, after receiving CHMP and FDA input. The first study will enroll patients with schizophrenia experiencing worsening of psychosis on atypical antipsychotics, and the second study will be performed in treatment-resistant schizophrenia patients not responding to the antipsychotic drug clozapine. It is estimated that this latter cohort consists of approximately 20,000–35,000 patients in the US and potentially provides a separate indication for Evenamide that Newron may commercialize.

The development of our Rett syndrome candidate sarizotan has been advancing in 2017. In May we announced the expansion of our "Sarizotan Treatment of Apneas in Rett Syndrome" (STARS) study, with patients as young as six years now included in the trial. This expansion was approved by the US FDA and health authorities in Italy, Australia, the UK and India. We expect to report the results of this trial towards the end of 2018. We hope that this study will prove successful, and provide the first approved treatment showing benefit for a key symptom of Rett syndrome, which Newron will commercialize directly in key markets.

In addition to the clinical development of sarizotan, Newron continues to advance its partnership with the Rett community. Newron initiated the first qualitative study to examine the burden of Rett syndrome on individuals and their caregivers with the help of an international panel of experts. A poster entitled "Burden of Disease in Rett Syndrome: A Qualitative Analysis" was presented at the ISPOR 22nd Annual International Meeting in May (International Society for Pharmacoeconomics and Outcome Research) in the US in which we presented the results of a targeted literature search and preliminary findings from a qualitative interview study aimed at describing the burden of Rett syndrome on individuals and their families.

In November we attended the European Rett-Syndrome Congress in Berlin, Germany. At the Congress, Newron held a Burden of Disease Advisory Board Meeting at which a consensus was reached on the questions for inclusion in a survey that will be distributed internationally to caregivers and allied healthcare professionals. Alongside the Congress, we hosted a thought leader roundtable discussion on the need for a standardized methodology to assess the health economic value of orphan drugs treating rare diseases that impact multiple organ systems. Although by definition only a small number of patients suffer from each such rare disease, collectively they present significant medical and socio-economic issues. We believe that improved methods for assessing the value of orphan drugs will enable better development of drugs to treat these diseases. Improving these methods is an area of research and interest, which Newron will be pursuing further in 2018.

In May, we held a successful R&D and Business Update event in London, reporting on the progress we have made to date as well as our future plans. We were pleased to see a number of our long-standing investors and others, including analysts, interested in the Newron story. Stephen R. Marder, M.D., Vice Chair for Education, Department of Psychiatry and Biobehavioural Sciences and David Geffen School of Medicine at UCLA, USA, an expert in schizophrenia, joined us at the London event to discuss current schizophrenia treatments and the unmet need in this disease area.

As in previous years, we were following up on our commitment to the patient communities by supporting the World Parkinson's Disease Awareness Day 2017, and announced on that day that Zambon had entered into a partnership with Valeo Pharma to advance future access to Xadago to the 100,000 patients living with Parkinson's in Canada. We lent our support to Rett syndrome Awareness Month in October and continued our support of Global Rare Disease Day in 2017, and post-period in 2018, in conjunction with the Rett community to raise awareness of the importance of research for rare diseases.

In September, with the support of new and existing shareholders, we were pleased to announce that we had raised CHF 27.0 million through a private placement of new shares. Including the proceeds from the fundraising, we started into 2018 with funds totaling about EUR 60 Mio., intended to support our activities, especially our three potentially pivotal studies with sarizotan and Evenamide, Evenamide, to 2020, beyond expected key value inflexion points.

Post-period, we announced in February 2018 that Bo Jesper Hansen is to step down from Newron's Board of Directors on 27 March 2018, following our Annual Shareholders Assembly. We would like to express our thanks and best wishes to Bo for his dedication and commitment to Newron since 2013.

2017 has been another productive year for Newron. We are delighted to now have an FDA approved product and to see Xadago launched in the US, Portugal, Finland and Austria, following many other territories. We remain excited about the potential of sarizotan and Evenamide and expect to report positive clinical data from the STARS study towards the end of 2018. We would like to reiterate our thanks to our loyal shareholders for their continued support and commitment. We look forward to updating our shareholders on the progress of our innovative pipeline in the coming months.

Yours sincerely

Dr. Ulrich Köstlin
Chairman
Newron Pharmaceuticals S.p.A.

Stefan Weber
Chief Executive Officer
Newron Pharmaceuticals S.p.A.

Corporate Governance

Newron's Board of Directors (the "Board") and management are committed to high standards of corporate governance, including transparency and accountability towards its shareholders as well as equal treatment of all shareholders.
This report explains how the leadership and the management of Newron Pharmaceuticals S.p.A. ("Newron" or the "Company") are organized and provides background information on the group's executive officers and bodies, effective December 31, 2017. The report is based on the SIX Swiss Exchange Directive on Information relating to Corporate Governance, Directive Corporate Governance, DCG, dated December 13, 2016. The Swiss Code of Best Practice for Corporate Governance, in force since July 1, 2002 and amended in 2007 and 2014, has also been taken into account.

Group Structure and Shareholders

Newron is a joint stock company (Società per Azioni or S.p.A.) organized under the laws of the Republic of Italy. Since April 17, 2002, it has been registered with the Chamber of Commerce in Milan, Italy, under the name "Newron Pharmaceuticals S.p.A." and with its registered offices and principal business in Bresso (Milan), Italy.

The operations of the Company focus on the development of pharmaceutical products. Currently, the Company is not generating revenues from the direct sale of any commercial pharmaceutical product.

The operations of the Company are managed by the Chief Executive Officer (CEO) together with the other members of the management team: the Chief Medical Officer (CMO), the Executive Vice President Business Development, the Vice President Finance, and the Vice President Commercial Affairs.

Segment reporting

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

Listed company

The shares of Newron Pharmaceuticals S.p.A., Via Ludovico Ariosto 21, 20091 Bresso (Milan), Italy, are listed according to the international reporting standard (IFRS) of the SIX Swiss Exchange AG, Zurich, Switzerland.

Swiss Security Number	2 791 431
ISIN	IT0004 147 952
Common Code	27612440
Ticker Symbol	NWRN
Market capitalization on December 31, 2017	CHF 206,913,202 (based on 17,837,345 outstanding shares and a share price of CHF 11.60)

Related entities

Newron Pharmaceuticals U.S., Inc., is a U.S. limited liability company, incorporated under the laws of the State of Delaware, U.S. The company has been registered with The Secretary of the State of Delaware with a share capital of USD 10.00, divided into 1,000 shares with a par value of USD 0.01, each. All shares are held by Newron. Its operating offices are located at 89 Headquarters Plaza North-Suite 306, Morristown, New Jersey 07960, USA. The operations of the company focus on the research and development, manufacturing and distribution of pharmaceutical products and services. They are managed by Marco Caremi as President and Roberto Galli as Secretary and Treasurer. Stefan Weber, Marco Caremi and Roberto Galli are members of the Board of directors of the Company.

Newron Sweden AB is a Swedish limited liability company, incorporated under the laws of Sweden. The company has been registered with the Swedish Companies Registration Office with a share capital of SEK 3,130,284.30, divided into 330,110,154 shares with a par value of SEK 0.0094825 each, and registered office at Södra Fiskartorpsvägen 15 C, 114 33 Stockholm, Sweden. All shares are held by Newron. The company is a biopharmaceutical company engaged in the development of novel therapies for the treatment of disorders of the central nervous systems. The operations of the company – currently inactive – are managed by Anders Haegerstrand (until June 2017), Marco Caremi and Stefan Weber as General Manag-

ers. Anders Haegerstrand, Marco Caremi and Stefan Weber are members of the board of directors of the Company.

Newron Suisse SA is a joint stock company (Société anonyme/Aktiengesellschaft) organized under the laws of Switzerland. The company has been registered with the commercial register of the canton of Basel-Stadt, for an unlimited duration, under the name Newron Suisse SA, on September 13, 2007, and with registered office in Giesshübelstrasse 45, CH-8045, Zurich (since May 2016), Switzerland. The company has a share capital of CHF 100,000, divided into 1,000 fully paid-in registered shares with a nominal value of CHF 100 each. All shares are held by Newron. The operations of the company – currently inactive – are focused on the research and development, manufacturing and distribution of pharmaceutical products and services. The operations of the company are managed by Stefan Weber as General Manager (Geschäftsführer). Philippe A. Weber and Roberto Galli are members and Stefan Weber is the chairman of the Board of directors (Verwaltungsrat) of the Company.

Hunter-Fleming Ltd. is a private limited company incorporated under the laws of England with its registered office and principal business office is in Grosvenor House, 1 New Road, TQ5 8LZ Brixham, Devon, U.K. The company has a share capital of GBP 220,328, divided into 220,328 ordinary shares of GBP 1 nominal value, each. All shares are held by Newron. The operations of the company – currently inactive – are managed by Stefan Weber and Marco Caremi as directors. Operations related to the development compounds of the company are taken care of by Newron Pharmaceuticals US, Inc. and Newron.

Newron is the only listed company within the group.

Significant shareholders

Shareholders of the Company must comply with the ownership disclosure laws as set forth in Article 120 et seq. of the Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading of June 19, 2015, as amended ("FMIA") as well as pertinent regulations, including Articles 10 et seq. of the Ordinance of the Swiss Financial Market Supervisory Authority on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading of December 3, 2015, as amended ("FMIO-FINMA") (all such laws and regulations, the "Swiss Ownership Disclosure Laws"). Such Swiss Ownership Disclosure Laws provide, among other things, that anyone who directly or indirectly or acting in concert with third parties acquires or disposes of shares or acquisition or sale rights relating to shares of the Company and thereby reaches, falls below or exceeds the thresholds of 3%, 5%, 10%, 15%, 20%, 25%, 33 $^{1}/_{3}$%, 50% or 66 $^{2}/_{3}$% of the voting rights, whether exercisable or not, shall notify the Company and the SIX of such transactions within four (4) trading days. Following receipt of such notification, the Company is also obliged to publish the disclosure within two (2) trading days via the SIX electronic publishing platform. For purposes of calculating whether a threshold has been reached or crossed, shares and purchase positions, on the one hand, and sale positions, on the other hand, may not be netted. Rather, the shares and purchase positions and the sale positions must be accounted for separately and may each trigger disclosure obligations if the respective positions reach, exceed or fall below one of the thresholds. In addition, actual share ownership must be reported separately if it reaches, exceeds or falls below one of the thresholds. The beneficial owners of equity securities under Art. 120 para. 1 FMIA are subject to the notification duty. A beneficial owner is the party controlling the voting rights stemming from a shareholding and bearing the associated eco-

nomic risk (Art. 10 para. 1 FMIO-FINMA). If the voting rights are not exercised directly or indirectly by the beneficial owner, then Art. 120 para. 3 FMIA applies. Whoever has discretionary powers to exercise voting rights is subject to notification duty; alternatively, the legal entities directly or indirectly controlling this entity can report all positions on a consolidated basis.

The Company's information about the exact holding position of individual shareholders depends on and is derived from the reports filed with SIX and the Company by such shareholders.

To the best of Newron's knowledge, the following shareholders had holdings of 3% or more of the equity capital and therefore, voting rights of Newron as at December 31, 2017.

The number of shares shown as well as the holding percentages are based on the last disclosure of shareholding communicated by the shareholder (report of significant shareholding) to the Company. The number of shares held by the relevant shareholder may have changed since the date of such shareholder's notification:

Shareholder	Note	Holding at Dec 31, 2017	
		Shares	% of voting rights/ share capital
Duba AB, Stockholm, Sweden (The shares are indirectly held by Investor AB, Stockholm, Sweden) (*SIX publication date: October 3, 2017*)		1,670,317	9.37%
Aviva Life & Pensions UK Limited, York, U.K., Aviva France SA, Bois Colombes, France and Friends Life Funds Limited, Dorking, London, U.K. (The shares are indirectly held by Aviva Plc, London, U.K.) (*SIX publication date: October 1, 2017*)		1,258,251/ 1,397,293[1]	7.84%
Zambon Company S.p.A. Bresso, Italy (The shares are indirectly held by GEFIM S.p.A., Milan, Italy) (*SIX publication date: October 3, 2017*)		785,448	4.41%

1 Therefrom, 139,042 voting rights were delegated to Aviva by a third party and can be exercised at Aviva's discretion.

The individual reports of significant shareholders can be found on the website of the Swiss Stock Exchange (SIX):
https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html
Any changes in the shareholder structure since December 31, 2017 can also be found on this website.

Cross-shareholdings

As of December 31, 2017, there are no cross-shareholdings in excess of 5% of capital or voting rights with any other company.

Capital Structure

Amount in EUR	December 31, 2017	December 31, 2016	December 31, 2015
Number of ordinary shares with par value of EUR 0.20	17,837,345	15,773,168	14,219,172
Share capital	3,567,469	3,154,633.60	2,843,834.40
Number of authorized shares with par value of EUR 0.20	0	0	0
Authorized share capital (up to)	0	0	0
Number of conditional shares with par value of EUR 0.20	1,033,001	1,882,660	1,053,338
Conditional share capital (up to)	206,600.20	376,532.00	210,667.60

As of December 31, 2017, Newron's outstanding share capital was EUR 3,567,469.00, consisting of 17,837,345 ordinary shares with a nominal value of EUR 0.20 each. All shares are fully paid-in.

As of December 31, 2017, Newron had conditional (pre-authorized) capital of EUR 206,600.20, representing 1,033,001 Newron' ordinary shares with a nominal value of EUR 0.20 per share, related to the purpose of implementing stock-based incentive compensation plans for employees and directors of the Company and its subsidiaries. The maximum amount of the conditional capital of EUR 206,600.20 equates to 5.79% of the existing share capital. The duration period to carry out an increase in conditional capital lasts until September 2027 (please refer to the table on page 18 for additional details).

Changes in capital

On March 24, 2015, an extraordinary shareholders' meeting resolved, inter alia, to:

a) Increase the Company's share capital for payment, severable, with exclusion of the option right, for maximum nominal EUR 260,850, and therefore, for a maximum number of 1,304,250 Newron Pharmaceuticals S.p.A. ordinary shares and, in any event, within the limits of the 10% of the share capital in accordance with article 2441, paragraph fourth, second part, of the Italian Civil Code and with article 6 of the Company's By-Laws. Existing shareholders of the Company, including Aviva, Investor AB, J.P. Morgan Asset Management, together with new institutional investors, including Nyenburgh and Sphera Global HealthCare Fund and a U.S.-based biotechnology and healthcare specialist fund, subscribed for 1,052,436 shares in two transactions which closed in April 2015 and November 2015, respectively. Under the agreement signed on November 20, 2015, the abovementioned U.S.-based fund subscribed additional 209,364 newly issued ordinary shares on March 23, 2016.

b) Increase the Company's share capital for payment, severable, with exclusion of the option right, in accordance with article 2441, paragraphs 5 and 8, of the Italian Civil Code, for maximum nominal EUR 80,000, and therefore, for a maximum number of 400,000 ordinary shares, nominal value EUR 0.20 each, to serve one or more stock incentive plans.

On March 22, 2016, an extraordinary shareholders' meeting resolved, inter alia, to:

a) Grant to the Board the powers, pursuant to article 2443 of the Italian Civil Code, to increase, in one or more tranches, the share capital, severally (in via scindibile), until March 22, 2021, even with the exclusion of the option right pursuant to article 2441, parts 4, first section, 5, 6 and/or 8 of the Italian Civil Code, provided that in the whole the increases in the share capital under points a), b) and c) can be executed for a maximum par value not higher than EUR 711,177.20 and therefore for a maximum number of 3,555,886 of Newron ordinary

shares. On October 6, 2016, undisclosed institutional investors have subscribed 1,320,530 new Newron' ordinary shares with par value of EUR 0.20 per share. As a consequence of this execution, the capital increase approved by shareholders on April 2, 2010 and the capital increase approved by shareholders on March 27, 2014 have been revoked.

b) Grant to the Board the powers, pursuant to article 2420-ter of the Italian Civil Code, to issue convertible bonds and to increase, in one or more tranches, the share capital, severally (in via scindibile), even with the exclusion of the option right pursuant to article 2441, part 5 and 6 of the Italian Civil Code, provided that in the whole the increases in the share capital under points a), b) and c) can be executed for a maximum par value not higher than EUR 711,177.20 and therefore for a maximum number of 3,555,886 of Newron ordinary shares.

c) Increase in the share capital, severally (in via scindibile), for payment, with the exclusion of the option right, within the limit of 10% of the share capital pursuant to article 2441, part 4, second section, of the Italian Civil Code, provided that in the whole the increases in the share capital under points a), b) and c) can be executed for a maximum par value not higher than EUR 711,177.20 and therefore for a maximum number of 3,555,886 of Newron ordinary shares.

As per the abovementioned shareholders resolutions and consequent Board's decisions, on January 1, 2017 Newron had a total of 2,277,806 shares available for capital increases (42,450 related to the resolutions taken on March 24, 2015 and 2,235,356 related to the March 22, 2016 meeting).

On September 8, 2017, an extraordinary Board meeting resolved to increase the Company's share capital for payment, severable, with exclusion of the option right, in accordance with article 2441, paragraphs 5 and 8, of the Italian Civil Code, for maximum nominal EUR 55,561.20, and therefore, for a maximum number of 277,806 ordinary shares, nominal value EUR 0.20 each, to serve one or more stock incentive plans.

On September 25, 2017, an extraordinary Board meeting resolved to increase the Company's share capital for payment, severable, pursuant to article 2443 of the Italian Civil Code, with exclusion of the option right, in accordance with article 2441, paragraphs 5 and 6 of the Italian Civil Code, for maximum nominal EUR 400,000.00, and therefore, for a maximum number of 2,000,000 ordinary shares, nominal value EUR 0.20 each; institutional investors have subscribed the full amount of shares.

On December 31, 2017 Newron has no available shares for capital increases as all shares have been either allocated to options plan (please refer to the Board's resolution taken on September 8, 2017) or subscribed during the September 25, 2017 capital increase.

Shares and participation certificates

As of December 31, 2017, Newron's outstanding share capital was EUR 3,567,469.00, consisting of 17,837,345 ordinary shares with a nominal value of EUR 0.20 each. All shares are fully paid-in.

Each share is entitled to one vote at the shareholders' meeting. All shares are entitled to full dividend rights. In the event of a capital increase through the issuance of new shares, the existing shareholders have subscription rights in proportion to their existing shareholding, unless the shareholders' meeting restricts or excludes such rights for important reasons, in particular in connection with the acquisition of investments or employee participation. Newron has not issued any (non-voting) participation certificates.

Dividend-right certificates

Newron has not issued dividend-right certificates (*Genussscheine*).

Transfer of shares

The transfer of shares is effected by corresponding entry in securities accounts, which record the transfer of financial instruments opened with authorized financial intermediaries and in accordance with the applicable law. Upon registration of the transfer and upon request of the shareholder, the financial intermediaries shall inform the Company of the transfer of shares, and the Company shall update the Libro Soci (Shareholders' Ledger) in accordance with Italian law. A shareholder may ask for his registration at any time. No restrictions apply to the transferability of Newron shares. For the year 2017, the transfer of Newron's shares has been exempted from taxation under the Italian Financial Transaction Tax IFTT: the exemption will be valid also for the year 2018 (http://www.newron.com/ENG/Default.aspx?PAG=188).

Convertible bonds

Newron has no convertible bonds outstanding.

Stock-based remuneration

2011 Stock Option Plan

By decision of the Board dated March 24, 2011, the 2011 Stock Option Plan was established, and up to 230,781 stock options were allocated to the 2011 Stock Option Plan. Of these, by December 31, 2014, 130,229 were validly granted to Company's and its subsidiaries' employees, consultants and one former employee of the Company. All these options vested by March 24, 2014. As per December 31, 2017, 74,778 of these options were exercised, and 55,451 options were left. These options will expire by March 30, 2020. The exercise price of these options is EUR 5.29.

2013 Stock Option Plan

By decision of the Board dated January 18, 2013, the 2013 Stock Option Plan was established, and up to 560,000 stock options were allocated to this plan. Of these, by January 18, 2013, 493,496 options were granted to Company's and its subsidiaries' employees, consultants and directors of the Company. The exercise price for these options is EUR 6.32. Further 28,500 options were granted to new directors and one new employee on April 18, 2013. The exercise price for these options is EUR 6.66.

During 2013, 7,500 of the options granted were waived by employees leaving the Company. As a result, by December 31, 2013, 514,496 options were still validly granted to the beneficiaries. During 2014, further 32,500 of the options granted were waived by employees leaving the Company. As per December 31, 2015, 72,384 of these options were exercised and 409,612 were left of which 389,612 options at a strike price of EUR 6.32 and 20,000 at a strike price of EUR 6.66.

During 2016, 21,875 of the options granted were exercised of which 6,750 at an exercise price of EUR 6.66 and the remaining 15,125 at an exercise price of EUR 6.32.

During 2017, 59,563 of the options granted were exercised of which 53,563 at an exercise price of EUR 6.32 and the remaining 6,000 at an exercise price of EUR 6.66.

As of December 31, 2017, 328,174 options were left all of them vested. The options will expire as at March 31, 2023.

2014 Stock Option Plan

By decision of the Board dated January 28, 2014, the 2014 Stock Option Plan was established, and up to 192,267 stock options were allocated to this plan.

Of these, by January 28, 115,773 were granted to Company's and its subsidiaries' employees, consultants, and directors of the Company. The exercise price for these options is EUR 13.94. Further 76,494 options were granted to new employees and new directors on July 16, 2014. The exercise price for these options is EUR 13.88.

During 2015, 4,492 of the options granted were waived by employees leaving the Company. In 2016 and 2017 respectively a number of 2,227 options and 4,614 options were exercised at an exercise price of EUR 13.94. As a result, by December 31, 2017 a total of 180,934 were still validly granted to the beneficiaries, of which 104,440 options at a strike price of EUR 13.94 and 76,494 options at a strike price of EUR 13.88.

Of these options, 133,980 are vested while the remaining 46,954 will vest respectively in January 28 2018 (options 27,831) and July 16 (19,123 options).

2015 Stock Option Plan

By decision of the Board dated June 4, 2015, the 2015 Stock Option Plan was established, and up to 277,464 stock options were allocated to this plan.

Of these, by June 4, 2015, 229,091 were granted to Company's and its subsidiaries' employees, consultants, and directors of the Company. The exercise price for these options is EUR 28.14. Further 48,373 options were granted to employees on September 10, 2015 and on November 19, 2015 of which 19,918 were granted at an exercise price of EUR 24.90 while the remaining 28,455 were granted at an exercise price of EUR 25.41. On July 27 and September 9, 2016, the Board granted additional 36,992 options to new Newron's employees of which 8,537 were granted at a strike price of EUR 15.22 while the remaining 28,455 were granted at a strike price of EUR 20.22. During 2017, 28,455 options were waived by an employee leaving the Company and additional 133,999 options were granted to Company's and its subsidiaries' employees, consultants, and directors of which 36,992 were granted at a strike price of EUR 21.87 and the remaining 77,007 at a strike price of EUR 15.97.

As of December 31, 2017, a total of 400,000 options have been granted under the 2015 Stock Option Plan of which 138,718 are vested while 73,627, 128,519, 30,628 and 28,508 options will vest respectively in 2018, 2019, 2020 and 2021. The options will expire as at March 24, 2025.

2017 Stock Option Plan

By decision of the Board dated September 5, 2017, the 2017 Stock Option Plan was established, and up to 277,806 stock options were allocated to this plan of which, 260,732 were granted at the same date to Company's and its subsidiaries' employees, consultants, and directors. The exercise price for these options is EUR 15.97. As of December 2017, a total of 260,732 options were granted, of which 130,361 will vest in 2019, 65,179 will vest in 2020 and the remaining 65,192 in 2021. The options will expire as at September 8, 2027.

As per December 31, 2017, the total volume of granted stock options under the above plans was 1,225,291 options to acquire one share, each, at nominal value of EUR 0.20, each, an equivalent of 6.9% of the total number of fully paid-in ordinary shares of the Company.

Please refer to the below table for a summary of the granted options as of December 31, 2017.

			Expiring date				
Plan's name	**Granting Date**	**Exercise price (in EUR)**	**30/03/2020**	**31/03/2023**	**24/03/2025**	**08/09/2027**	**Total**
ESOP 2011	24/03/2011	5.29	55,451				55,451
ESOP 2013	18/01/2013	6.32		320,924			320,924
	18/04/2013	6.66		7,250			7,250
ESOP 2014	28/01/2014	13.94		104,440			104,440
	16/07/2014	13.88		76,494			76,494
ESOP 2015	04/06/2015	28.14			229,091		229,091
	10/09/2015	24.90			19,918		19,918
	19/11/2015	25.41			28,455		28,455
	27/07/2016	15.22			8,537		8,537
	24/02/2017	21.87			36,992		36,992
	08/09/2017	15.97			77,007		77,007
ESOP 2017	08/09/2017	15.97				260,732	260,732
Total			**55,451**	**509,108**	**400,000**	**260,732**	**1,225,291**

Board of Directors

Members of the Board of Directors

The Company's by-laws establish that the Board shall consist of a minimum of four (4) and a maximum of eight (8) members. As per December 31, 2017, the Board was comprised of seven (7) directors, who all have been elected by the ordinary shareholders' meeting as of March 28, 2017. One of these directors was first elected in 2008. One member was first elected in 2012. Three directors were first elected in 2013. The remaining two directors were first elected in 2014. All directors are elected for the three-year term expiring on the date of the shareholders' meeting scheduled to approve Newron's financial statements for the year ending December 31, 2019. All Newron Board members are due for re-election at the same time. Board members can be re-elected for an unlimited number of terms. In case of replacements of Board members, the replacing new members take over the mandate for the left period of the leaving member. The shareholders' meeting elects the new members by individual vote.

The following table sets forth certain information about the Company's directors (more information can be found in the descriptions of each director below):

Name	Position	Member since	Relevant external positions
Ulrich Köstlin	Chairman, non-executive director, Chairman of compensation and nomination committee	2013	Former member of Board of Management of Bayer Schering Pharma AG; Curator of the AREPO Foundation, Liechtenstein; Deputy Chairman on the Board of Constantia Flexibles AG and Director on the Board Universitätsklinikum Würzburg, Germany
Stefan Weber	Executive Director, CEO	2012	Former CFO of Biofrontera and Girindus, Head of Finance Lohmann Group
Patrick Langlois	Non-executive director, Chairman of audit and risk committee, member of compensation and nomination committee	2008	Former CFO and Vice-Chairman of the Management Board of Aventis; General Partner of PJL Conseils. Independent Director and Chairman of the Audit Committee Stallergenes Greer (London), Director on the Board of Directors and Chairman of the Audit Committee of Innate Pharma S.A. (France) and Chairman of Sensorion S.A. (France).
Bo Jesper Hansen*	Non-executive director, Chairman of R&D committee, member of audit and risk committee	2013	Former Executive Chairman of SOBI AB; Chairman of Laborie Inc. (Canada), Chairman of the Board of Directors at Ablynx (B) and Vice-Chairman of Orphazyme A/S (DK). Bo is also a director of the Board of Directors at CMC Contrast AB (Sweden), and Azanta A/S (DK)
Robert Holland	Non-executive director, member of R&D committee	2013	Former VP & Head of Neuroscience Therapeutic Area at AstraZeneca. CMO of Oxford Gene Technology Ltd and Executive Director of Early Clinical Development Consulting Ltd. and permanent consultant to the Wellcome Trust (all U.K.)
Don deBethizy	Non-executive director, member of R&D committee**	2014	Co-Founder, Former CEO & President of Targacept, Inc.; former President, CEO & director on Board of Management of Santaris Pharma; President of Innovent LLC (USA) and White City Consulting ApS (Denmark), as well as Managing Director of Albumin Holding ApS, as well as a Director at argenx NV (Netherlands) and Proterris Inc (USA), as well as Chairman of the boards of Albumedix Ltd (UK) and Noxxon Pharma NV (Netherlands).
Luca Benatti	Non-executive director, member of R&D and audit and risk committees	2014	Co-founder, former CEO of Newron; current CEO of EryDel S.p.A.; Board member at Intercept Pharmaceuticals, Inc; Chairman of Italian Angels for Biotech; member of the Strategic Advisory Board of Zambon Pharma S.p.A; member of the Board of Assobiotec, the Italian Biotech Association; member of the jury of Open Accelerator and of the European Biotechnica Award.

* On Febr. 8, 2018 (post end of reporting period), Bo Jesper Hansen declared that he will step down from Newron's Board of Directors on 27 March 2018, following the Annual Shareholders Assembly.

** Effective from March 27, 2018, on Don deBethizy will succeed Bo Jesper Hansen as Chairman of the R&D committee

None of the non-executive members of the Board as per December 31, 2017 was a member of Newron's management in the three financial years preceding the current year.

None of the Board members or companies or organizations they represent had significant business connections with the Company or its subsidiaries. None of the Board members exercises official functions or holds political posts.

Ulrich Köstlin has been Chairman of the Board since 2013. He was member of the Board of Management of Bayer Schering Pharma AG until 2011 and was responsible for multiple regions globally – Europe, Asia Pacific, Latin America, Japan and North America. He began his pharmaceutical career with Schering AG as a management trainee in 1982. Over the years, he served as General Manager for several subsidiaries of Schering AG across the globe, including from 1990 to 1993 as Vice President Sales and Marketing and General Manager Diagnostic Imaging of the U.S. subsidiary. In 1994, Ulrich was appointed to the former Schering AG's Executive Board. He currently serves as Curator of the AREPO Foundation, Liechtenstein and is Deputy Chairman on the Boards of Constantia Flexibles AG, Vienna and Director on the Board of Universitätklinikum Würzburg, Germany. Ulrich studied law at the Universities of Erlangen and Tübingen in Germany, and the University of Geneva in Switzerland. He holds a Dr. iur. Doctorate from Tübingen University and a Master of Laws (LL.M.) degree from the University of Pennsylvania Law School. Ulrich is the Chairman of Newron's Compensation and Nomination Committee. He is German.

Permanent management and consultancy functions for important Swiss and foreign interest groups: none.

Stefan Weber was appointed Chief Executive Officer and Executive Director of Newron in 2012. He had been Chief Financial Officer of the Company since April 2005. Stefan holds a master's degree in business management from FernUniversität Hagen (Diplom-Kaufmann). He has more than 30 years of industry experience in finance. From 2001 to 2005, he was the Chief Financial Officer of Biofrontera, a company active in drug discovery and development. He joined Girindus, a fine chemistry process development and scale-up provider, in 1999, and was appointed Chief Financial Officer in 2000. From 1987 to 1999, he was with Lohmann Group, a worldwide producer of pharmaceutical, medical, technical and consumer products. His final position was Head of Finance of the Group. Stefan has executed numerous major financing transactions, debt, equity and mezzanine as well as national and European grants. He has also executed successful IPOs to the Frankfurt and Zurich stock exchanges and has been involved in a number of M&A transactions, divestments and strategic restructurings. He is German.

Permanent management and consultancy functions for important Swiss and foreign interest groups besides those mentioned: none.

Patrick Langlois, a director since 2008, was the CFO and Vice-Chairman of the Management Board of Aventis from 2002 to 2005 and served for 30 years in various senior financial functions at Rhône-Poulenc and the Aventis Group in France and the USA. Prior to that, he was with Banque Louis-Dreyfus. He currently is General Partner of PJL Conseils, a consulting firm in healthcare. He holds a doctorate in economics from the University of Rennes (France). Patrick Langlois is Independent Director and Chairman of the Audit Committee Stallergenes Greer (London), Director on the Board of Directors and Chairman of the Audit Committee of Innate Pharma S.A. (France) and Chairman of Sensorion S.A. (France). He is French. Patrick is the Chairman of Newron's Audit and Risk Committee and member of the Compensation and Nomination Committee.

Permanent management and consultancy functions for important Swiss and foreign interest groups besides those mentioned: none.

Bo Jesper Hansen, a director since 2013, founded Scandinavian Medical Research, while serving as medical advisor for Synthélabo, Pfizer, Inc., Pharmacia Corporation and Yamanouchi Pharmaceutical Co. Ltd. He served both as Chief Executive Officer and Director of the Board of Swedish Orphan International AB from 1998 to 2010. Bo has been with Swedish Orphan International AB since 1993, where he grew the business from a small Nordic-focused niche specialty-/orphan drug pharma into an international organization with over 60 products across Europe. Prior to joining Swedish Orphan International AB, Bo also co-founded the Shared Clinic "The Prostate Clinic" in Denmark. He was Executive Chairman of Swedish Orphan Biovitrum AB from 2010 until May 2016. Currently, he is the Chairman of Laborie Inc. (Canada), Chairman of the Board of Directors at Ablynx (B) and Vice-Chairman of Orphazyme A/S (DK). Bo is also a director of the Board of Directors at CMC Contrast AB (Sweden), and Azanta A/S (DK). He holds an MD and a PhD from the University of Copenhagen. Bo's experience includes orphan drug research and development, international marketing and contract negotiations, and he has strong knowledge in the areas of regulatory, pharmacovigilance, medical marketing and business development with close connections in the Orphan Drug area at executive level. Bo is a member of Newron's Audit & Risk Committee and Chairman of the Research and Development Committee. He is Danish.

Permanent management and consultancy functions for important Swiss and foreign interest groups: none.

On Febr. 8, 2018 (post end of reporting period), Bo Jesper Hansen declared that he will step down from Newron's Board of Directors on 27 March 2018, following the Annual Shareholders Assembly.

Robert Holland, a director since 2013, served as Vice President & Head, Personalised HealthCare & Biomarkers from 2005 to 2010 and as Vice President & Head, Neuroscience Therapeutic Area at AstraZeneca. He was also a member of the R&D Leadership Team at AstraZeneca until 2012. Previously, Robert held positions in research and clinical development at Upjohn, Solvay, Rhone Poulenc and the Wellcome Foundation. He has extensive experience in the discovery, development and commercialization of drugs for both neurological and psychiatric conditions and in the in-licensing and successful co-development of medicines originating from partner companies. He has been a lecturer at The Royal London Hospital and at Merton College, Oxford in human physiology and in anatomy, respectively. He holds an MD and a PhD from the University of Oxford. In addition to his position at Newron, he is Chief Medical Officer of Oxford Gene Technology IP Ltd., Executive Director of the Board of Directors of Early Clinical Development Consulting Ltd. and permanent consultant to the Wellcome Trust. Robert is a member of Newron's Research and Development Committee. Robert is British.

Permanent management and consultancy functions for important Swiss and foreign interest groups: none.

J. Donald (Don) deBethizy, PhD, a director since 2014, has more than 20 years of experience in managing and financing life science-related technologies and has played a key role in building and advising several life science companies. In his role as President, Chief Executive Officer and Director on the Board of Santaris Pharma A/S, he led the sale of the company to Roche. He co-founded Targacept, Inc. and served as its President and Chief Executive Officer for 15 years. Donald led Targacept's private and public financings totaling approximately $330 million, including the company's Initial Public Offering (IPO) in April 2006. He played a key role in developing business relationships with GlaxoSmith-Kline, AstraZeneca, Aventis, and Dr. Falk Pharma, which generated non-dilutive revenues totaling over $300 million. He holds an A B.S. in Biology from University of Maryland and a M.S. and PhD from Utah State University.

He is currently President of Innovent LLC (USA) and White City Consulting ApS (Denmark), Managing Director of Albumin Holding ApS, a Director at argenx NV (Netherlands) and Proterris Inc (USA), as well as Chairman of the boards of Albumedix Ltd (UK) and Noxxon Pharma NV (Netherlands). Donald is a member of Newron's Research and Development Committee. He is a U.S. citizen and resident of Denmark. Permanent management and consultancy functions for important Swiss and foreign interest groups: none.

Effective from March 27, 2018, Don deBethizy will succeed Bo Jesper Hansen as Chairman of the R&D committee

Luca Benatti, a director since 2014, is Chief Executive Officer of EryDel S.p.A. He has over 25 years of experience in the pharmaceutical and biotechnology industries. He was Co-founder and Chief Executive Officer of Newron until May 2012 and is Member of the Board since 2012. Under his guidance, Newron developed a pipeline of innovative therapies, with the most advanced compound, Xadago, now approved in Europe and the U.S. for the treatment of Parkinson's disease. During his tenure, Newron raised significant capital from international venture capital firms and was listed on the SIX Swiss exchange. He also was instrumental in finalizing multimillion dollar licensing deals with Merck Serono, Meiji Seika and Zambon, and in acquiring the UK biotech company, Hunter Fleming. Luca graduated from and did his post-doctoral training at the Milano Genetics Institute. He is member of the Board of Directors of Intercept Pharmaceuticals, Inc; Chairman of Italian Angels for Biotech; member of the Strategic Advisory Board of Zambon Pharma S.p.A; member of the Board of Assobiotec, the Italian Biotech Association; member of the jury of Open Accelerator and of the European Biotechnica Award. He has authored several scientific publications and holds numerous patents. Luca is member of Newron's Audit and Risk and Research and Development Committees. Luca is Italian.

Permanent management and consultancy functions for important Swiss and foreign interest groups: none.

Responsibilities and organization

Pursuant to the Company's by-laws, the Board has complete power over the administration of the Company's business and it has the power to take actions deemed advisable for the pursuit of the Company's corporate purposes. Within the limits prescribed by Italian law, the Board may delegate its general powers to an executive committee and/or any executive director. The Board has delegated certain of its powers, excluding, amongst others, the conduct of litigation exceeding the value of EUR 300 thousands, expenditures exceeding more than 10% of the operating expenses as defined in the annual budget approved by the Board, entering into joint ventures, M&A, licensing, lending agreements exceeding EUR 1 million, variation in share option schemes, approval of the annual budget and actions on the intellectual property exceeding ordinary administration to the Company's Executive Director, Stefan Weber, whose functions include coordination and supervision of the Company's business.

Although the Company's by-laws specifically permit the Board to appoint an executive committee, as at December 31, 2017, this right has not been exercised by the Board. The Board also determines the duration of the term of the Company's Executive Director. The Chairman of the Board, any Deputy Chairman as well as any Director are the legal representatives of the Company. The Board and any Director may delegate the power to carry out certain acts within the scope of their respective authority.

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

The Company's directors are elected at the Company's annual ordinary meeting of shareholders for a term of up to three financial years. The Company's directors may be re-elected for an unlimited number of consecutive terms. If the shareholders fail to elect a Chairman at

the shareholders' meeting, the members of the Board elect, from amongst themselves, the Chairman, and one or more Deputy Chairmen and/or Executive Directors.

Under Italian law, directors may be removed from office at any time by a shareholders' resolution. However, if removed without just cause, such director may have a claim for damages against Newron. The Company's directors may resign at any time by written notice to the Board of Statutory Auditors. Further to such removal or resignation, the Board may appoint substitute directors, subject to the approval of the Company's Board of Statutory Auditors, who will serve until the next general meeting of shareholders.

Meetings

Meetings of the Board may be called by the Company's Chairman or any Deputy Chairman, Executive Director or two directors by notice setting forth the matters to be discussed at the meeting, to be sent at least five days (or in cases of urgency, at least one day) before the date of the meeting. The minimum quorum required for Board meetings is a majority of the Company's directors in office. Board meetings are chaired by the Company's Chairman or, if the Chairman is absent or otherwise unable to act, by any Deputy Chairman or the Company's Executive Director. Resolutions are adopted by a majority vote of the Directors present at the meeting.

In 2017, a total of 9 meetings of the full Board were called, of which 3 were held physically and 6 by phone. In addition, the audit and risk committee convened 3 times of which twice by phone, the compensation and nomination committee convened three times by phone and the R&D committee convened four times of which three times physically. While the physical meetings of the full board are called on a quarterly basis and usually take a business day, the phone meetings are called upon requirement and usually take between one and two hours. The committee meetings usually take between half an hour and two hours. The committees have a predetermined annual agenda to ensure that important reviews take place at the appropriate time throughout the year. The Board undergoes a periodic self-review to ensure continued effectiveness.

Members of senior management attend to all Board meetings and, as described below, to those committee meetings in which a senior manager acts as main contact, to report on areas of the business within their responsibility, to present proposals for decision and to participate, if requested by the Board, to the discussion prior to a vote being taken by the Board.

In 2017, external advisors were participating during meetings of the Board on regulatory issues, fund raising and partnering.

Information and control instruments

The Board ensures that it receives sufficient information from senior management to perform its supervisory duty and to make decisions that are reserved for the Board. The Board obtains the information required to perform its duties through several means:

The members of the Board, on a quarterly basis (or more frequently if requested by Directors ahead of planned meetings) receive a comprehensive management report designed to provide them with an update on business activities in general and relevant developments with regard to clinical trials and preclinical activities, the collaboration with licensing partners, as well as on legal, business development and financial matters. The reports are subject to discussion during the Board meetings, which senior management regularly attends. With

regard to the committees as described below, the CEO is the main contact to the members of the compensation and nomination committee, while the Vice President Finance (cf. Section on Senior Management, page 30) takes this function towards the members of the audit and risk committee and the Chief Medical Officer (cf. Section on Senior Management, page 29) towards the members of the R&D committee. Yet, decisions might be taken by the members of the Board as well as each committee without the attendance of senior management, but following presentation of facts by, and discussion with senior management.

Members of the Board and the committees usually do not participate in meetings of senior management.

Management provides the Board annually with a consolidated financial budget for the next business year for the parent company and the subsidiaries, and regularly, senior management presents to the Board strategic considerations for review, discussion and decision.

The Board and the committees closely follow the progress on the major activities, as presented by management. Analyses of deviations are to be provided and explained in writing regularly, required action will be closely monitored via update phone calls. Each member of the Board may demand information on any business of Newron's affairs and may inspect all books, business files and corporate documents upon request at any time.

On a quarterly basis, the Board of Statutory Auditors is updated as well, as required by Italian law (see below). The permanent observation and control of the Company's risks is a management objective. For identified risks, mainly clinical development and financial risks, a risk assessment is performed. Appropriate actions (including for example the performance of additional preclinical or clinical studies, fundraising activities etc.) are defined and executed to minimize the risk. Management and Board of the Company during the Board meetings review the identified risks, discuss and decide on the measures and reassess the situation after an adequate period of time. Due to the size of the Company, there is no internal auditing function in place.

Committees

The Board has formed three permanent committees, an audit and risk committee, a compensation and nomination committee and a research and development (R&D) committee to support its work. The overall responsibility of the Board is not limited by these committees. The role of such committees is to exercise review and control and to report the findings to the Board and to express certain recommendations to the Board, while decisions are finally taken by the Board, with the exception described below for the compensation and nomination committee.

As at December 31, 2017, the audit and risk committee consisted of Patrick Langlois (Chairman), Bo Jesper Hansen* and Luca Benatti, each of whom is a non-executive member of the Board. The audit and risk committee meets at the option of its members on the same date as the Company's scheduled Board meetings and at such other times as its chairperson deems it appropriate. Main objectives of the committee are to contribute to ensuring the safeguarding of corporate assets, the efficiency and effectiveness of management procedures, the reliability of financial information and the compliance with laws and regulations, including the by-laws, the internal procedures and the internal control-system – including risk management and issuing recommendations to the Board regarding the acceptance of the Company's annual budgets and accounts. The committee's chairperson reports formally to the Board on its proceedings

after each meeting on all matters within its duties and responsibilities. For further detail with respect to the audit committee, please see Note "Auditors" on page 39.

As at December 31, 2017, the compensation and nomination committee consisted of Ulrich Köstlin (Chairman) and Patrick Langlois, each of whom is a non-executive and independent member of the Board. The main tasks of the compensation and nomination committee are to review periodically the Company's remuneration strategy, to review and approve corporate goals and objectives relevant to compensation, to evaluate the performance of the Company's executives, to propose to the full Board the compensation of the executive director, to set the compensation of the other executives, to make recommendations to the full board on the remuneration of the non-executive directors of the Company, to review incentive compensation and equity based plans and make recommendations to the full board on such plans, to review the Company's executive succession plan and make recommendations to the full Board and to approve dismissal and redundancy plans.

This committee meets at the option of its members on the same date as the Company's scheduled Board meetings and at such other times as its chairperson deems appropriate. The committee's chairperson reports formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

As at December 31, 2017, the R&D committee consisted of Bo Jesper Hansen* (Chairman), Robert Holland, Don deBethizy and Luca Benatti, each of whom is a non-executive and independent member of the Board. The main tasks of the R&D committee are to evaluate the research and development strategies of the Company, to review and report to the Board scientific trends and emerging areas of science relevant to the Company strategy, to review and evaluate internal research and development projects from a scientific and strategic perspective, to review and provide guidance related to business development opportunities, to assist the Company in developing and accessing a network of world class scientific advisors for the purposes of guidance as well as for the identification and attraction of new opportunities and to review the Company's compliance systems with reference to scientific and regulatory matters.

* On February 8, 2018 (post end of reporting period), Bo Jesper Hansen declared that he will step down from Newron's Board of Directors on 27 March 2018, following the Annual Shareholders Assembly. Effective from March 27, 2018, on Don deBethizy will succeed Bo Jesper Hansen as Chairman of the R&D committee

Board of Statutory Auditors

Pursuant to Italian Law, in addition to electing the Board, the Company's ordinary shareholders' meeting also elects a board of statutory auditors, which is required to meet at least once every 90 days. Members of the Company's Board of Statutory Auditors are elected for a three-year term with a voting list (voto di lista) system.

The Company's current Board of Statutory Auditors has been elected on March 22, 2016, for a three-year term expiring upon the approval of the Company's financial statements for the year ending December 31, 2018. It is composed of three permanent statutory auditors, plus two alternate statutory auditors who would automatically replace a permanent statutory auditor who resigns or otherwise becomes unable to perform his duties. At least one regular member of the Board of Statutory Auditors and one alternate member must be selected among those registered with the national register of auditors (Registro dei Revisori Contabili). The other members, if not registered with the national register of auditors, must

be registered in specific professional registers or must be chosen among permanent university professors of economics or law. All members of the Company's Board of Statutory Auditors are registered with the national register of auditors.

The Company's Board of Statutory shall supervise the observance of the law and the by-laws, compliance with the principles of proper management and in particular on the adequacy of the organization, administrative and accounting structure adopted by the Company and on its functioning. In particular, it is required to supervise the Company's activities in order to determine compliance with the by-laws and applicable Italian law, as well as report specific matters to the shareholders and to the court. The Board of Statutory Auditors, among other things, shall supervise (i) that the Company be managed in a sound manner and (ii) that the Company's internal auditing, accounting and administrative procedures be adequate. The review of the Company's books and records performed by its Board of Statutory Auditors does not constitute an audit in accordance with Italian auditing standards.

The Board of Statutory Auditors issues an annual report (Relazione al bilancio di esercizio) on the Company's annual accounts which shall remain on deposit at the legal address of the Company during the fifteen days which precede the shareholders' meeting.

Members of the Company's Board of Statutory Auditors must receive notice of, and are required to attend, meetings of the Board, shareholders' meetings and meetings of any executive committee of the Board.

The following table sets forth certain information about the current members of the Company's Board of Statutory Auditors, who have been appointed by the shareholders' meeting of March 22, 2016.

Name	Position	Member since
Richard P. Murphy	Chairman of the Board of Statutory Auditors	2002
Lucio G. Ricci	Permanent auditor	2002
Massimo Giaconia	Permanent auditor	2013
Chiara Peja	Alternate auditor	2010
Alessandro Isacco	Alternate auditor	2013

Each of the members of the Company's Board of Statutory Auditors also serves as statutory auditor for several other Italian and pharmaceutical companies.

Senior Management

Members of the senior management

Name	Position at the Company
Stefan Weber	Chief Executive Officer, Executive Director
Ravi Anand	Chief Medical Officer
Marco Caremi	Executive Vice President Business Development
Roberto Galli	Vice President Finance
Dennis Dionne	Vice President Commercial Affairs

For a biography of Stefan Weber, Newron's CEO, see page 21.

None of the members of the senior management is a member of governing and supervisory bodies of important Swiss or foreign organizations, institutions and foundations outside of Newron. None of the members of the senior management holds permanent management or consultancy functions for important Swiss or foreign interest groups, and none of them has official functions or holds political posts besides those mentioned. None of them has previously covered functions for Newron or one of Newron's subsidiaries besides those mentioned below.

Ravi Anand, a Swiss resident, has been the Company's Chief Medical Officer since 2005. He received his university education in New Delhi, India, and his medical training, specialising in psychiatry and neurology, in the U.S. For over 20 years, Ravi has worked in international drug development and regulatory affairs at major pharmaceutical companies, including F. Hoffmann-La Roche (Switzerland), Sandoz/Novartis (US) and Organon (Netherlands). From 1993 to 1997, Ravi was the Medical Director of CNS, Clinical Research at Sandoz Research Institute. From 1997 to 2001, he served as the international Head of CNS Medical Affairs at Novartis and, from 2001 to 2003, as the global Head of CNS Clinical Research at Organon. Since 2003, Ravi has been acting as a consultant for Newron and other clients. During his tenure in the pharmaceutical industry, he worked in all phases (I through III) of drug development as well as in post-marketing studies (Phase IV). In total, he has been responsible for the conduct of clinical trials in over 30 countries and been involved in over 30 investigational new drug applications, and over 7 international new drug applications. He has published over 50 papers and 200 abstracts, posters and presentations. He is both a U.S. and a Swiss citizen.

Marco Caremi has been Executive Vice President Business Development since 2012. Since September 2002, he held various Vice President positions at the Company. Marco holds a degree in Natural Science from the University of Milan and successfully completed the Advanced Development Programme at the London Business School. He has almost 30 years of experience in the pharmaceutical industry. From 1998 to 2002, he was the Director of Business Development at Schwarz Pharma S.p.A., where he was responsible for researching and evaluating all in- and out-licensing deals, analysing companies for potential acquisitions and developing strategic plans for forthcoming market opportunities. From 1996 to 1998, he was the Business Development Manager at Schering-Plough S.p.A. From 1990 to 1996, Marco held several marketing and sales positions at Schering-Plough S.p.A. Before that, he was a sales representative, sales specialist and sales district coordinator at Polifarma S.p.A. Marco Caremi is Italian.

Roberto Galli has been Vice President Finance since 2012. He has more than 18 years of experience in industry finance and auditing. He joined Newron in 2002. He has held several management positions within the Finance Department and has been involved in the Company's IPO, as well as M&A and other strategic corporate transactions. Before joining Newron, he was Senior Auditor & Business Advisor at PricewaterhouseCoopers (PwC), working with companies from the pharmaceutical, fashion, energy and automotive industries. He started his career as an auditor at Coopers&Lybrand. He holds a degree in business economics from the University Luigi Bocconi in Milan and is registered with the national register of auditors. He is also a member of the Italian Angels for Biotech Association. Roberto Galli is Italian.

Dennis Dionne has been Vice President of Commercial Affairs since January 2017. He joined Newron Pharmaceuticals as Executive Director of Commercial Operations in 2015. Dennis has tremendous experience in the CNS arena and served in a variety of commercial leadership roles at Johnson & Johnson (21 years), at Novartis (6 years) and at a small venture start-up. He has proven abilities in planning and management at both strategic and operational levels, including building full life-cycle commercial strategies at the pre-launch stage and managing the business through various stages of growth. Dennis holds a BA in Biology & Chemistry from Roger Williams University, Bristol, RI and has successfuly completed executive leadership programs in general management and operational leadership, commercial policies and practices, marketing and project management and global cross-functional team leadership. Dennis Dionne is a U.S. citizen.

Management contracts

The Company does not have management contracts with third parties.

Compensation, Shareholdings and Loans

In line with Italian law, the maximum total annual compensation for the members of the Board is proposed to the shareholders' meeting by the Company's management and Board and approved by decision of the shareholders' meeting. The current maximum compensation of EUR 320,000 was approved by the shareholders' meeting of March 28, 2017 and, unless it will be amended during any of the following shareholders' meetings,, is applicable for the three years term expiring on the date of the shareholders meeting scheduled to approve Newron' financial statements for the year ending December 31, 2019. It is within the competence of the compensation and remuneration committee to propose to the full Board the allocation of all or a part of the maximum total remuneration to the individual members, mainly according to their role and responsibilities within the Board and its committees. The resolutions are taken by the majority of the Directors present during the meeting. As, per December 31, 2017, the compensation of the members of the Board consists of a fixed annual remuneration of EUR 60,000 for the Chairman of the Board and EUR 33,000 for the other members of the Board.

The Chairman of the compensation and nomination committee qualifies for an additional remuneration of EUR 7,500, whereas the Chairmen of the R&D committee and the audit and risk committee qualify for an additional remuneration of EUR 10,000, each.

The other members of the committees qualify for an additional remuneration of EUR 5,000.

Furthermore, non-executive directors are participating to the 2013, 2014, 2015 and 2017 Company stock option plans, based on capital increases approved by the Company's shareholders (see page 14). Under such plans, non-executive directors have been allocated a total of 26,459 stock options, each.

The amount of options allocated to Directors are based on an assessment by the remuneration and compensation committee of European peer companies' remuneration schemes, in 2015, and during 2017 (for detail, see below). It is the current policy not to pay a variable remuneration to non-executive members of the Board.

For the fiscal year ended December 31, 2017, Stefan Weber has waived his compensation as director.

Generally, the compensation (base salary, bonus and stock-based remuneration) of the members of the Senior Management (excluding the Executive Director's one, for which the full board decision is required under Italian law), is set and reviewed annually by the compensation and nomination committee of the Board, in accordance with Newron's compensation policies and suggestions received from the external Advisor mentioned before. The review is based on experience of the members of the committee, publicly available information as well as advice from leading human resources consulting firms with regards to remuneration packages required to attract internationally experienced senior executive managers from the biopharmaceutical industry, including information available on peer companies. The compensation and nomination committee is required to inform the Board of the decisions taken.

During 2017, the compensation and nomination committee of the Board as well as the full Board were presented a report on Board and senior management compensation by a leading external advisor, comparing Newron to peer companies in Europe (16, including amongst others AC Immune, CH; Biofrontera, Germany; Nanobiotix, France; Paion, Germany; Pharming Group, NL; Quotient, UK; Santhera Pharmaceuticals, CH; Silence

Therapeutics, UK) and the United States (21) with a comparable status of corporate and development project status, market cap, revenues and team size. When reviewing the results, the compensation and nomination committee proposed to the full Board who agreed to apply the 50th percentile of the European peer group's data.

Senior management compensation consists of base salary, bonus and stock-based remuneration (stock options, for more details see Note "Stock-based remuneration" on page 16). The maximum bonus for senior management is 30% (CEO: 40%) of the base salary, based on Company performance objectives as described below. In addition, Newron offers to Senior management company cars, mandatory social security payments and certain life and disability insurance coverage.

The compensation and nomination committee of the Board decides on an annual basis on the level of achievement of the Company performance objectives which are related to the key value drivers of the Company like development progress, licensing and M&A transactions, financing and budgetary discipline, and agreed upon at the beginning of each year.

For 2017, Company's senior management has been rewarded a bonus reflecting achievement of 80% of the Company objectives, among which the Xadago US approval, progress in the STARS trial enrollment and meetings with relevant authorities, funding of the operations and strengthening of the institutional shareholder base.

The total gross compensation of the members of the Board in 2017 is outlined below:

(In thousand EUR)	Cash compensation (gross amount)	Stock options**	Total 2017	Total 2016
Ulrich Köstlin, non-executive Chairman, Chairman of compensation and nomination committee	68	42	110	128
Stefan Weber, executive director*	418	145	563	609
Patrick Langlois, non-executive director, Chairman of audit and risk committee, member of compensation and nomination committee	48	41	89	108
Bo Jesper Hansen, non-executive director, Chairman of R&D committee and member of audit and risk committee	48	42	90	108
Robert Holland, non-executive director, member of R&D committee	38	42	80	98
Don deBethizy, non-executive director, member of R&D committee	38	50	88	120
Luca Benatti, non-executive director, member of R&D committee, member of audit & risk committee	43	50	93	125
Total	**701**	**412**	**1,113**	**1,296**

* Full year remuneration in his function as CEO
** Evaluation under IFRS rules, not necessarily reflects personal income

For the fiscal year ended December 31, 2017, the aggregate compensation (consisting of statutory auditors' fees) paid by Newron to the Company's Board of Statutory Auditors was about thousand EUR 55 (2016: EUR 43).

The total gross compensation and the highest individual compensation of the members of the senior management in 2017 are outlined below.

(In thousand EUR)	Base salary/ remuneration (gross amount)	Bonus (gross amount)	Stock options	Total 2017	Total 2016
Ravi Anand, CMO	847	76	102	1,025	1,001
Total senior management	2,086	358	637	3,081	2,826

Payments to former management and directors

None.

Share allotment

In the year ended December 31, 2017, no shares have been allotted to any members of the Board nor the senior management or parties closely linked to them.

The holdings of shares, stock options and stock appreciation rights in Newron by members of the Board, senior management and parties closely linked to them as of December 31, 2017, are outlined below:

	Shares*	Stock options	of which vested
Ulrich Köstlin non-executive Chairman of BoD	32,249	15,709	4,530
Stefan Weber, CEO, executive member of BoD	12,601	177,142	123,956
Patrick Langlois non-executive Director	0	26,459	15,280
Bo Jesper Hansen non-executive Director	0	22,959	11,780
Robert Holland non-executive Director	0	19,459	8,280
Don deBethizy non-executive Director	0	26,459	13,530
Luca Benatti non-executive Director	0	26,459	13,530
Ravi Anand, CMO	7,040	123,998	86,769
Marco Caremi, Executive Vice President Business Development	0	58,385	31,791
Roberto Galli, Vice President Finance	2,500	87,573	60,979
Dennis Dionne, Vice President Commercial Affairs	0	93,047	14,227

* As far as the Company is aware.

The weighted average exercise price of the granted stock options is EUR 14.79. The exercise ratio in all cases is 1 share for 1 stock option.

Additional fees and remunerations

No additional fees and remunerations have been charged to Newron by any member of the Board or of the senior management or parties closely linked to them for additional services performed during 2017.

Loans and credits to the Board and senior management in the sense of Article 15 of the Ordinance Against Excessive Compensation:

No loans or credits were granted during 2017 to current and former members of the Board or senior management. In addition, as of December 31, 2017, no such loans or credits were out-standing.

Compensation, loans and credits to related persons in the sense of Article 16 of the Ordinance Against Excessive Compensation

In 2017, no non-market standard compensation has been paid by the Company, whether directly or indirectly, to persons related to Board and senior management members of the Company.

No loans or credits at non-market conditions were granted during 2017 to persons related to Board and senior management members of the Company. In addition, as of December 31, 2017, no such loans or credits were outstanding.

Shareholders' Participation

Ordinary meetings

Ordinary shareholders' meetings must be convened at least once a year within 120 days after the end of the fiscal year (180 days in particular circumstances) for the approval of the financial statements. At ordinary meetings, if necessary, shareholders may also be called to appoint directors and statutory auditors, determine their remuneration, vote on whether the Company should take action against any directors or statutory auditors, and vote on any business matter submitted by the directors.

The quorum required for an ordinary shareholders' meeting of Newron is the presence of shareholders representing at least 50% of the Company's share capital (in the first call), whilst the following calls do not require any quorum for the validity of the meeting. In the event that the ordinary meeting is convened for a sole call, then the quorum provided for the ordinary meeting in the second call shall apply. Resolutions are approved by the shareholders representing the majority of the shares present or represented at the meeting.

Extraordinary meetings

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

The quorum required at an extraordinary shareholders' meeting of Newron (i) in the first call is the presence of shareholders representing at least 50% of Newron's share capital; (ii) in the second call is the presence of shareholders representing more than one third of Newron's share capital and (iii) in the third call is the presence of shareholders representing at least one fifth of Newron's share capital. In the event that the extraordinary meeting is convened for a sole call, then the quorum provided for the extraordinary meeting in the third call shall apply. At extraordinary meetings, resolutions must be approved by at least two-thirds of the share capital represented at such meetings (save for specific matters which require special majorities).

Notice of meetings

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

In addition, pursuant to Article 2366 of the Italian Civil Code, a meeting will be deemed duly convened if shareholders representing 100% of the Company's share capital, together with the majority of directors and the majority of members of the Board of Statutory Auditors, are present at the meeting. Persons attending may object to discussions of matters on which they have not been sufficiently informed.

Shareholders' meetings: (1) must be called promptly upon the request by holders of at least 5% of the share capital; (2) may be called by the Board whenever it deems appropriate or (3) may be called by the Board of Statutory Auditors or the president of the court having jurisdiction (Presidente del Tribunale), in the cases provided by law.

Attendance and voting rights

To attend any shareholders' meeting, a Newron shareholder must, at least one business day prior to the date fixed for the meeting, instruct the relevant intermediary to communicate his relevant shareholding and voting rights to the Company: for additional information regarding the attendance procedure please check "www.newron.com/shareholders-meeting" at due time ahead of each shareholders' meeting.

Shareholders may appoint proxies by written means according to Article 2372 of the Italian Civil Code.

Italian law does not foresee explicit rules for shareholders to ask for inclusion of certain topics to the agenda if the shares of a company are not listed on an Italian market. Yet, shareholders representing in the aggregate 5% of the share capital of the Company could request the directors to call a shareholders' meeting, implying their right to propose topics to the agenda.

Minority shareholders' rights

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

Yet, under Italian law, any shareholder owning voting shares representing at least 0.1% of the stock of a listed company may, within specific terms, challenge any resolution of the shareholders in respect of which it has abstained from voting or cast a dissenting vote on the basis that the resolution was not adopted in conformity with applicable law or the by-laws; directors and statutory auditors may also challenge shareholders' resolutions on that basis.

Each shareholder may submit a complaint to the Board of Statutory Auditors regarding facts that such shareholder deems to be censurable, and the Board of Statutory Auditors must take any such complaint into account in its report to the meeting of the shareholders.

If shareholders collectively representing 2% of the Company's share capital submit a complaint, the Board of Statutory Auditors must promptly undertake an investigation and present its findings and any recommendations to a meeting of the shareholders (which must be convened by the Board of Statutory Auditors immediately if there appear to be grounds for the complaint and there is an urgent need to take action).

Shareholders representing in the aggregate at least 5 % of the Company's share capital have the right to report major irregularities in the management of the Company to the relevant court. In addition, shareholders representing at least 2.5% of the Company's share capital may bring legal action against the directors of the Company. The Company may waive or settle the suit provided that (i) such waiver or settlement is approved by the ordinary shareholders' meeting and (ii) holders of more than 5% of the Company's share capital do not vote against such waiver or settlement. The Company will reimburse the legal costs of such action in the event that the claim of such shareholders is successful and: (i) the court does not award such costs against the relevant directors, statutory auditors or general managers; or (ii) such costs cannot be recovered from such directors, statutory auditors or general managers.

In addition, under Italian law, a single shareholder may bring an action against members of a company's board of directors in respect of damages directly suffered for negligence or willful misconduct.

Change of Control and Defence Measures

In line with Swiss law, which is applicable to Newron as an Italian entity since May 1, 2013, Newron' shareholders (and any direct or indirect holder, acquirer, or seller of shares) are required to comply with the provisions as set forth in Articles 125 ss. of the FMIA and pertinent regulations, including FMIO-FINMA Articles 30 ss. and the Ordinance of the Takeover Board on Public Takeover Offers of August 21, 2008, as amended ("TOO") (all such laws and regulations, the "Swiss Tender Offer Laws"). The Swiss Tender Offer Laws provide, among other things, that if a person acquires shares of a company, whether directly or indirectly or acting in concert with third parties, which, when added to the shares already held by such person, exceed the threshold of 33 $^{1}/_{3}$% of the voting rights (whether exercisable or not) of such company, that person must make an offer to acquire all of the listed shares of that company.

A Company's articles of incorporation may either eliminate application of the FMIA or may raise the relevant threshold to 49% ("opting out" or "opting up", respectively). The Company's by laws do not contain any opting out or opting up provision.

Should the Company as per the assessment by the Board experience an extraordinary transaction of severe impact on its corporate structure, the stock options as evidenced in Note "Stock-based remuneration" on page 18, which have not vested by that point in time will automatically vest upon such assessment and decision by the Board.

No other applicable agreements or schemes that benefit members of the Board and senior management do include change of control clauses. In particular, no agreements on severance payments in the event of takeover, special provisions on the cancellation of contractual arrangements, agreements concerning special notice periods or longer-term contracts exceeding 12 months or additional contributions to pension funds exist that protect the abovementioned persons in case of take overs.

Auditors

Upon proposal by the management and Board of the Company, on March 22, 2016, the shareholders' meeting has appointed Ernst & Young S.p.A. as the Company's independent auditors in relation to the audit of the Company's financial statements for the three financial years until December 31, 2018. The recommendation by the Company's management and Board, who had asked alternative audit companies to provide offers for a 3-year period (as foreseen by Italian law) of collaboration was based on the high quality of the audit team proposed by E&Y, its audit experience in the pharmaceutical industry, the capability to support international projects and the financial terms offered for the work expected to be done for Newron.

The auditor in charge, starting with the review of the Half Year Report 2016, is Paolo Zocchi: he will stay in charge until the approval of the financial statements dated December 31, 2018. Ernst & Young will receive an expected fee of thousands EUR 107 (2016: EUR 118) exclusively due to the audit of the Company's Italian GAAP Financial Statements, the financial statements of the subsidiaries under the local GAAP standards, and the Group's consolidated IFRS Financial Statements. Further fees of thousands EUR 12 (2016: EUR 37) were charged by Ernst & Young for other audit-related services, mainly for audit procedures on Zambon royalties.

Supervisory and control instruments pertaining to the audit

The Board has installed an audit and risk committee, whose task it is – amongst others – to discuss with the auditors the audit scope, audit and review procedures, significant reporting matters and fees and to assess the auditors' performance. The chairperson of the committee, Patrick Langlois, is responsible for the information of the full Board about the results of the meetings and the recommendations of the committee.

The duties of the audit and risk committee relating to the audit are:

- to consider the appointment of the external auditor, the audit fee, the independence and objectivity of the auditors and any questions of retirement, resignation or dismissal;
- to review the nature and scope of the audit, discuss the audit with the external auditor before it commences, and ensure coordination where more than one audit firm is involved;
- to review the annual financial statements before submission to the Board, focusing particularly on: (i) any changes in accounting policies and practices; (ii) major judgmental areas; (iii) significant adjustments resulting from the audit; (iv) the going concern assumption; (v) compliance with accounting standards, (vi) compliance with legal requirements, and (vii) the Chairman's statement and statement of operations to be made in the Company's Annual Report;
- to review the results of the audit and its cost-effectiveness and in particular: (i) to discuss problems and reservations arising from the interim and final audits and any matters the auditors may wish to discuss (in the absence of management where necessary); (ii) to review the external auditor's management letter and management's response and (iii) to consider any significant ventures, investments or operations which are not subject to external audit;
- to review the annual budgets of the Company;
- to review annually the Company's systems of internal control (including financial, operational and compliance controls and risk management) prior to review by the Board and from time to time to make recommendations to ensure the maintenance of a sound system of internal control to safeguard shareholders' investment and the Company's assets.

In 2017, the audit committee has held two meetings with Ernst & Young S.p.A., during which the members were presented the planned audit scope, timelines, budget and results of the work performed by Ernst & Young S.p.A. in auditing the IFRS Consolidated Financial Statements for the year 2017, the Italian GAAP Financial Statements for Newron for the year 2017 and reviewing the Interim Consolidated Financial Statements for the six months ended June 30, 2017, as well as the other services provided by Ernst & Young S.p.A. The members of the audit and risk committee do regularly give their input to such presentations and might ask for changes or a special focus of the audit/review work, thereby controlling audit focus, performance and cost.

During these meetings, Ernst & Young S.p.A. reports any material findings of their audit and review procedures to the members of the committee as well as the Vice President Finance of the Company. In a separate part, to which members of the management of the Company do not attend, the members of the committee interrogate Ernst & Young S.p.A. for any potential weaknesses in the Company's systems of internal control. The essence of the results of these meetings is reported by the Chairman of the audit and risk committee to the members of the Board.

The committee on an annual basis evaluates the performance of Ernst & Young S.p.A. and decides on its recommendation to the Board whether Ernst & Young S.p.A. should be proposed to the shareholders' meeting for re-election, when due.

Criteria applied include technical and operational competence, independent and objective view, sufficient and competent resources employed, focus on areas of importance to Newron, willingness to challenge, ability to provide appropriate and pragmatic recommendations and effective communication as well as open dialogue and coordination with the committee and management.

Information Policy

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

We regularly update the corporate website (www.newron.com), provide the regular (Annual Report, Half-year Report) and extraordinary reports (directors' dealings, status of authorized capital, ad hoc news and publications) to the SIX Swiss Exchange and the general public, routinely visit conferences to present the Company to opinion leaders and multiplicators of public opinion and talk to analysts and the press. All interested parties have the possibility to directly receive from Newron free and timely notification of potentially price-sensitive facts via our web page pull service http://www.newron.com/ENG/Default.aspx?PAG=19&MOD=NWRPRS, and our web page push service, where interested parties can register under here: http://www.newron.com/ENG/Default.aspx?PAG=163&MOD=NWS .

It is our aim to reach out to all potentially interested addressees in the field and once attracted to Newron, keep them up to the news. In order to keep satisfaction at high levels, we do commit to give a true and fair view to the news. Newron's PR and IR representatives are at your disposal.

Important dates for 2018

- Annual General Meeting of Shareholders: March 27, 2018 in the Company's offices in Bresso (Mi), Italy
- Expected publication of half-year results: September 13, 2018

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Non-applicability/negative disclosure

It is expressly noted that any information not contained or mentioned herein is non-applicable or its omission is to be construed as a negative declaration (as provided in the SIX Swiss Exchange Corporate Governance Directive and the Commentary thereto).

IFRS Consolidated Financial Statements

Consolidated Statement of Profit or Loss

(In thousand Euro, except per share information)	Note	For the year ended December 31 2017	2016
Licence income	8	10,430	3,039
Royalties	9	2,855	1,698
Other income	10	143	1,989
Revenue		13,428	6,726
Research and development expenses	12	(8,596)	(12,398)
Marketing and advertising expenses	13	(708)	(513)
General and administrative expenses	14	(8,470)	(9,140)
Operating result		(4,346)	(15,325)
Financial revenue	15	612	413
Financial expenses	15	(1,567)	(292)
Result before tax		(5,301)	(15,204)
Income tax	16	19	(33)
Net loss		**(5,282)**	**(15,237)**
Loss per share			
Basic and diluted	17	**(0.32)**	**(1.04)**
Weighted average number of shares (thousands)			
		16,300	**14,688**

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

Consolidated Statement of Comprehensive Income

(In thousand Euro)		For the year ended December 31	
	Note	2017	2016
Net loss for the period		(5,282)	(15,237)
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net gain/(loss) on available-for-sale assets	21/22	(70)	23
Exchange differences on translation of foreign operations		(169)	90
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		(239)	113
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Remeasurements on defined benefit plans	27	25	26
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		25	26
Other comprehensive gain/(loss) for the period, net of tax		(214)	139
Total comprehensive loss for the period, net of tax		**(5,496)**	**(15,098)**

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

Consolidated Statement of Financial Position

(In thousand Euro)		As of December 31	
	Note	2017	2016
Assets			
Non-current assets			
Property, plant and equipment	18	107	120
Intangible assets	19	35	261
Non-current receivables		82	70
		224	451
Current assets			
Inventories		5	5
Receivables and prepayments	20	12,714	9,667
Available for sale financial assets	21	3,795	3,520
Cash and cash equivalents	22	56,286	42,948
		72,800	56,140
Total assets		**73,024**	**56,591**
Shareholders'equity			
Share capital	23	3,567	3,155
Share premium and other reserves	24	66,539	59,518
Share option reserve	25	8,948	7,556
Retained earnings		(10,464)	(19,782)
Translation differences		(869)	(700)
Total Shareholders'equity		67,721	49,747
Liabilities			
Non-current liabilities			
Deferred tax liability	19	0	75
Employee severance indemnity	27	576	124
		576	199
Current liabilities			
Short-term borrowings	26	0	364
Trade and other payables	28	4,727	6,281
		4,727	6,645
Total liabilities		5,303	6,844
Shareholders'equity and liabilities		**73,024**	**56,591**

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

Consolidated Statement of Changes in Equity

(In thousand Euro)	Note	Share capital	Share premium	Share option reserve	Foreign currency translation reserve	Retained earnings	Total
Net loss						(15,237)	(15,237)
Other comprehensive income					90	49	139
Total comprehensive loss for the period		0	0	0	90	(15,188)	(15,098)
Previous year loss allocation			(27,320)			27,320	0
Issue of shares	23/24	306	26,571				26,877
Issuing costs	24		(1,600)				(1,600)
Exercise of options and reclassification of reserves	24/25	5	288	2,164			2,457
Balance at December 31, 2016		**3,155**	**59,518**	**7,556**	**(700)**	**(19,782)**	**49,747**
Net loss						(5,282)	(5,282)
Other comprehensive income					(169)	(45)	(214)
Total comprehensive loss for the period		0	0	0	(169)	(5,327)	(5,496)
Previous year loss allocation			(15,237)			15,237	0
Issue of shares	23/24	400	22,960				23,360
Issuing costs	24		(1,479)				(1,479)
Exercise of options and reclassification of reserves	24/25	13	777	1,392		(592)	1,590
Balance at December 31, 2017		**3,567**	**66,539**	**8,948**	**(869)**	**(10,464)**	**67,721**

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

Consolidated Statement of Cash Flows

(In thousand Euro)		For the year ended December 31	
	Note	2017	2016
Result before taxes		(5,301)	(15,204)
Adjustments for:			
Depreciation and amortisation	18/19	48	33
Impairment of In-process R&D	19	250	0
Grants and other non monetary income	20	(4,192)	(6,784)
Share option expenses	25	1,739	2,285
Employee severance indemnity expense	27	53	(59)
Changes in working capital:			
Inventories		0	33
Current receivables and prepayments and deferred cost (excluding grants receivable)	20	1,402	(9)
Trade and other payables and deferred income (excluding advances of grants)	28	(2,341)	130
Pension fund paid	27	(50)	0
Change in non-current receivables		(12)	(8)
Cash used in operating activities		(8,404)	(19,583)
Cash flows from investing activities			
Purchase of financial assets	21	(275)	0
Disposal of financial assets		0	1,400
Purchase of property, plant and equipment	18	(24)	(69)
Purchase of intangible assets	19	(38)	(3)
Interest received	15	119	106
Net cash flows from/(used in) investing activities		(218)	1,434
Cash flows from financing activities			
Repayment of borrowings	26	(364)	(362)
Proceeds from issue of shares	23/24	23,803	27,048
New shares issuing costs	24	(1,479)	(1,600)
Net cash flows from financing activities		21,960	25,086
Net increase in cash and cash equivalents		13,338	6,937
Cash and cash equivalents at January 1,		42,948	36,011
Cash and cash equivalents at the end of the year		**56,286**	**42,948**

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

Notes to the Consolidated Financial Statements

(In thousand Euro unless otherwise stated)

1 General information

Newron Group (the Group) is composed of the following entities:

- Newron Pharmaceuticals S.p.A. (the Company), a clinical stage biopharmaceutical company focused on the discovery and development of drugs for the treatment of central nervous system (CNS) disorders and pain – the parent company;
- Newron Pharmaceuticals US Inc., a fully owned clinical development subsidiary, incorporated on June 6, 2014 under the Delaware rules, based in Morristown, New Jersey (USA) whose activities started on July 8, 2014;
- Newron Sweden AB, a private biotechnology company based in Stockholm (Sweden) developing new medicines to treat illnesses caused by necrosis of the Central Nervous System (CNS);
- Newron Suisse SA, a clinical development fully owned subsidiary based in Zurich (Switzerland), established during 2007;
- Hunter-Fleming private limited company, a private biopharmaceutical company based in Brixham, Devon (United Kingdom) and focused on neurodegenerative and inflammatory disorders.

Newron Sweden AB, Newron Suisse SA and Hunter-Fleming are currently inactive.

The Company is incorporated and domiciled in Milan, Italy. The address of its registered office is Via Ludovico Ariosto 21, Bresso (MI) 20091, Italy. The Company is listed on the International Reporting Standard segment of the SIX Swiss Exchange, Zurich, Switzerland, under the trade name NWRN.

The Group is principally engaged in discover, develop and commercialise novel drugs to treat diseases of the Central Nervous System (CNS) and pain.

These consolidated financial statements have been approved for issuance by the Board of Directors on February 23, 2018.

2 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The consolidated financial statements are based on the financial statements of the subsidiaries prepared for the same reporting period using consistent accounting policies. The financial statements have been prepared on a historical cost basis, except for financial assets and liabilities which are measured at fair value, as described in the notes.

The presentation currency is EUR. All figures included in these financial statements and notes to the financial statements are rounded to the nearest thousand EUR except when otherwise indicated. The consolidated financial statements provide comparative information in respect of the previous period.

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

Considering the Group's current cash position and the level of spending planned in management's budgets, the directors believe that the Group will be able to meet its obligations as they fall due for a period of at least 12 months from the date of signing of the financial statements, and hence the consolidated financial statements have been prepared on a going concern basis.

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

A Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at December 31, 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

The consolidated financial statements of Newron Group include the accounts of Newron Pharmaceuticals S.p.A., Newron Suisse SA, Hunter-Fleming private limited company, Newron Sweden AB and Newron Pharmaceuticals US Inc. as of December 31, 2017. The four subsidiaries are fully owned by Newron Pharmaceuticals S.p.A., the parent company.

B Summary of significant accounting policies

a) Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cashgenerating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

b) Segment reporting

The Company operates in a single business segment, which is research and development of pharmaceutical drugs. Geographically the research and development activities are mainly performed in Italy and United States of America (USA). The Company does not consider the geographies to be separate segments.

c) Related party transactions

Transactions with related parties are made on terms equivalent to those that prevail in arm's length transactions; please refer to Note 32 for additional details.

d) Foreign currency translation

Measurement currency

Items included in the financial statements of each entity are recognised and subsequently measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Euro, which is the Group's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. There are no translation differences on non-monetary items.

Group companies

The exchange rates used to prepare the present document, are detailed in the following table:

	Income statements in Euro (average rates)		Rates as of December 31	
	2017	2016	2017	2016
CHF 1	0.89952	0.9173	0.85455	0.93119
GBP 1	1.14064	1.22029	1.12714	1.16798
SEK1	0.10379	0.10561	0.10159	0.10468
USD 1	0.88519	0.90342	0.83382	0.94868

The financial statements of the companies with a functional currency other than Euro are translated into Euro for the purposes of the consolidation using the year end rates for balance sheet items and the average rates for the year for the income statement items. Components of equity are translated at the dates of the relevant transaction. The resulting translation differences are recognised in other comprehensive income.

e) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost or residual value of the asset over the estimated useful life, as follows:

Laboratory equipment and instruments	2.5 years
Office equipment and other assets	3 – 10 years

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

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

f) Operating leases

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. All Group's leases are defined as operating lease.

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

g) Research and development

As stated by IAS 38, costs incurred on development projects (relating to testing of new or improved molecule drugs) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility, the availability of adequate funding resources and the ability to measure its costs reliably.

Development costs which do not meet these criteria are recognised as an expense as incurred. Since inception, all research and development costs have been treated as expenses as commercial and technical feasibility continues to be assessed.

h) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Inter-

nally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

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

Brands
Costs incurred in depositing the Group's name and logo and obtaining their exclusive use world-wide are classified as brands and are shown at historical cost. Brands have a definite useful life and are carried at cost less accumulated amortisation. Asset's estimated useful life is three years.

In-process research and development
In-process research and development ("IPR&D") projects acquired in a business combination are capitalized as intangible assets if the project meets the definition of an asset and its fair value can be measured reliably. Expenditure incurred on each project after acquisition is accounted for in accordance with the policy stated for internally incurred research and development costs. Before the achievement of the corresponding market authorization IPR&D projects are tested annually for impairment. When selling approval has been obtained, the projects are reclassified to developed technologies with the subsequent commencement of the amortization process.

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

j) Investments
The Group classifies its investments – within the scope of IAS 39 – in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and reevaluates this designation at each reporting date when it is permitted and appropriate to do so.

When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value, at the close of business on the balance sheet date, with unrealized gains or losses recognized directly in equity until the investment is de-recognized or determined to be impaired, at which time the cumulative gain or loss previously recorded in equity is recognized in profit or loss.

The fair values of listed investments are based on current market prices. If the market for a financial asset is not active and for unlisted securities, the Group establishes fair values 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 refined to reflect the Company's specific circumstances. At each balance sheet date, the Group assesses whether a financial asset or group of financial assets is impaired. If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss.

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

k) Inventories

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

l) Trade and other Receivables

Trade and other receivables are recognized initially at fair value. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Changes in the provision are recognized in the income statement.

m) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less which are subject to an insignificant risk of changes in value.

n) Available for sale financial assets – current

Available for sale (AFS) financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised in Other Comprehensive Income (OCI) and credited in the Retained earnings reserve until the investment is derecognised. If sold, the cumulative gain or loss is recognised in other operating income; if the investment is determined to be impaired, the cumulative loss is reclassified from the AFS reserve to the statement of profit or loss in finance costs. Interest earned whilst holding AFS financial assets is reported as interest income using the Effective Interest Rate method.

o) Share capital

Ordinary shares and preferred shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in Share Premium Reserve as a deduction from the proceeds.

p) Borrowings

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

q) Current and deferred income taxes

The income tax charge is based on profit for the year and includes deferred taxes. Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Deferred taxes are calculated using the liability method. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using the tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled based on enacted or substantially enacted tax rates as of the balance-sheet date.

Deferred tax assets and liabilities are not discounted and are classified as noncurrent assets (liabilities) in the balance sheet. They are offset against each other if they relate to the same taxable entity and tax authority.

Deferred tax assets resulting from unused tax losses and temporary differences are recognized to the extent that it is probable that future taxable profit will be available against which they can be utilized. Since inception, no tax assets have been ever recognized to offset income taxes.

r) Employee benefits

Employee severance indemnity
(Trattamento di Fine Rapporto, T.F.R.)
In accordance with Italian legislation, an employee benefit is accrued for service to date and is payable immediately when the employee leaves the Company virtually for any reason. Accordingly, the benefit payable will depend on the employee's years of service and compensation.

According to IAS 19, the liability in respect of the severance indemnity is the present value of the defined benefit at the balance sheet date. The defined benefit obligation is calculated on a regular basis in accordance with the advice of independent actuaries using the projected unit credit method.

The present value of the defined benefit obligation is determined by the estimated future cash outflows using interest rates of government securities with maturities approximating those of the related liability.

The Group recognizes all actuarial gains and losses in full in the period in which they occur in other comprehensive income in accordance with IAS 19.93A. Further details are disclosed in Note 27.

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

Share-based compensation
The Group operates an equity-settled, share-based compensation plan (Employees Stock Option Plan). As stated by IFRS 2, the cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("the vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The total amount to be expensed over the vesting period is measured by reference to the fair value at the date on which the options were granted.

s) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

The "Sale of licenses" is recognised when the Group assigns the rights of ownership to the customer, and collectability of the related receivables is reasonably assured. Receipts of "Upfront payments" and other similar non-refundable payments relating to the sale or licensing of products or technology are initially reported as deferred income and recognised as income on a straight-line basis over the estimated period of the collaboration required to finalise the development period.

Income from "Royalties" is recognized on an accrual basis and represents income earned as a percentage of product sales, in accordance with the terms of the relevant agreement.

"Reimbursements" received in relation to the licensing and collaboration agreement with Zambon Company S.p.A. or other entities like the European Community or Foundations are booked as a decrease of the related costs incurred since they are not considered as "ordinary operating activities" under the Group's business model.

t) Grants

Grants relating to income are recognised in the income statementas deduction of their related expenses. Grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants for the acquisition of tangible fixed assets reduce the asset's carrying acquisition cost.

u) Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

v) Fair value measurement

The Group measures financial instruments such as derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarized in the Note 19.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.
The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

w) Provisions

Provisions are recognised when i) the Group has a present obligation (legal or constructive) as a result of a past event; ii) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and iii) a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pretax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

3 Change in accounting policies

The accounting policies used in the preparation of the consolidated financial statements are consistent with those applied in the previous year. The following amendments to IFRSs standards did not have any impact on the accounting policies, financial position or performance of the Group:

New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2016, except for the adoption of new standards and interpretations effective as of January 1, 2017. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

The following amendments to IFRSs standards did not have any impact on the accounting policies, financial position or performance of the Group:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrecognised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

Annual Improvements 2012–2014 Cycle

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

IFRS 15 Revenue from Contracts with Customers

On 29 May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers. The objective of the standard is to provide a framework to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The standard defines the following five-steps model to be followed for the recognition of revenue:

1. Identify the contract with the customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract;
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method. During 2016, the Group performed a preliminary assessment of IFRS 15, which was continued with a more detailed analysis completed in 2017 through the analysis of all the contracts with customers. Based on the analysis per-formed, on transition, the effects of the application of the new standard will not have a significant impact.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory.

For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group plans to adopt the new standard on the required effective date and will not restate comparative information. During 2017, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group will adopt IFRS 9. Overall, on transition, the Group expects no significant impact on both the financial statements and the relevant disclosure.

IFRS 2 Classification and Measurement of Share-based Payment Transactions
The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group is assessing the potential effect of the amendments on its consolidated financial statements.

IFRS 16 Leases
IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model like the accounting for finance leases under IAS 17. Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. In 2018, the Group will continue to assess the potential effect of IFRS 16 on its consolidated financial statements. Based on the analysis performed, the effects of the application of the new standard will not have a significant impact. Please refer also to Note 30 for additional information.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the transaction date for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the Interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

(i) The beginning of the reporting period in which the entity first applies the interpretation or

(ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

The Interpretation is effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed. However, since the Group's current practice is in line with the Interpretation, the Group does not expect any effect on its consolidated financial statements.

4 Significant accounting judgements, estimates and assumptions

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

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Revenue recognition

Revenue recognition is an area involving management's judgment since revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, considering contractually defined terms of payment and excluding taxes or duty.
The "Sale of licenses" is recognised when the Group assigns the rights of ownership to the customer, and collectability of the related receivables is reasonably assured. Receipts of "Upfront payments" and other similar non-refundable payments relating to the sale or licensing of products or technology are initially reported as deferred income and recognised as income on a straight-line basis over the estimated period of the collaboration required to finalise the development period.

Income from "Royalties" is recognized on an accrual basis and represents income earned as a percentage of product sales, in accordance with the terms of the relevant agreement.

Share-based compensation expense

The Group has granted share options to some of its employees, directors and consultants. The options granted have different vesting, maturity and exercise dates. Since there is no market for trading share options, management must use a fair value method to value them. Fair value methods require management to make several assumptions, the most significant of which are the selection of a fair value model, share price volatility and the average life of an option. The fair value of each of the share options has been determined separately by an external appraiser using an enhanced binomial model. Estimates have been based on Group history or market data where appropriate. There is no certainty that the results of a fair value method would be the value at which the share options would be traded for cash. Should different assumptions be used, the expenditure recognised could be different. Additional information is reported at Note 2 "r) Employee benefits" on page 55.

Cost accruals
The Group has numerous contracts with subcontractors who carry out research and development activities. The invoicing dates on these contracts do not coincide with the financial year end. Thus, management has to exercise estimations as to the progress of work done under the contracts and apportion the cost to the different periods.

Capitalisation of development costs
IAS 38 requires the capitalisation of development costs upon the completion of certain requirements about commercial and technical feasibility of projects, the availability of adequate funding resources and the ability to measure costs reliably. All development costs incurred until December 31, 2017 have been treated as expenses as commercial and technical feasibility continues to be assessed. There are no intangible assets in relation to development expenditure except the In-process R&D projects recognized as part of business combinations.

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

In determining the recognition of deferred tax assets, the Group's assessment of future taxable income, available taxable temporary differences, tax planning and applicable limitations on the use of tax loss carryforwards are factors taken into account. The Group has incurred losses since inception and the availability of future taxable profits against which such an asset may be offset is uncertain. Accordingly, no deferred tax assets have been recognised. Should different events and assumptions be used, the deferred tax assets recognised could be different.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the statement of profit or loss, the impairment loss is reversed through the statement of profit or loss.

5 Seasonality
The Group's activities are not subject to seasonal fluctuations.

6 Financial risk management
Financial risk factors
The Group's activities expose it to a variety of financial risks such as market risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and it is aimed at minimizing potential adverse effects on the Group's financial performance. Risk management, such as identification, evaluation and management of financial risks, is carried out by the Group's finance department under the policies approved by the Board of Directors. The Board of Directors has provided written principles with regard to overall risk management, as well as written policies covering specific area such as investing excess liquidity. There is no use of valuation techniques for financial assets or liabilities.

Market risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments affected by market risk include loans and borrowings, deposits, available-for-sale investments and derivative financial instruments. Newron Group is mainly exposed to currency risk i.e. the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign

exchange rates, whereas it is not exposed to commodity price risk, other price risk and interest rate risk fluctuations since the Group's borrowing is essentially a loan received from the government at subsidised interest rates.

The Group operates internationally and is exposed to currency risk arising from various exposures, primarily with respect to the Swiss Francs, UK Pounds, Swedish Krona and US Dollars. Foreign exchange risk arises from future purchase and service transactions, recognised assets and liabilities and net investments in foreign operations. To manage foreign exchange risk, the Group maintains foreign currency cash balances to cover anticipated future requirements.

The Group did not enter into foreign exchange contracts or other financial instruments in order to hedge its foreign exchange risk. Management has performed a sensitivity analysis applying reasonably possible change in the Swiss Francs, UK Pounds, Swedish Krona and US Dollars exchange rate, with all other variables unchanged. The impact on both the Income before tax and Equity of the Group is not material.

Credit Risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instruments or costumer contract, leading to a financial loss. The Group is exposed to credit risk from its operative activities since its receivables are related to only one partner. Credit risk from balances with banks and financial institutions is managed by Group's Finance in accordance with the Group's policies: consequently, cash and cash equivalents are held with approved financial institutions with A+ or higher ranking (please refer to Notes 21 and 22 for additional information).

Liquidity risk

Management monitors the Group's cash position on rolling forecasts based on expected cash flow to enable the Group to finance research and development activities. The Group's principal source of liquidity is its cash reserves which were obtained through the issuing of new shares at IPO and through subsequent fund raisings. The Group's policy states to invest these funds in low risk investments including interest bearing deposits. The financial status at December 31, 2017 assures that the Group's operations will be well funded into 2019, not taking into account further cash generating revenue streams. The ability of the Group to maintain adequate cash reserves to sustain its activities in the medium term is highly dependent on the Group's ability to raise further funds from the out-licensing of its development stage products and the issuance of new shares. Consequently, the Group is exposed to significant liquidity risk in the medium term.

The table below summarizes the maturity profile of the Group's financial liabilities based on the contractual undiscounted payments as of:

December 31, 2017

Maturity table	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Trade and other payables	4,727	–	–	–	4,727
Total	**4,727**	**–**	**–**	**–**	**4,727**

December 31, 2016

Maturity table	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Short-term borrowings	182	182	–	–	364
Trade and other payables	6,281	–	–	–	6,281
Total	**6,463**	**182**	**–**	**–**	**6,645**

7 Group information

Information about subsidiaries

The consolidated financial statements of the Group include:

			% equity interest as of December 31,	
Name	**Principal activities**	**Country of incorporation**	**2017**	**2016**
Newron Suisse SA	Clinical development	Switzerland	100	100
Hunter Fleming private limited company	Biotech	United Kingdom	100	100
Newron Sweden AB	Biotech	Sweden	100	100
Newron Pharmaceuticals U.S. Inc	Clinical development	United States	100	100

Entity with significant influence over the Group

None.

8 Licence income

(In thousand Euro)	For the year ended December 31	
	2017	2016
Licence income	10,430	3,039

Licence income is related to the non-refundable milestone payments cashed-in from Zambon S.p.A. upon the approval – obtained from Food and Drug Administration (FDA) – of the use of Xadago® (safinamide) for the treatment of Parkinson's disease as add-on therapy to levodopa/carbidopa and the identification of the Australian (Seqirus), Canadian (Valeo Pharma) and Israeli (Medison Pharma) commercial partners. Licence income are shown net of the amount transferred to Merck KGaA.

9 Royalties

(In thousand Euro)	For the year ended December 31	
	2017	2016
Royalties	2,855	1,698

In 2017 royalties increased by 68% mainly because of: i) the growing sales in the European countries; ii) the increased number of markets in which Xadago® is sold and iii) the launch of Xadago® in the US market.

Following the European Commission approval of the use of Xadago® (safinamide) for the treatment of idiopathic Parkinson's disease, starting by May 15, 2015, Zambon has, until the end of 2017, launched Xadago® in several European countries (among which Germany, Italy, Spain and United Kingdom) and, after the Swissmedic approval, Xadago® has been commercialised also in Switzerland. Moreover, on July 11, 2017, after the FDA approval, US WorldMeds, Zambon commercial partner, has launched Xadago® also in the U.S. market. Royalties payable to Newron according to the agreement in place with Zambon, have been communicated to Newron by its partner.

On February 2016, Italian Medicines Agency (AIFA) approved Xadago® selling price and imposed a ceiling on sales of the first year that has been reiterated, higher than the previous one, also for the period – March 1, 2017 to February 28, 2018. As Italian sales were growing fast such limit has been overtaken; since then, royalties on Italian sales exceeding the limit were not recognized.

10 Other income

(In thousand Euro)	For the year ended December 31	
	2017	2016
Other income	143	1,989

In 2016 Other income included the recognition of a research and development tax credit (R&D tax credit), amounting to EUR 1,915. The amount recognized among Other income in 2016 represented the tax credit related to R&D expenses incurred in 2015 but recognized in the 2016 only. The tax credit related to expenses incurred in following years has been classified as a reduction of the corresponding R&D expenses. For additional information, please refer to notes 12 and 14.

In 2017 Newron Sweden AB has cashed-in the final payment, equal to EUR 120, for its project financed by the Wellcome Trust foundation: as there are no related expenses (project was closed in 2015), revenues have been booked as Other revenues.

11 Staff costs

(In thousand Euro)	For the year ended December 31	
	2017	2016
Wages and salaries	3,868	3,550
Pension costs – defined contribution plans	640	514
Share options granted to directors and employees	1,739	2,285
Employee severance indemnity costs	53	(59)
Social security costs	48	369
	6,348	**6,659**

The average number of Group employees in 2017 was 23 (2016: 23), of whom 1 (2016: 1) was part-time. The decrease in Staff costs is mostly related to the combined effect of: i) the decrease in ESOP costs; ii) the decrease, due to the fluctuation of the Newron's share price in 2017, in social contributions accrued on vested options granted to former Newron Sweden AB employees and iii) the overall increase in wages and salaries as a consequence of the decrease in hours dedicated to activities reimbursed by third parties not compensated by the increase of the R&D tax credit effect (EUR 784 and EUR 351 respectively in 2017 and 2016) for parties and related to the so called R&D tax credit (please refer to Note 12 for additional information).

12 Research and development expenses

(In thousand Euro)	For the year ended December 31	
	2017	2016
Services received from subcontractors	2,029	4,991
Staff costs	2,636	2,973
Consultancy fees	1,069	830
Material and consumable used	1,575	2,634
Laboratory operating lease cost	321	360
Travel expenses	627	523
Depreciation, amortisation and impairment expense	250	0
Other research and development costs	89	87
	8,596	**12,398**

As stated by art. 1, paragraph 35 of the Italian Law 190/2014 – the so called "2015 Stability Law" – and clarified, by the Italian Tax Authority in the Official Memorandum 5/E dated March 23, 2016, companies investing in research and development activities are allowed to recognize an R&D tax credit in the period 2015–2020 that can be used to offset certain taxes and contributions. According to the application guidelines issued by the Tax Authority, R&D tax credit for a specified year is recognized to the extent of a defined percentage (50%) of the difference between certain R&D expenses incurred in the year and the average of the same expenses incurred in the three-year period 2012–2014. As clarified by Tax Authority in the Official Memorandum 19/E dated February 14, 2017, the R&D tax credit will last until 2020.

Expenses incurred by the Company in 2017, granted a total R&D tax credit of EUR 4,511 (2016: EUR 4,935). Therefore, Services received from sub-contractors, Consultancy fees and Material and consumable used have been reduced respectively by EUR 1,619 (2016: 2,730), EUR 755 (2016: 394) and EUR 1,353 (2016: 1,460). The overall effect is detailed in the following table. Please refer to Note 11 for additional info regarding the impact of R&D Tax credit on Staff Costs.

The decrease by EUR 2,962 in Services received from subcontractors is in line with the activities performed by the Group: in 2016 Newron were managing two clinical trials out of which one (related to the development of evenamide) produced final data in January 2017.

The decrease in Material and consumable used is mainly due to the decision, taken in June 2016, to terminate an agreement with Merck KGaA regarding the purchase of additional drug substance (sarizotan). Accordingly, the Company in 2016 paid to Merck KGaA a fee of Euro 650 and recognized to the profit and loss additional Euro 500 booked in 2015 as Prepayments.

Since May 14, 2012, research and development expenses borne by the Group to complete the development of safinamide, prepare the applications and file for marketing approval in Europe and the U.S. are reimbursed by Zambon. Since the submission of the safinamide dossier to the European Medicines Agency (EMA) and to the Food and Drug Administration (FDA), Newron is also supporting Zambon in managing the post-filing regulatory review. Based on the amended agreement, Zambon is reimbursing to Newron all the expenses incurred in providing such assistance, including personnel expenses which are invoiced at cost plus mark-up. As of December 2017, Zambon has reimbursed an amount equal to EUR 276 (2016: EUR 1,905). As the two most relevant authorities have approved the commercialization of Xadago® in their territories, the reimbursement decreased significantly.

The following table presents research and development expenses net of the effects described above.

(In thousand Euro)	For the year ended December 31	
	2017	2016
Research and development expenses, gross	13,383	19,238
Reimbursed by Zambon	(276)	(1,905)
R&D Tax Credit	(4,511)	(4,935)
	8,596	**12,398**

Since inception, no development costs have been capitalised with the exception of the Intangible assets recognised in the context of the purchase price allocation processes related to the acquisition of i) Hunter-Fleming private limited company (occurred in 2008) and ii) Newron Sweden AB (occurred in 2012). During 2017, abovementioned intangible assets have been fully written-off (please refer to Note 19 for additional information).

13 Marketing and advertising expenses

Marketing and advertising expense are equal to EUR 708 (2016: EUR 513). The increase is mainly due to two global surveys performed with Rett syndrome patients with debilitating condition and their families. The surveys will be comprised of two different analyses, one to be completed by at least 750 caregivers and the other by at least 210 health care providers aiming to deliver data and analytics to quantify the physical, emotional and financial challenges of Rett syndrome.

14 General and administrative expenses

(In thousand Euro)	For the year ended December 31	
	2017	2016
Staff costs	3,712	3,686
Consultancy and other professional services	2,890	3,133
Intellectual properties	749	1,222
Travel expenses	317	233
Operating lease cost	394	316
Depreciation and amortization expense	48	33
Other expenses	360	517
	8,470	**9,140**

The decrease in Consultancy and other professional services is mainly due to the Legal fees incurred in 2016 related to the funding activity of the Company.

Decrease of Intellectual properties fees is related to the reduction of validation's process (each patent granted by the European authority must be validated in all EU countries) incurred by the Group in 2017.

15 Financial results

(In thousand Euro)	For the year ended December 31	
	2017	2016
Interest incomes	204	238
Foreign exchange gains	408	175
	612	**413**

The Group invested available financial resources pursuant to the policy approved by the Board of Directors as described in Note 2 j) Investments. For additional information, please refer also to Notes 21 and 22.

(In thousand Euro)	For the year ended December 31	
	2017	2016
Interest expense	(85)	(132)
Foreign exchange losses	(1,405)	(94)
Other costs	(77)	(66)
	(1,567)	**(292)**

The Company's costs structure is exposed to exchange rate fluctuations, mainly with the US Dollars: for this reason, starting from December 2016, the Board of Directors has decided to purchase an amount of US dollars representing the expected needs for nine to twelve month rolling period expenses as per approved budget. The 2017 US Dollars' fluctuation against EUR resulted in the losses recognized in the income statement.

16 Income tax

Income tax amounted to an income of EUR 19 (2016: losses of 33). The amount is mainly related to the release of Deferred Tax Liabilities amounting to EUR 75 following the impairment of assets detailed in Note 19. In addition, the Group accrued income taxes of EUR 56, mostly related to the Newron Suisse and Newron US operations.

17 Loss per share

The basic loss per share is calculated dividing the net loss attributable to shareholders by the weighted average number of ordinary and preferred (if any) shares outstanding during the year.

(In thousand Euro)	For the year ended December 31	
	2017	2016
Net loss attributable to shareholders	(5,282)	(15,237)
Weighted average number of shares (thousands)	16,300	14,688
Loss per share – basic and diluted (in EUR)	(0.32)	(1.04)

The only category of potential ordinary shares are the share options granted to employees and directors. During the presented years, these were antidilutive, as their conversion would have decreased the loss per share. Thus, the values of the basic and diluted loss per share coincide. In case of future profits, options granted to employees (as of today n. 1,225,291 see also Note 25) may have a dilutive effect on the net profit per share.

18 Property, plant and equipment

(In thousand Euro)	Leasehold improvements	Laboratory and office equipment	Total
Cost			
At January 1, 2016	498	1,457	1,955
Addition	0	69	69
Disposals	0	0	0
Exchange differences	0	0	0
At December 31, 2016	498	1,526	2,024
Accumulated depreciation			
At January 1, 2016	(498)	(1,377)	(1,875)
Addition	0	(28)	(28)
Disposals	0	0	0
At December 31, 2016	(498)	(1,405)	(1,903)
Net book value	**0**	**120**	**120**
Cost			
At January 1, 2017	498	1,526	2,024
Addition	0	24	24
Disposals	0	0	0
Exchange differences	0	(4)	(4)
At December 31, 2017	498	1,546	2,044
Accumulated depreciation			
At January 1, 2017	(498)	(1,405)	(1,903)
Addition	0	(34)	(34)
Disposals	0	0	0
At December 31, 2017	(498)	(1,439)	(1,937)
Net book value	**0**	**107**	**107**

The year-end balance of EUR 107 (2016: 120) is related to office equipment only.

19 Intangible assets

(In thousand Euro)	Licences and software	In-process R&D	Total
Cost			
At January 1, 2016	352	18,758	19,110
Additions	3	0	3
At December 31, 2016	355	18,758	19,113
Accumulated amortization and impairment			
At January 1, 2016	(337)	(18,508)	(18,845)
Impairment	0	0	0
Additions	(7)	0	(7)
At December 31, 2016	(344)	(18,508)	(18,852)
Net book value – Newron Group	**11**	**250**	**261**
Cost			
At January 1, 2017	355	18,758	19,113
Additions	38	0	38
At December 31, 2017	393	18,758	19,151
Accumulated amortization and impairment			
At January 1, 2017	(344)	(18,508)	(18,852)
Impairment	0	(250)	(250)
Additions	(14)	0	(14)
At December 31, 2017	(358)	(18,758)	(19,116)
Net book value – Newron Group	**35**	**0**	**35**

Hunter-Fleming private limited company

Upon the acquisition of Hunter-Fleming private limited company in 2008, an amount of EUR 11,933 was allocated to four development projects – currently three as in year 2009 one compound was returned to its inventor – based on a risk-adjusted NPV assessment. These projects have been classified as In-process R&D and were evaluated at their fair value less cost to sell, amounting to EUR 50 per each compound. As Group management decided to reprioritize the spending on the development projects, starting from 2017 no resources have been dedicated to those projects, including resources required to maintain the property of the intellectual property. As a consequence, the Group completely wrote-off the book value of the IPR&D projects. The following table shows a break-down of the book value of each project:

Project	Development phase	Book value 2016	Write-off	Book value 2017
HF0220	Clinical phase II	50	(50)	0
HF0299	Clinical phase I	50	(50)	0
HF1220	Discovery	50	(50)	0
		150	**(150)**	**0**

Newron Sweden AB

Upon the acquisition of Newron Sweden AB. in 2012, an amount of EUR 6,825 was allocated to two development projects based on a risk-adjusted NPV assessment. These projects were classified as In-process R&D and were evaluated at their fair value less cost to sell, amounting to EUR 50 per each compound. In 2017, the restructuring process of Newron Sweden AB was concluded and all intellectual properties were terminated and/or abandoned. As a consequence, the Group completely wrote-off the book value of the IPR&D projects. The following table shows a break-down of the book value of each project:

Project	Development phase	Book value 2016	Write-off	Book value 2017
sNN0029	Clinical phase I	50	(50)	0
sNN0031	Clinical phase II	50	(50)	0
		100	**(100)**	**0**

20 Receivables and prepayments

(In thousand Euro)	As of December 31	
	2017	2016
Receivables	1,066	1,329
Government grants receivable	14	14
Prepayments	1,476	1,013
VAT receivable	499	353
Other receivables	9,659	6,958
	12,714	9,667

Receivables are almost entirely represented by invoices and accruals related to both the royalties on net sales performed by Zambon Group in Europe and, since July 2017, in the US and the reimbursement, by Zambon Group, of safinamide research and development costs borne by the Company in activities related to the submission to the Food and Drug Administration (FDA). The decrease by EUR 263 is related to the reduced activities performed by Newron on behalf of Zambon.

Increase in Prepayments is a direct consequence of the comparison between the invoices received from CROs involved in long-lasting studies and the assessment regarding the percentage of completion of their ongoing development activities.

Other receivables are mainly related to the R&D tax credit that at year end was equal to EUR 9,570 (2016: 6,915). The net increase by EUR 2,655 is due to the combined effect of the year end accruals equal to EUR 4,511 and its use to offset certain taxes and contributions during the year for a total of EUR 1,856. For additional information, please refer to note 10, 12 and 14. According to the expected development plan detailed in the Group business plan, the amount of R&D tax credit recognized as of December 31, 2017, will be recovered through the offset of the expenses of the upcoming years.

21 Available for sale financial assets – current

(In thousand Euro)	As of December 31	
	2017	2016
Listed bonds	3,795	3,520
	3,795	3,520

Gains and losses arising from the adjustment to the fair value of the above assets were recognized in the statement of other comprehensive income. All acquired securities and time-deposits are in line with the Group's investment policy.

22 Cash and cash equivalents

(In thousand Euro)	As of December 31	
	2017	2016
Cash at bank and in hand	40,642	26,835
Short-term investments	15,644	16,113
	56,286	42,948

The "Short-term investments" are highly liquid investments easily convertible into cash, not subject to significant changes in value and with no withdrawal penalty. Gain and losses arising from the adjustment to the fair value were recognized in the statement of other comprehensive income. All acquired short term deposits are in line with the Group's investment policy.

Management monitors the Group's cash position on rolling forecasts based on expected cash flow necessary to finance research and development activities. Financial resources currently available are considered adequate to support ongoing research and development activities.

Group's liquidity (Available for sale financial assets plus Cash and cash equivalent) amounts approximately to EUR 60 million (EUR 46 million as at December 31, 2016). Expenses of the period have been almost financed by: i) proceeds, equal to gross EUR 23 million, raised by the Group through a capital increase concluded on September 2017 and ii) the non-refundable milestone payments cashed-in from Zambon S.p.A. upon the approval – obtained from Food and Drug Administration (FDA) – of the use of Xadago® (safinamide) for the treatment of Parkinson's disease as add-on therapy to levodopa/carbidopa.

23 Share capital

As of December 31, 2016, Newron's outstanding share capital was equal to EUR 3,154,633.60, divided into 15,773,168 ordinary shares with par value equal to EUR 0.20 each. There is no authorised share capital. A summary of the changes in share capital is as follows:

(In Euro)	Total
As of December 31, 2015 – Newron Group	2,843,834.40
– issue of ordinary share (Capital Increase)	41,872.80
– issue of ordinary share (Stock options exercise)	4,820.40
– issue of ordinary share (Capital Increase)	264,106.00
As of December 31, 2016 – Newron Group	3,154,633.60
– issue of ordinary share (Stock options exercise)	12,835.40
– issue of ordinary share (Capital Increase)	400,000.00
As of December 31, 2017 – Newron Group	**3,567,469.00**

On March 24, 2015, the extraordinary shareholders' meeting resolved, among other items, to increase the Company's share capital by up to 10%, or the equivalent of an amount of up to 260,850.00 Euro, corresponding to up to 1,304,250 new Newron' ordinary shares with a par value of 0.20 Euro per share. The extraordinary shareholders' meeting resolved to exclude any pre-emptive rights to the Company's current shareholders to subscribe such capital increase. Under the agreement signed on November 20, 2015, a leading US-based biotechnology and healthcare specialist held an option to subscribe additional 209,364 newly issued ordinary shares, corresponding to an increase in share capital equal to EUR 41,872.80, no later than June 30, 2016: the subscription price was governed by the March 24, 2015 extraordinary shareholders' meeting authorization. The fund subscribed the additional newly issued ordinary shares on March 23, 2016.

On March 22, 2016, the extraordinary shareholders' meeting resolved, among other items, to increase the Company's share capital of an amount of up to EUR 711,177.20, corresponding to up to 3,555,886 newly issued Newron' ordinary shares with a par value of EUR 0.20 per share. The extraordinary shareholders' meeting resolved to exclude any pre-emptive rights to the Company's current shareholders to subscribe such capital increase and to grant to the Board of Directors of the powers to issue either shares or convertible bonds. On October 7, 2016, the Company announced that it has completed a private placement of new 1,320,530 shares (nominal value of EUR 0.20), corresponding to an increase in share capital equal to EUR 264,106, via an accelerated book building procedure: shares have been subscribed by institutional investors.

During the year ended on December 31, 2016, certain stock option holders have exercised their right: accordingly, the Company issued 24,102 new ordinary shares (par value equal to EUR 0.20).

On September 8, 2017, a Board of Directors meeting resolved to dedicate n 277,806 shares of the capital increase approved on March 22, 2016, to a new stock option plan. Please refer to following note for additional information.

On September 26, 2017, the Company announced the completion of a private placement of new 2,000,000 shares (nominal value of EUR 0.20), corresponding to an increase in share capital equal to EUR 400,000 through an accelerated book building procedure: shares have been subscribed by institutional investors.

During the year ended on December 31, 2017, certain stock option holders have exercised their right: accordingly, the Company issued 64,177 new ordinary shares (par value equal to EUR 0.20).

As of December 31, 2017, the subscribed share capital was equal to EUR 3,567,469.00, divided into 17,837,345 ordinary shares with par value equal to EUR 0.20 each. There is no authorised share capital.

24 Share premium and other reserves

(In thousand EUR)	As of December 31	
	2017	2016
At the beginning of the year	**59'518**	**61'580**
Loss allocation	(15,237)	(27,320)
Issue of shares	22,960	26,571
Issue of shares (exercise of options)	430	167
Reclassification from share option reserve	347	121
Share capital issue costs	(1,479)	(1,600)
At the end of the period	**66,539**	**59,518**

Share premium and other reserves increased in 2017 mainly due to the issuance of shares described in Note 23. In addition, because of the exercise of options, the related cost accrued into the Share options reserve throughout the vesting period was reclassified into the Share premium reserve.

25 Share options reserve

To incentivise the efforts of employees, directors and certain consultants directed at the growth of the Company and its subsidiaries in the medium term, the Group has approved during its existence, various Share Option Plans among which ESOP 2011, ESOP 2013, ESOP 2014 and ESOP 2015 are still valid. All options have been awarded free of charge.

On September 10, 2015, the Board of Directors approved to grant 19,918 options to an employee and on November 19, 2015, additional 28,455 were granted to a new employee. The exercise price for these options is respectively 27.12 CHF (EUR 24.90 as translated at the exchange rate on September 9, 2015) and 27.54 CHF (EUR 25.41 as translated at the exchange rate on November 18, 2015).

On July 27 and September 9, 2016, the Board of Directors granted 36,992 options to new Newron's employees out of which 8,537 were granted at a strike price of 16.49 CHF (EUR 15.22 as translated at the exchange rate on July 26, 2016) while the remaining 28,455 were granted at a strike price of 22.04 CHF (EUR 20.22 as translated at the exchange rate on September 8, 2016).

On February 2, 2017, the Board of Directors granted 36,992 options to two new Newron's employees at a strike price of 23.31 CHF (EUR 21.87 as translated at the exchange rate on February 1, 2017).

As a consequence of the resolution approved by the Board of Director on September 8, 2017, (please refer to note 23), a new stock option plan (ESOP 2017) was approved: all its main characteristics are in line with the existing ones. On the same date, the Board of Directors granted 337,739 options (of which 113,999 from the ESOP 2015 and 260,732 from ESOP 2017) to Newron's employees at a strike price of 18.23 CHF (EUR 15.97 as translated at the exchange rate on September 7, 2017).

As of December 31, 2017, the Company has granted a total of n. 1,225,291 options as shown in the following tables (granted options per plan and per exercise price):

	Employee Share Option Plans					
	2011	2013	2014	2015	2017	Total
At Janaury 1, 2016	55,451	409,612	187,775	277,464	0	930,302
Granted	0	0	0	36,992	0	36,992
Exercised	0	(21,875)	(2,227)	0	0	(24,102)
At December 31, 2016	**55,451**	**387,737**	**185,548**	**314,456**	**0**	**943,192**
Granted	0	0	0	113,999	260,732	374,731
Waived	0	0	0	(28,455)	0	(28,455)
Exercised	0	(59,563)	(4,614)	0	0	(64,177)
At December 31, 2017	**55,451**	**328,174**	**180,934**	**400,000**	**260,732**	**1,225,291**

Please refer to Note 33 for additional information regarding exercise of options.

The following table shows useful information regarding options granted as of December 31, 2017:

Plan's name	Exercise price (in Euro)	Number out-standing	Weighted-average remaining contractual life (years)	Number exer-cisable
ESOP 2011	5.29	55,451	2.25	55,451
ESOP 2013	6.32	320,924	5.25	320,924
ESOP 2013	6.66	7,250	5.25	7,250
ESOP 2014	13.88	76,494	5.25	57,371
ESOP 2014	13.94	104,440	5.25	76,609
ESOP 2015	24.90	19,918	7.25	9,959
ESOP 2015	25.41	28,455	7.25	14,227
ESOP 2015	28.14	229,091	7.25	114,532
ESOP 2015	15.22	8,537	7.25	0
ESOP 2015	21.87	36,992	7.25	0
ESOP 2015	15.97	77,007	7.25	0
ESOP 2017	15.97	260,732	9.66	0
		1,225,291		**656,323**

On January 28, 2018, n. 27,831 options will become exercisable. On June 4, 2018, additional n. 57,266 options will vest and further 35,484 will become exercisable during the second half of 2018, out of which 23,391 on July 4,979 on September and 7,114 on November. In 2018, a total of 120,581 options will vest, out of which 46,954 will expire on March 31, 2023 and 73,627 on March 24, 2025.

The fair values of the issued options have been estimated on the date of grant using, among others, the following assumptions:

Dividend yield (%):	0.00
Expected volatility (%):	65.00
Resignation rate expected (%):	3.00

The options granted are recognised as personnel expenses over the original vesting period.

In 2017, option grants resulted in personnel net expenses of EUR 1,739 (2016: EUR 2,285), which a corresponding increase in the share option reserve. R&D personnel expenses are equal to EUR 621 (2016: EUR 834) whereas EUR 1,118 refers to G&A personnel (2016: EUR 1,451).

26 Borrowings

(In thousand Euro)	As of December 31	
	2017	2016
At beginnig of year	364	726
Repayment	(364)	(362)
Total borrowings	**0**	**364**
Long term	0	0
Short term	0	364

In 2008 Newron was awarded with a EUR 5 million grant by the Italian government's Ministero dell' Istruzione, dell' Università e della Ricerca – M.I.U.R. About 60% of the grant beared interest of 0.5% per year and was required to be fully repaid within 10 years from the grant date through two yearly instalments (January 1 and July 1) ending on January 1, 2018. Balance at year end is equal to zero as the Company has reimbursed the last instalment in December 2017.

27 Employee severance indemnity

Newron Pharmaceuticals S.p.A. provides for their employee severance indemnities, which are considered to be a defined benefit schemes.

The following table shows the development of the Defined Benefit Obligation through the current and previous year:

(In thousand Euro)	As of December 31	
	2017	2016
Defined Benefit Obligation at the beginning of the period	540	768
Curtailment	0	(18)
Service cost	45	37
Interest costs	8	7
Indemnity paid out	(50)	(290)
Actuarial (gains)/losses	33	36
Defined Benefit Obligation at the end of the period	**576**	**540**

The main assumptions underlying the Company's actuarial valuation were as follows:

(In percent)	As of December 31	
Actuarial assumptions	**2017**	**2016**
Discount rate	0.88	1.31
Inflation rate	1.50	1.50
Future salary increase	1.50	1.50
Future pension (TFR) increase	2.625	2.625

28 Trade and other payables

(In thousand Euro)	As of December 31	
	2017	2016
Trade payables	2,223	1,983
Accrued expenses	971	2,371
Pension contribution payable	300	270
Social security	334	645
Other payables	899	1,012
	4,727	**6,281**

The decrease in Accrued expenses is in line with the activities performed by the Group: in 2016 the Company was managing two clinical trials out of which one (related to the development of evenamide) produced final data in January 2017.

In Sweden, Companies are requested to accrue Social contribution on all vested options: 2017 fluctuation of Newron' share price, has materially impacted the value as of December 31, 2017, of the outstanding options and, consequently, the Social security decreased by EUR 311.

29 Deferred income taxes

The Group's accounts include the following significant temporary differences from the tax bases of the relevant assets and liabilities:

(In thousand Euro)	For the year ended December 31,	
	2017	2016
Other (IAS 19)	(110)	(94)
Total taxable differences	**(110)**	**(94)**
Net gain on available for sale assets	5	23
Total taxable differences	5	23
Net temporary differences	(105)	(71)
Tax losses carry forwards	175,159	167,238
Total differences	**175,054**	**167,167**
Deferred tax asset	41,077	39,153

The above deferred tax asset has been measured using the average tax rates that are expected to apply to the taxable profit of the periods in which the temporary differences are expected to reverse and has not been recognised in the consolidated financial statements due to uncertainties concerning the availability of future taxable profits against which such an asset may be offset, also considering the expiring dates of the tax losses.

Tax loss carry-forwards expire as follows:

(In thousand Euro)	As of December	
	2017	2016
No expiry date	35,071	35,981
No expiry date – DL 98/2011	140,088	131,257
	175,159	167,238

The loss identified as "No expiry date" includes EUR 6,008 related to Newron Pharmaceuticals S.p.A. (since they have been incurred during to the start-up period); EUR 18,718 related to Hunter-Fleming private limited company (equal to GBP 16,607 translated at the year-end exchange rate) and EUR 10,345 related to Newron Sweden AB (equal to SEK 101,830 translated at the year-end exchange rate). This amount has been negatively affected (about EUR 1 million) by the exchange rate fluctuation that have impacted both the UK Sterling and the Swedish Krona.

In 2011, the Italian Tax Authorities issued a set of rules that modified the previous treatment of tax losses carry forwards. According to the D.L. 98/2011, at the end of 2011, all existing tax losses carry forwards will never expire but they can off-set only the 80% of the taxable income of the year. The rules do not affect the tax loss carry forwards that refers to the start-up period, defined as the first three years of operations starting from the inception of the Company.

30 Commitments and contingent liabilities

Operating lease commitments – whereby the Group is the lessee

The Company leases the offices from Zambon Immobiliare S.p.A.. The contract was renewed for an additional 6 years and will last until September 30, 2020; based on the agreement, one year of notice period is required to terminate the lease contract.

Currently Newron Suisse SA does not rent premises.

Newron Sweden AB leases its offices from Spatial Transcriptomics. The lease expires every month and it is periodically renewed.

Newron Pharmaceuticals US Inc. leases its offices from Symphony Workplaces. The lease expires on January 31, 2019.

Hunter-Fleming private limited company does not rent premises.

During the year ended December 31, 2017, a net expense for operating leasing amounting to EUR 715 was recognised in the statement of income (2016: EUR 677).

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

(In thousand Euro)	As of December 31	
	2017	2016
No later than 1 year	463	475
Later than 1 year and not later than 5 years	440	1,054
	903	1,529

Should the Company decide to leave its offices, it would be liable to a 6-month remittance.

Other commitments

The Company has entered into contracts for clinical development with external subcontractors. The Company compensates its suppliers for the services provided on a regular basis. The expenditure contracted for but not yet incurred at the balance sheet date is equal to approximately EUR 7.3 million. The Company shall not incur material penalty fees for the termination of any of these contracts.

Contingent liabilities

According to the agreement signed with Merck KGaA, the achievement of certain future results related to the development of sarizotan project will trigger the payment of certain milestones fees up to EUR 1 million.

31 Financial instruments by category

As of December 31, 2017

(in thousand Euro)	Cash, loans and receivables	Assets at fair value through profit or loss	Held-to-maturity investments	Available-for-sale financial assets	Liabilities at fair value through profit or loss	Other financial liabilities at amortized cost
Assets						
Non current receivables	82	–	–	–	–	–
Available for sale financial assets – non-current	–	–	–	–	–	–
Available for sale financial assets – current	–	–	–	3,795	–	–
Cash and cash equivalents	56,286	–	–	–	–	–
Trade and other receivables	2,556	–	–	–		
Total	**58,924**	**–**	**–**	**3,795**	**–**	**–**
Liabilities						
Trade and other payables	–	–	–	–	–	3,122
Short-term borrowings	–	–	–	–	–	–
Long-term borrowings	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**3,122**

The Company has classified its financial instrument as follow: Available for sale financial assets – current – in Level 1; Available for sale financial assets – non-current – and Borrowings in Level 2 and all the remaining financial instrument in Level 3 (For additional information, please refer to Note 21 and 27 respectively).

As of December 31, 2016

(in thousand Euro)	Cash, loans and receivables	Assets at fair value through profit or loss	Held-to-maturity investments	Available-for-sale financial assets	Liabilities at fair value through profit or loss	Other financial liabilities at amortized cost
Assets						
Non current receivables	70	–	–	–	–	–
Available for sale financial assets – current	–	–	–	3,520	–	–
Cash and cash equivalents	42,948	–	–	–	–	–
Trade and other receivables	2,357	–	–	–		
Total	**45,375**	**–**	**–**	**3,520**	**–**	**–**
Liabilities						
Trade and other payables	–	–	–	–	–	6,011
Short-term borrowings	–	–	–	–	–	364
Long-term borrowings	–	–	–	–	–	–
Total	**–**	**–**	**–**	**–**	**–**	**6,375**

32 Related party transactions

i) Related entity

The Company does not have related entities.

ii) Related parties transactions

The following tables provide the total amount of transactions that have been entered into with related parties during the fiscal year ended December 31, 2017 and December 31, 2016, as well as balances with related parties as of December 31, 2017 and December 31, 2016:

As of December 31, 2017

(in thousand Euro)	Sales to/Cost reimbursed by related parties	Royalties	Purchases from related parties	Amounts owed by related parties, net	Amounts owed to related parties
Zambon (whole group)	11,871	2,855	168	47	0

As of December 31, 2016

(in thousand Euro)	Sales to/Cost reimbursed by related parties	Royalties	Purchases from related parties	Amounts owed by related parties, net	Amounts owed to related parties
Zambon (whole group)	5,294	1,698	168	485	2

iii) Key management personnel

The total remuneration of key management personnel is as follows:

(In thousand Euro)	For the year ended December 31	
	2017	2016
Salaries	2,008	1,788
Bonuses	358	304
Social security contributions	313	335
Share option compensation	637	661
Employee severance indemnity	78	73
	3,394	**3,161**

33 Events after the balance sheet date

On February 1, 2018, the Company announced that the Phase II/III clinical study on the investigational Parkinson's disease treatment managed by its Japanese partner, Meiji Seika Pharma Co., Ltd., has met the primary endpoint. Having received the results of the study, Meiji plans to submit a marketing authorization application for safinamide in Japan during 2018

On February 8, 2018 the Company announced that Bo Jesper Hansen has informed the Board of Directors of his intention to step down as a Non-Executive Director, effective from this year's Annual Shareholders Assembly taking place on March 27, 2018.

Until February 22, 2018, certain option-holders have exercised 7,000 options; as soon as the relevant filing with the Chamber of Commerce will be executed, Newron' outstanding share capital will increase up to EUR 3,568,869.00 consisting of 17,844,345 ordinary shares with a par value of EUR 0.20 each.

Bresso, February 23, 2018

Stefan Weber
Chief Executive Officer
Newron Pharmaceuticals S.p.A.

Auditor Report

Newron Pharmaceuticals S.p.A.

Consolidated financial statements
as at December 31, 2017

Independent auditor's report

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Independent auditor's report on the consolidated financial statements

To the Shareholders of
Newron Pharmaceuticals S.p.A.

Opinion

We have audited the consolidated financial statements of Newron Pharmaceuticals S.p.A. and its subsidiaries (the "Newron Group"), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated financial statements of profit or loss, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Italy, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

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Revenue recognition - Agreement with multiple elements

Area of focus	The Group derived a significant portion of its revenues from an agreement with a business partner involving upfront payments and multiple elements such as reimbursement of research & development costs incurred, milestones fees upon the achievement of certain events and royalties on the sales by the business partner and/or its affiliates to third parties. Upfront payments are deferred and recognized on a straight-line basis over the estimated period of the product development phase, milestone fees are recognized as the right of ownership is transferred to the business partner at the achievement of certain events and royalties are recognized on an accrual basis, consistent with the sales by the business partner. The Group reviewed the milestone achievements and the information about sales by the business partner to determine the individual components of revenue. Due to the judgment involved in that management's assessment we considered revenue recognition significant to our audit, requiring special audit attention. See Note 4 "Significant accounting judgements, estimates and assumptions" and Note B s) "Summary of significant accounting policies - Revenue recognition" in the financial statements.
Our audit response	We obtained an understanding of the agreement and assessed the application of Group's revenue recognition policies and the related accounting in accordance with IAS18. Based on the contractual terms of the contract we assessed the identification of all relevant elements, the allocation of revenue to the various elements in the contract, as well as the assessment of the timing of the revenue recognized. Among others, we tested recognition of milestone fees based on the milestones achievement and we tested royalties based on the sales information provided by the business partner.

Measurement of clinical trials costs

Area of focus	The Group incurred costs related to clinical trials, which represent a significant portion of research & development costs. Accounting of these costs involves judgement on the determination of the appropriate timing of recognition based on the assessment of actual services received according to contracts with suppliers, generally multi-annual, which may differ from the billing schedules and thus may include a significant accrual or deferral amount. The Group determined the stage of completion of the clinical trials as of the balance sheet date based on information received by the suppliers and monitoring of progress of clinical trials by the Group's clinical team, supervised by the finance department. See Note 12 "Research and development expenses net of grants and other reimbursements".
Our audit response	We obtained an understanding of the relevant Group's process to determine timing of recognition of clinical trial costs. We focused on reviewing the terms and conditions of relevant contracts with subcontractors related to the main clinical trials and evaluated the reasonableness of management's estimate of the stage of completion of these clinical trials. We corroborated management's estimate with questionnaires and other relevant documentation provided by the suppliers to the Group's clinical team, summarizing work performed as of the balance sheet date.

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Other Information

Other information consists of the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.
Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.
In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.
Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The partner in charge of the audit resulting in this independent auditor's report is Paolo Zocchi.

Milan, February 27, 2018

EY S.p.A.

Paolo Zocchi
(Partner)

Information for Investors

Stock exchange information

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

Share price data

	FY 2017	FY 2016
Number of fully paid-in shares as at December 31	17,837,345	15,773,168
Year high (in CHF)	28.70	27.70
Year low (in CHF)	9.91	13.85
Year-end (in CHF)	11.60	20.15
Loss per share (in EUR)	0.32	1.04
Cash and cash equivalents, other short-term financial assets as at December 31 (in EUR 1,000)	60,081	46,468
Market capitalization as at December 31 (in CHF)	206,913,202	317,829,335

Major shareholders*

Investor AB
Zambon
Aviva Investors

* With holdings of more than 3% (to the best of the Company's knowledge)

Financial calendar

Publication of Annual Report 2017	March 1, 2018
Press and Analyst Conference	March 1, 2018
Annual Shareholders'meeting 2018	March 27, 2018
Half year report 2018	September 13, 2018

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Important Notices

This document contains forward-looking statements, including (without limitation) about (1) Newron's ability to develop and expand its business, successfully complete development of its current product candidates and current and future collaborations for the development and commercialization of its product candidates and reduce costs (including staff costs), (2) the market for drugs to treat CNS diseases and pain conditions, (3) Newron's anticipated future revenues, capital expenditures and financial resources, and (4) assumptions underlying any such statements. In some cases these statements and assumptions can be identified by the fact that they use words such as "will", "anticipate", "estimate", "expect", "project", "intend", "plan", "believe", "target", and other words and terms of similar meaning. All statements, other than historical facts, contained herein regarding Newron's strategy, goals, plans, future financial position, projected revenues and costs and prospects are forward-looking statements.

By their very nature, such statements and assumptions involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other outcomes described, assumed or implied therein will not be achieved. Future events and actual results could differ materially from those set out in, contemplated by or underlying the forward-looking statements due to a number of important factors. These factors include (without limitation) (1) uncertainties in the discovery, development or marketing of products, including without limitation negative results of clinical trials or research projects or unexpected side effects, (2) delay or inability in obtaining regulatory approvals or bringing products to market, (3) future market acceptance of products, (4) loss of or inability to obtain adequate protection for intellectual property rights, (5) inability to raise additional funds, (6) success of existing and entry into future collaborations and licensing agreements, (7) litigation, (8) loss of key executive or other employees, (9) adverse publicity and news coverage, and (10) competition, regulatory, legislative and judicial developments or changes in market and/or overall economic conditions.

Newron may not actually achieve the plans, intentions or expectations disclosed in forward-looking statements and assumptions underlying any such statements may prove wrong. Investors should therefore not place undue reliance on them. There can be no assurance that actual results of Newron's research programmes, development activities, commercialization plans, collaborations and operations will not differ materially from the expectations set out in such forward-looking statements or underlying assumptions.

Newron does not undertake any obligation to publicly update or revise forward-looking statements except as may be required by applicable regulations of the SIX Swiss Exchange where the shares of Newron are listed.

This document does not contain or constitute an offer or invitation to purchase or subscribe for any securities of Newron and no part of it shall form the basis of or be relied upon in connection with any contract or commitment whatsoever.

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